

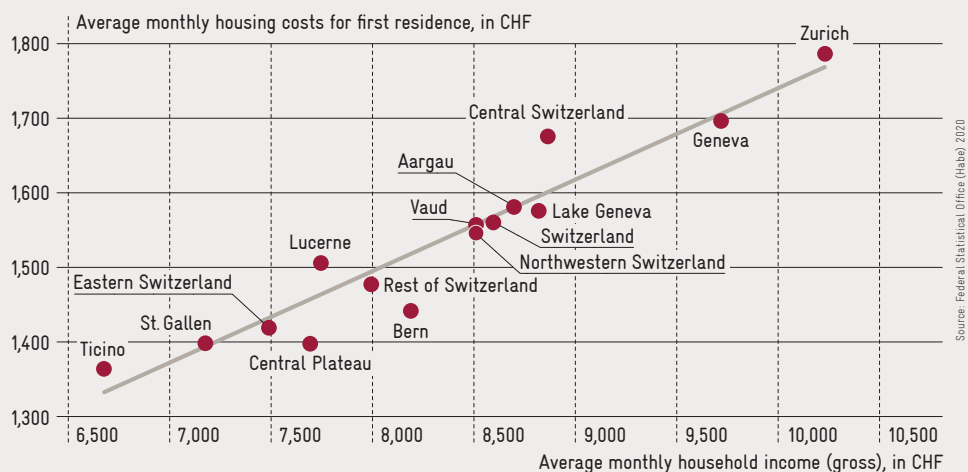
Fragile Foundations

With a share of almost 20 percent of gross income, housing costs are the largest household expenditure item in Switzerland. A far-sighted housing policy is therefore of great importance.

Situation

Rent as well as land and property prices are high wherever incomes are substantial. Households spend roughly the same proportion of their budget on housing in the different regions of Switzerland. This share has been constant for decades. If politicians could make housing “more affordable” by simply waving a magic wand, for example by imposing strictly cost-based rents, the amount of people willing to live in central locations would increase. Demand would exceed supply. This shows the limits of intervention in the housing market.

Higher incomes, higher housing costs



There is a strong correlation between local household incomes and rent level, despite major differences in construction activity, regulations and topographical conditions.

Facts

0.57

The private housing market is often referred to as a “free market”. But is this true? The OECD’s rental regulation indicator is 0.57 (1 being the maximum). This puts Switzerland in 4th place among Europe’s most strictly regulated rental markets.

■ **Numerous housing policy instruments** already exist: individual subsidies (e.g. rent subsidies as part of supplementary benefits), building subsidies (such as preferential land leases granted to cooperatives) and spatial planning measures (e.g. minimum shares of affordable housing in new constructions). Individual subsidies have a more targeted and transparent effect.

■ **Obstacles to construction:** It has been possible to expand supply to a similar extent in all regions to date. If this had not been the case, housing costs would be higher in central areas. But more restrictive spatial planning, changes in case law (which makes appeals easy) and well-intentioned regulations (noise reduction, biodiversity, etc.) are now calling this into question.

■ **Protecting existing tenants:** Tenancy law should regulate all contractual relationships between tenant and landlord. However, cantonal regulations (the law on demolition, conversion and renovation law in Geneva, and the housing protection law in Basel) are making it more difficult to renovate or adjust rents. This favors older tenants at the expense of the mobile population, particularly young people.

■ **Less supply:** Swiss tenancy law has largely proved its worth, as demonstrated by the high proportion of tenant households (60 percent). However, unilaterally favoring existing tenants could have negative consequences: reduction of mobility and investment, and less densification in the cities.

Recommendations

An effective and financially sound housing policy **must be targeted**, helping only those households that really need it. **Individual subsidies** are the **most effective instrument**, because it is more

targeted and transparent. However, it is even more important to create an environment that **encourages private investment in housing**. On the long run, it is the safest way to **create affordable housing**.

