

# Effects of EU Policy on Housing – The Swedish Perspective



## Effects of EU Policy on Housing – The Swedish Perspective

The Swedish Union of Tenants – SUT – advocates everyone’s right to a decent home at a reasonable cost. Despite not having decision-making authority in housing policy, an increasing number of EU initiatives and decisions affect conditions tenants across the European Union. The SUT has identified three main areas where decisions made by the EU affect or risk affecting the Swedish rental and housing market to a particularly substantial degree:

- The European pillar of social rights
- The model for state aid
- Energy and environment

Initiatives and decisions in these areas can both facilitate and strengthen the conditions for national policy and the development of European housing markets. In this document we describe our views on how the EU initiatives might affect Swedish tenants.

In addition to the above, the Covid-19 pandemic greatly affects social conditions across the world, including those of tenants. The SUT has proposed several initiatives that the EU and its Member States can and should implement – both in the short and long term – to support tenants during this difficult time and secure the continuous production of new residential housing at a reasonable cost.

### Similar Challenges – National Solutions

Housing policy is primarily a national concern. Most European countries face similar housing challenges such as eliminating housing shortages for a growing population, securing housing at reasonable costs, fighting segregation, and reducing the climate impact of buildings and housing.

However, similar challenges do not necessarily imply that the best solutions must be the common ones. Housing shortages and rent levels pose challenges all around Europe and several different regulatory and political solutions are currently in force to combat these issues. In Berlin, rent levels have long been lower than in other German cities, but in recent years there has been a dramatic increase. Politicians are now proposing a “rent ceiling” to halt this development. Another example is the housing market in Vienna, which is often highlighted as an efficient example and where housing shortage is almost non-existent. In Vienna, around 60% of the population live in subsidized rental apartments and many new homes are built through non-profit cooperative construction companies.

Hence, there are several different ways to create a well-functioning housing market, and a lot can be learned from each country. However, even though EU Member States face similar housing challenges, common regulations may not work for everyone.

## **Rental Housing in Sweden**

Slightly less than one-third of all Swedish people live in some form of rental housing, provided by private and municipal housing companies, each owning roughly half of the total rental housing stock. There is significant pressure on the Swedish housing market; population growth coupled with the highest construction costs in the EU has created severe housing shortages, especially in large metropolitan regions. Currently, it is approximately 70% more expensive to construct housing in Sweden compared to the European average, according to Eurostat.

### **Rent Negotiations**

The primary component of the Swedish rental housing market is the process of rent negotiation – based on a similar model to the collective bargaining model used on the Swedish labour market – where landlords and tenants meet to negotiate annual lease terms. The negotiations are conducted between two local parties; the landlord and a tenant organisation, usually affiliated to the SUT. This system provides advantages for both parties. Individual tenants negotiating on their own would be in a weak position. For landlords, it is an effective way of handling rent increases for a large number of tenants.

### **The Utility Value Principle**

The utility value principle guides rent setting. This principle states that rents must be set according to the apartment's qualities and that it should cost the same to rent a similar apartment of equivalent quality. In other words, rent levels do not solely correspond to the demand for housing in a certain location.

### **Municipal Housing Companies**

The third component is municipal housing; housing provided by separate companies owned by local governments, which by law have a social responsibility and provide rental housing at reasonable costs to all Swedes. This housing differs from social housing in the UK for example, in that the municipal housing system is available for all people regardless of income.

Overall, Sweden's rental housing system is intended to protect tenants from unreasonable cost increases and uncertainty, while at the same time providing landlords with a stable and predictable income.

***The SUT believes each Member State should be allowed to adapt its housing policies to the conditions and needs specific to the country***

### **The Social Pillar – What is the Reach of the EU Powers?**

In 2017, during the celebration of the Rome Treaty, the EU Member States and the Commission jointly committed to promote a social Europe. This culminated in the so-called *Pillar of social rights*, or more commonly, the *Social Pillar*, which consists of 20 principles of social rights that are intended to ensure that welfare systems and labour markets work well for all EU citizens. The Social Pillar contains areas which were previously either partially or fully outside the competence of EU institutions. Many consider the pillar an attempt to manage the social consequences of the 2008 financial crisis, with the Commission wishing to strengthen the social rights of groups most affected by the financial crisis.

Looking at the 20 principles of the Social Pillar, the 19th principle reading “*Housing and Assistance for the Homeless*” targets the national housing policies of each Member State. The principle states that access to social housing or housing assistance of good quality shall be provided for those in need. Vulnerable people have the right to appropriate assistance and protection against forced eviction, and finally, adequate shelter and services shall be provided to the homeless in order to promote their social inclusion. In many European countries, the 19th principle is synonymous with systems of “social housing” and fixed rental ceilings. In practice, this leads to a divided and segregated rental market where people with low incomes are assigned to social housing, while people with higher incomes are able to benefit from a market with unsubsidized and high rents. In a Swedish context, this would mean that only vulnerable groups with low incomes could access the extensive system of municipal housing. The initiatives of the Social Pillar therefore potentially seem to be in direct conflict with the current Swedish inclusive housing policy, as well as many other national housing markets in Europe.

With the Social Pillar, the power of the EU has been extended to areas previously covered by national policy. EU funds create incentives for Member States to implement the pillar and several legislative proposals aim to do exactly that. For example, the EU Commission’s annual country report as prompted by the European Semester, have long argued that Sweden should implement a system of market rents in hope of increasing the supply of housing. Henceforth, the report will also consider the principals of the Social Pillar, which will further increase the pressure on Sweden in this respect.

With the Social Pillar, the EU is pushing for a development towards greater control of a policy area that was previously determined exclusively at national level. In addition, this is compounded by the fact that the EU institutions currently lack legislative and political expertise as well as experience in these issues. The potential effect being that European Union Member States lose decision making powers over their own housing policy due to these powers being transferred to Brussels, quite contrary to the principle of subsidiarity. Sweden, unlike many other Member States, does not apply a strict rent regulation and may be forced to change housing policy fundamentally to suit other countries’ needs.

***The SUT promotes housing policy remaining within the jurisdiction of individual Member States.***

## The Regulation of State Aid Prevents Construction of New Rental Housing

The EU's internal market, with common competition and state aid rules, is a fundamental part of the European cooperation. Today however, the opportunities for Member States to provide support or subsidies for housing construction are limited. In general, the housing market is characterized by several market failures, such as:

- long investment horizons,
- high barriers to entry,
- scarcity of buildable land, etc.

To manage these issues, an exception to the otherwise general prohibition against state aid, targeting the housing market, has been included in the currently applicable legislation. This exemption is referred to as “services of general economic interest” (SGEI) and allows the Member States to support housing construction for socially disadvantaged and people with low incomes.

Several Member States – including France, Austria, Germany, the Netherlands, Denmark and Finland – take advantage of the applicable state aid rules to stimulate rental property production in various ways. The design and scope of support differs from country to country, just as housing policy differs between countries. However, Sweden in general is largely unable to use the exemption since the definitions of services of general economic interest are narrowly formulated. Unlike the Swedish housing market, support can only be given if the housing is in fact built as social housing with income ceilings, similar to many free market-oriented policies in Europe. However, as Sweden has no system of social housing, but instead a system of municipal housing available to anyone the state aid rules can provide no relief.

In addition to the rules on services of general economic interest, the EU to some extent also permits state aid to be granted based on exceptions allowed by the so-called *General Block Exemption Regulation (GBER)*. The GBER does provide an opening for “infrastructure” which seemingly could allow for constructing housing. Whether this option would be allowed remains to be tested. The current distinction therefore makes it uncertain or even impossible to take advantage of the exemptions provided by the GBER on the Swedish housing market.

The current shortage of housing is a liability for entire communities. Across Europe, there is a need for large numbers of new housing offering a variety of rental conditions, and reasonable rents. The solution is not to build cheap housing for low income groups or other special solutions targeting large groups with low incomes. Rather, the SUT is of the opinion that the rules on state aid must become more general, effectively offering Member States more extensive opportunities to increase the rate of housing production through public funds, while preserving national rental models.

By adopting social policies within the Social Pillar, it now seems the EU in some sense acknowledges housing as a service of general economic interest, not only at the national level, but also at the EU level. However, the SUT questions the logic of today's narrow rules for services of SGEI's effectively restricting the opportunities for construction of reasonably priced housing.

***The SUT promotes the reformation of the EU state aid rules to provide Member States greater freedom in allocating public investment for production of reasonably priced housing.***

## Sustainability Policies must Adapt to Local Conditions

One of the European Commission's most important priorities is sustainability, in particular with regards to energy and environment. Already today, EU legislation, which to a large extent affects tenants in Sweden as well as in other EU Member States, is in place. This is the case particularly as featured in the framework of the 2016 Winter Package - "clean energy for everyone in Europe" - presented by the Commission. The objectives of the winter package are:

1. prioritizing energy efficiency,
2. taking a global leadership in regard of renewable energy, and
3. fair conditions for consumers.

The SUT view these goals positively and acknowledge the Commission as having chosen to take the consumers' best interests into account. However, despite good intentions and high ambitions, prior examples show that effects of the initiatives do not always turn out as intended. The case of individual metering and billing of energy, which was the result of the revised Energy Efficiency Directive, is an example of how the best ambitions on the EU level do not always translate successfully when implemented by the individual Member States.

The proposal aims at reducing energy consumption by making tenants pay for the exact amount of heat used. However, when applying this to Swedish conditions, the opposite effect emerges. In Sweden debiting of energy for heating and cooling is based on a system where gross rent includes costs for heating, cooling and tap water. This system is the dominant model and is used in the absolute majority of all multi-family buildings. This has provided a strong incentive for the property owners to improve the entirety of the individual building and its installations, such as building envelope measures and energy efficient heating and cooling systems. The property owner is the party best situated to implement the specific actions that provide the best return on investment for the particular building because the energy savings have the effect of contributing to the financing of the investment itself. This has also been a crucial reason why Sweden already has a relatively energy efficient property portfolio. Instead of investing in proven energy efficiency measures, resources as a result of the revised EED may instead turn out being spent on buying and installing energy meters.

The installation of individual metering and billing of heating and cooling would imply a significant deviation from the currently well-functioning system of gross rent to net rent. This would also signify a split incentive which would reduce the incentives for property owners to invest in energy efficient renovations.

***The SUT supports the EU's ambition to become the world's first climate-neutral continent by 2050. However, it is crucial that these ambitions lead to actual environmental improvements and do not stop at becoming an advanced zero-sum game with qualitatively substandard legislation.***

### **How can we contribute?**

The SUT maintains a continuous dialogue with political parties and other stakeholders to reinforce a favorable development in housing policy issues for tenants in Sweden. Many EU regulations affect Swedish tenants either directly or indirectly, and by increasing awareness of the consequences of some EU legislation, our goal is to work for these regulations being made more effective.

### **A Housing Policy in the Wake of the Crisis**

In light of the ongoing outbreak of the Corona virus, many issues regarding housing and social exclusion have become even more evident. The pandemic puts pressure on societies, and the economic and social consequences of the pandemic can be expected leading to increased homelessness, housing shortages, and segregation.

In Sweden, the SUT has developed a 13-point-programme to support Sweden's tenants during the current crisis. The programme has been presented to the Swedish government, the housing minister, politicians as well as other decision-makers in Sweden.

Internationally, the International Union of Tenants (IUT) – of which the SUT also holds the chair – has proposed several actions to mitigate the consequences of the crisis. Like most global crises, the EU plays an important role and today's actions will determine how well Europe will manage the outcome of the crisis. It is now of the utmost importance that the EU provides its Member States with the tools to meet the challenges of this crisis.

## About the Swedish Union of Tenants

The Swedish Union of Tenants (SUT) is a democratic membership organization for current and future tenants. We are a politically independent organization with over 500,000 Swedish households as members. This makes us one of the largest movements in Sweden and the leading representative for tenants in the country. Our mission is everyone's right to good housing at a reasonable cost. SUT negotiates for all tenants who need our help - we represent nine out of ten households in the Swedish rent negotiation process. Each year, the organization assists more than 100,000 members by providing them with advice and assistance dealing with their landlords. About 10,000 members have also chosen to become elected representatives within the organization.

## Contact

### **Johan Mirtorp, General Counsel**

+46 (0)10-459 11 51

Johan.mirtorp@hyresgastforeningen.se

### **Erik Elmgren, Chief Housing Policy Officer**

+46 (0)-10-459 11 14

Erik.elmgren@hyresgastforeningen.se

### **Jennie Wiederholm, Advisor Energy and Environment Policy**

+46 (0)10-459 16 14

Jennie.wiederholm@hyresgastforeningen.se

### **Martin Hofverberg, Chief Economist**

+46 (0)10-459 11 57

Martin.hofverberg@hyresgastforeningen.se



