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PUBLIC VERSION

WORKING LANGUAGE

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**Subject: State aid No N 798/06 – Sweden
Support for construction of special housing for elderly people**

Sir,

I. Procedure

1. By letter of 29.11.2006 Sweden notified the Commission of an aid scheme aimed at encouraging the construction of special housing for elderly people.
2. On 10.1.2007 the Commission sent a request for additional information about the scheme to complete the notification, to which Sweden responded on 1.2.2007 by providing the requested information.

II. Detailed description of the measure/aid

3. The aim of the scheme is to encourage construction of special housing for elderly people. "Special housing" refers to dwellings that are neither regular homes nor healthcare institutions, but in between the two. Elderly people who require a moderate degree of

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daily care may be granted such an apartment by the municipal social authorities in case they would not be able to continue living independently. The buildings and the associated services are run by private operators, who function as service-providers to municipalities. There is a lack of such housing in Sweden. Because of the general lack of housing in the Swedish market, the construction of special housing with its special requirements is currently not sufficiently a priority for private owners. Faced with an ageing population and a growing demand Sweden wants to encourage the construction of such housing by offering an additional financial incentive.

4. The beneficiaries of the scheme are property owners. The support is 2600 SEK/m² for new construction and 2200 SEK/m² for renovation projects. The size of apartments is limited 35m² per 1-person apartment and 50m² per 2-person apartment. In addition, support can be given to an additional 15m²/20m² of common spaces (for meals, hobbies, group activities etc).
5. Aid intensity is estimated to be 10 % of actual construction costs.
6. The constructed apartments will be rented from the owners by the municipality, who in turn will allocate them to elderly people in accordance with social security legislation. The municipality may charge a subsidised rent from the actual inhabitant. The final users of the apartments are therefore not in a direct contractual relationship with the owners.
7. The budget of the scheme is 500 million SEK per year, for a total of 2500 million SEK in five years, to be financed from state budget. Therefore each year there is a budget to support the construction of between 2700 and 6500 apartments, depending on the breakdown between 1- and 2-person apartments and the amount of common spaces.
8. In order to qualify for the support, the dwellings need to be designed so that care-taking work by external personnel can be carried out in accordance with workplace standards. This entails extra costs, both in terms of space for personnel and in terms of qualitative criteria for washrooms, showers and other spaces for personnel.
9. The dwellings must be used exclusively as special housing for elderly people for a restriction period of four years. Swedish authorities indicate that typically the rental contracts with the municipality are made for a ten-year period. The legal restriction period has been made shorter in order to provide an element of flexibility for special local situations.
10. The property owners have to apply for the funding within six months of the start of construction work. Regional authorities will decide on the granting of the support, with the possibility for the applicants to complain to the National Housing Authority. Once the construction is completed, the payment will be made upon demand. If it is discovered that the criteria were in fact not respected, the grant can be recovered.
11. The scheme will be operational during five years, 2007-2011. Maximum time of completing the construction is two years, and payment of the grant needs to be requested within six months of completion. The scheme will therefore cease to be applicable by 30 June 2014 at the latest.

III. Assessment of the measure/aid

12. According to Article 87 of the EC Treaty, any aid granted by a Member State or through State resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods shall, in so far as it affects trade between Member States, be incompatible with the common market.
13. The measure at stake obviously provides the beneficiaries (property owners) with an advantage and involves a transfer of State resources as the subsidy is paid out of the State budget.
14. By favouring new construction or renovation projects of special housing vis-à-vis existing stock of this type of housing, the measure may distort competition.
15. The Commission remarks that the construction sector shows important flows of foreign investment. Construction and renovation subsidies can therefore alter investment decisions between sectors and between Member States. Thus the aid measure may affect intra-Community trade in this sector.
16. In light of the foregoing, the measure at stake constitutes State aid within the meaning of Article 87 of the EC Treaty.

Compatibility of the aid

17. The current notification follows an earlier Commission decision on a very similar previous scheme of aid to student housing and other small dwellings (N40/03), which was declared compatible under Article 87 (3) (c) of the EC Treaty. The notified scheme follows the same main characteristics of the previously approved scheme:
 - both schemes encourage construction of housing (same market);
 - the argumentation in both cases is lack of suitable housing provided by the market and small distortive effect;
 - the beneficiaries can be any property owners;
 - size of dwellings is limited;
 - the grant is based on a lump sum per square meter (not a percentage of costs). The chosen lump sum is estimated to be approximately 10% of construction costs and the amounts are similar.

The two schemes, however, differ in terms of the following:

- the schemes target different special groups (elderly vs. students i.a.)
 - the aid instrument is direct grant in the new scheme while in the previous one it was a VAT return.
 - in the new notification there is no regional differentiation of the grant. The amounts are the same throughout the country.
18. The measure has not been designed by Sweden as a compensation for a Service of General Economic Interest (SGEI). The measure therefore has to be examined in light of Article 87 (3) (c) of the EC Treaty as aid to certain economic sectors (sectoral aid). Under this Article, the Commission has adopted guidelines for the aid of a number of sectors, but

not for housing or property sectors. Therefore the measure needs to be assessed directly under the Article 87 (3) (c) of the EC Treaty.

19. The Commission notes that there is a need of suitable housing in the Swedish market, which is not met by the market. The Swedish authorities highlight the growing number of elderly people in need of special housing. This growing demand is not met, on the contrary the supply is decreasing because some older dwellings no longer fulfil the standards and are then converted to other uses. Due to the general lack of housing in the Sweden, the market is not able to respond to the demand for special housing since there is sufficient demand for regular housing which is more profitable to construct than special housing.
20. The scheme is set up in a way to limit adverse effect on trading conditions. Firstly, the scheme is open to all property owners without discrimination between public and private actors, nor against foreign investors. Secondly, the level of support is to be proportional so that it provides an incentive effect to construct the needed housing but without generating excessive profits and crowding out private investors. The chosen amounts have been aligned with the aid intensity of the previously approved scheme N40/03 which according to the Swedish authorities has shown itself to be an appropriate level of support. In particular, the aid amount has been calculated to cover a limited proportion (10 %) of actual construction costs. The construction of special housing has a small profitability due to the additional construction costs connected with the workspace requirements for care-taking personnel. Thirdly, the restriction on the use of the dwellings ensures that aid is used for the purpose of care for the elderly and will not cause undue distortions by being used for other purely commercial purposes. Finally, the measure is limited in time to five years until the end of 2011, with final payments to be made in 2014 for projects started during 2011.
21. From the above elements it can be concluded that the aid granted under the scheme is needed to reach an objective of social equity that is otherwise not being sufficiently met by the market. The aid would be proportional to the aims pursued and the effects on competition are restricted to the minimum necessary. Consequently, the measure would not adversely affect trading conditions to an extent contrary to the common interest within the meaning of Article 87 (3) c EC Treaty. The Commission has therefore come to the conclusion that the aid is compatible with the common market pursuant to Article 87 (3) c of the EC Treaty.

IV. Decision

The Commission has accordingly decided to consider the aid to be compatible with the EC Treaty.

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Yours faithfully,
For the Commission

Neelie KROES
Member of the Commission