

# Sweden: The myth about housing shortage

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*Countries which have experienced a housing crisis all share the same experience. A huge drop in prices has always been preceded by years of heavily increasing housing investments. Is Sweden immune to this trend or should we worry about the present high construction growth rate?*

Housing construction has grown rapidly for some time now. During Q1, housing starts totalled about 20,000, which if growth continues at the same pace will result in 80,000 new homes during 2017. **Politicians are welcoming** the increase and are also emphasising that it is not enough.

An argument often presented is that housing construction has been too slow for a long time resulting in a huge **pent-up demand** for homes, and accordingly there is hardly any limit to the demand for housing.

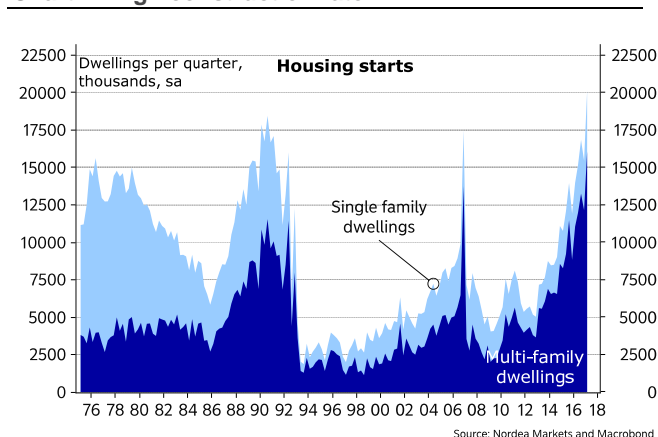
If we look at housing growth relative to population growth, however, we see very few **signs of a housing shortage**. Chart 3 below shows that new housing construction has not increased as much as the number of households over the past decade. However, in the preceding years from 1975 to 2006, more homes were built compared with the increase of households. Chart 4 shows a positive accumulated difference between the two, rather indicating a housing surplus.<sup>1</sup>

Although there does not seem to be a **housing shortage** generally in the country, there may very well be supply and demand imbalances in some regions. Nevertheless, a Riksbank study shows that **only Stockholm** is experiencing a housing shortage as the population is exceeding the number of beds.<sup>2</sup> All other regions have more beds than persons.

Housing shortage can have several dimensions and is difficult to define, see the government's Långtidsutredning (long-term report) (2015) for an explanation of the various definitions.<sup>3</sup> Surveys among municipalities on potential housing shortages should, however, be taken with a pinch of salt as municipalities may tend to overestimate significance and attractiveness.<sup>4</sup>

Therefore many municipalities with housing shortages may simply think that there are not enough homes for the future population. However, **projections of population growth** are associated with **great uncertainty**, particularly in the current situation where the increase over the coming years will depend solely on net migration. It is difficult to estimate migration for individual years.

Chart 1: High construction rate



In its latest projection, Statistics Sweden (SCB) has revised down the population figure by 400,000 persons for 2020 compared with the projection made in November 2015. The downward revision also implies that 200,000 fewer homes will be needed in 2020 compared with previous estimates.

According to **Boverket's projection**, which is based on a dated population projection from Statistics Sweden, 400,000 new homes are needed in the period from 2017 to 2020.<sup>5</sup> Against the backdrop of Statistics Sweden's latest population projection and the assumption that there is no pent-up demand, the need for new homes is more likely to be 200,000. This corresponds to 50,000 new builds every year, which is far below the current rate. This may also be an overestimation given that (i) the housing stock grows more rapidly than new construction and (ii) the size of households may increase.

Boverket's estimate of the pent-up demand for new-build homes is based on completed homes and not changes to

<sup>1</sup> The Swedish housing market is assumed to have been in balance in 1975 when the Million Homes Programme was completed. However, there were signs of a housing surplus already then. In Gothenburg, a whole part of the city was demolished due to a lack of tenants. According to my senior colleague Bengt Roström, the housing agency in Stockholm would not accept a rental home in Sollentuna with a monthly rent of SEK 292 to the portfolio due to a lack of demand.

<sup>2</sup> Emanuelsson (2015), "Supply of housing in Sweden", Sveriges Riksbank Economic Review 2015:2.

<sup>3</sup> Bergendahl et al (2015), enclosure 3 to Långtidsutredningen.

<sup>4</sup> According to Boverket's housing market survey, 255 out of 290 municipalities claim to experience housing shortages. Some municipalities

have set relatively high population targets. For instance the municipality of Trollhättan estimates its population to increase by about 40% up to 2030.

<sup>5</sup> Boverket estimates the need for new homes to come to 440,000 in the period from 2016 to 2020 and to 710,000 in the period from 2016 to 2025. "Reviderad prognos över behovet av nya bostäder till 2025", Boverket 2016:18. The projection is based on Statistics Sweden's population projection from spring 2016.

the **housing stock** in general. Last year, 42,000 new homes were completed while the housing stock increased by as much as 79,000 (chart 2), meaning that 37,000 homes were established by converting other properties, for instance holiday homes and industrial buildings, into homes.

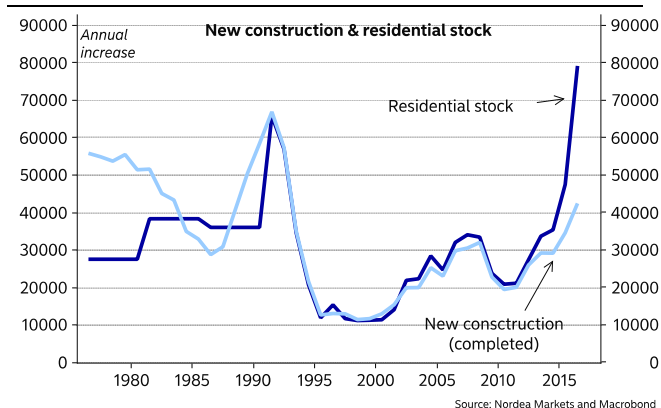
Another critical assumption in Boverket's projection is the **size of households**. The projection assumes that the current size of an average household will remain unchanged. However, Swedish households are very small by international standards.

According to Eurostat, a Swedish household consists of 1.8 persons, which is by far the lowest in the EU and considerably below the 2.3 average. Part of the explanation may be that young people in Sweden generally leave home at a lower age than in any other country in the EU. On average, young people in Sweden leave their parental homes around the age of 21 while the EU average is 26 years.<sup>6</sup> It cannot be ruled out that migrants contributing to the future population growth may have preferences for significantly larger households.

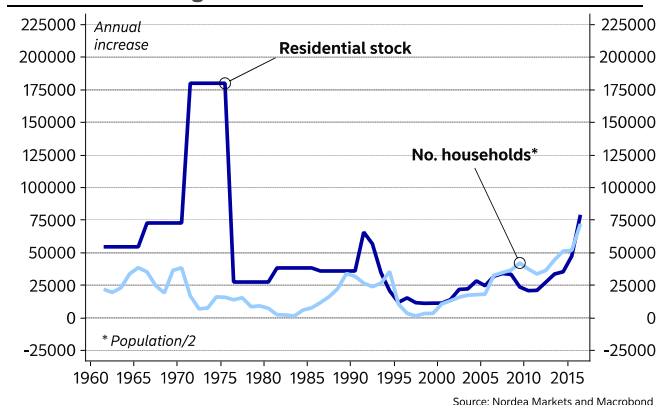
Lastly, it is doubtful to even use population projections as an estimate of the future demand for homes. Instead **market demand**, which is driven by household income and mortgage rates, should be estimated. With strong labour market trends and continued low rates, the conditions are very favourable at the moment, and are expected to continue to be so in 2017 and 2018 according to our forecast. Consequently, a sharp decline in property prices this year or next is not very likely, even if risks have increased due to heavily increasing housing investments over the past years.

We still forecast more subdued and largely sideways price trends in the housing market going forward. In the short term we estimate risks to be on the upside, but in the medium to long term the risk is tilted towards a sharp decline. The **increased supply of housing** is expected to **contribute to putting a damper on prices in the near term and increase the risk of a sharp decline in the long term**.

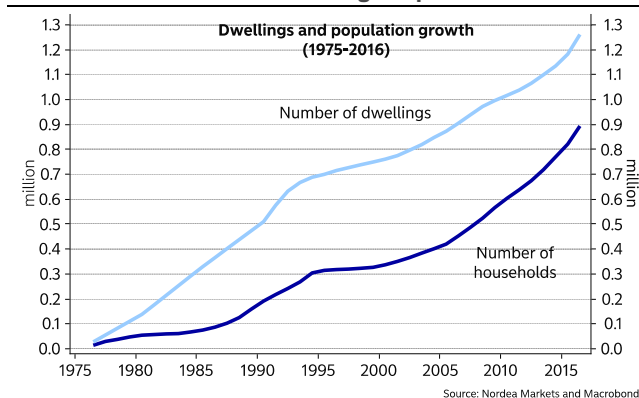
**Chart 2: Stock increases more than new builds**



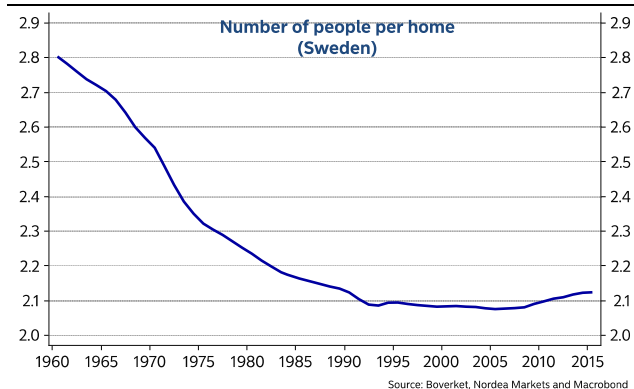
**Chart 3: Housing stock and number of households**



**Chart 4: Accumulated "housing surplus"**

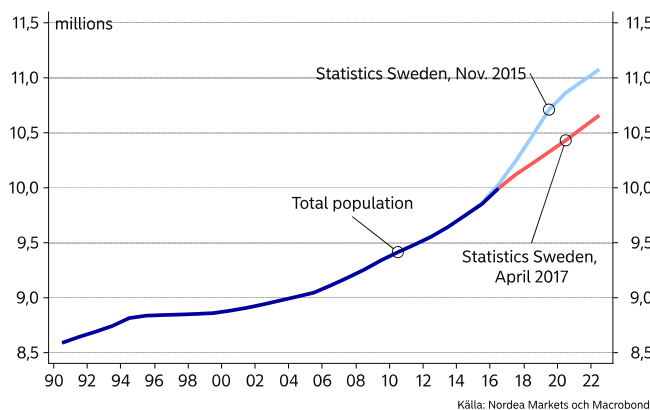
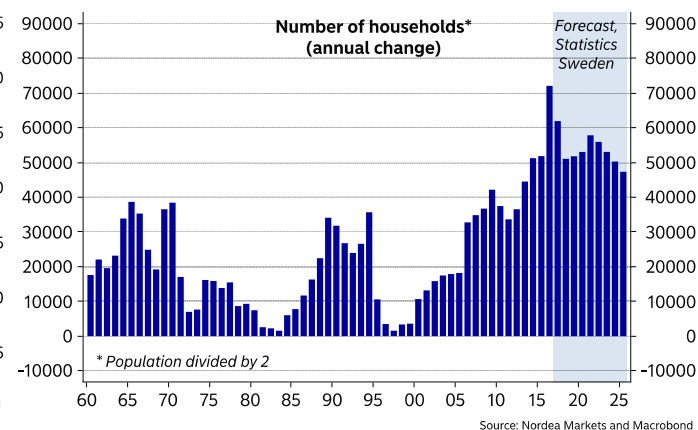


**Chart 5: Households seem not overcrowded**



*Note: Individuals per household differ across sources. In the chart above data from Statistics Sweden is used, while text refers to data collected by Eurostat (EU-SILC).*

<sup>6</sup> Eurostat ([http://ec.europa.eu/eurostat/statistics-explained/index.php/Being\\_young\\_in\\_Europe\\_today\\_-\\_family\\_and\\_society](http://ec.europa.eu/eurostat/statistics-explained/index.php/Being_young_in_Europe_today_-_family_and_society))

**Chart 6: Uncertain population projections****Chart 7: Projection of number of households****Disclaimer**

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