

The return of the Swedish slumlord: Analysis of a recent case

Gunnar Blomé

Malmö University, Department of Urban Studies, P.O. Box 205 06, Malmö
Royal Institute of Technology, Department of Real estate and Constructive management, Stockholm
Email: Gunnar.blome@mah.se

Hans Lind

Royal Institute of Technology, Department of Real Estate and Construction Management, Stockholm
Email: hans.lind@abe.kth.se

Abstract

Purpose: The article tries to explain how long-term mismanagement of a housing estate could arise in a country with a strong legal framework aimed at preventing such situations.

Approach: Assuming that both tenants and landlord are rational, the article presents a set of hypotheses that is consistent with the information available.

Findings: It is argued that the tenants stayed even though the rent was higher and the quality was lower than in neighboring areas because of a combination of three factors: Rents was paid by different forms of welfare payments, lack of alternatives because of queues to other areas and because some tenants saw an advantage in the “no-question“ asked policy that the slumlord followed. It is further argued that the property owner found this slum-strategy as profitable either because the hoped to find a “bigger fool” to sell to and because the decision makers in the company had not invested their own money. Both tenants and investors were in the end losers, but not the company managers.

Practical and social implications: The Swedish legal framework is to a large extent based on the idea that tenants should take action when there are problems. For several reasons the tenants in the area did not do that and it indicates that a more active role for the local authorities is necessary.

Originality: The article focus on an interesting case that most people thought could not occur and tries to explain this within a framework of rational actors.

Keywords: slumlord, rental housing, neglected maintenance, speculative investors

1. Introduction

1.1 Background

Housing quality in Sweden is very high by international standards. Municipal housing companies with a broad tenant base are the dominating landlord in the rental housing stock. In order to buy a property with rental apartment you have needed a permit from the municipality. There are laws saying that buildings must be maintained and a law about “receivership” which means that the tenants can deposit their rent at a public authority and go to court if the owner mismanages the property.¹ The court can then appoint a management company that takes care of the property for a specific time, and the management company is paid from the deposited rents. Typically this has happened for small properties owned by single persons or small companies, and there have only been a few cases per year in the whole country. Sweden also has a strong tenant’s union that together with the strong legislative framework should guarantee that everyone lives in an apartment with good quality and that the property is taken care of in a professional way.

It therefore came as a surprise to most people in 2008 when a TV-program known for unraveling scandals described the condition in a large housing estate in Malmö (part of an area called Herrgården).² The program showed an estate with bathrooms full of mold, and with cockroaches and lice in overcrowded apartments. The hallways were full of graffiti and had many broken windows. Outside there was a lot of litter and garbage. The owner had obviously reduced maintenance expenditure to almost zero in order to maximize the net operating income. In the Swedish context this is called a slum area.

1.2 Purpose and method

The basic purpose of this article is to discuss how this could happen. What mechanism can have led to this condition that the general public, authorities and politicians thought could not arise in Sweden? From the beginning we want to underline that this is a speculative article. For reasons that will be clear later it is almost impossible to collect evidence that could substantiate some of the hypotheses more definitely.

The method used can be seen as type of hypothetical-deductive method in the spirit of Karl Popper (see e.g. Popper 1963). The analysis starts with the surprising observation of large scale slum in modern areas in Sweden. With a theoretical background in economics a number of possible explanations - conjectures - were formulated within the framework of utility maximizing individuals and pareto-optimality. These theories were then confronted with all the empirical evidence we could get hold on with a reasonable amount of resources to see if there were any information that could refute these conjectures.

¹ The law was recently changed but that was after the events analyzed in this article.

² That there were problems in the areas was however described in several studies already during the 1990s, see e.g. Ristalammi (1994), Popoola (1998,1999). This information did not however lead to any strong reactions and broader debates on housing policy, probably because the scale of the problems was smaller then compared to 2008..

One of us has been studying a similar nearby area that the municipal housing company MKB bought in 2006 and has also worked in the field in that area. This experience and contacts built up during that work has also been used to collect further information.

The article could also be described as an attempt to put together a puzzle with a rather small number of pieces available. It is therefore more of a starting point for further work than something close to the final explanation of how large slums could arise in Sweden.

The structure of the article is as follows. In section 2 the area and its history is described. Section 3 presents some general theories of slums that we will argue are not so relevant in the case under study. In section 4 our hypotheses and the relevant evidence is presented and at the end of that section there is an attempt to present a coherent picture that is consistent both with an hypothesis about rationality and with the available evidence. A final discussion including some policy lessons can be found in the last section.

2. Description of the area and its history

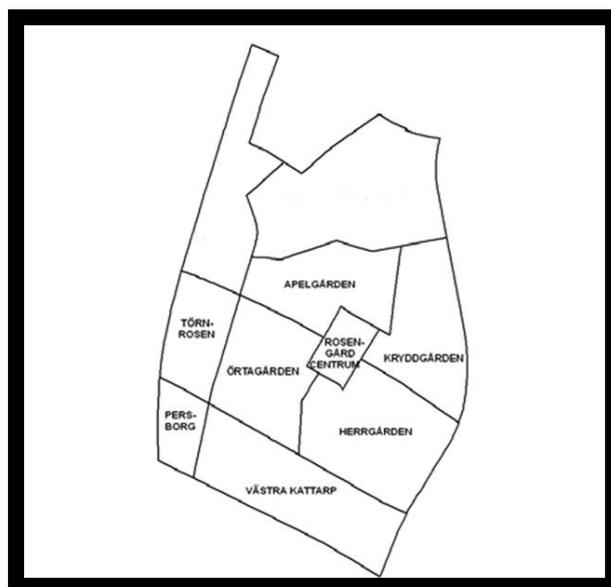
2.1 The housing district Rosengård

Herrgården is a part of a district called Rosengård. Most areas in Rosengård were constructed during 1965 to 1971, a part of the so called Million Homes Program in Sweden. Even though it is located rather close to the city center it never became an attractive area. The district has a population of around 22 000 and a large percentage of these are characterized as socio-economic disadvantaged households. In the 1980s and the 1990s many ethnic Swedes moved out from Rosengård which instead became a home for many newly arrived refugees transforming the area's population from homogeneous to more heterogeneous (see Molina, 2001). Many residents live their life in unemployment, dependent on public welfare, feeling that they were not a part of the Swedish society. Since the 1980s, various government-subsidized projects were carried out to improve housing qualities with a special focus on the outdoor environment. In the 1990s, field-related projects instead focused more on social projects but still many problems remained (Bevelander et al., 2000, 2001). This is the general picture but actually there are large differences within the district of Rosengård.

Rosengård includes seven neighbourhoods which differ in type of tenure and social composition (see map in Figure 1). Apelgården and Kryddgården in the north consist mostly of tenant-owned cooperative housing ("Bostadsrätt"), which is a form of condominiums. Västra Kattarp in the south only has owner-occupied single family houses. Persborg, Örtagård, Törnrosen and Herrgården only consist of rental properties which mark out an invisible boundary between these and the other neighborhoods in terms of socio economic situation (see e.g. Hallin et al., 2010 for more information about the general situation). Particularly, Örtagård and Törnrosen are similar to Herrgården regarding geographic location, construction year, social situation, demography and household- and apartment size. These neighborhoods, managed by the municipal housing company MKB, were previously more problematic but are today considered to be rather well functioning large housing estates in opposite to the most problematic part Herrgården which is in focus in this article.³

³ Malmö statistics (2009).

Figur 1: Map of Rosengård, Rosengård, with Herrgården located in the east.



2.2 The neighbourhood Herrgården

Herrgården is located in the east of Rosengård next to the service center and surrounded by main roads in the north and east and the neighbourhood Västra Kattarp in the south. It was completed in the year 1967 and consists of 1360 apartments. It was then considered to be the best part of Rosengård. However, economic crisis in the beginning of the 1990s affected the neighbourhood negatively (Popoola, 1999) and a downward spiral started, probably because the area already then was managed less well than the areas owned the municipal housing company MKB. Socially stronger households were moving out and refugees and unemployed households moving in and the area are today portrayed as Malmö's poorest overcrowded neighbourhood (Hallin, 2010). Herrgården is associated with segregation, poverty, social exclusion, poor mental health, vandalism, riots, fires, drugs and criminality and has become a prime example of a non-functioning neighbourhood. This is of course not the whole truth and some parts are functioning better than others. Herrgården has a significant concentration of people coming from other countries and 96 percent have other origin than Swedish if both first and second generation is counted. In addition, the neighbourhood has 4878 documented residents which are very high in relation to the number of apartments and according to police and social workers the true figure could be considerably higher due to illegal subletting and lodgers (Hallin et al., 2010). It should also be mentioned that up to 50 percent of the population are minors, and a large percentage of the adult population has never entered labor-market.⁴

One important difference between Herrgården and other parts of Rosengård from an ownership perspective is that since 1997 the area has been divided among different private landlords over the years and characterized by many recurrent real estate transfers (Popoola, 1999, Hallin et al., 2010). In Table 1 below the transaction year and type of owner is described. Figure 2 shows a map of the area. The owners are numbered within each category

⁴ Malmö statistics (2009).

to make it possible to see how large share each owned. In other parts of Rosengård the rental properties has been owned by the same municipal housing company (MKB) since they were built. Malmö municipality was concerned with this situation and let the municipal housing company acquire 294 apartments in the year 2006 (22 percent of Herrgårdens housing stock). This is area (1) and (2) below and the “makeover” of these properties is analyzed in Blomé (2010). One important objective behind this purchase was to try to change this negative situation and create an example in order to motivate other private landlords to renew their buildings, improve maintenance and their local housing administration. Areas (3) and (5)-(11) have been owned by the same foreign investment company since 2004 and it is in these areas that developed into the slum described above.

Figure 2: Map of Herrgård.

Area 1 and 2 are owned by the municipal housing company MKB.

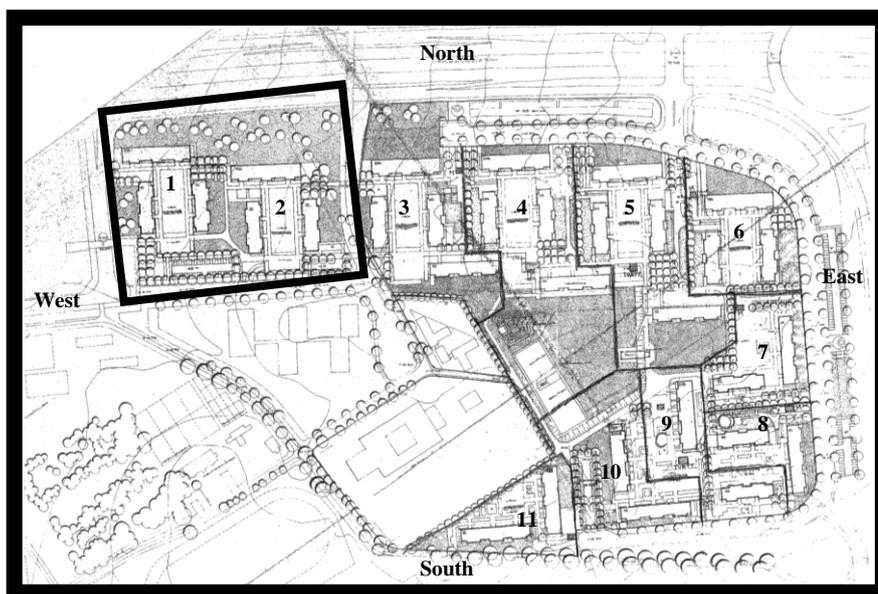


Table 1: land transfers between the years 1990-2010
Figures in parentheses refer to the areas in the map in Figure 2 below.

The properties	Landlords	The properties	Landlords
(1) Landsfiskalen 1 147 apartments	2006- Municipal Company (MKB) 2003- Private Company 6 1996- Foreign Private Company 2 1994- Foreign Private Company 1 Cooperatively Owned	(6) Krondirektören 5 138 apartments	2004- Foreign Private Company 3 2003- Private Company 7 1997- Private Company 4 Private Company 2
(2) Landsfiskalen 2 147 apartments	2006- Municipal Company (MKB) 2003- Private Company 6 1996- Foreign Private Company 2 1994- Foreign Private Company 1 1993- Cooperatively Owned 1992- Private Company 3 Private Company 1	(7) Krondirektören 6 54 apartments	2004- Foreign Private Company 3 2003- Private Company 7 1997- Private Company 4 Private Company 2
(3) Krondirektören 2 160 apartments	2004- Foreign Private Company 3 2003- Private Company 7 1997- Private Company 4 Private Company 2	(8) Krondirektören 7 53 apartments	2004- Foreign Private Company 3 2003- Private Company 7 1998- Private Company 4 1997- Private Company 8 Private Company 2
(4) Kronodirektören 3 172 apartments	1996- Private Company 3 1994- Municipal Company (MKB) Municipal Company 2	(9) Krondirektören 8 113 apartments	2004- Foreign Private Company 3 2003- Private Company 7 1997- Private Company 4 Private Company 2
(5) Krondirektören 4 163 apartments	2004- Foreign Private Company 3 2003- Private Company 7 1997- Private Company 4 Private Company 2	(10) Krondirektören 9 92 apartments	2004- Foreign Private Company 3 2003- Private Company 7 1997- Private Company 4 Private Company 2
		(11) Krondirektören 10 94 apartments	2004- Foreign Private Company 3 2003- Private Company 7 1997- Private Company 4 Private Company 2

The foreign investment or asset management company that has owned most of the area since 2004 belongs to the Acta group who raise money from (mostly small) private investors and invests in a large number of assets. Property management is outsourced to local companies. Jönsson (2005) describe the growth of this company, and a similar company called Cheops, into some of the largest owners of residential properties in Sweden and underlines a combination of very low equity and cheap finance that reduced the rate of returned demanded. The Swedish Financial Inspection (see www.finansinspektionen.se) has got a number of complaints about Acta and made special investigations of the company where one aspect is whether the company has given correct information about how risky the investments were. The development of Cheops (later bought by the now bankrupt Landic that was closely linked to one of the Icelandic banks) is described in Ahlgren & Segerborg (2010).

Sweden had a very serious property and financial crises in the early 1990s. In the classification in Rinehart and Rogoff (2008) this crises belongs to the Big Five in the post-war period. Real estate prices were very low after the crisis and the price has risen dramatically during the whole period after 1995 (see Statistics Sweden 2010). Since 2003 the Swedish Property Index has presented a quality controlled price index and according to that index the average price for residential properties has increased with more than 50 percent between 2003 and 2007. Even if data on selling prices have not been available for the Herrgården transactions there are reasons to believe that all (equity) investors after 1995 has made considerable profits on their investment – at least up to 2009.

3. Theories of slum and their general relevance

A *slum*, as defined by the United Nations agency UN-HABITAT, is a run-down area of a city characterized by substandard housing and squalor and lacking in tenure security. When the term is used in this article the focus is on the first part of this definition and the term substandard indicates that slum is a relative term, as what is seen as standard and substandard depends on the general income level in society. What is called slum in this article is not an area that is comparable to what is called slum in developing countries.

Most of the international literature on slums focuses on areas in poor countries, see e.g. Neuwirth (2006), but there is also a large American literature from the 50s and 60s about inner city slums in large American cities, see e.g. Stokes (1962) and Doran & Landis (1980). An overview of the development can be found in Quigley (2000).

Central ideas in the literature on slums are the following:

- Slums as the reflections of low incomes. Migrants to large cities start in slum areas when their incomes are low and as incomes rise they might move to other areas. Low quality housing is then simply the consequence of the low income of the household.
- Slums as a reflection of a specific subculture. The American slums in the 60s and 70s was to a large extent dominated by Afro-americans and some areas developed into specific communities where households stayed even if their incomes increased, at least partly because of discrimination in other areas.
- Slums as the result of filtering and neighborhood tipping. Some of the American slums developed in areas that used to house higher income groups, but step by step households with higher incomes moved out and as the same time as housing quality deteriorated they were replaced with low income households and specific ethnic groups. Neighborhood tipping is for example analyzed in Feiten and van Ham (2009). In the Swedish debate it has also been underlined that this process also can be affected by stigmatization and that an area always is talked about as a “problem area” e.g. in the media (see e.g. Öresjö, 1996, Molina, 2001).

In the economic literature there is also a discussion of slum developing as a result of negative external effects and a Prisoner’s dilemma situation. The idea is that if the neighboring properties are run down it is not profitable to keep up the quality in a house, as it would still not be attractive when it is surrounded by low-quality housing. This can then contribute to a downward spiral that in the end also might lead to abandoned buildings (see O’Flaherty (1993) for a theoretical analysis).

The concept of slum has not been central in the Swedish debate on disadvantaged neighborhoods. The main focus has instead been on segregation (see e.g. Lilja & Pemer 2010 for an overview) and the explanation for this is probably that even if segregation that at least partly is based on income leads to quality difference between areas, it does not have to lead to slums. It was believed/assumed that conditions even in the worst areas were so high that it would not be correct to call it a slum.

Looking at the Herrgård area from the perspective of the theories presented above there are some elements that obviously are relevant, especially the long-term downward spiral when the

area step by step becomes more and more dominated by low income immigrant households with a weak relation to the Swedish labour market and the Swedish society in general.

Most of the economic mechanism does, however, not seem to be relevant in our case. The households in Herrgården does not live there because they cannot afford other areas as the rent levels in Herrgården are at least as high as in “better” neighboring areas.

As the nearby neighborhood areas generally are of higher quality it cannot be argued that it is unprofitable to increase quality in these parts of Herrgården because of negative external effects from neighboring areas.

In the next sections some more specific hypotheses are presented and evaluated in relation to the information available.

4. Hypotheses: Description, implications and evaluation

4.1 Introduction

There are some initial observations/reflections that are important for understanding what can explain the development in Herrgården.

The first is, as mentioned above, that the rent level in Herrgården is not lower than in neighboring areas where the quality is higher. This means that the households living in these areas on average pay at least as much but get lower housing quality. In section 4.2 we therefore focus on the question:

- *How can the company in Herrgården get tenants when the tenants seem to get low value for money compared to apartments in neighboring areas?*
- *From a company perspective this is the same as asking: How is it possible to combine high rents, low vacancies and low operating and maintenance costs – which of course generate a high net operating income)*

The second observation is that the strategy followed by the company in Herrgården is not followed by other private owners in Malmö that also are assumed to be profit maximizing. The implication must then be that the strategy followed by the "slumlord" is not normally economically rational. The neglect of the properties should reduce the value of the property in such a way that even though the short run net operating income is increased by the "slum" strategy, the total profitability of this strategy is lower than following a more normal strategy with at least some maintenance of the property. In section 4.3 the profitability of the slum strategy is discussed in terms of an “exit strategy”: It is obvious that the slumlord strategy increases the short run net operating income but why do the property company believe that this strategy is profitable in a longer perspective? This is discussed in section 4.3.

4.2 How can they get tenants?

The possible explanations for why households live in an area that seems to give low value-for-money are divided into three groups:

1. The households do not pay themselves, so the real value for money is higher than what it looks like.
2. The households get some other value, which also would imply that the real value for money is higher than what it looks.
3. The households have no real choice, so they have to accept an alternative that gives a low value for money.

1. Households do not pay themselves?

The rate of employment is low in the area and many households are living on different forms of payments from the public sector. Families with children can also get a housing allowance. We do not have any exact figures for specific apartment blocks, but there are reasons to believe that many of the household are not paying the rent with money from employment. As much as 83 percent (1128 households) has received public welfare suggesting that they get help with the rents⁵. From that perspective it could be argued that the households get a high “value for money” even if the housing quality is low.

The problem with this argument is, however, that if the households had been living in a neighboring area they would have the same type of public support, and then they would get higher housing quality, so there must be some other explanation for why they are staying in the area with the lowest quality?

2. Households get some other value

From a rationalist perspective, assuming some freedom of choice, the answer to why a household stays in an area with lower housing quality than other areas must be that there are some other advantages with living in this area. Some slum areas in developing countries is e.g. rather centrally located and might be chosen because they reduce cost for travelling to work. As we in this article compare with similar neighboring areas such external factors cannot be the explanation for choosing a low-quality area.

Another way to formulate this question is to ask *what does the slum landlord "deliver" that is not delivered by other landlords?* The only answer that we can come up with to this question is that the slumlord delivers is a “No questions asked” policy.

For at least three groups of households this "no questions asked" policy has a value:

1. The first group uses the apartment for illegal activities (selling drugs, illegal gambling, prostitution) that a normal landlord would find out, but that the “slumlord” do not care about.

Reports in the media, information from police and managers of nearby areas indicated that this occurred to a larger degree than in other areas, but still it was only a small percentage of apartments used in this way.

2. The second group uses the apartment for illegal subletting, i.e. subletting that would not be approved by a normal landlord. The apartment may e.g. be sublet to person who illegally lives

⁵ Malmö statistics (2009).

in the country or to other households that have few alternatives on the open market. They could also sublet in a way that leads to overcrowding.

In the nearby block taken over by MKB in 2007, the first thing they did was to visit every apartment to find out who really lived there (see Blomé, 2010). Sometimes up to ten names was found on the door and it was clear that there was a lot of illegal subletting, even if no precise figure can be presented. It is very likely that it was the same in the blocks owned by the "slumlord".

3. The third group that can appreciate a no question asked policy is households of the following type. In recent years the number of refugees coming to Sweden from e.g. Irak, Afghanistan and Somalia has been high. Many are waiting for their case to be decided and many of those are afraid of too much public attention because they do not want to go back to their home countries. Initially these refugees tend to stay with friends and relatives and the consequence can be severe overcrowding in areas where there initially lived households from these countries.

This has been observed in a number of cases in Sweden in recent years, e.g. in Södertälje and Gothenburg.⁶ One way to identify overcrowding has been to monitor water consumption as there is a clear relation between water consumption and the number of persons in an apartment. As ventilations in bathrooms are built given a certain expected usage, a number of problems, e.g. mold, occur rather quickly if an apartment is used by many more people than what it was built for. Some housing companies have introduced explicit limits on the number of persons living in an apartment. The advantage of living in a house owned by a "slumlord" is that the landlord will not do anything to find out and take measures against overcrowding.

There are strong reasons to believe that overcrowding was severe in the rundown parts of Herrgården. Some of this overcrowding was legal in the sense that the persons had the right to live in the apartment and the exact share of the illegal subletting is impossible to know.

When the nearby blocks in Herrgården were upgraded, it was clear from interviews made by the company that the majority of the households had a very positive view of this. One of the authors - Gunnar Blomé - made some of these interviews. They appreciated more "law and order". Even if it seems clear that a considerable number of tenants appreciated the no questions asked policy, they were probably not the majority.

3. Households have no choice

The third hypothesis is that the households living in the run down area have no choice. There are of course some elements of truth in this hypothesis too, even if there is a considerable turn-over in the areas, mostly between different blocks within the Rosengård area..

There is a housing shortage in Malmö and long queues to rental housing in other areas. Having lived in the Herrgården area and having a foreign background and no fixed employment can lead to households being rejected by other landlords.

⁶ The mayor of Södertälje - Anders Lago - were invited to the American Congress in 2009 to discuss refugee policies. More refugees from Irak was coming to Södertälje than to the whole of the USA.

One problematic feature of this hypothesis is however the following. Assume that the majority of the households have no alternatives and realize that they are stuck in the neglected area. They know that housing quality is higher in other areas of similar type, as they can compare with other parts of Rosengård. Why aren't they using the existing legal possibilities to improve their housing quality? Remember that this would not lead to higher rents. Why didn't the tenants long ago contact the Tenants Union that is strong in Sweden and get help to improve their situation? Why did the deterioration go so far without any action of this type from the tenants?

Even if many of the households in the area are rather new to Sweden, most of them can be expected to have friends and relatives that have been here longer and have more information about the legal possibilities. If households know that they are stuck in an area with lower housing quality than other areas they should have stronger incentives to try to improve the situation in the specific area: If the "exit" strategy is closed for many households then they should be expected to use the "voice" strategy instead.

One possible answer is that the households are "helpless victims", but that is not so convincing given that many of the households have been able to escape from their home countries and come to Sweden. The competing hypothesis is then a combination of:

- That the household get advantages from the no-questions-asked policy of the landlord that compensates for the low housing quality.
- Fear: There might be threats from the first group of households. If you go to the Tenant's Union or the authorities and complain about the situation you might be punished by the first group of households.
- Genuine lack of knowledge of the Swedish legal system both concerning what is seen as a reasonable housing quality and the legal possibilities that exist.

In the media it has been asked why the Tenant's Union did not act. The answer seems to be a combination of low membership rates (only 7 percent of all tenants 2008) and no initiatives taken by the households in the area⁷. As we will return to in the final section, formally it is only individual tenants that can complain if a landlord does not deliver a reasonable housing quality.

4.3. How can it be profitable?

Judging from strategies followed by the majority of the landlords it is not a profitable strategy to neglect maintenance in the way done as described in the study. The short run increase in net operating income is not enough to compensate for the fall in value that the slum strategy leads to. A crucial question is then what kind of long-run plan the property owner in the area has.

There seems to be at least two possible strategies from the perspective of the decision makers in the company that owns the properties.

The first strategy can be described as a version of the "bigger fool theory" (see Lind, 2009). It might be possible to sell the properties at an irrationally high price, given the bad condition of

⁷ The membership number in the Tenant's Union have increased after 2008.

the buildings. The sale to the municipality in 2006 occurred during a boom where the yield demanded by investors was low even for properties with low quality. Even if the municipality paid the market value, it could be argued that this market value was not really based on fundamentals. It is interesting to read in Ahlgren & Segerborg (2010) about the Danish company Cheops, with at least some properties of the type in Herrgårdén was sold with an enormous profit to a real estate company controlled by Icelandic banks just before they crashed. Most of the company that bought the properties (Landic) later went bankrupt. These cases illustrates that it might be possible to get a high net operating income by neglecting the properties and still get a high price when you sell, at least in periods when there is an abundance of capital and also principal agent problems in the banking system.

The second possible explanation is simply that the decision makers in the property company do not care about the sales price as the decision makers have not invested their own money in the company. This was e.g. the case in the company described in Ahlgren & Segerborg (2010). The people who started the company were highly paid as managers and when the value of the properties increased the company could report large profits and pay high bonuses to the managers. Maybe they were all the time aware of the high risk that the company would go bankrupt in a future recession. Banks and investors were however willing to provide capital to the company at rather low interest rates. The whole structure would in this interpretation be built up to swindle investors. The exit strategy of the decision makers would simply be to let the company go bankrupt and the investors would then take the fall, while the managers would go on to other businesses. A number of such bankruptcies has been observed in Sweden in 2010 and 2011.

With hindsight from the financial crisis it is possible to see that both the exit strategies described above are possible, both selling to someone else at a high price before the crash comes or putting as much money in your own pocket before the crash and then it will be the investors who will be the losers.

This raises another issue and that is how the firms could get the money from the investors in the first place. A combination of irrational investors and principal agent problems in the banking system might then seem to be the best guess. Lind (2009) discusses the general features that can create a bubble and most of these conditions are relevant also in this case.

4.4. Trying to put the puzzle together

The conjecture presented in this article is that the development in the Herrgårdén area could, according the arguments presented above, be seen as the result of the interaction between the following factors.

A property company led by individuals that could gain by a strategy that from the perspective of a normal company is unprofitable. This possibility was opened up by different types of irrationalities and principal agent problems on the capital market, which made it possible to raise capital for such investments.

A tenant structure in the area that meant that the majority of the tenants accepted a housing standard that was below the legal norm. The hypothesis is that some households profited from the no-questions-asked-policy of the landlord, while others were afraid of the first group.

Some did not know that they could take legal action against the landlord and some were planning to move out soon.

We want to underline that this should be seen more as a reasonable conjecture than as proven facts.

5. Concluding policy discussion and theoretical implications

5.1 Policy conclusion

The development in Herrgården also indicates that there are some holes in the Swedish housing legislation and our final issue is what kind of policy lessons that can be drawn.

There are, as mentioned in the introduction, laws about building maintenance and that the municipality can carry out inspections and demand corrections from a property owner. This is however not done and the reason seems to be that the law about receivership is based on the idea that the tenants should go to court and complain if the landlord neglects maintenance, typically with the help of the Tenant's Union. As this has worked well for many years the municipality never had to do anything and therefore "forgot" about their responsibility.

The Herrgården case shows that relying on actions from the tenants does not always work. In this area there were households that for a number of reasons do not go to the courts. It was also an area where the Tenant's Union was weak and where they did not feel that it was their responsibility to act.

The first part of the solution, as we see it, must be that the municipality also in reality takes the responsibility that it already formally has. They must inspect properties on a regular basis in areas where poor people live.

The second change that we think is needed concerns the sanctions in the case of repeated neglect. Receivership has not worked very well and a stronger and quicker sanction seems necessary. The first step would be high fines if the quality is below what is acceptable and even higher fines if the standard isn't quickly raised. At the same time the rent should be reduced retroactively and as long as the standard is not raised. If this does not work it should be possible to force the owner to sell the property on an executive auction rather quickly if maintenance is not improved and/or fines not paid.

These changes would all reduce the expected profitability of the slum strategy, and it would be much quicker than the rules today show providers of capital if investment managers are following a very risky strategy from an investor's perspective.

5.2 Theoretical implications

Even if the primary aim of this article is to explain the case of Herrgården it also has implications for some general issues about the workings of the rental market.

- *Rent regulation*: If rents are regulated to a level that creates queues in most areas, it is more difficult for households to move and this should make the slum-lord strategy easier to implement. This aspect of rent regulation is however seldom discussed.⁸

- *Asymmetric information and its effects*: From a landlord perspective, the question is how much and by which method the landlord should collect information about tenant-behaviour. The slumlords' no-questions asked policy represents one extreme policy. From a household perspective, the problem is to get information about the behavior of different landlords in order to avoid potential slum-lords. The easier it is to get such information, the more problematic should the slumlord strategy be, and policies to increase transparency could be motivated from a welfare perspective.

Post-Script

After the media attention given to the Herrgården case the company promised to increase investment in the area and a maintenance plan has been put forward.

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⁸ See for example the articles published in the special issue on rent regulation in Swedish Journal of Economic Policy, issue , vol 10, 2003.

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