

Oversupply on the Stockholm housing market might lead to lower housing prices

There has been a boom in the new production of residences in Sweden in recent years, going from an annual rate of around 25,000 residences in 2010–2015 to a projected annual rate of between 55,000 and 60,000 residences in 2016–2017.

The increase is due to a combination of factors. First of all, new production of residential property has been at historically low levels since the early 1990s, while population growth has increased considerably in recent years. In addition, interest rates have been low, financing conditions have been attractive, housing prices have reached record heights and the political pressure to produce new residences has been extremely high. Another important factor is that 8–10 long-term investors (both institutionally owned and listed) that focus on Swedish residential property have entered the market in recent years. For example, Rikshem, Willhem, D. Carnegie, Victoria Park and Heimstaden/Nordhalla account for approximately one third of all investments in the residential market since early 2010. These investors have created a fundamental infrastructure for the investment market and pushed down property yields for rental housing property all over the country. In turn, the new investor base has stimulated a large number of smaller property developers to develop and sell off rental housing projects.

The most important question is: how much new production is actually needed on the Swedish housing market? The size of the average household depends on the definition of the term, but according to Statistics Sweden (SCB) the average Swedish household comprises 2.2 persons. In Stockholm County, the household density is slightly higher, around 2.3 persons per household, while it is lower in the rest of Sweden. In addition, there is a higher household density in houses than in rental and condominium flats. According to Eurostat, Sweden has the lowest number of people per household, i.e. the lowest household density,

in the entire EU. (However, Eurostat uses a slightly narrower definition of the term “household” compared with Statistics Sweden, meaning that the numbers are not directly comparable.) Households in Northern Europe are generally smaller than in Southern Europe. Nevertheless, the average household in other Northern European countries such as Finland, Denmark, Germany and the Netherlands is approximately 10 per cent larger than in Sweden.

The reason why Sweden has a significantly lower household density than other EU countries could be that we have, by far, the most single households in Europe, and

that young people in Sweden traditionally move out at a younger age than in many other European countries. One additional explanation for the low household density could be the low mobility within the existing supply of residences. Housing rents in Sweden do not reflect how tenants value location and quality, which leads to an increased risk of people keeping lease agreements in attractive locations even though the residences are not used fully (which in part explains the large share of single households). This situation, along with taxes and fees that reduce mobility on the market for houses and condominium flats, results in inefficient use of existing residences.

“Although Stockholm’s population growth is historically high, the current supply of new residences is too high.”

Although the rate of new production of residences in 2016–2017 has doubled compared with the average in 2010–2015, the country as a whole has a clear demand surplus. Demand for housing is expected to be approximately 70,000–80,000 residences per year in the coming years, based on current population forecasts as well as today's average household sizes per region and type of residence. This demand exceeds the current new production rate of 55,000–60,000 residences per year. However, Sweden's population growth has been inflated by immigration and is expected to fall significantly in the coming years. As such, with a constant new production rate at current levels, supply will exceed demand by 2021. Furthermore, if the average household density would increase by 10 per cent and approach the levels of the rest of the Nordics and Germany, then supply would exceed demand as early as 2019. At that point, new production would have to be reduced in order to avoid a supply surplus on the market.

The housing market in Stockholm County differs from the rest of Sweden. Here, the annual rate of new production has increased significantly in the past year, from an average production rate of 8,500 residences per year during 2010–2015, to a projected annual production rate of 20,000–25,000 residences in 2016–2017. Although Stockholm's population growth is historically high, the current supply of new residences is too high. Based on the estimated population growth and the current household size in the region, the annual demand for newly produced housing until 2024 is expected to be around 16,000–19,000 residences.

The current production rate would be sustainable if household sizes were to decrease by 10 per cent, as demand would then increase to approximately 25,000 residences per year. However, this is unlikely to happen as the average Swedish household density is significantly lower than in comparable European countries. In addition, any political reforms aimed at improving mobility and liquidity on the housing market would most likely lead to a higher household density. After all, the average household

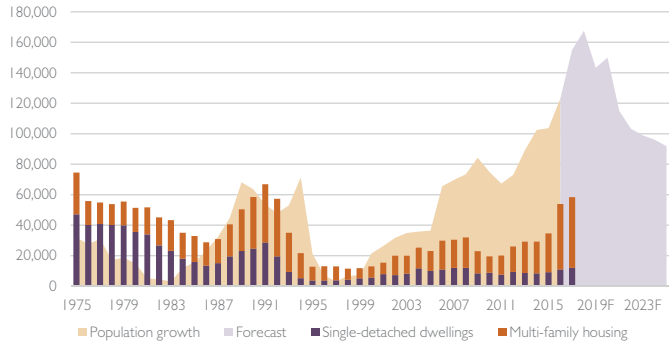
size in other Northern European countries is around 10 per cent larger than in Sweden. If the average household size in Sweden were to increase by 10 per cent, demand for new residences in the Stockholm region would fall to approximately 10,000–12,000 residences. On the other hand, a higher new production rate could lead to a higher internal migration from other cities to the Stockholm region, which would increase Stockholm's population growth and demand for housing (young people are often hesitant to move to Stockholm due to the difficulty of finding accommodation).

What do these findings tell us about the future development of the Swedish housing market? Currently, the Swedish housing market is affected by low mobility within the existing housing stock, which in turn can lead to an artificially high demand for newly produced residences. This might result in a higher level of new production than it would have been if the existing housing stock had been used more efficiently. There is also a risk that the new residences do not reflect the actual demands of the end customers, i.e. the households.

If new production in Stockholm remains at current levels while demand stays at, or falls below, 16,000–19,000 residences per year, there is a risk that today's housing prices will fall. A significant decrease in housing prices could cause the Swedish economy to fall into a recession, as the Stockholm region accounts for about half of Sweden's GDP growth and since private consumption and investments in housing, both of which are closely related to housing prices, have been the main drivers of economic growth in recent years. The most probable scenario, however, is that the current rate of new production does not last. This is partly due to capacity problems in the construction industry, which leads to soaring production costs, but is also due to the fact that the municipalities' zoning processes and infrastructure are clear bottlenecks. As such, investors will pay close attention to the market and reduce their rate of new production once selling and letting newly produced residences becomes harder.

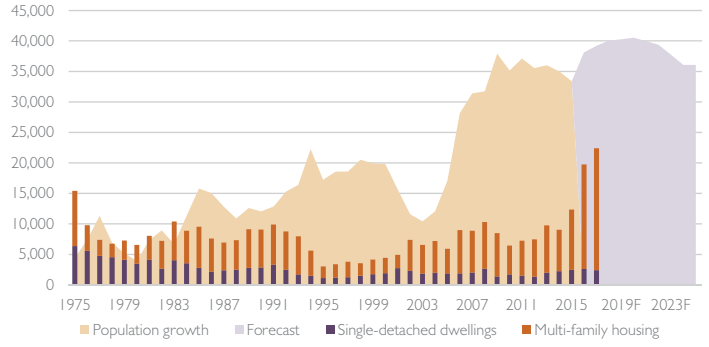
New construction of residential and population growth, Sweden

Population growth / Number of new dwellings



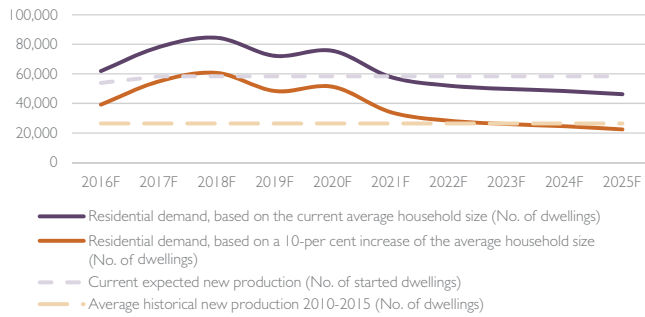
New construction of residential and population growth, Stockholm County

Population growth / Number of new dwellings



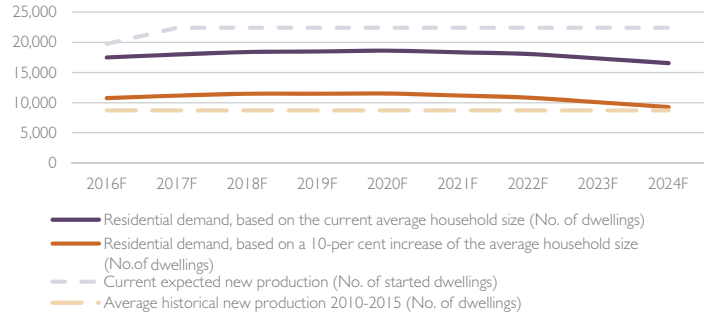
Supply and demand on the residential market, Sweden

Number of new dwellings



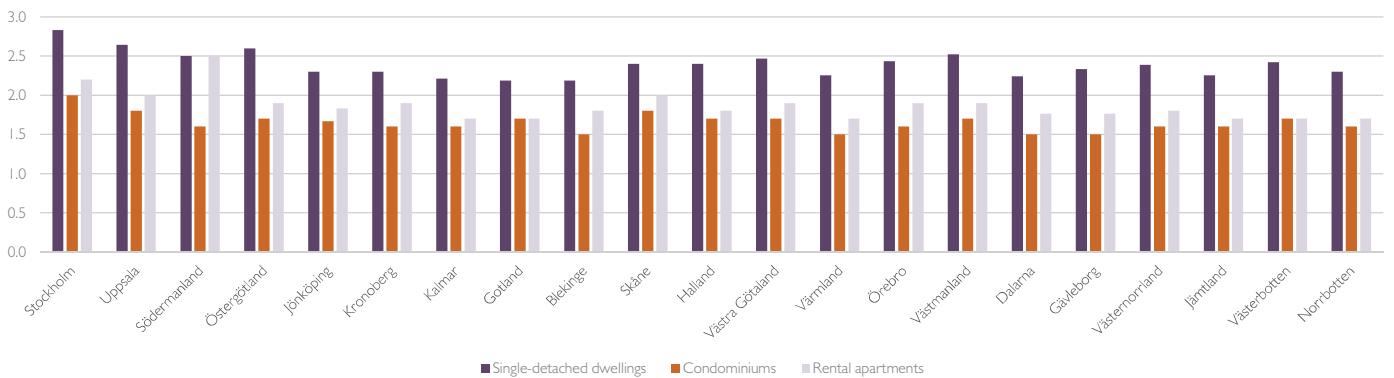
Supply and demand on the residential market, Stockholm County

Number of new dwellings



Average household size per type of dwelling

Number of persons



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