

Economic world

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Reasons for the housing shortage

By Dr B. SCHEWLIN,
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It can be noted that a growing housing shortage exists today in all parts of Switzerland, which is especially severe in the large cities. Anybody looking for an apartment these days encounters considerable difficulties in finding living accommodation which comply with his or her wishes and ideas in regard to comfort, price and location.

What are the reasons for this lack of apartments? Why are housing units becoming more expensive? Why are they not built where they are needed most?

The number of residuals in Switzerland is currently remaining fairly constant, and little growth of any importance is forecast for the next 20 years or so. On the other hand, the number of apartment units in Switzerland has grown year after year, currently at the rate of some 35,000 apartments annually. Nevertheless our country suffers from an acute housing shortage.

Why is this so? One of the major reasons is the demand for more living space within the apartments. The number of occupants per apartment has dropped by almost one half, illustrated by the fact that in Switzerland, for example, there were 2.36 occupants to one apartment unit in 1980, compared with 4.38 persons in 1920 and 3.59 in 1950.

If each apartment were occupied today on the average by the same number of persons as in 1960, more than 700,000 apartments would be vacant in Switzerland. The trend towards "more living space" continues and has even gained in recent years.

It takes land to put up an apartment building or a one-family dwelling. Switzerland is small, the land is carved up into relatively small areas, the individual lots are often difficult to develop and access requires considerable effort and expense. The lack of suitable land and development problems drive up prices.

Moreover, a large-scale effort is currently underway to either bar the use of certain land reserves for building purposes altogether or to subject them to severe restrictions through zoning laws. If the supply of building land is massively reduced while the demand remains the same or goes up, it is unavoidable that land prices move up sharply. As a result of the severe slump in construction activities during the 1975 recession, construction costs remained stable for several years. Land prices, in contrast, continued to rise; in the city of Zurich, to name only one example, they rose almost as much as the wage index.

Another factor contributing to the escalation of land prices in Switzerland consists of the fact that today almost all development costs must be paid by the owner of the land and thereby also indirectly by the tenant, whereas in former years the public authorities at various levels helped defray part of the infrastructure costs. Furthermore,

development requirements are becoming more demanding.

Apartment dwellers place growing demands not only on the size but also on the quality of their residences: they want larger rooms, better sound and thermal insulation, better installations, greater comfort and conveniences in every respect. In addition, the building regulations and requirements of the building authorities are becoming stricter all the time and lead to constantly higher construction costs.

Really cheap apartments, such as they were built in former years, would not only be technically and economically inexpedient but would also violate existing rules and regulations.

Certain legal requirements which had to be met by new buildings used to lead to contributions and subsidies from public authorities at the local, state or federal level. It can be observed that such financial assistance is now being reduced consistently (for example, subsidies for civilian defence).

An investigation by the Federal Housing Office has shown that wage costs make up roughly 72 per cent of the construction costs. But since wages and salaries are rising faster than living costs measured in terms of the consumer price index, it is actually surprising that the construction cost index moves up at a much slower pace than the wage index.

The answer to this paradox is, of course, the enormous productivity gains achieved in the construction industry. This is a most gratifying development, but cannot prevent new construction from being considerably more expensive than old buildings. Not only because they are more spacious and of much better structural and engineering quality, but because money commands substantially less purchasing power today than it did in the years gone by.

Regardless of the increase in building costs, the share taken by rent in the total expenditures of a typical Swiss family has dropped significantly during the last decades. In 1980, households spent an average 11.1 per cent of their income on the rental payments for their housing, compared with 18.3 per cent in 1936 and 1937, despite the increase in living space per resident or per family.

In Switzerland housing has become better and relatively cheaper with time. This statement is based on average values and un-

doubtedly does not apply to a number of hardship cases. But as a rule it is quite valid: many Swiss pay considerably less for their apartment than it is worth.

There is no denying that there are massive rent discrepancies between old and newly constructed apartments. Anybody renting a new or newly renovated apartment today pays substantially more for the reasons outlined earlier than his fellow citizens in apartments built some time ago.

While it is true that he has at his disposal somewhat more space, comfort and conveniences, the price difference far exceeds the difference in quality and comfort. But if the tenant remains in his expensive apartment for some years, his rent will gradually normalise because his income or earnings will, as a rule, improve at a higher rate than his rent.

It is advisable in this connection to add a few remarks on the rent index. An increase in the rent index does not imply, it should be pointed out, that the individual rental payments have gone up to the extent indicated by the index.

It must be remembered the rent index lists an average value, which registers the rent for both old and new apartments. Because wages, and therefore also building costs, have been going up year and year, it is logical that newly built apartments are always more expensive than those in older buildings.

The number of newly built or newly renovated apartments which come to the market in any one year is significantly larger than the number of old apartments taken off the market due to demolitions. It follows that the more new apartments are built, the higher will the rent index have to rise, even if the rents charged for the existing apartments are not changed.

The present "housing shortage" in Switzerland as a whole and in the large agglomerations in particular is – as was mentioned – primarily the result or the expression of an enormous increase in the living space required per inhabitant. Essential contributions to this development have been made, in addition to the growing affluence and living standards, above all by a loosening in family ties.

Many elderly tenants prefer, moreover, for understandable reasons to remain in their large family apartments instead of moving into new, and usually expensive, small apartments for older or retired tenants.

Furthermore, intervention by public authorities has clearly weakened the incentive to invest in residential construction. By amending existing laws and passing new

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* Summary of the articles published in editions 68 and 69/1982 of the "Neue Zürcher Zeitung".

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legislation, it has become considerably more difficult for landlords to terminate existing leases, whereas the decision-making freedom of the tenants has not been restricted.

This trend in the application of the law is equivalent to unilateral interference with the housing market and unsettles the market's equilibrium. At the same time, laws and decrees have been issued which place obstacles in the way of increasing rents, although the erosion in the purchasing power of money, especially during the last decade, has for extended periods progressed at an enormously accelerated rate.

These intervention measures cannot but exert an impact on residential construction because the private sector of the economy and private initiative is by far the foremost supporting element for the construction of homes and apartments.

In 1981 only 4.6 per cent of all apartments were built with the help of financial contributions from public authorities. To this must be added the apartments built and

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financed by the Federal Government, the cantons and the communities themselves. In communities with more than 2,000 inhabitants, they amounted to only 1.9 per cent of all apartments built during 1981. Private industry financed and built 93.5 per cent of the apartments.

If further shifts in weight and influence are introduced to the detriment of the property owners in the areas of rent controls, freedom to terminate leases and the financial burdens placed on property owners, it must be feared that private housing will increasingly decline.

The current trends in politics and legislation as well as the hostility shown for homeowners in public opinion jeopardise the

placement of capital in real estate as a material value or "tangible" investment. In contrast to other types of capital investments, placing one's assets in real estate property has always been a relatively entrepreneurial and venturesome enterprise.

A house must be placed and kept in operation, the owner must rent it out and maintain it, he pays special taxes which are not imposed on other kinds of capital investments and he assumes a certain risk. The lower the yields on real estate investments drop, the less attractive are such capital placements for insurance companies and pensions funds, today's major institutional investors.

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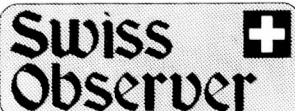
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ECONOMIC WORLD

Slowdown to continue through '82

SWITZERLAND'S economic slowdown will continue through 1982 as exports lag in response to the strength of the Swiss franc and domestic consumption declines, the Organization for Economic Cooperation and Development has said.

In its annual survey, the OECD predicted that Switzerland's output of goods and services will fall 0.8 per cent this year from the year before, when it rose 0.9 per cent.

The report indicates that efforts to control inflation

are apparently succeeding, aided in part by the relative high value of the Swiss franc, which in effect has forced import prices lower.

Consumer prices will rise 4 per cent this year, down from 6.5 per cent the year before, and could rise by only 2.5 per cent next year, the OECD said.

Industrial output will fall 2.5 per cent from last year's no-growth performance.

Domestic demand will fall 0.5 per cent this year from the year before, when it rose 1.3 per cent.

Solar plant for Alps

A SOLAR energy station with 500 reflectors is being planned for the Swiss Alps by a group of private companies and government agencies.

The station is being designed to be a demonstration model to attract foreign buyers for similar facilities, rather than to produce electric power for domestic use.

The group, called Sotel, plans to begin construction in 1984, and electric power should start flowing in 1986.

Among the 10 companies in Sotel are Motor Columbus, Sulzer Brothers, Electrowatt Ltd, and the engineering division of Aluminum Ltd.

The two Swiss government agencies involved are the Federal Reactor Research Institute at Wuerenlingen and the federal aircraft factory at Emmen.

Completion of blueprints for the 5,000-kilowatt pilot station will cost the equivalent of Sfr 2.4 million, with actual construction costs estimated at Sfr 50 million.

Swiss join in Soviet gas deal

SWITZERLAND has joined other West European countries in announcing plans to obtain natural gas from the Soviet Union. But the Swiss will be buying their gas from West Germany.

Swissgas Ltd said it agreed to buy about 12.7 billion cubic feet of Soviet gas annually from Ruhrgas Corp in Germany over a 20-year period, starting in 1988.

A 3,600-mile pipeline from Siberia, currently under construction, will transport the gas to Europe.

Switzerland's purchases from Ruhrgas will account for 20 per cent of projected Swiss gas requirements, but it will represent just 1.5 per cent of the country's total energy needs. Government officials said this means that Switzerland won't in any way be dependent on Soviet deliveries.

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