

## avenir debate

### “Myths around Rents”

#### **Eight theses on the Swiss housing market put to the test**

**Calls for increasingly drastic interventions in the housing market are inefficient from an economic point of view, have a random impact, and burden the economy. They can also be counterproductive for tenants. These are the findings of a new Avenir Suisse study entitled “Mieten und Mythen” (Myths around Rents).**

The record low vacancy rates in the major Swiss cities are alarming. So-called affordable accommodation is rare, and rents are rising. Home ownership has become unaffordable for many, even for high earners. Is Switzerland at the beginning of a housing shortage? And if so, what can be done about it?

Avenir Suisse research director Marco Salvi has analyzed the Swiss housing market and looked into the reasons for the increasingly tight supply. Is immigration to blame? Insufficiently dense housing? Are people’s growing demands for space and comfort driving up rents? Is the problem perhaps due to real estate and land speculation or are the rising prices a consequence of years of low interest rates? Is it down to the overregulation of the market in areas such as noise protection? Why are housing cooperatives able to offer apartments some 30% cheaper than private landlords?

The new study conducts a meticulous economic investigation to dissect the most common myths around rents and show what mechanisms are exacerbating the housing shortage – and what measures would help bring relief to the real estate market. The author finds that the market is still functioning: Housing costs have not risen disproportionately over the years, but in parallel with incomes; living space and quality have also risen.

#### **Low Vacancy Rates**

The low vacancy rate of 0.5% in the canton of Zurich is only one indicator among many. Every year, 80,000 new households move into one of the 750,000 dwellings in the canton of Zurich, which, according to the cantonal statistics office, corresponds to a move-in rate of over 10%. However, for some time construction activity has been too low to ensure constant real rents in the long term: There is a shortage of around 10,000 additional housing units per year in Switzerland as a whole.

Nevertheless, for decades housing and energy have accounted for a constant 15% or so of gross household income. However, the impending shortage is reflected in increases in rents for new tenancies in recent years, while rents for existing tenancies are tied to inflation and interest rates and have thus risen only moderately.

The difference between rents on new and existing tenancies explains the low vacancy rate: Every time people move, they run the risk of growing costs, especially in the big cities. This inhibits

turnover and disadvantages mobile households: the young, the divorced, and immigrants. They all pay (indirectly) in the form of higher initial rents and search costs for long-established tenants in their comparatively cheap accommodation.

## **Affordable Housing from Private Landlords**

Not only this, but the myth that private investors don't provide enough affordable housing because they're "profit-driven" is based on a misunderstanding. A basic mechanism of the housing market is a depreciation process known as filtering. Aging makes housing cheaper over its life cycle. This means that every year, in net terms around 13,400 dwellings are added to the pool of low-priced accommodation. This is the largest source of affordable housing.

It's true that housing cooperatives also offer "affordable" apartments. The fact that they waive ground rent essentially explains the difference between cost and market rent. Without preferential building lease rates, land donations or public sector help with amortization, housing cooperatives are rarely competitive on the land market, which is reflected in their low market share (2.8% of households).

## **Do Cooperatives Densify?**

Sustainable land use – densification – is also not one of the virtues of cooperatives. The latest available figures from 2014 indicate living space per person in the non-profit segment of 36.5 m<sup>2</sup>, about 13% lower than the average for all rental accommodation in Switzerland (42.4 m<sup>2</sup>). But the structural density of residential properties owned by market-oriented investors is higher on average. In concrete terms this means that if all the plots of land owned by the Zurich building cooperatives were built as densely as those owned by private investors, around 5,000 additional three-room apartments could be created. In the case of properties in the city of Zurich, the potential for densification is even greater.

The study concludes that rents are high in this country because incomes are high. Supply-side subsidies, in other words providing housing below value, result in a redistribution that is unfair and less than transparent. If you're looking for a vehicle for social policy, there are more targeted and effective instruments, for example demand-side subsidies.

**avenir debate:** "Mieten und Mythen – Acht Thesen zum Schweizer Wohnungsmarkt auf dem Prüfstand" (Myths around rents: eight theses on the Swiss housing market put to the test), Marco Salvi with the collaboration of Patrick Schnell, 68 pages, available online at 12 noon on 29 August 2023 at [www.avenir-suisse.ch](http://www.avenir-suisse.ch).

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