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A comparative literature review
of the Swedish and German housing systems

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WORKING PAPER

From state support to market and financialization measures in crisis times

**A comparative literature review of the Swedish and German housing
systems**

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Preface

In the debate on housing, especially in the light of the contemporary shortcomings of housing systems when it comes to affordability; exclusion; and – ultimately – homelessness, solutions are often searched for in other countries' housing systems. However, such references are often lacking substantial knowledge necessary for understanding variations and similarities between different housing systems.

This working series paper presents the findings of an extensive literature review on the housing systems in Germany and Sweden. The literature review majorly focuses on the rental housing sector but also touches upon other segments of the housing market, especially the cooperative housing sector. The report thus provides a general overview and situates the rental sector in the wider context of the overall housing market in the two countries.

The paper adds valuable knowledge about the large differences in the post-war responses to the housing shortage in Germany and Sweden. While Sweden responded with a universal off-market approach to housing, (West) Germany implemented a dualist housing system within a social market economy. Despite differences in past solutions, the contemporary problems seem to be similar. The report concludes that, in the search of a response to the current housing crisis, Germany sees a re-emergence of the state, while Sweden's next moves are uncertain.

The working paper is written by Marie Urfels, research intern in Studies in Housing and Welfare during Autumn 2021. Follow our ongoing publications at mau.se/sbv

Malmö, 15 February 2022

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Introduction

Today, many European countries face shortages of affordable rental housing, causing accelerating rents, particularly in major cities. Part of the reasons of immense rent increases is due to international financialization of housing stock in the last decades. Hence, housing provision is not only of national interest anymore but is exploited by international actors with the aim of financial gains. Interestingly, in recent years we can see the rise of cross-border financializations taking place where, for instance, German housing companies invest in the Swedish housing market and vice versa. This paper is part of a larger study on the impact of such cross-border financializations between Germany and Sweden. It aims to present the findings of an extensive literature review with focus on the two housing systems and their paths to an increasingly financialized housing market.

Therefore, the first part of the paper explores the historical context of the housing markets in both countries. After a short exploration of the development of the housing markets in the post-war era, the focus is directed to waves of marketization, privatization and financialization as well as the current situation of the housing market. The second part of the paper reviews the rent regulation systems and how their loopholes provide financial investors with means to create displacement pressure and increase rents.

Historical perspective of the German and Swedish housing markets

The German and Swedish housing systems have evolved substantially after the two world wars. After the end of the second world war, both countries experienced extreme housing shortages. Though for different reasons. Sweden had a vast lack of construction material, while Germany lost about 20% of its housing stock due to bombardment. As a response to the post-war housing shortage, both countries implemented a heavily state-financed housing provision programs lasting from 1945 till the early 1970s which has shaped both housing market systems substantially until today (Grander, 2018, p. 80 ff; Wijburg & Aalbers, 2017).

Sweden on its part responded to the housing shortage with the implementation of a universal approach to housing provision, aiming to cater for all societal groups and household types (see e.g. Grander, 2018, p. 80 ff.). The public sector received financial support and tax exemptions to establish municipal housing companies (MHCs), also known as *Allmännyttan*, that would operate on non-profit status to ensure the availability of affordable public rental housing stock for all types of households. To maintain the universal system, vulnerable households were given access to the housing market through selective measures i.e. housing allowance

and municipal social contracts. In contrast to a dualist system like in Germany, the Swedish public and private rental sectors were situated in an integrated rental market where rents are set through a corporatist system of centralized rent negotiations between the public and private housing companies as well as representatives of the tenant union. In the negotiations, the MHCs originally had a central role in setting the benchmark for the rent negotiations, ensuring that rents were kept at use-value rather than market value. Another key attribute of the Swedish model was the state's aim to provide neutrality amongst different types of tenure in terms of cost and standard. However, as the discussion below shows, tenure neutrality has been curtailed through substantive investments and deregulation in the (tenant-)ownership sector at the expense of the rental sector.

Germany on the contrary experienced two different developments due to its historical division between East and West Germany from 1949 to 1990. In East Germany, a centrally planned housing system was established, and it was characterized by large-scale housing developments with cheap rents for a larger part of the population (see Bernt et al., 2017). In West Germany, a social market economy was developed with a dualist housing system based on free-market principles and selective social measures i.e. social housing and housing allowance (Barbara & Vollmer, 2018; Voigtländer, 2007). Similar to Sweden, municipal housing com-

panies received large amounts of state subsidies, tax exemptions and operated on non-profit status (*Gemeinnützigkeit*). Though different from the Swedish model, their focus laid on providing housing for vulnerable groups primarily through social housing (Voigtländer, 2007). Furthermore, the German state incentivized housing construction in the private sector through financial subsidies for time-limited social housing construction. Dwellings with social contracts in both the public and private sector were set to be time-limited from the onset for a period between five and thirty years with subsequent entrance into the free rental market. In fact, contrary to the Swedish model, both the non-profit status of MHCs and the social housing subsidies were only considered crisis management tools aiming to reinitiate the rental housing market at a time when there was no financial capital available (Busch-Geertsema, 2004). Once the post-war housing crisis was considered over, the measures would be lifted. Thus, with decreasing pressure on the housing market, subsidies for social housing have been reduced. Thus, while in the 1980s the share of social housing was at 20% of the total housing stock in 2005 it was at six percent (Holm, 2008) and has further decreased to about three percent of the total housing stock today (Deutscher Bundestag, 2019, 2021). Besides, it is interesting to note that since the federal reform in 2006 the local states (*Bundesländer*) are in charge of setting the framework and volume of social

housing construction which has contributed to differences across regions (Sagner et al., 2020).

Along with the public housing market, in both countries, another important housing sector developed: the *cooperative housing sector*. In both countries, the cooperative sector emerged in the pre-war era intending to provide homeownership to the working class by having each member buy a share of the association which would be used to maintain the dwelling and share the financial risk.

In Sweden, the sector was institutionalized between the First and Second World Wars and was thereby able to provide major support in housing construction after the Second World War (Christophers, 2013). In contrast, in Germany, previously developed housing cooperatives were eradicated during the period of national socialism through centralization of the housing stock and enforcement of political conformity (Möller, 2016). Thus, after the war, many cooperative housing associations had to be reinitiated. In West Germany, they supported the provision of social housing through governmental subsidies. In East Germany, irrespective of previous corporate housing associations, a socialist cooperative housing system was developed to provide low-cost housing for the working class.

Today, the core idea of the cooperative housing sector in Germany and Sweden are sim-

ilar in the sense that an individual acquires the right to personally use the apartment for an unlimited period through membership and the purchase of a share of the cooperative. In both cases, the individual does not fully own the dwelling and is thereby obliged to follow regulations on subletting. Still, the members contribute to decisions within the cooperative association as they are represented through a democratically elected board.

However, there are major differences between the two cooperative types. In Germany, the cooperative sector, also known as *Genossenschaftswohnung*, is more linked to the rental sector (Balmer & Bernet, 2015). When entering a cooperative, one buys shares of the cooperative which is similar to a three-month deposit in a rental setting. Furthermore, one pays a monthly usage fee instead of rent. Thus, costs are usually lower than a market-based rent.

In Sweden, on the contrary, a dwelling in a cooperative (in Swedish *bostadsrätt*) is bought for a substantial market price often requiring taking a loan from the bank. Additionally, a monthly usage fee is paid for basic maintenance services. Thus, the Swedish cooperative sector is more similar to the ownership sector, therefore it is also known as tenant-ownership (Ruonavaara, 2005). The so-called tenant-owner owns the right to use the apartment for an unlimited and unspecified time and can transfer his right to a

new shareholder. However, it differs from a common ownership agreement, as the apartment is not the individual's property but remains the cooperative's property. When the Swedish cooperative sector was institutionalized, it was well regulated to ensure that the price of the apartment represent the share calculated through the property's taxation value instead of on the market value (Christopher 2013). However, in 1968 deregulations were introduced that gave way for two rounds of extensive price increases. First from 1980 to 1990, the average prices of tenant-owned dwellings increased by 80%. After a period of modest increases and falling prices, a second round of accelerating prices has started since 2000. In the last 20 years (2000-2020) prices have increased by around 600% from 390,000 Swedish crowns to 2.5m (Christophers, 2013; Statistics Sweden, 2021b).

In 2013, the share of the cooperative sector differed substantially between the two countries. In Sweden, it has become one of the largest sectors accounting for 20%¹ of the total housing stock, while in Germany, it accounts for only 5% of the total housing stock (Statistics Sweden, 2021a; Warburg Research, 2016). This immense difference can be accounted to different historical pasts as discussed above and varying fiscal policies. As outlined previously, in Germany the rental sector received substantial state support in the post-war era, while

in Sweden the policy of tenure neutrality created a level playing field for both the rental, tenant-ownership, and ownership sectors. Though, with increasing deregulation as discussed in the next section, Swedish tenure neutrality has been circumvented and has made the (tenant-)ownership sector more favorable.

Waves of Marketization, Privatization and Financialization

In the last 30 to 40 years, neoliberal policies have contributed to significant alterations of the heavily state-financed German and Swedish housing systems that were established in the post-war period. In both countries light waves of liberalization started from the 1980s, were strengthened in the 1990s, and accelerated in the 2000s with the financialization of both housing systems (Grander, 2018; Grundström & Molina, 2016; Wijburg & Aalbers, 2017).

In West Germany, the early 1980s saw the development of more market-oriented housing policies with deregulation, decentralization, and a shift away from social housing subsidies (i.e. Objektförderung) to individual financial subsidies i.e. housing allowance (i.e. Subjektförderung) (Holm et al., 2017). This was majorly due to the new conservative government aiming to bring the German economy back on track after an economic decline

¹In 2020, the share of cooperative sector has grown till around 24% of the total housing stock.

in the 1970s and a tight public budget. Similarly, Sweden also experienced structural and economic difficulties in the 1970s due to the restructuring of the industrial sector and vast vacancies in large public housing estates established during the so-called million program (1965-1974) (Grander, 2018, p. 91 ff.; Grundström & Molina, 2016). Hence, to deal with this financial uncertainty, Swedish MHCs employed a more business-oriented strategy by implementing stricter rental policies and selling some housing stock to private companies or tenants. These changes affected especially vulnerable households, who now received a ‘social contract’ from social services helping them to enter the housing sector through a secondary market (Grander, 2017).

The actual impact of marketization and privatization policies were however felt in the 1990s in both Germany and Sweden. In Germany, the year 1990 represents the reunification of East and West Germany that brought about great financial costs for the restructuring of the former Eastern states. In the same year, the law of common interest (Wohngemeinnützigkeitgesetz 1945-1989) was abolished, under which MHCs in Western Germany were previously governed (Voigtländer, 2007). Thus, MHCs had to start operating profit-oriented and were not eligible for tax exemption any longer. In contrast to Sweden’s *allmännyttan*, the law of common interest was to provide housing in crisis times which was now thought to be

over. Accordingly, with an improving housing market situation, the law was deemed unlawful under the laws of market competition and was considered to put an unnecessary financial burden on the state. Instead, providing financial support directly to families was expected to bring fewer financial costs than tax exemption for public housing companies (Holm et al., 2017, p. 8 ff).

Moreover, the reunification brought about great debt particularly to the former East German municipalities because over half of indebted state-owned housing stock from the GDR was turned into municipal housing stock (Bernt et al., 2017). Thus, the indebted municipalities had to depend on state funds. In turn, the state offered debt relief to these municipalities under the condition of privatizing at least 15% of the housing stock until 1999 (Altschuldenhilfegesetz i.e. Existing Debts Assistance Act) (Voigtländer, 2007). Additionally, the state provided state subsidies and tax relief to encourage private companies to invest in the region and thereby decrease the incentive for migration from East to West. Nevertheless, the emigration from Eastern German cities could not be halted and the housing market went into crisis in the late 1990s (Wijburg & Aalbers, 2017). Subsequently, in the early 2000s, the previously purchased housing stock and some of the remaining municipal housing stock were sold off to international institutional investors such as equity funds and hedge funds who were looking for underdeveloped

housing stock as short-term investments (Wijburg & Aalbers, 2017). Although Western German municipalities were not as heavily indebted, tight budgets and the changes towards a more market-oriented housing policy also encouraged the sale of municipal housing stock to institutional investors. In fact, from 1999 to 2006, more than 500.000 public housing units were sold to private investors, resulting in poor maintenance and deteriorating housing stock (Held, 2011; Wijburg & Aalbers, 2017). In some cases, this involved selling off part of the municipal housing stock and in others, the entire municipal housing stock was sold. After the global financial crisis in 2008, previously bought housing stock from short-term investors was sold to listed real estate companies who intended to stay longer to make long-term gains by enlarging their portfolios with stable management and strategic investments (Wijburg & Aalbers, 2017). This shift from “pure speculation to long-term investment” is also known as financialization 2.0 (Wijburg et al., 2018, p. 1098). Consequently, decreasing supply due to growing portfolios and high demand have contributed to accelerating housing prices (BMI, 2021).

Interestingly, with increasing regulation on the housing market since 2015, there has been a change in the purchasing and selling agency (BMI, 2021). Since 2015, German-listed real-estate companies and municipalities bought the largest shares of housing

stock from European real-estate companies. Previously, it was vice versa. Overall, the German housing market that has until recently been considered unfinancialized with a high share in small private owners has indeed experienced financialization processes due to its stable and underdeveloped housing market (Wijburg & Aalbers, 2017). In 2013, this sector amounted to 19% of multi-dwelling buildings (see table 1; Warburg Research, 2016).

The Swedish financialization experience is similar, though of course the housing regime and the market conditions have been different. Large-scale state investments in the public housing stock from 1965 to 1974 for the construction of one million new homes did not bring the expected return (Grander, 2018, p. 90 ff). Instead, the large housing stocks resulted in large vacancies due to the inability to stop building when the rental housing needs were saturated and favorable conditions for investments in the private ownership market. Accordingly, the large state investments, large number of vacancies, and structural changes of the economy posed structural and financial uncertainties for the public sector in the 1970s and 1980s. Subsequently, this encouraged slow marketization reforms in the public housing sector including the sale of housing stock and stricter rent policies (Grundström & Molina, 2016). These changes were reinforced in the light of the financial crisis in the 1990s when the deregulation and marketization of the hous-

ing market intensified through the removal of state support for housing by decreasing general housing subsidies and decentralizing the responsibility and risks attached to housing provision (Turner & Whitehead, 2002). One of the key measures included a taxation reform on commodities resulting in higher taxation of public housing. This resulted in a rent increase of 50% over three years (Grander, 2018, p. 100). The immense rent increase resulted in accelerating state expenditure through housing allowance. Consequently, the state lowered the threshold for housing allowance subsidies which put increasing pressure on lower-income households to pay their rents. The peak of the privatization of MHCs was initiated with the new legislation on housing provision in 2011 declaring that MHCs must operate for profit and cannot maintain the favorable position in the market nor in the rent negotiations any longer (Christophers, 2013; Grander, 2018, p. 108 ff.). Thus, to generate profit, municipal housing stock was sold to tenants or financial investors. Yet, it should be noted, that this development has taken place unevenly across municipalities depending on the political agenda (Grander, 2019). With the changes in the legislation in 2011, the Swedish rental sector has become increasingly interesting for financial investors (Christophers, 2021; Savills, 2020). Over the past years, international financial investors have aimed to exploit the rent gap of Swedish housing stock in major metropolitan areas

through strategic investments in the undervalued public housing stock (Christophers, 2021). Several scholars have shown how the investment strategies have resulted in displacement of previous tenants through poor maintenance and rising rents through renovations of empty apartments (e.g. Baeten et al., 2017; Christophers, 2021; Gustafsson, 2021). The most affected areas are primarily already socio-economically disadvantaged neighborhoods. Respectively, similar to Germany, Sweden has also seen the development of financialization 2.0 taken place in recent years. However, in contrast to Germany, in Sweden, the share of foreign investments into residential assets is increasing and even surpassed investments by Swedish investors in 2019, when Vonovia, a German real estate company, entered the Swedish housing market (Savills, 2020).

Henceforth, both Germany and Sweden have seen a shift from supply to demand-side measures along with deregulation, marketization, and privatization policies. State support for the public or social housing sector has drastically decreased, while demand-side measures such as housing allowances and social contracts for vulnerable groups have increased greatly over the years. Overall, it is interesting to note, that in Germany marketization measures in the public sector were implemented all at once in the 1990s, while in Sweden it was rather a gradual process starting in the 1990s and with its peak in 2011. Over time, privatization and marke-

tization processes of the housing markets, as indicated above, have welcomed an increasing number of financial investors into the German and Swedish housing market, especially after the 2008 Global Financial Crisis. Yet, interestingly, Germany sees the re-emergence of German investors in the acquisition of residential units, while in Sweden the share of foreign investors is growing.

The current situation of the housing market

The previous section shows how the historical past and policy responses of both countries have substantially impacted the characteristics of the current housing markets (see table 1). Sweden's universal housing regime has contributed to its much larger share of public housing with 30% of multi-dwelling buildings (MDU) in comparison to Germany that only has a share of 12% of MDU. In Germany, post-war policies on time-limited social housing have instead supported the growth of the rental housing sector run by private small operators (42% of MDU). Furthermore, they have contributed to Germany having the largest rental sector in Europe after Switzerland representing 50% of the total housing stock today (Eurostat, 2021). In contrast, Sweden's share of rental tenure only accounts for 36% of the total housing stock (Eurostat, 2021).

In contrast, Sweden experienced the growth of a much larger tenant-ownership sector making up 20% of the total housing stock in 2013 and 24 in 2020. Within the multi-dwelling buildings, the cooperative sector takes up the largest share with 40% of dwellings in MDU in 2013 and 44% of dwellings in MDU in 2020. Despite policies claiming to support tenure neutrality, a recent study by OECD shows that "on housing costs over income [...] Sweden has the fourth-highest costs as share of disposable income for rented housing but the lowest costs for owned housing (including mortgage costs)" (Grander, 2018, p. 111).

Additionally, statistics from Eurostat (2021) show that 20% of homeownership in Germany is through heritage or privatization of former Eastern German properties which were sold below market value. 31% of the German homeownership is bought with mortgage loans. This is in contrast to Sweden where the vast majority of homeownership comes through loans (51% of total housing stock) while only 12% of the total housing stock is owned with no outstanding mortgage or loan. Hence, overall, the large share of indebted homeownership is causing great financial uncertainty on the Swedish economy (Holmqvist & Turner, 2014). The German small share of homeownership is attributed to its conservative regulations on mortgage loans including high down-payment, loans aligned to liquidation value instead of market value, and fixed interest rates (Wijburg

& Aalbers, 2017). These conditions make it easier for larger housing companies to acquire a mortgage loan than private individuals, which has been beneficial for the German economy during the Global Financial Crisis in 2008. In 2013 both countries had approximately the same share of rental apartments run by large-scale private housing companies laying at 19% of MDU.

Today's affordable housing crisis

Most German and Swedish municipalities, but especially major metropolitan areas are experiencing immense (affordable) housing shortages (BMI, 2021; Boverket, 2021). This is largely attributed to increased rates of urbanization and population growth as well as stagnating rates of housing construction in the last decades. In Sweden, stagnation in housing construction is partly related to very high construction prices which are one of the highest in Europe (Bergman & Nyberg, 2021). Moreover, a lengthy and costly zoning system also adds to slow construction processes in Sweden (Granath Hansson, 2017b, 2018). In Germany, on the other hand, the stagnation is more related to a lack of workers in the construction sector (BMI, 2021). Recent statistics show that between 2008 and 2018 the number of unfinished constructions has increased by more than 50% from 320.000 to 693.000 (BMI, 2021). In other words, while municipalities have been granting many housings construction

projects, the construction industry is lacking sufficient capacity to finalize all granted projects.

Furthermore, it is estimated that in Sweden 70,000 and in Germany 350,000 new dwellings are needed yearly to resolve the current housing shortage (Granath Hansson, 2018). Though there has been an increase in housing construction since 2010, it has by far not been enough to lift the housing shortage. In Germany, only 159,000 dwellings were built in 2009 (BMI, 2021). In 2018, the number has increased to 287,000 apartments. In Sweden, in 2009 around 23,000 apartments were built (Statistics Sweden, 2021a). Until 2018, the number of constructed dwellings has reached 50,000. Moreover, new housing has not sufficiently tackled the low- and middle-income segment of the housing market but rather focused on housing for households with above-average income (Granath Hansson, 2018).

This is although the low level of housing construction and the deregulation processes of the past have especially resulted in a lack of affordable housing. In Sweden, access to affordable homes has become extremely difficult especially for newcomers such as young adults or migrants (Grander, 2018). This is especially due to three main factors. Very long waiting time to access public housing with an average of nine years, tightening requirements for rental agreements and significant increases in rents (Grander, 2018).

	Germany 2013	Sweden 2013 ²
Total dwellings	41,3 Mio	4,6 Mio
Multi-Dwelling Units (MDU)	20,8 Mio (50% of total dwellings)	2,3 Mio (50% of total dwellings)
Private ownership and usage	14% of MDU	6% of MDU
Ownership of small operator	42% of MDU	n/d
Ownership of professional and commercial providers	43% of MDU	94% of MDU
— Cooperatives:	10% of MDU	40% of MDU
— MHC:	12% of MDU	30% of MDU
— Private housing companies:	19% of MDU	19% of MDU (Swedish joint-stock companies)
— Others:	2% of MDU	5% of MDU

Table 1: Ownership structure of the German and Swedish housing market in 2013. Source: (SCB, 2021; Warburg Research, 2016)

Consequently, the tight rental housing market situation has contributed to an increasing number of social contracts and housing allowances as well as to the development of an informal market with significantly higher rents than primary rents. Especially, socially disadvantaged groups such as young people and immigrants are affected by the current housing situation because they often do not fulfill the requirements for rental housing, nor are they vulnerable enough to get access to social housing contracts, neither do they have sufficient economic means to purchase an apartment in a cooperative (Grander, 2017). The lack of rental housing particularly for vulnerable groups has fostered the establishment of an informal and black market. In the informal market, both rental and tenant-owned apartments are sublet at a much higher rate than the actual cost (on average rental apartments 65% and co-op apartments 138%) through which the tenants, who are already in rather good economic conditions can make economic profit at the

expanse of the already disadvantaged people in the housing market (Fritzon, 2020). In the black market, especially, centrally located apartments are traded at an officially low rent with apartments in the suburbs, though unofficially a large sum of money is paid for the apartment to the tenant (Fritzon, 2020).

Yet, scholars and politicians are in dispute regarding the reason and solution to this immense rental housing crisis in Sweden (see Christophers, 2013). On the one hand, more liberal critics argue that the current rental housing crisis is a result of too strict reg-

²The latest statistics for Germany are based on census data from the year 2011 that have been further adapted with more recent data from the year 2013 in a study by Warburg Research in 2016. Unfortunately, there are no more recent statistics available. The next census study will be conducted in 2022. Therefore, comparative statistics from 2013 were extracted for Sweden from SCB. For Sweden more recent statistical figures are available from 2020. From 2013 until 2020, the overall housing stock has increased from 4,7 Mio. to 5 Mio. dwellings. The number of multi-dwelling units have increased slightly to 2,6 Mio (51% of total dwellings). Moreover, the share of dwellings in multi-dwelling buildings has decreased by 2% in the cooperative sector and private housing company sector. In the same time, the share of the public sector has decreased by 3% and the share of private owners/user has decreased by 1%.

ulations in the past decades that have created a dysfunctional economic system making housing construction unprofitable. Thus, it is claimed that further free-market policies are necessary. On the other hand, left-wing critics assert that the current housing crisis can only be solved with more regulations. Because it is claimed to have been caused by deregulation, privatization, and liberalization processes since the 1990s. In other words, as Christophers (2013) points out, the problem of the current Swedish housing crisis lays in its complexity and hybridity of regulations and no-regulations.

Furthermore, in contrast to Germany, the implantation of targeted affordable housing measures in the form of social housing is highly controversial in Sweden because it seems unfit for the Swedish universal housing model. Nevertheless, Gothenburg has recently implemented a pilot project that has four fixed rent levels for the next 15 years aiming to target mixed residential development (Granath Hansson, 2018). The lowest rent is 55% of the normal rent and the highest is 20% above the common rent level. In contrast to the German social housing model, it does not receive state subsidies but developers are incentivized through cheap purchases of municipal land in a central area (Granath Hansson, 2019b). Even if this pilot project turns out successful, it is unlikely that it will trigger vast reforms of the universal housing model. Considering that institutional change takes a long time, Granath Hansson

(2017b, 2018) suggests focusing on improving housing elasticity measures in the short term instead to spur housing construction in Sweden. For instance, she argues that introducing alternative planning measures similar to the German urban planning law would increase the speed and decrease the costs of its planning process. According to Granath Hansson (2018, p. 96) these measures include “1) private initiative in development planning (BauGB § 12); 2) facilitated procedures in the development planning of already built-up areas (BauGB § 13a); and 3) omission of the development plan under certain circumstances (BauGB § 34)” (see Granath Hansson, 2018, p. 96). Though, she signifies that in the long run alternative solution such as targeted housing measures are inevitable because only housing supply elasticity measure alone will not solve the affordable housing shortage in Sweden (Granath Hansson, 2018).

In light of the affordable housing crisis and insufficient construction, the Swedish government has recently tried to push through a new policy in July 2021 allowing free rent negotiations between the landlord and tenant for newly built housing stock with the aim to increase incentives for the private sector to build more housing. However, it was rejected as it was claimed to go against the Swedish tradition of rent regulations and would lead to an acceleration of rental prices. Hence, it is still uncertain whether Sweden will tackle the current housing crisis with more regulations or deregulations.

In Germany on the other hand, there has been a recent shift towards greater government control over the housing market (BMI, 2021). For instance, there are vast discussions on reimplementing the law of common interest. This is partly because the expectation of decreasing public expenditure through the abolition of the law of common interest has not been met. Instead, public expenditures have accelerated due to increasing housing allowance subsidies needed in the context of rising rents and decreasing social housing. Moreover, today, municipalities acknowledge that with the abolition of the law of common interest and the sale of vast housing stock, they have lost a steering tool in the local housing market. Hence, several municipalities are rebuying and building municipal housing stock because they see themselves as important actors in providing social housing and affordable housing, particularly to vulnerable groups. Particularly cities with tight housing markets aim to have between 20% to 40% social housing in new build dwellings (BMI, 2021). Although the construction of social housing has increased again after years of decrease, the number of expiring social housing contracts is larger than new social housing construction (BMI, 2021). Hence, the total number of existing social housing is still decreasing.

Additionally, the state has recently put forward support mechanisms to stimulate, facilitate, and subsidize affordable and social housing construction (BMI, 2021). For in-

stance, in 2019, a law was passed to encourage the construction of rental housing through tax relief for private investors that aim to build affordable housing, particularly by extending already existing buildings. The extent of social housing construction, however, resides with the municipalities' will and effort to implement and reinforce a quota on social housing in new constructions (Granath Hansson, 2019a, 2019b). Furthermore, the state aims to provide consultancy services to the local level to support the expansion of MHCs, provide financial incentives to local states for social housing construction, and easy credit for cooperative housing construction. Additionally, the government has put forward increasing market regulation mechanisms to prevent the financialization of housing stock and drastically rising rents. Some of these measures include social preservation areas (Mileuzschutz), as well as pre-emption rights (Zweckentfremdungsverordnung), and the rental price brake (Mietpreisbremse). However, so far, no clear effect of the three regulations can be identified. This is partly due to the possibility of circumventing these regulations. For instance, the rental price brake does not hold for renovated apartments and new rental contracts, and the preservation area tool is difficult to push through because it must be proven that the private investor's investments in a building is at a speculative level (Sarnow, 2019).

In line with the section above, it is clear that in both countries the central govern-

ment plays an important role in setting the framework for tackling the affordable housing crisis. Yet, the responsibility of housing provision lays with the municipalities which have planning monopolies in both Germany and Sweden (Granath Hansson, 2017a, p. 39). Therefore, Granath Hansson (2017a) has contributed to the literature with significant findings in her comparative study of institutional prerequisites for affordable housing development on a state and municipal level in Germany and Sweden. She highlights interesting differences in policy tools and their application on the city level (i.e. city organisation, urban planning, land allocation and subsidies) aiming to tackle the housing shortage. Overall, she finds that both countries mainly aim to solve the shortage through increasing housing elasticity instead of targeted housing measures. However, in her comparison of the two largest cities in Germany (Hamburg and Berlin) and Sweden (Stockholm and Gothenburg), the German cities seem to use tools more intensely with more realistic targets (Granath Hansson, 2019a). A key difference lays with the organization. In contrast to the Swedish cities, the investigated German cities have co-operation agreements with private and public actors that have facilitated the process of setting realistic construction goals and strategies that are constantly evaluated. Furthermore, she states that German politicians seem to have a greater interest and incentive to support housing construction policy

which explains why the German cities, in contrast to the Swedish ones, have met their set construction targets. She suggests that this may be linked to the differences in housing market structures. As mentioned before, Germany has a larger rental sector that would benefit from increasing housing construction through decreasing rents. Sweden, on the other hand, has a larger ownership sector for which greater housing supply would have negative effects in terms of decreasing housing prices. Thus, she argues that Swedish politicians expect less support from the electorate in Sweden until the housing shortage has reached an extreme status. Overall, she claims that to tackle the affordable housing shortage, in Germany part of the problem could be solved by increasing its existing affordable housing measures while Sweden requires wider reforms to achieve its goals (Granath Hansson, 2017a, p. 57).

Rent regulations in Sweden and Germany

Lastly, a key problem of the affordable housing crisis in Germany and Sweden is the substantial increases in rents. Especially with the entrance of financial investors into the rental market, tenants have experienced increasing displacement pressure (e.g. Baeten et al., 2017; Christophers, 2021; Unger, 2018). This is even though in both countries strict

rent controls are in place to protect the tenant from extensive rent increases. To put the rent price development into context, it is important to have a closer look at the rent regulation systems in both countries.

Sweden relies on a centrally negotiated rent setting approach based on the use-value of the apartment. This means that rents are set according to the use-value of comparable apartments in terms of size, standard, as well as the building's and area's characteristics. The negotiations take place between the representatives of the Swedish tenant union and the landlords. Though free rent setting is allowed under the Swedish system, the tenant can easily appeal the rent if it is above the rent of comparable apartments. Thereby, short-term market fluctuations are aimed to be circumvented. However, some scholars argue that in recent years when Swedish cities have experienced extensive growth rates, that the economic inefficiency of this model has contributed to housing shortages in the majority of Swedish municipalities (Emanuelsson, 2015; Fritzson, 2020). In line with this argument, a new regulation has been implemented in 2006 to encourage housing construction. According to the legislation, newly built apartments can be exempted from the rent setting model as landlords are allowed to include the building costs in the rent over a 15-year period i.e. presumption rent (Boverket, 2014). Whether this will be beneficial or detrimental to resolving the housing shortage, in the long

run, is still questionable. Yet, it has been highlighted that it leads to increases in rents and therefore does not contribute to affordable housing supply (Grander, 2018, p. 112 ff). Additionally, it has been argued that the Swedish rent setting model is facilitating the financialization of rental housing (Christophers, 2021). Since rents depend on the use-value they can be raised substantially after high-standard renovations are made. Subsequently, the market value of the renovated property increases allowing the financial landlord to sell the property at a higher price. However, soft rent regulations limit the increase of rents during rental occupation of an apartment as they require the approval of the tenant. Therefore, private investors tend to renovate apartments once they become vacant or when the occupant agrees (e.g. Baeten et al., 2017; Christophers, 2021). Yet, the approval of tenants is often generated through displacement pressure (Baeten et al., 2017). Baeten et al. (2017) show how private profit-seeking investors use different tactics to produce displacement pressure on tenants to get their approval for renovations and rent increases.

As opposed to the rental sector, the prices of the cooperative apartment (i.e. tenant-ownership) are set at market prices which have stimulated the transformation of rental apartments into cooperative apartments (Sørvoll & Bengtsson, 2018; Wimark et al., 2020). This has contributed to an even further increase in rental apartment shortages.

In the German case, it is important to distinguish between new rental contracts and existing rental agreements (BMI, 2021). The former is not regulated and is inherently based on the current market situation. Thus, the rent is set freely between the landlord and the prospective tenant. Though legally, the rent should not surpass the local reference rent by 50%. Existing rental agreements, on the other hand, are more strictly regulated. The landlord is allowed to adjust the rent to the local reference rent index (i.e. *Mietspiegel*), however, in a three-year period, the maximum rental increase cannot surpass 20%, or 10-15% in tight housing markets such as Berlin, Hamburg, or Munich. Nevertheless, there are some exceptions to this. For instance, rents can be increased above the 20% threshold if the landlord can refer to three comparable dwellings, inquires an industry expert evaluation of the dwelling, or carries out modernization work. These differences in rent regulations affect the prices of the rental market. In the period from 2017 to 2019, rents of existing contracts increased annually at an average of 1,4%, while rents of new rental agreements increased by up to 6,5% (BMI, 2021).

Furthermore, similar to the Swedish centrally negotiated rent model, the local reference rent tool can be considered a soft rent regulation tool. It is a tool that has been developed to support rent negotiations between prospective tenants and landlords as well as to protect tenants from extensive rent

increases. Since 2021 municipalities with over 50.000 inhabitants are required to have either a simple or qualified local reference rent index (BMI, 2021). The simple reference rent index can be established by local interest groups such as municipalities and the tenant union at a certain point in time without scientific statistical measures. Thus, it is cheaper, but not legally binding. The qualified local rent index is considered more accurate as it is scientifically evaluating the rental market price by including the rents from the past six years and is renewed every four years and adapted every two years. Accordingly, it has been argued that the local reference rent index is rather a political tool than a representation of the actual market because most indexes are below the actual market rent (e.g. Sebastian & Lerbs, 2016). This is majorly due to its skewness in the establishment of the rent index which considers a period of the past six years instead of the actual market prices. Besides the political intentions, the establishment of local references rent index has been further criticised by various scholars (e.g. Kauermann et al., 2020; Kauermann & Windmann, 2016; Lerbs & Sebastian, 2015; Schlittgen, 2017; Voigtländer, 2016). It is argued that several factors, including the lack of requirements for the establishment of the index and the lack of (digital) statistical expertise of free-market agents who establish the local reference index, contribute to varying and untransparent outputs.

Even though Germany has considerable measures in place to protect tenants from immense rent increases, similar to Sweden, private investors have found calculative measures to increase rents by circumventing the above-mentioned rent regulations (e.g. Christophers, 2021; Unger, 2018). For instance, since Vonovia has purchased large segments of public housing stock in Germany, rent increases of new rental agreements influence the reference rent level (Unger, 2018). Therefore, Vonovia can increase the rents of existing rental contracts with respect to the new reference level in the same area. Another measure involves charging tenants for basic renovation work of old and poorly maintained apartments by marketing it as modernization measures. According to the German rental law, if renovation improves for instance the energy efficiency of an apartment it is considered a modernization measure. The costs of modernization measures can be put on the tenant through rent increases by up to 8% yearly.

By and large, both countries are known for high levels of tenure security. Nevertheless, the brief outline of rent regulations and private investors' strategies to circumvent such regulations indicates that private investors would always find loopholes in the rental sector that allow further profit maximization.

Conclusion

In sum, the post-war responses to the housing shortage in Germany and Sweden have been substantially different. While Sweden responded with a universal off-market approach to housing, (West) Germany implemented a dualist housing system within a social market economy. Since the 1980s but more dominantly since the 1990s both countries have seen similar developments through waves of marketization, privatization, and liberalization. While in Germany some of these neoliberal changes could be precluded based on time-limited social measures after the Second World War, it is more surprising for the Swedish universal welfare model. Furthermore, urbanization, populations growth, and low levels of housing construction have contributed to an immense affordable housing shortage and rising rents in major cities. This is further stipulated by calculative practices of financial investors circumventing rent regulation to increase the value of their housing stock and create displacement pressure among tenants. Interestingly, due to the prevailing housing crisis today, Germany sees a re-emergence of the state, while Sweden's next moves are still uncertain.

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