Inclusionary Housing Policies in Gothenburg, Sweden, and Stuttgart, Germany: The importance of Norms and Institutions

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Abstract. Concerns about affordable housing shortage and social and income segregation have contributed to the introduction of inclusionary housing (IH) policies in a number of Western countries. IH is a term that summarizes municipal ambitions to spur the inclusion of affordable housing in otherwise market-rate projects through development restrictions. The aim of this article is to describe and compare IH policy objectives and incentives in the German city of Stuttgart and the Swedish city of Gothenburg, and to tentatively explain why policy is applied differently in the two cities. The comparative case study builds on the international literature on IH, housing policy documents of the two cities, seminars, and expert interviews. The main findings relate to the decisive impact on policy implementation of underlying slow-moving institutions on housing allocation and the extent of public land ownership. Although IH policies in the two countries generally have very similar objectives and incentive structures, underlying slow-moving institutions decide fundamental traits of the fast-moving institution of IH. In the Swedish case, allocation methods of low-rent apartments under the unitary housing system might prevent targeted policies, such as IH, from functioning as intended. In the German case, IH is integrated into the existing social and affordable housing system. Therefore its social objectives are not contested, although the limitation of private property rights and the incentive structures of developers are bound to be discussed. The extent of public land ownership might also be a decisive factor in whether to implement IH policies or not. Stuttgart has limited public land ownership, and finding inexpensive land for public production is a challenge. Therefore, IH policies might be an effective way to produce affordable housing. Gothenburg municipality owns most of the land available for housing development, has a planning monopoly, and public housing companies with good financial standing. As a result, other, quicker and possibly less costly, alternatives to develop affordable housing could be discussed for Gothenburg. This is especially the case for implementation through public investors. As research on IH policy is scarce in the Nordic context, this paper contributes to the limited literature with the hope of inspiring more research. Future research might focus on how the relatively new housing policy instrument of IH might be applied (or not) in a Nordic city development context.

Keywords: affordable housing, housing policy, housing systems, inclusionary housing (IH), municipal land
1 Introduction
In the last decade, affordable housing shortage and concerns regarding social and income segregation have become focal points of housing policy debate in many Western countries. In order to increase affordable housing supply, several governments have reformed urban development processes and/or increased the scope of targeted affordable housing policies (Granath Hansson, 2017b). A general shift away from traditional ways of providing affordable housing, involving mainly public actors and including supply-oriented support, toward market solutions including private financing and demand-oriented support has taken place (Gibb, 2011; Marom and Carmon, 2015). The shift has inspired a search for new institutions that fit the new institutional setting.

Inclusionary housing (IH) policies aim to create affordable housing in otherwise market-rate housing projects through development restrictions. These IH policies have emerged as a key housing policy tool in a wide range of countries, including the US, the UK and France. The main aims of such policies are the extension of affordable housing supply and mixed-income housing areas (Calavita et al. 1997). As affordable housing has advanced on the housing policy agendas in Germany and Sweden, IH has caught the attention of cities (Göteborg, 2014; Stuttgart, 2013b). Several German cities apply land policy strategies, of which IH is a part. In Sweden, IH is not applied as of yet, but a pilot project is now being negotiated in Gothenburg. One further project is planned in Örebro.

This study compares the institutional set-up of IH policies in Stuttgart, Germany, and Gothenburg, Sweden, with the aim to tentatively explain why IH is applied differently in the two cities. The research questions have been formulated as follows: What are the policy objectives behind the introduction of IH and how are they shaped by the wider institutional prerequisites? How do agents’ incentives shape the design of IH policies? Compared to other north-western European countries such as Great Britain and the Netherlands, there is only limited research on German IH models, and almost none on Swedish IH models. It would be of interest to better understand how the relatively new housing policy instrument of IH fits into the German and Swedish housing systems, and what drives the development of the models in the two countries. This article is meant to close part of the present research gap.

The article is structured as follows: After this introduction, the literature review and the methodology section are presented. Thereafter, the results section describe the development of IH policies in Germany and Sweden to date, national rent-setting principles and the two case studies with regard to policy objectives, policy design and developer incentives. Then, the cases are analysed and discussed in relation to the literature. Last, conclusions are drawn.

2 Inclusionary housing and socially mixed neighbourhoods in the literature
Inclusionary housing (IH) policies summarize municipal ambitions to spur the inclusion of affordable housing in otherwise market-rate projects. The aim of IH policies is twofold: to increase affordable housing supply, and to create mixed-
income housing areas (Calavita et al., 1997). Programmes might address low-income or moderate-income households or both groups. IH programmes should be seen as an alternative to traditional public or social housing schemes. Such programmes have increased in popularity since the 1990s as housing policy in much of the Western world became a local rather than national policy issue. Simultaneously, there was a general trend toward more market-based solutions. IH policies have been seen as a tool for governments to take advantage of increased land values in strong housing markets (Schuetz et al., 2009).

IH policies have been applied in the US since the 1970s (Calavita and Mallach, 2010). Great Britain was the first country in Europe to adopt such policies, through the introduction of section 106 in the Town and Country Planning Act (Monk, 2010). The City of Munich in Germany followed suit in 1994, but it was only in 2009 and onwards that the practice spread in the country (Friesecke, 2015). Swedish municipalities have as yet not adopted such policies, with the exception of Gothenburg, where a pilot project is now being negotiated between the municipality and developers (Granath Hansson, 2017a). Örebro also intends to adopt an IH policy.

A general definition of IH that applies to most countries is: “Land use regulations that require developers of market-rate residential development to set aside a small portion of their units, usually between 10 and 20 percent, for households unable to afford housing in the open market. Alternatively, they can choose to pay a fee or donate land in lieu of providing units” (Calavita and Mallach, 2009, p. 15). IH can include municipal land provision at below-market price, land situated in locations that create social mix and the subsidy of projects out of development gains (de Kam et al., 2014). Developers participating in IH projects are compensated financially and/or receive regulatory relief. IH models vary between jurisdictions, but a number of ingredients are recurrent: density bonuses, in-lieu fees, construction in nearby locations, municipal land allocation, and financial subsidies.

In the UK, the country in Europe with the longest experience, such policies constitute the main tool for providing affordable housing (Gurran and Whitehead, 2011). However, it is noted that the system cannot deliver the needed amounts of affordable housing, especially during recessions (Mulliner and Maliene, 2013). Also, in the US, researchers argue that IH should be part of affordable housing strategy but that it cannot be the core of such strategy (Calavita et al., 1997). British and German researchers note that IH can be one tool to increase the supply of affordable housing, but not the only one, and that public subsidies are also necessary (Drixler et al., 2014; Whitehead, 2007). It should also be noted that, policy design and extent of policy implementation vary over time, depending on, inter alia, antiregulatory pressures and economic trends (Calavita et al., 1997).

In the US, some states use IH policies as part of “fair share” politics under which all municipalities have to provide a certain share of affordable housing. In California and New Jersey, where such policies have “produced significant and measureable results” (Calavita et al., 1997), higher levels of government and the courts have been involved in policy enactment. Both states apply a cost-offset approach to lower the burden on developers. Calavita et al. (1997) argue that the
Californian model is likely to survive because of its adaptability when political and economic circumstances change. Compromises are made regarding affordability, cost-offsets and flexibility for developers. A preference for home-ownership over rental is also pointed out (Calavita et al., 1997).

De Kam et al. (2014) expect a strong relation between the wish to introduce IH, and housing systems. IH is claimed to be considered in locations where there is a shortage of affordable housing and where this shortage is considered to create important problems. Such problems might be functional, such as the undersupply of key workers, or social, such as segregation or the undersupply of services for certain types of households. The amount of housing expected under IH policies depends on the composition of current housing stock and on other policy measures. The choice of whether to implement IH or not will depend on the attractiveness, efficiency, cost, ease of implementation and acceptance of alternative policies. Further, de Kam et al. (2014) expect the wish to introduce IH to be stronger in dual housing systems than in unitary ones, since housing is more segregated and public budgets for social housing schemes are expected to be smaller. Also, IH policies are expected to be more popular in countries where public control in the urban planning process is less pronounced, which is supposed to result in market-driven housing production, which, in turn, might cause segregation. The size of the development surplus is expected to be a driver for municipalities to implement IH, as the use of such surplus could reduce the burden on public budgets. De Kam et al. (2014) also point out that IH “cannot be introduced without an appropriate definition of the types of housing and households that are eligible to benefit from it” and that an “important condition for acceptance and societal support of IH is usually the capacity of the housing system to retain the benefits of IH for eligible households exclusively, for a reasonable number of years” (De Kam et al., 2014, p. 397).

IH has been much criticized for the negative impact it might have on housing supply (partly contradicted by Mukhija et al., 2010), development cost (Kontokosta, 2014), and housing prices (partly contradicted by Hughen and Read, 2014). Hughen and Read (2014) also suggested that developers are likely to respond to policies by strategically altering production decisions. Here it must be pointed out that policy outcomes vary as much as do policy designs: no generalizations can be made; rather, each policy must be evaluated on its own merits (Schuetz et al., 2009). The effectiveness of such policies in terms of the amount and location of affordable housing is dependent on, for example, programme structure, political will to enforce policy, extent of supporting land-use policies, local housing market strength, and potential opposition to development (Kontokosta, 2014).

Socially mixed neighbourhoods are widely viewed as important in European housing policy (e.g. Calavita and Mallach, 2010; Grundström and Molina, 2016; Göteborg, 2014; Stuttgart, 2015; van Ham et al., 2016), as it is deemed to be a fundamental prerequisite of social cohesion. Musterd and Andersson (2005, p. 762) describe the underlying assumption, that “housing mix (a mix of housing types and tenure types) will create social mix (a mix of households according to their socioeconomic position) and that this will create better social opportunities for individuals”. Social mix policy and literature either focus on income or ethnicity,
or both, as the parameters in many cases are interrelated. Skifter Andersen et al. (2016) show that housing policy and housing market composition affect ethnic segregation in four Nordic capitals, although the level of immigration also has to be taken into account. Different housing policy instruments are used to achieve social mix, among them, IH. However, Galster (2007a, p 35) describes neighbourhood social mixing policies as “based more on faith than fact”. Further, Galster (2007b) finds support for mixing policies only on equity grounds, but not on efficiency grounds. Musterd and Andersson (2005) find little correlation between housing mix and social mix in a study using Swedish data. A distinction between place-based and people-based policies to reduce segregation is often made. Winston (2017) concludes that housing and neighbourhood conditions are less important to quality of life than socio-demographic factors are. Van Ham et al. (2016, p. 17) suggest that “to really make a change, policy should focus on people and not on areas”, inter alia education and investments in infrastructure that enhance mobility. Further, the link between social mix and social inclusion have been questioned (e.g. Arthurson, 2002). Bolt et al. (2010) indicate that there is no straightforward link between integration of immigrants and housing segregation. Drever (2004) suggests that the correlation between social and spatial integration of immigrants can be questioned in some contexts and point to the potential larger importance of workplace and school contacts compared to home location.

The literature shows that to understand local IH policies, they must be analysed based on policy objectives and incentives provided in practical implementation, as well as in relation to the wider housing system. The research questions were formulated to enhance understanding of these topics in relation to the German and Swedish cases.

3 Methodology
The study was conducted as part of a larger research project investigating institutional prerequisites for housing development in Germany and Sweden, in response to the intense public debate on increasing housing shortage and housing policy reform in major cities in Germany and Sweden in recent years. Within the larger research setting, IH policy was identified as a relatively new, fast-moving institution which had attracted only limited research interest and was seldom discussed in relation to the prevalent housing system, and therefore would be important to study further.

The study is restricted to Germany and Sweden, as these two countries are deemed to have similar prerequisites when it comes to the project development institutional setting, the political perceptions of the role of housing in the welfare state, and demographic structures, which to a large extent decide appropriate measures and scope of action. Although the German and Swedish housing provision systems are similar in many respects, and the uncontrolled variables therefore are limited, there seems to be variation in the independent variables whose effects are of interest (Pickvance, 2001).

The literature review revealed a clear limitation of studies related to Germany and Sweden and also indicated that German cities tend to shape policy based on
local prerequisites. To be able to understand how policy is applied in depth, rather than providing an over-view of several city policies, the study was designed as a comparative case study of one German and one Swedish case. Case selection was based on critical cases, to make the relation between the cases particularly clear (Yin, 2006). In a strategic information-oriented sampling (Flyvbjerg 2006), one German best practice example (City of Stuttgart) was chosen, as well as the pilot project in Sweden (City of Gothenburg) which is the best developed Swedish policy to date. The main features of each case are described in Table 1.

Table 1. Main case features.

<table>
<thead>
<tr>
<th>Feature</th>
<th>Stuttgart</th>
<th>Gothenburg</th>
</tr>
</thead>
<tbody>
<tr>
<td>Case type</td>
<td>Best-practise</td>
<td>Pilot</td>
</tr>
<tr>
<td>Policy level</td>
<td>Municipal</td>
<td>Municipal</td>
</tr>
<tr>
<td>Policy implementation area</td>
<td>The whole municipality</td>
<td>One development project</td>
</tr>
<tr>
<td>Policy existence</td>
<td>8 years</td>
<td>6 years</td>
</tr>
<tr>
<td>Number of built projects</td>
<td>Multiple</td>
<td>None</td>
</tr>
<tr>
<td>Covered by the literature</td>
<td>Few studies available</td>
<td>Almost non-existent</td>
</tr>
<tr>
<td>Policy documentation</td>
<td>Solid</td>
<td>Scarce</td>
</tr>
<tr>
<td>Availability of interviewees</td>
<td>N/A</td>
<td>Good participation</td>
</tr>
</tbody>
</table>

The comparative case study used a fixed design, first describing each case in some detail, then comparing the two cases and finally analysing and trying to explain why policies were implemented differently in the two cases. The descriptions and the comparison were focused on the parameters of the research questions: policy objectives and incentives of agents. The data was extracted from the literature, policy documents, seminars and expert interviews. Housing policy documents related to urban planning, housing provision and IH policies were studied for both cases (please refer to the reference list). The Swedish data was complemented with expert interviews (Trinczek, 2009) as policy is under development and written documentation is therefore limited. Interviews were made with three representatives of the City of Gothenburg, three of the participating developers and the interest organisations the Tenants’ Union and the Private Property Owners’ Federation. The German case is of longer standing and well documented and therefore no interviews were deemed necessary. The data was collected and up-dated continuously through participation at seminars and conversations with involved agents in the period 2015–2018.

Although the study makes a practical and empirical contribution, as results have relevance to ongoing housing policy reform, the fact that the study is restricted to only two countries and two cities presents a clear limitation. However, the study can easily be linked to the extensive European literature on IH policies, provide a new piece in the puzzle regarding German and Swedish policy development, and hence provide material for analytical generalization. Further, research on IH in a Nordic context is very limited and this study may contribute to a deeper understanding of how this relatively new housing policy instrument fits into the Nordic city development context.
4 Case descriptions: Inclusionary housing policies in Germany and Sweden

The following four sections describe how IH policies have developed in Germany and Sweden to date, the potential impact of rent-setting principles, as well as the two case studies.

4.1 The development of IH policies in the two countries to date

In Germany, several cities (e.g. Hamburg, Munich and Stuttgart) apply so-called land policy models to finance investment in infrastructure, social infrastructure and affordable housing. These models set forth the basic principles for distributing tasks and costs between developers and municipalities in development agreements. The models, as opposed to case-by-case decisions in each development agreement, ensure predictability and transparency as they are implemented in all projects. In relation to housing, such models are intended to create affordable housing, preferably in socially mixed areas. Additional costs incurred by the developer due to these requirements are usually capped at two thirds of the planning-related land value increase (Drixler et al., 2014).

In practice, cities often set a goal that a certain percentage, typically 20–30 percent of the apartments in each new building, should be affordable. Models typically target rental housing, but some models also encompass ownership housing. When subsidies are given, in the form of low-cost land and/or direct investment support, rents are guaranteed for a certain period, typically 15–30 years. In some cities, it is possible to construct affordable housing in another location within a certain distance of the initial development or to transfer the liability to another developer.

Though following the broad outline described above, each city has developed its own model based on its own needs. Experience of land policy models is relatively recent in Germany. The City of Munich was the first to adopt such a policy in 1994 and has been followed by several more cities since 2009. As the German experience is relatively limited, so is the evaluation of the German models. Though success depends greatly on local prerequisites and local policy design, such policies are generally deemed a success (Friesecke, 2015). However, negotiations between cities and developers are not always without friction (Immobilienzeitung, 2017).

An assessment of German land policy models notes, for example, the following (Drixler et al., 2014): The presence of public subsidies is still a basic prerequisite for increasing the supply of affordable housing. As certain restrictions mean that the models are applied to only a limited number of projects, to have an impact on general housing affordability in the various cities, they must be applied for a longer period, as has been the case in Munich, for example. The development and implementation of land policy models presupposes sufficient planning capacity, as it is a dialogue-based process. In areas where such policies are applied, social mix is attained. Whether such policies lead to less social mix in surrounding areas has not been demonstrated. Land policy models are not viewed as a possible solution to integration problems. It has not been proved that
investors view neighbouring subsidized housing as negative. It is still an open question whether land policy models actually lead to lower land prices. Evidence from Munich contradicts this hypothesis. Investors are treated equally. Regional cooperation in metropolitan areas is necessary.

Friesecke (2015) points to a number of success factors of German land policy models, inter alia, broad agreement among the involved public and private stakeholders to create long-term stability, equal treatment of developers, transparency and clarity, reliability and regional cooperation. Further, the flexibility of land policy models “allows each city to develop its own strategy based on its own needs, but it may not be an (economically) reasonable road to success everywhere” (Friesecke 2015, p. 135). Weitkamp et al. (2017) suggest that to reach goals of city housing policy and expand affordable housing supply, IH policies have to be combined with other housing policy tools.

In Gothenburg, Sweden, an IH pilot project is being negotiated since 2013. Policy design is not yet certain, but the main issues and current state of negotiations will be described below. Also in Örebro such policy is planned to be implemented. Both the Gothenburg and Örebro model target rental housing. Smaller Swedish municipalities have also implemented projects with IH-similar structures resulting in ownership cooperative housing. The Swedish case is different from most other European countries applying IH because of its unitary housing system and large municipal land ownership.

### 4.2 National rent-setting principles

The output of the studied IH policies is mainly rental apartments, although limited ownership models are included in Stuttgart. As rent-setting principles are key to policy objectives and investment calculus, the two different systems applied in Germany and Sweden are described below. As pointed out by de Kam et al. (2014), there is also a link between allocation efficiency and policy acceptance.

In Germany, rents in the main part of the housing stock are set in direct negotiation between the landlord and the tenant. However, rent brakes (Mietbremse), which is a form of rent regulation in the market rate stock, have been introduced in a number of cities since 2015 (Deschermeier et al., 2016). Newly constructed housing is excluded from rent brake regulations. Strictly regulated rents are applied in social housing units (sozialer Wohnungsbau), to which access is reserved for predefined households, mainly on the basis of income. Five percent of the housing stock is estimated to be social housing (Droste and Knorr-Siedow, 2014). Although the amount of social housing has varied over time, along with the alteration of policies, the basic provision system has been sustained over a long period of time and is generally accepted.

Sweden has long been considered to have a unitary housing system (Kemeny, 1995), meaning that no part of the stock is reserved for specific groups on the basis of income. Rents are set according to a so-called ‘user-value’ system, in negotiations between the Tenants’ Union, the municipal housing companies and (since 2011) the Private Property Owners’ Federation (Lind, 2014). Since 2006 rents in new buildings are set according to a parallel system that applies for the
first 15 years after completion, which allows for considerably higher rents than in the stock constructed prior to the new regulation. The ‘user-value’ system has been in place since rent regulation was discontinued in 1968. The main allocation channels of rental apartments in the larger cities are central waiting lists organized by the municipalities. In recent years, the system has been much criticized for its division between ‘insiders and outsiders’, and even challenged in the EU court. However, its defenders have managed to prevent larger reform. Based on changes of social and economic contexts and changes to the housing system, it has been questioned if the Swedish system can still be called unitary (Stephens, 2017).

4.3 Case Gothenburg

Gothenburg’s housing policy programme (Göteborg, 2014) includes measures related to municipal land management, reorganization of urban planning and development measures and activities of municipal housing companies. The city emphasizes social and income mix as a focal point of housing policy with the aim of reducing segregation. The districts identify families with children and senior citizens as focus groups. Students and younger households were also pointed out by the central city administration.

The goal is to construct 3,000–5,000 new apartments a year in the city, plus an additional 7,000 units as part of the city’s 400-year jubilee in 2021. In 2017, 2,201 new apartments were completed, including 1,328 tenant-ownership apartments and 324 rental apartments. The four municipal housing companies aim to build 1,400 apartments a year. In 2017, 305 apartments were completed, compared to 345 in 2016 (Framtiden, 2018). A new organization has been put in place to increase completion numbers.

The main aim of the IH policy in Gothenburg is to open up the centrally located and attractive redevelopment area Älvstranden to a wider layer of the population. Under the motto “Everybody should be able to live in Älvstranden” a part of the former harbour area called “Frihamnen” has been selected as a test bed for IH policy. The objective is to create a socially mixed area. The general provision of affordable housing is only a secondary objective. However, increased policy focus on affordable housing in the last three years has strengthened the secondary objective considerably.

In Gothenburg, all land on which the IH policy is applied belongs to and is allocated by the municipal development corporation Älvstranden Development. The basic scope of developer participation is set through the concept competition at the start of the process. The details of participation prerequisites are then negotiated in the consortia agreement, in development agreements and in urban planning documentation as the project evolves.

1,100 rental apartments are planned for the pilot project area; 550 of these apartments are expected to be low-rent. Rents are set at four levels, each encompassing 25% of apartments: 1,000, 1,400, 1,850 and optional SEK/m² and year (equivalent to approx. 8.75, 11.70, 16.25 and optional EUR/m² and month). The two lower levels are seen as low levels for new housing, whereas 1,850 is
regarded as a mainstream level. Apartments with different rent levels are expected to be mixed within the same building, sharing the same entrance.

Rents will be kept fixed for 15 years, followed by a five-year step-up period, to adjust them to the user value rents applied in the rest of the Swedish rental housing stock (*bruksvärdesystemet*). As below-user value rents are an exception to the Swedish rent-setting system, a new rent-setting principle has to be established. Rent discounts tied to the tenant or inverted new construction rents (*omvänd presumtionshyra*) tied to the apartment have been suggested.

The mode of allocation of the low-rent apartments to be applied has not yet been decided upon. The Tenants’ Association, which under Swedish rental law has a strong position in the negotiation of rents, advocate that apartments should be allocated according to waiting time on the central waiting list for rental apartments, called Boplats. However, a survey done by Älvstrand Development showed that households with long waiting times are generally older and more affluent than households with shorter waiting times (Boplats, 2015). Älvstrand Development therefore advocate a mixed allocation strategy in which 350 of the 550 low rent apartments will be allocated to households with lower incomes and in some cases social problems. Under the proposal, the municipal housing company is supposed to allocate 150 apartments to homeless families with children and 30 to other vulnerable households, under so-called social contracts which are time-limited, but could be converted into long-term after a trial period. In accordance with the wishes of the participating private developers, 270 apartments in their buildings are suggested to be allocated through a combination of an income ceiling (the household cannot earn more than 3–4 times the yearly rent) and waiting time on the central Boplats waiting list. However, once tenants have moved in, no further income assessment will be made. Should household income increase over time, there will be no change in rent level and the tenant will be allowed to keep the apartment.

In Gothenburg, land allocation is made exclusively to the participants in the consortium at below-market rates. Developers also receive allocation of land to build owner-cooperatives. Further, priority in the urban planning process is secured. A special task force has been formed in the municipality to guide Frihamnen and some other prioritized projects through municipal procedures. As urban planning is generally regarded as a bottleneck in the housing development process (Granath Hansson, 2015), such priority might have considerable value, although it is difficult to quantify. Promises to take part in later stages of the project are also expected to incentivize developers to participate in the pilot project.

A new central government subsidy programme, implemented in 2016/2017 but with retroactive effect from 2015, is reserved for small, “climate-smart” apartments with rents below certain thresholds. The low-rent apartments in Älvstrand Development might be eligible under the program. However, at the time the selection of developers was made by the city, no such subsidies existed. Developers are hence expected to manage the project set-up without subsidies, but their introduction will create an additional incentive.

Although rents of 75% of apartments are set by the municipality, 25% of rents may be set by the developer. This principle is an exception from the
Swedish rent-setting system. Developers are allowed a high degree of freedom in project design. Apartments in different rent segments are designed differently. Differentiating factors might be equipment, standard, situation within the building and size of flats. Equipment might include apartment-specific equipment, as well as access to parking and laundry facilities, for example.

The four actors that have chosen to participate in the project are the municipal housing company, a state pension-fund-owned developer (which sometimes refers to itself as “the state housing company”) and two smaller private developers. The City of Gothenburg expects to develop its IH concept as the next phases of the project are implemented over the next decade. To compensate developers for loss of rental income and induce them to participate under IH policies, a set of incentives is provided in both Gothenburg and Stuttgart (Table 2).

Table 2. Incentives towards project participation and related agents.

<table>
<thead>
<tr>
<th>Incentive</th>
<th>Agent</th>
<th>STU</th>
<th>GOT</th>
<th>Quantifiable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Municipal land allocation</td>
<td>City</td>
<td>Yes</td>
<td>Yes</td>
<td>Difficult</td>
</tr>
<tr>
<td>Lower price of land</td>
<td>City</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Density bonus</td>
<td>City</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Build low-rent apartments in other location</td>
<td>City</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>In-lieu sales of land to the city</td>
<td>City</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>In-lieu fees</td>
<td>City</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Right to build ownership apartments</td>
<td>City</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Priority in the urban planning process</td>
<td>City</td>
<td>Yes</td>
<td>Yes</td>
<td>Difficult</td>
</tr>
<tr>
<td>Promise to take part in later stages</td>
<td>City</td>
<td>No</td>
<td>Yes</td>
<td>Difficult</td>
</tr>
<tr>
<td>Differentiated rents</td>
<td>City/developer</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Possibilities to influence project design</td>
<td>Developer/city</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Subsidy</td>
<td>State/city</td>
<td>Yes</td>
<td>(Yes)</td>
<td>Yes</td>
</tr>
</tbody>
</table>

4.4 Case Stuttgart

Stuttgart’s housing policy programme Living in Stuttgart (Wohnen in Stuttgart) includes measures related to subsidy policy, land management and activities of the municipal housing company. The main aim of the policy is to increase the supply of housing, especially targeting affordable and social housing for low- and mid-income groups. Families with children and senior citizens have been identified as prioritized groups. A secondary objective is to keep and develop social mix (Stuttgart, 2013a).

Stuttgart’s IH policy, called the Stuttgart Inner Development Programme (SIM), was introduced in 2011. It foresees that 20% of all newly constructed housing floor area in the city shall be subsidized housing reserved for low- and mid-income groups at pre-defined rents (Stuttgart, 2015).

The goal of Living in Stuttgart is to construct 1,800 new apartments in the city per year, of which 600 would be subsidized. In 2016, 2,125 new apartments were constructed, of which 99 were in single-family housing (Stuttgart, 2017). The municipal housing company, SWSG, produced 415 new apartments in 2015,
of which 357 were rental and 58 were owner-occupied; 217 units were subsidized (SWSG, 2016). In 2016, SWSG completed 98 new rental apartments, 11 owner-occupied apartments and 37 buildings for refugees (9 in 2015) (SWSG, 2017).

In Stuttgart, the IH policy regulates affordable housing provision in the whole city, both on private and municipal land. There are three groups of promoted housing: social housing, affordable rental housing for mid-income groups and affordable home-ownership. The basic rule is that 20% of all newly built housing floor area must fall under the local housing subsidy programme. Two distribution patterns are foreseen, either one third each of the three prioritized housing forms will be built or 50% social housing / 50% affordable rental housing and/or affordable home-ownership will be chosen. Alternatively, subsidized housing might be built within a one-kilometre radius or land must be sold to the city at a below-market price. In case housing is built elsewhere, the subsidized proportion must be 30%. When municipal land is allocated to a project, the affordable housing share might be up to 50%. It is not possible to pay a fee to avoid affordable housing requirements. Commitment periods and maximum rent levels are outlined in Table 3, along with cost reductions for affordable home-ownership initiatives. Access to subsidized housing is limited by a set of rules related to household size, household income and apartment size.

**Table 3. Commitment periods, maximum rent levels and cost reductions in Stuttgart.**

<table>
<thead>
<tr>
<th>Type</th>
<th>Commitment length (years)</th>
<th>Max. rent (EUR/m² and month)</th>
<th>Other measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social housing</td>
<td>15</td>
<td>7.5</td>
<td></td>
</tr>
<tr>
<td>Affordable housing</td>
<td>15</td>
<td>8.5 (9)</td>
<td>30% reduction of infrastructure provision cost</td>
</tr>
<tr>
<td>Affordable homeownership</td>
<td>10</td>
<td>N/A</td>
<td></td>
</tr>
</tbody>
</table>

The above model is capped by the planning related land value increase. One third of the estimated land value increase created by urban planning is reserved for the developer. The remaining two thirds finance 1) urban quality; 2) costs of urban planning, infrastructure provision (including social infrastructure) and green spaces, and; 3) affordable and social housing. The policy applies to projects encompassing more than 450 m² or approximately five housing units. Projects encompassing 450–1,350 sqm. (5–15 units) shall include affordable housing. Projects larger than 1,350 sqm. also have to include social housing. Developers are obliged to start construction within three years.

The policy is applied in the whole city when new urban planning creates a land value increase. The basic principle is that one third of the land value increase stays with the developer as an investor incentive. The remaining two thirds might be used for urban planning, technical and social infrastructure, green space and social and affordable housing, according to the development agreement between the city and the developer.

Low-interest-rate loans are made available for all social and affordable housing units within the programme. For social housing units, it is also possible
for the city to provide complementary financing. The federal state of Baden-Württemberg also provides subsidies for social housing development. When development takes place on land initially owned by the municipality and 50% shares of affordable housing are expected, land is sold at below-market levels.

Causality and limits in cost distribution, transparency and equal treatment of investors are pointed out as important principles by the city. Each development proposal is evaluated separately and a certain flexibility depending on the circumstances of each case is foreseen. Negotiations on SIM conditions are expected to run parallel with development planning such that it does not lead to prolonged development processes (Stuttgart, 2015).

5 Findings and discussion

Below, policy objectives, incentives and policy design, as well as policy effectiveness and alternative structures, are analysed and discussed. An overview of similarities and differences between the cities is provided in Table 4.

Table 4. Comparison of the two cases.

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Stuttgart</th>
<th>Gothenburg</th>
</tr>
</thead>
<tbody>
<tr>
<td>IH policies in other cities in the country</td>
<td>Yes</td>
<td>No (but under consideration)</td>
</tr>
<tr>
<td>Policy implementation area</td>
<td>The whole city</td>
<td>One development area</td>
</tr>
<tr>
<td>Year of implementation</td>
<td>2011</td>
<td>Under negotiation since 2013</td>
</tr>
<tr>
<td>Policy objectives</td>
<td>Expansion of affordable housing supply</td>
<td>Social mix</td>
</tr>
<tr>
<td>Housing allocation to low- and medium income households</td>
<td>Yes</td>
<td>Yet unclear</td>
</tr>
<tr>
<td>Existing social and affordable housing framework</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Extent of municipal land ownership</td>
<td>Limited</td>
<td>Large</td>
</tr>
<tr>
<td>Policy applicable to municipal land</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Policy applicable to private land</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Non-monetary incentives to developers</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Monetary incentives to developers</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Leading developers</td>
<td>Private</td>
<td>Municipal and semi-public</td>
</tr>
</tbody>
</table>

5.1 Policy objectives

The underlying norms of IH policies in Stuttgart and Gothenburg seem very similar: low- and mid-income households would benefit from a larger affordable housing supply and mixed-income housing areas, and therefore IH policy objectives should be to create such housing. There seems to be a clear focus on equity rather than on efficiency (cf. Galster, 2007b).

However, the translation of norms into proceedings in the form of policy formulation and implementation does vary between the two cities. In Stuttgart,
the IH policy is fitted into an established social and affordable housing model, whereas in Gothenburg, established rent-setting and allocation principles are tentatively renegotiated and a new type of subsidy is tested.

Germany has an existing institutional framework for social and affordable housing rent-setting and target group definition that has been in place for many years and, although the scope of provision is often discussed, the system as such is generally accepted. In Sweden there is strong resistance against defining target groups on the basis of income, both from politicians and the Tenants’ Union, as it does not agree with the unitary housing model. In Gothenburg, below-market rents in part of the project are generally accepted, although the official way to fit them into the existing “user-value” system is under discussion. However, the wish of project participants to define target groups on the basis of income is contested by influential agents.

An essential part of evaluating housing policy outcome is to investigate whether objectives are attained. To assess whether target groups and the intended level of affordability are reached, there must be an objective to compare outcomes to. Based on predefined target groups and rent levels, German policy makers can prove positive or negative outcome of housing policies. Swedish policy makers, on the other hand, at present will be able to prove whether or not the affordable housing supply has been expanded, but they cannot ascertain whether the affordable housing created is also occupied by households with low- and mid-range incomes. As pointed out by de Kam et al. (2014, p. 397), acceptance and societal support of IH depends on the capacity of the policy to define a target group and to “retain the benefits […] for eligible households exclusively, for a reasonable number of years”. In the Swedish case, effective targeting and the societal support tied to it cannot be guaranteed.

In an attractive area like Älvstranden in Gothenburg, development will either be market priced at high levels or rents will be set according to the separate system for new-build, which will be attainable only to above-average-income households. To create social mix in the area, low- and mid-income households must be assisted to enter the local housing market, which is also why the IH policy was introduced. Should no income testing occur, and the affordable apartments be distributed according to waiting-list rules, a majority of mid- and above-average income households are expected to occupy the affordable housing created, and social mix will not be attained. Alternatives that are up for discussion are a combination of an income ceiling and waiting lists and allocation to households chosen by the municipal social authorities.

In this specific case, it can be concluded that the slow-moving institution of the Swedish unitary housing system prevents or at least prolongs effective implementation of new fast-moving institutions such as IH policies. As Roland (2004) points out, appropriate fast-moving institutions should be chosen with consideration to slow-moving institutions. Should the ideal of unitary housing policy prevail in Sweden, IH should probably not be part of affordable housing policy, as it cannot be ascertained that it is effective. Instead, alternative ways to increase affordable housing supply and to promote social mix could be explored.
However, in the German case, IH policy is geared in such a way that an expansion of affordable housing supply is ascertained for a certain period of time for the benefit of the target group.

Further, based on the literature on social mix and housing policy (cf. Musterd and Anderson 2005 and others), it must be regarded as uncertain whether mixed-income neighbourhoods have the intended impact on social and ethnic integration. Results in different projects are bound to differ. A German study shows that German IH policy has a positive impact on social mix, but that IH is not deemed an appropriate tool to achieve ethnic integration (Drixler et al., 2014). Follow-up studies should not only analyse whether mixed-income neighbourhoods are achieved, but also try to measure results of social integration, that is, to determine the extent to which people not only live side by side but also interact. As social mix is the primary goal of Swedish IH policy, alternative strategies might also be explored.

5.2 Incentives and policy design
The major incentive difference between Stuttgart and Gothenburg is land allocation. German IH policies are applied on private and public land, with greater restrictions when public land is allocated. At present, Swedish IH policy is applicable to public land only. In this context, it should be noted that the City of Stuttgart has only limited land ownership, whereas the City of Gothenburg owns an estimated 70–80% of all land planned for housing within its jurisdiction (Caesar, 2016). Although including private land in the policy might be regarded as a limitation of private property rights, the decision of the city is based on what is regarded as an important public interest and that the process to reach policy objectives would otherwise be too long. Obviously, the decision to limit private property rights was part of the process when introducing the IH policy. Should the City of Gothenburg choose to expand the IH policy to the whole city, developers that do not own land, for example, smaller developers that are not financially strong enough or new market entrants, would to some extent be forced to accept conditions as it would otherwise be impossible for them to do business in the city. Land owners, usually larger developers with a longer presence in the city, will have greater chance to avoid restrictions. To avoid such market distortion, the City of Gothenburg would probably have to impose restrictions on private land also should they decide to expand the policy. It is clear from Swedish debate on the pilot project that such limitation of private property ownership rights will meet strong opposition. It should also be noted that, should the policy be expanded to the whole city, it is probable that Gothenburg will reach objectives more quickly than Stuttgart as restrictions on public land are greater and more project development takes place on public land in Gothenburg than in Stuttgart. However, in Sweden, developers might avoid participating in IH programmes in Gothenburg as they might relocate to other jurisdictions (cf. Hughen and Read, 2014). In Germany, such action would be more difficult as a number of cities now apply IH policies.

IH policies are simultaneously driven by political conditions and market forces and are thus sensitive to pressure from both. In a strong market environment
IH policies might be an appealing political strategy to increase affordable housing supply without substantial public investment. However, when markets decline, developer resistance might increase and general political support for affordable housing policies might be uncertain (Calavita et al., 1997). The amount of housing produced is therefore expected to vary over time (Mulliner and Maliene, 2013). A recent Swedish study proposes that IH policy might only be successful in the most attractive locations and at times of good market outlook (Danell and Olausson, 2016). The Stuttgart IH policy explicitly provides for flexibility and case-by-case decisions based on, inter alia, financial grounds (Stuttgart, 2013b; cf. Calavita et al., 1997). It should be noted that some incentives offered in other countries, such as density bonuses, are not officially part of policy in the two cities.

The Swedish IH pilot project is dominated by publicly owned actors, which contradicts the assumption that IH should produce affordable housing mainly through private housing development. Should IH policy be further developed in Sweden, more private participation would be expected to motivate the use of the model. In the Gothenburg model, the scope of participation and compensation is not fully quantified at the outset, but is negotiated between the parties as the project evolves. It is up to the developer to opt out if along the way it becomes apparent that the project will not be profitable enough to justify participation. Potential land value increases based on urban planning do not come into play (cf. de Kam et al., 2014; Schuetz, 2009), as the land belongs to the municipality and is only paid for once the local plan has come into force. In Stuttgart, planning related land value increases cap participation on private land. Although values might be adjusted in the development process, a clear indication of the expected scope of participation is conveyed by the municipality to the developer at an early stage. Transparency on decisive investment parameters is probably seen as a basic requirement by many developers, and lack of such quantifications (or indications) might reduce the number of potential participants, reducing potential competition.

Planning capacity has been identified as a scarce resource in German and Swedish cities (Granath Hansson, 2015). An assessment of German IH models (Drixler et al., 2014) notes that the implementation presupposes sufficient planning capacity, as it is a dialogue-based process. When IH polices are implemented in cities where planning capacity is limited, cities will have to prioritize IH projects. It is highly probable that other projects will then face longer planning processes. Whether this is acceptable or not, and what effects this might have on housing construction, should be taken into consideration by cities.

Furthermore, Drixler et al. (2014) and Whitehead (2007) state that public subsidies are a basic prerequisite for increasing the supply of affordable housing. Public subsidies might come as land provision or financial subsidies. As we can see in the two cases, both types of subsidies have been included, although financial subsidies have come in as a bonus after the start of negotiations in Gothenburg.

Drixler et al. (2014) point out that policies need to be in place for some time before they are able to produce larger amounts of affordable housing. This view is shared by high-level city officials in Gothenburg: “Many models and a number of projects will be needed before we will reach a model that can be described as
a model for long-term socially sustainable housing” (GP, 2015). For the Swedish programme to gain momentum, it has to be substantially expanded, also beyond the Älvstranden area.

The City of Stuttgart has, after an initial two-year trial and development period, implemented a complete model applicable in the whole city, which promotes transparency and predictability. The introduction of one policy for all projects in the city might have increased stress on municipal functions, but it also led to a quicker learning curve. Further, when Stuttgart introduced its IH policy it could point to the perceived success of such a policy in Munich, which might have increased acceptance. The approach of the City of Gothenburg and its choice of only one pilot project were shaped by the initial focus on income mix in that certain area. However, as the first IH pilot project in the country, it has received nation-wide attention and has been seen as an important indicator in the development of affordable housing policy in the whole country. This has attracted considerable interest among agents that would not normally comment on or engage in individual projects, something which might not have reduced strain on agents directly involved in the project or improved chances of success.

5.3 Policy effectiveness and alternative strategies
According to de Kam et al. (2014), the implementation of IH policies will depend, inter alia, on whether they are considered to be more attractive than alternative policies, the size of the development surplus and how the planning system allocates property and development rights. In the Swedish case, it should be observed that the norms of IH policies are questioned not only by private developers but also by the Tenants’ Union and politicians. Planning gain is argued to be of minor importance because of large public land ownership, and the municipal planning monopoly provides the city of Gothenburg with substantial power to implement policy. Moreover, the larger part of housing in the pilot project will be produced by public entities. Should these circumstances prevail, direct development of public housing might be more time and cost efficient when it comes to expanding affordable housing supply. As the city has control of land and urban planning, it might assist its municipal housing company and other interested public companies to start producing immediately instead of participating in lengthy negotiations. In order not to exclude interested non-public parties, stringent land allocation competitions might be used with the same demands as in the present project, but for designated lots of land. In order to achieve the principal goal of social mix in the Älvstraden development area, emphasis should be put on also attracting private developers, as low-rent apartments concentrated in the public stock only might lessen overall impact on social mix in the area.

As land ownership is not concentrated to public entities in Stuttgart, the city has a narrower scope of action and planning gain can be activated more transparently. Although IH policies were initially contested, the use has now spread to so many cities that it can be considered an accepted housing policy tool. Should the size of the development surplus be reduced, for example, in an economic downturn, the policy might be subject to renegotiations, however, as
has been the case in the UK, for example. At implementation, the city had already included policy flexibility that could be activated in more difficult projects or in worsening market situations. Political parties that regard private property rights as important might, should they come into power, also lessen the impact of IH (Calavita et al., 1997). Further, policy efficiency over time is limited by the fact that below-market rents are only applied to the first rental contract signed after completion and by the 15-year time limits (De Kam et al., 2014).

Based on the study, it is concluded that, if the unitary housing system is to be sustained in Sweden, measures that generally increase housing supply should be further promoted, rather than ineffectively targeted policies. Measures to expand housing supply have been in focus both under the former liberal government and the present red-green government. The basic thought behind such policy is that a quickly and substantially expanding housing supply put downward pressure on housing prices and possibly also rents (although this might be contested with reference to the Swedish rent-setting system). Filtering might also increase housing allocation efficiency. However, given market and institutional prerequisites in Sweden today, the scope of housing supply expansion that can be realized has its limits. Present and planned construction is not expected to satisfy demand in the near future, especially not in light of the extent of affordable housing need due to population increase. Further, such policy is not expected to open up high-end neighbourhoods to below mid-income households. Therefore, further discussions on the Swedish housing system and its development are needed. The Älvstranden project is a contribution to this debate.

6 Conclusions

Although IH policies in Germany and Sweden generally have very similar objectives and incentive structures, underlying slow-moving institutions decide fundamental traits of the fast-moving institution of IH. In the Swedish case, allocation methods of low-rent apartments under the unitary housing system might prevent targeted polices such as IH. Current resistance against targeted policies, which many agents in Sweden see as part of an undesirable dual housing system including social housing, must be seen as a part of a larger discourse on the survival of the unitary model. In the German case, IH is integrated into the existing social and affordable housing system. Therefore its social objectives are not contested, although the limitation of private property rights and the incentive structures of developers are bound to be discussed.

Irrespective of the housing system, the extent of public land ownership might also be a decisive factor in whether to implement IH policies or not. In Stuttgart, where public land ownership is limited, IH policies might be an effective way to produce affordable housing, as alternatives are limited, including finding inexpensive land for public production. As Gothenburg municipality owns most of land available for housing development, has a planning monopoly and large public housing companies with a good financial standing, it might find other, quicker and possibly less costly, ways to develop affordable housing. For example, measures aimed at increasing housing supply could be introduced on a greater scale, and
municipal housing companies might be assisted to reach their production targets and expand their affordable housing provision.

In light of the population increase in attractive cities and towns and the increasing affordable housing shortage, further discussions on effective ways of producing larger amounts of affordable housing is needed in both Germany and Sweden. Hence, further research on the functioning of IH and similar policy instruments could be fruitful.

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