

Links between housing markets, labour mobility and growth

Summary

Strong links between housing markets, labour mobility and growth

Well-functioning housing markets are a prerequisite for the mobility of labour, which a dynamic economy requires. Research indicates that there are strong links between housing markets, labour mobility and growth.

Those living in rental properties are generally more mobile than those who own their homes. One explanation is that those facing the risk of future unemployment or who are planning to move soon prefer to rent their homes. The lower mobility of homeowners may also be explained by high transaction costs, regional price differences and expected future price differences. Homeowners can be trapped by high levels of debt and by potential losses. Reduced mobility can also result from stronger regional ties and values which yield a lower tendency to move.

Research on the impact that forms of tenure have on Swedish labour mobility is new, and there is so far only one empirical investigation. The study suggests that those who own their homes are less mobile, regardless of the state of the labour market, than those living in rental properties. The supply of rental apartments appears to be particularly relevant for the unemployed and their inter-regional mobility.

Transaction costs reduce mobility

BKN notes that the size of transaction costs in different market sectors and in different kinds of settlements is central to mobility and growth.

Transaction costs include any costs associated with finding and signing contracts for a new home and possibly settling an earlier contract. Transaction costs thus include various search and information costs, negotiation and contract costs, monitoring costs, registration and insurance costs and tax implications.

In the case of owned housing, the transaction costs of a house sale can create lock-in effects with reduced mobility as a result. Swedish research suggests that capital gains tax primarily traps those households who want to buy cheaper accommodation, which may lead to elderly people, for example, remaining longer in big homes. International research indicates that even small changes in transaction costs can have large effects on mobility. In principle, it is the high transaction costs of ownership that reduces mobility and thereby impairs the matching process in the labour market.

Regarding transaction costs in the rental market, queues are long, and several reports indicate that information with regard to vacant rental properties is inadequate. It is also important to consider the regulation of rent and the high incidence of black market deals in the Swedish rental market. There is evidence that in attractive areas, black market prices for rental properties represent 20 per cent of the price of a cooperative apartment. Some housing researchers argue that from the mobility point of view, there is not much difference between the cooperative apartment market and the regulated rental market. Both are equally hard to get into, particularly in growing markets. For a rental property to contribute to greater flexibility, it must become more accessible than it is today and the black market must be reduced/eliminated.

Examples of measures that can reduce transaction costs and improve matching conditions are

1. A more open rental market (more flexible prices and supply) reduces the conditions for the existence of a black market
2. More flexible forms of rental contracts
3. Changes to capital gains tax

The role of rental property

Researchers suggest that it seems reasonable to maintain a relatively high proportion of rental properties in the central parts of growth areas. This is because young people mainly live in rental properties but they appreciate a central location. Creating ways of promoting the entry of young people into the current housing market so that they can study, start families and enter the labour market is considered in several reports to be a particularly important issue.

Flexibility and availability

As for supply and new construction, studies indicate that it is, among other things, important to review production costs, planning appeals and the lack of land. Ownership apartments are said to be one type of housing that can both attract more venture capital for new construction and generate a better rental market. Studies describe an urgent need to review the incentives of rental property: If more houses and cooperative apartments (and future ownership apartments) are rented, this may contribute to a more flexible housing market, regardless of the form of tenure.

Collectively, a number of investigations yield the following measures to increase access to housing markets in areas of growth: New forms of contract for renting/sub-letting, the introduction of ownership apartments, lower transaction costs for sales, better information about the rental market, better conditions for new construction, a more coherent housing policy, deregulation of the rental market (in order to, inter alia, make the black market less profitable). In addition, the investigations suggest a number of measures for young people; hire

purchase, house savings schemes, building small central apartments, as well as special loans for young people.

One conclusion regarding mobility is that emphasis should be placed on the issue of reducing transaction costs rather than the issue of size of the rental sector.