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Comment on Hans Lind: Rent regulation and new construction: With a focus on Sweden 1995-2001

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The paper contains useful discussions of many factors and mechanisms linking new construction and rent regulation regimes. It also gives a large amount of information that helps outsiders understand the particular Swedish system of rent regulation. A nice feature of the paper is also that it contains a quite comprehensive overview of the literature on the topic.

I have mixed feelings about the style of exposition in the paper. On the one hand, I am a bit frustrated by the lack of analytical precision and tightness. On the other hand, I like the use of the analytical grip "a story consistent with" in parts 4 and 5. This analytical grip allows the author to discuss the interdependencies between new construction, rent regulation and the general evolvement of the housing market in Sweden during a specific period. This is important because one should not pretend to continuously analyse a market in a long-run equilibrium when, as the paper demonstrates, this is not the case. Neither should one pretend that the conclusions are firmer than they really are. In this respect, the paper is clear and honest, and the "a story consistent with" approach contributes to this.

Let me also say that I like the discussion of the meaning of "effects" in part 1.2. There is a large amount of inertia in the process of adjustments in the housing market. An analysis of the effect of (changes of) the system of rent regulation in Sweden must start from the fact that the system has prevailed for a long time, and that the housing stock and the structure are a result of this. This stock and structure will adjust slowly to changes in the legal framework. Hence, I agree with the author that an analysis of a concrete situation should start from that situation and not confine itself to analytical exercises within some kind of steady-state economics.

I think that the paper puts somewhat too much trust in expert-judgements as a source of information on effects. On the contrary, I

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think that the task of economists is not to report "common knowledge" but rather to analyse and discuss structures and mechanisms, both theoretical and empirical, as large parts of this paper do. Especially in such a complex topic where many of the experts have vested interests, I think this should be the economists' strategy, even if we, not undeservingly, run the risk of being characterised as boring reductionists.

A general point made in the paper is that empirically, there are very large variations between the systems classified under the heading rent regulation. Consequently, trying to make very general claims about the effects of rent regulation does not make much sense. This is probably right and it is a useful reminder. It is especially important if analyses and conclusions about effects of rent regulation in the public debate are imported and exported between countries. The Swedish rent regulation regime is called "Segregation related rent regulation". I do not think that this is a good concept. It seems to imply that the result of the system is reduced segregation along some dimension. This seems to me to be either wishful thinking or an empirical hypothesis. A more neutral concept would be preferable.

The paper sets out to explain the low level of construction in Sweden after the mid 1990s. It is noted that Sweden has the lowest level of housing construction pr 1 000 people in the EU. An informed guess is that Sweden is among the countries in the EU with the highest number of housing units per 1 000 people, and that this is part of the explanation of the low level of new construction. Related to this, the high volatility of the housing construction in Sweden might be associated with a relatively large housing stock. Maybe Sweden has a low volatility of the size of the housing stock? How much of the volatility in the time series of new construction in Sweden is caused by the shift around 1990?

The paper states that the most important mechanisms through which rent regulation can affect new construction is that it depresses the expected return on capital invested in rental housing and that , in different ways, it affects the risk exposure of owners of rental housing stock. This I think should be the basis of all analysis of the effect of rent regulation.

Two risk-related mechanisms are singled out as important. First, the fact that investors face the risk of an even more restrictive rent regulation in the future. Whether there exists, or the potential investors think there exists, a "danger of" a more severe rent regulation is an empirical question. Such a mechanism is probably most important when (parts of) the existing rental stock is rent regulated while new rental units are not covered by the regulation regime. This was the case in Oslo and I think also in New York. Maybe the paper should discuss whether this mechanism is really relevant in a Swedish context. Is a more strict rent regulation on the agenda, or is it the other way around?

The other risk-related factor treated is the fact that the regulation regime can affect, or maybe even determine, the distribution of demand risk between different segments of the rental housing market. This is probably far more important than the "more-severe-regulation" risk in a rental housing market as tightly regulated as the Swedish one. Maybe the paper should discuss the relative importance of these two types of risk in the Swedish context.

It is claimed, and well argued, that under the Swedish regime of rent regulation, newly constructed rental housing units are more exposed to demand risk than the existing stock. This is of course very important in understanding the effect of the rent regulation regime. However, this calls for a more differentiated treatment of the package the rent regulation regime represents.

The rent regulation consists of two parts: A cap on the total revenue of landlords, and a system of determining relative rents. Under the existing relative rents, the rent regulation bites to a various degree in different parts of the rental stock. This can be clearly seen from the differences in the queues for different parts of the rental stock. It would be possible to keep the revenue cap and alter relative rents. This is important and should be discussed because the distribution of risk between new construction and old rental housing units is strongly depending on relative rents.

Since the main objective of the paper is to identify the effects of rent regulation on new construction, I think that the paper should try to distinguish between the effects of the revenue cap and relative rents. This is important because if the revenue cap is kept and relative rents are changed, it might be possible to reduce the adverse effects on new construction. However, I do not think that the paper should go into any positive analysis of how relative rents are determined. (This would be an enormous task and I am not convinced that the tools of traditional economic analysis would be suitable for such an analysis!) Rather, one should discuss the consequences of different potential “rent gradients”. Hints of such an analysis are found in the paper when the differences between Malmö and Stockholm are noted.