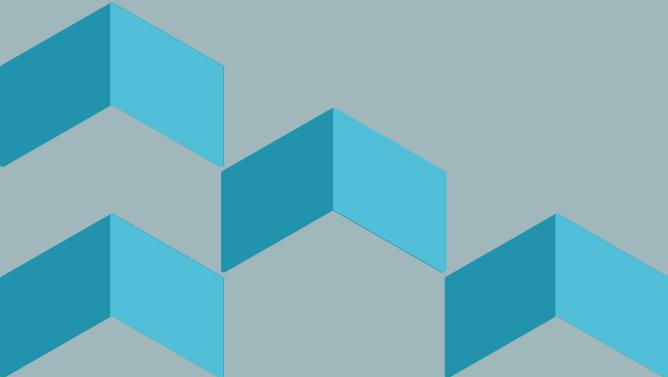


# The Housing Market Monthly Report



# The House Market



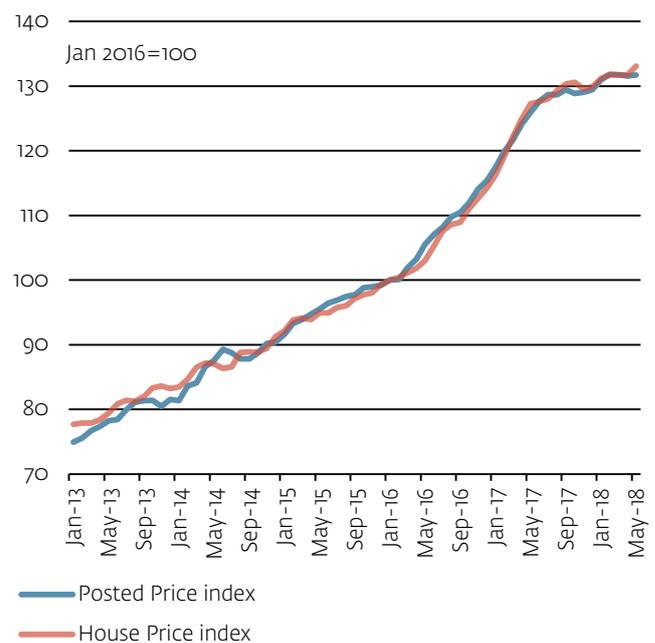
## House prices relatively stable lately

The posted price of houses advertised for sale within the Capital Region has remained relatively stable since January this year after a rather drastic period of increase from the start of 2016 until fall 2017. The Capital Region's Posted Price Index, which HFF Research uses to gauge house prices, has increased by an average of 0.4% per month this year,<sup>1</sup> compared to an average 1% increase per month in 2017.<sup>2</sup>

The House Price Index, which gauges the selling price for homes within the Capital Region, has increased by 0.5% per month thus far this year, compared to a 1.1% average increase in 2017.

In the past 12 months, the Capital Region's Posted Price Index has risen by 3.1%, while the House Price Index has risen by 4.3%.<sup>3</sup>

## House Price and Posted Price Index in the Capital Region



Source: Registers Iceland, Estates Database, HFF Research

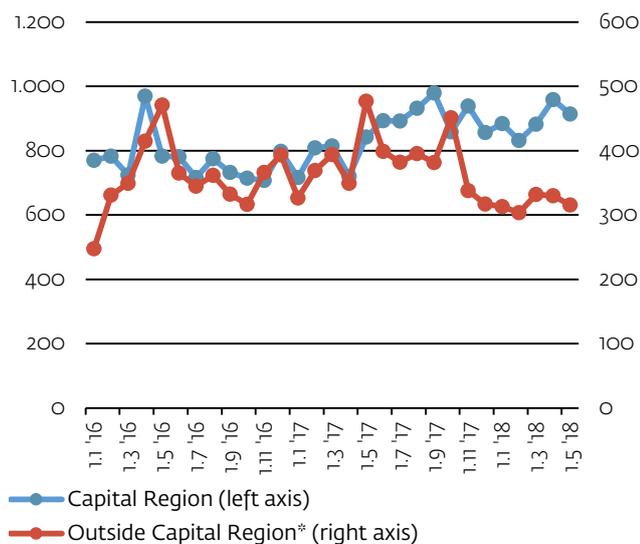
<sup>1</sup> An average increase of around 0.1% if January is excluded.

<sup>2</sup> The Posted Price Index is calculated in a similar fashion as the House Price Index. Data concerning posted housing prices within the Estate Database is categorised into four types of housing, with a three-month moving average for each category. Those numbers are then balanced according to rate of advertising for each category over the past 12 months.

<sup>3</sup> Posted Price Index Number is based on homes registered for sale each month, but the Housing Price Index Number is based on each month's registered sales contracts, irrespective of when the property was put up for sale.

# The House Market

**Number of homes on the market**  
Seasonally adjusted



\* "Outside Capital Region" refers to all Icelandic municipalities outside the Greater Reykjavik Capital Region.

Source: Estates Database, HFF Research

## Registration of new homes on the market goes up within the Capital Region but dwindles elsewhere

The number of homes put up for sale within the Capital Region has increased somewhat since the end of 2017. The seasonally adjusted number of new properties that entered the market this April was the highest since September of last year. This number decreased insignificantly in May but was still 9% higher than same period the year before. The number of properties being put up for sale in other parts of the country has decreased somewhat since last October, as can be seen in the graph below. In May, the number of properties outside the Capital Region being put up for sale was 34% less than the same period last year.

The number of sales contracts has increased in recent months within the Capital Region. This May, a total of 703 sales contracts for homes were registered within the Capital Region, which is the highest number since March of 2017 and around 21% more than in May of 2017. Outside the Capital Region, a total of 426 sales contracts for homes were registered this May, which amounts to roughly 5% more contracts than in May of 2017. Although outside the Capital Region the number of homes being put up for sale has dwindled, property sales transactions do not seem to be on the decline.



## Is it more difficult now than before for first-time buyers to buy homes?

Much has been said lately regarding the difficulties faced by people seeking to buy their first home. Lending terms are not as flexible as they were before the financial crisis of 2008, and housing prices have increased dramatically. These two factors mean that first-time buyers, as well as other buyers, must put up a significant amount of personal capital when buying property.

# The House Market

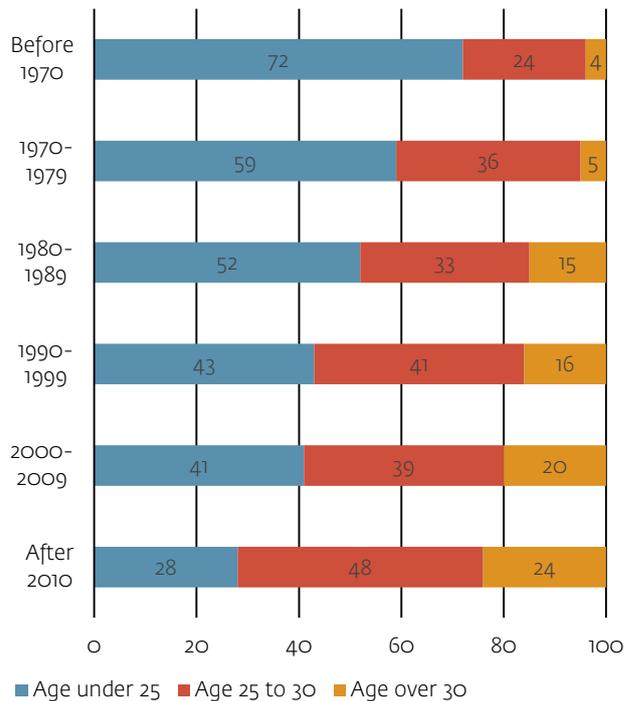


The Housing Finance Fund has regularly conducted public surveys to investigate the status of the nation's housing market. The fund's most recent survey was conducted by Zenter Research from the 23rd of May to the 6th of June through a focus group that underwent an online poll. The focus group was composed of 2,300 individuals aged 18 and above and showed a response rate of around 52%. All data was balanced to ensure that the results represented the opinions of the nation.

Among other things, the survey looked at the age of first-time buyers, revealing that their age has gone up in recent decades. Before 1970, the average age of buyers purchasing their first home was 22. From 1970-1979 that number rose to an average age of 24. After that, the average age of first-time buyers goes up decade by decade, so that after the millennium (2000-2018) the average age of first-time buyers was 28.

Around 41% of first-time buyers were younger than 25 between 2000-2009 and after 2010 only around 28% of buyers were under 25. These results indicate that either it has become more difficult for young people to enter the housing market or that people today prefer to buy homes later in life.

## How old were you the first time you bought a home?



Source: Zenter Research, Housing Finance Fund's Rental Market Department



# The House Market



## Majority of new first-time buyers receive financial support from families

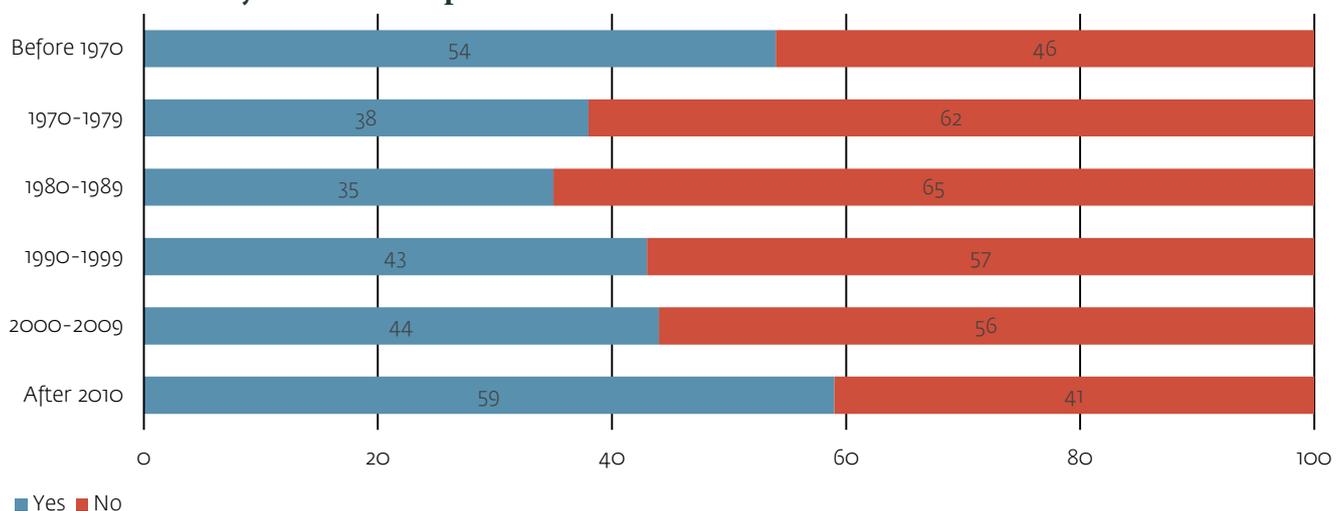
In this context, it's interesting to note whether buyers received financial support from their families for their first property purchase. Homeowners were asked whether they'd received help from friends or relatives to finance the purchase of their first home, not accounting for whether such support was in the form of a gift, a loan, a collateral loan, an inheritance, a relative buying a part of the property or providing support in exchange for contributed work or temporary residence in homeowner's home.

It was revealed that of those who bought their first property before 1970, 54% received financial support from friends or relatives. At the time the Icelandic lending market was however not as developed as it is now. Among those who bought their first property between 1970 and 1979, 38% received financial support from friends or relatives. The next decade, from 1980-1989, only 35% of first-time buyers received financial support from friends or relatives, which is lower than in any other decade during the past half century.

In 2004, commercial banks entered the lending market with great zeal, offering up to 100% loans. Even so, between 2000 and 2009 the proportion of those who received financial support to finance their first home purchase rose to 44%. Since the banks' collapse, or post 2010, this proportion has risen to 59%. It is therefore evident that after the financial crisis a majority of first-time buyers received financial support.

The fact that on average first-time buyers of property have become older and more dependent on financial support from friends and relatives to finance their purchase shows that it is challenging to enter the market on your own. That indicates that more options must be made available to help people gain housing stability, whether be it through buying or leasing.

### Did you receive financial support from family or friends to finance your first home purchase?



# The Rental Market



## Households that rent their home have fewer members on average

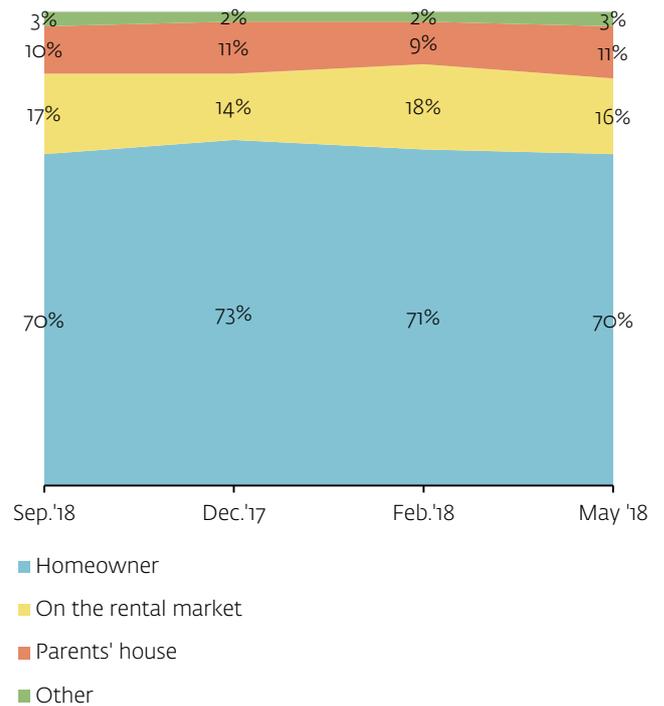
Zenter Research’s aforementioned survey for the Housing Financing Fund reports that currently 16% of the nation (18 and above) is in the rental market, a result that is in line with findings from previous months.

The survey asked how many people, including respondents, lived in each home, revealing an average of three individuals per household. The results indicated no significant difference between households situated inside and outside the Capital Region. It did, however, reveal significant differences depending on whether the respondent owned or leased their home. In the rental market, the average number of individuals living in a household is 2.38, while among homeowners that average is 2.96 per home.

## 89% of tenants intend to remain in the rental market

The Housing Finance Fund has regularly surveyed people's intentions of being in the rental market in six months' time. The latest data shows that 19% of the nation believes that it is likely or certain that they will be in the rental market in six months' time. This figure has not changed significantly since last February, when 18% believed it to be likely or certain that they would be in the rental market in six months' time. The question was phrased in the following way: “How likely or unlikely is it that you'll be in the rental market in 6 months' time?” The responses were measured according to a scale of 1-7; 1 meaning “definitely not in the rental market” and 7 meaning “definitely in the rental market”.

## How would you describe your residential status?



Source: Zenter Research, Housing Finance Fund's Rental Market Department

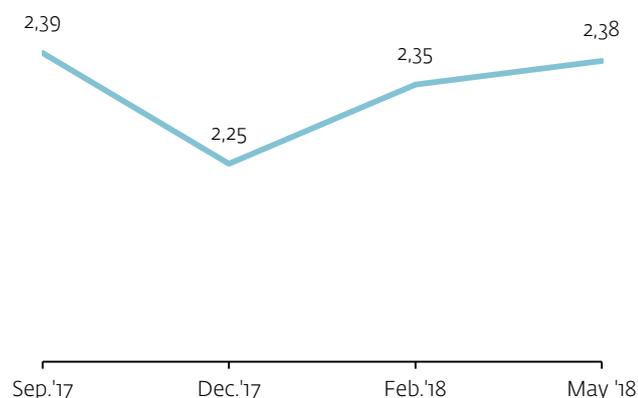
## How likely or unlikely is it that you'll be in the rental market in 6 months' time?

Options	Weight
Definitely	7
Very likely	6
Rather likely	5
Neither likely nor unlikely	4
Rather unlikely	3
Very unlikely	2
Definitely not	1

# The Rental Market

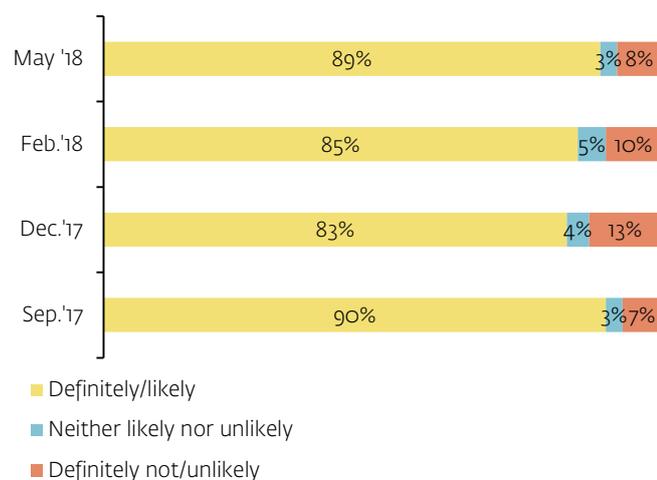


## How likely or unlikely is it that you'll be in the rental market in 6 months' time? Averages (current residential status not accounted for)



Source: Zenter Research, Housing Finance Fund's Rental Market Department

## How likely or unlikely is it that tenants will remain in the rental market?



Source: Zenter Research, Housing Finance Fund's Rental Market Department

Past surveys have usually indicated an average of approximately 2.3; i.e. those polled generally feel it is very or rather unlikely that they'll be in the rental market in 6 months.

Those who are currently in the rental market estimate their likelihood of remaining in the rental market as around 6, or "very likely". In the most recent survey, 89% of tenants thought it to be either likely or certain that they would remain in the rental market. In addition, 21% of those who lived in parental homes believed it was likely that they would move into the rental market in the next 6 months.

## Tenants unlikely to buy property

People have also been questioned about their intentions to buy property in the next 6 months. The results have remained relatively stable from one survey to another. Currently, around 6% of Icelanders think it is likely that they will buy property in the next 6 months. The latest survey showed that 9% of tenants believed it to be either likely or certain that they will purchase property in the next 6 months. The averages derived from these results indicate that most tenants believe it to be very unlikely that they will buy property in the next 6 months.

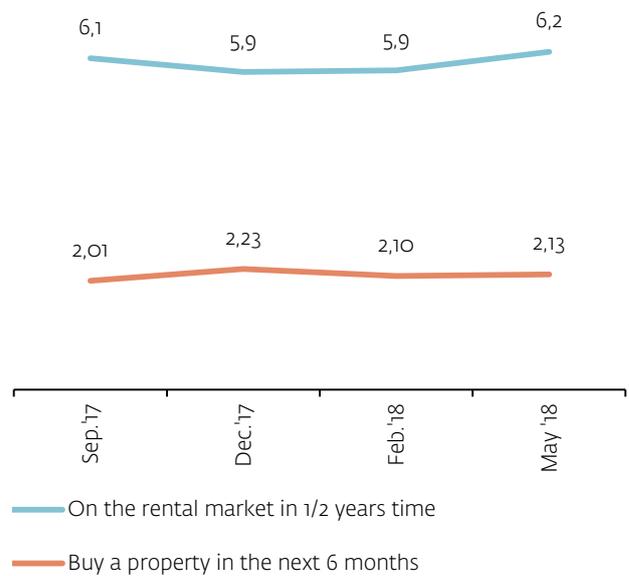
# The Rental Market

If the results of inquiries into tenants' intentions to remain in the rental market and their intentions to buy property are compared with recent surveys, it is evident that at the end of 2017 and in the first few months of 2018 tenants became slightly more likely to purchase property in the next 6 months. At the same time, they became less likely to remain in the rental market. However, according to recent surveys this development seems to have been slightly reversed. Still, keep in mind that the differences between the results are negligible.

The Central Bank of Iceland recently published its Major Purchase Forecast Index, based on data from a Gallup poll that surveyed consumer confidence. They indicate that, overall, consumer confidence in major purchases is slightly above the long-term average, but has nevertheless gone down in the last 12 months.<sup>1</sup> The nation's planned property purchases have increased slightly between yearly quarters, after having reached a local minimum last September when confidence in property purchases hadn't been any lower since December 2011. Since then, consumer confidence has increased incrementally, and has now remained relatively stable since March 2017.

<sup>1</sup> The Major Purchase Forecast Index consists of the index numbers for vehicle purchases, property purchases and purchases of overseas trips.

## Tenants' Residential Forecast



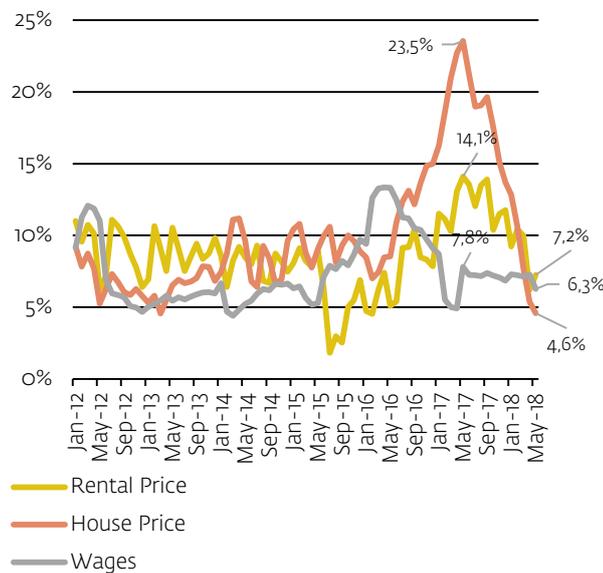
Source: Zenter Research, Housing Finance Fund's Rental Market Department



# The Rental Market

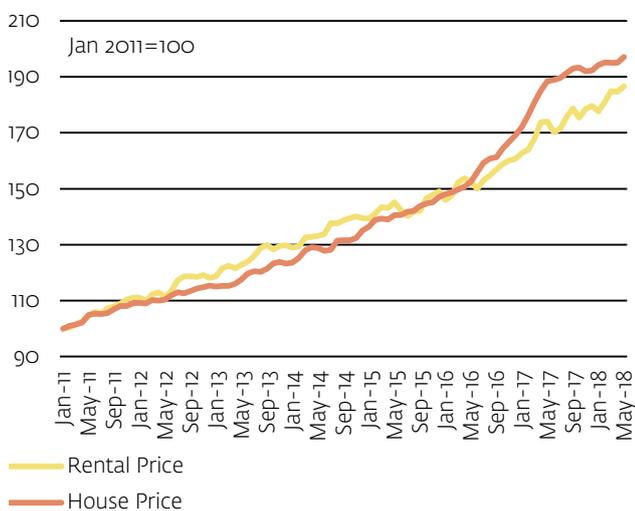


## Comparison of 12 month increases in wages, rental prices and housing prices within the Capital Region



Source: Registers Iceland, Statistics Iceland

## Comparison of Capital Region's Lease Price Index and Housing Price Index



Source: Registers Iceland

## House Price Index and Rental Price Index approach each other

According to reports from Registers Iceland, the Capital Region Rental Price Index went up by 1.1% this May. The annual rise in rental prices, gauged from registered lease contracts, now stands at 7.2%, which is higher than the annual increase in both wages and house prices. In May, the annual increase in wages stood at 6.3%, and the annual increase in house prices within the Capital Region was 4.6%.

As matters stood exactly a year ago, house prices had gone up by 23.5% on an annual basis, which was the biggest increase in a long time. Rental prices were subjected to a similar development with a 14% increase, which is not as drastic but still more than the long-term average on an annual basis, which is 8.6% since measurements began. Proceedings over the past few months indicate that these rates have now begun to move in line with one another and that the great imbalance in the development of house prices and rental prices has diminished somewhat.

# The Lending Market



## New housing loans

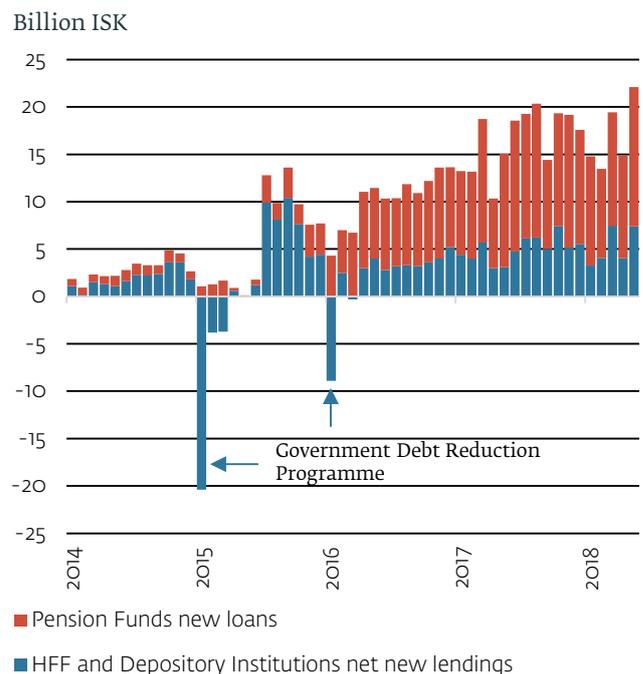
After some month-to-month decline at the end of 2017, the past few months have seen an increase in new housing loans among the nation. When compared to the same period last year, the first five months of this year have seen a 20% increase. The total value of new housing loans in the first five months of the year is around ISK 85 billion, while the same period last year amounted to ISK 70 billion.<sup>1</sup>

From January to May this year, the banks' net new housing loans amounted to around ISK 49 billion, compared to ISK 44 billion during the same period last year. This means an 11.2% annual increase in net new housing loans within the banking system.

The first five months of this year, the pension funds' new loans to their members amounted to around ISK 59 billion, while during the same period last year that number was around ISK 50 billion. This means a 16.4% increase in pension fund lending between the two periods.

The pension funds had their highest lending within a single month this May, when new loans to their members amounted to approximately ISK 15 billion.

## New private housing loans by the HFF and depository institutions (minus recompense) and new pension fund loans



Source: Central Bank of Iceland, Housing Finance Fund's Department of Economics

<sup>1</sup> Not including recompense of older HFF loans or older depository institution loans. Information regarding recompense of older pension fund loans are inaccessible and therefore not accounted for by this data.

# The Lending Market



## Annual growth in the outstanding stock of mortgaged lending\*

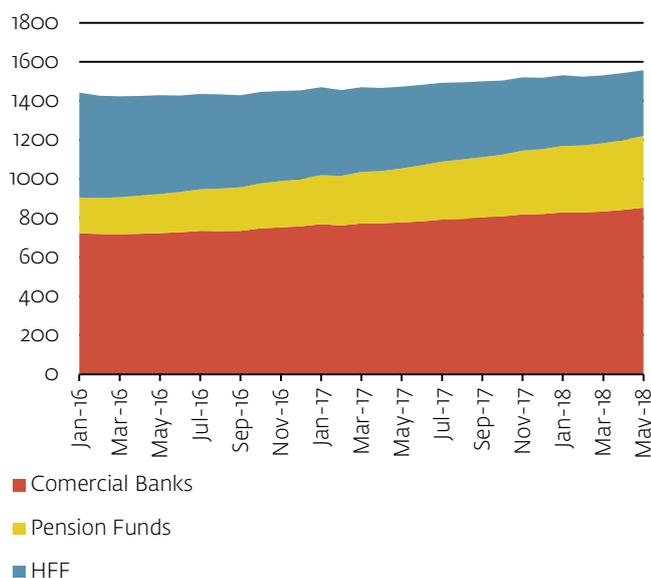


\*Moving average of constant price over a 3 month period

Source: Central Bank of Iceland, Housing Finance Fund's Department of Economics

## Development of total real value of Icelandic home mortgages

Billion ISK



Source: Central Bank of Iceland, Housing Finance Fund's Department of Economics

## Household debt

When considering the overall development of mortgaged housing loans within the domestic financial system,<sup>1</sup> it is evident that the annual real growth of that share of the total debt of Icelandic households has continued to grow thus far this year.

As can be seen in the graph here on the left, the real growth in the outstanding stock of mortgaged loans in Iceland has not been any higher since the start of 2010. By January 2016, the real value of the housing debt of Icelandic households had diminished by 4.5% over the previous 12 months, but this May it had in fact increased by 5.7%.

Since the start of 2016, the real value of mortgages issued by pension funds has risen by more than 100%. As shown by the analytics company S&P in their [most recent estimate](#) of the credit rating of the Icelandic treasury, this development should be viewed as a risk indicator for the Icelandic economy as the pension funds' abilities to supervise their lending has not yet been tested during a downturn.

<sup>1</sup> Allowing for settlements due to the collapse of the banks.

## Housing benefits payments

On the 1st of January 2018, in accordance with article 75/2016 of the Housing Benefits Act and the regulations established on the basis of said act, the HFF was directed to take charge of processing payments of housing benefits for leased domiciles. A new department was created within the HFF, operating out of Sauðárkrókur. The Department of Housing Benefits undertakes the day-to-day processing and payment of housing benefits, among other tasks.

The Housing Benefits Act establishes the base amount for housing benefits payments in accordance with the number of individuals to a household. Factors that can influence the calculation and limit the payment amount are e.g. the taxable incomes and net assets of all household members (18 and above), as well as the rent payment amount. When housing benefits are not reduced by either income or assets, the total amount for housing benefits is ISK 32,460 for a single individual. If there are two members in a household the benefits amount to ISK 42,931. And ISK 50,261 for three household members. If there are four or more household members and no housing benefits limits in place, the amount is ISK 54,449 per month.

In May, the total amount of housing benefits payments was approximately ISK 553.5 million, which is an increase of 25.3% since April. This increase can to a large extent be traced back to corrections for the first four months of 2018. Such corrections account for ISK 63 million and without them the increase would have amounted to 11%. During the first five months of 2018, housing benefits payments increased by 13.9%, compared to the same period the year before. In May 2018, the number of applications for housing benefits were 15,070, and the payment amounts averaged ISK 32,529.

## Key housing benefits statistics

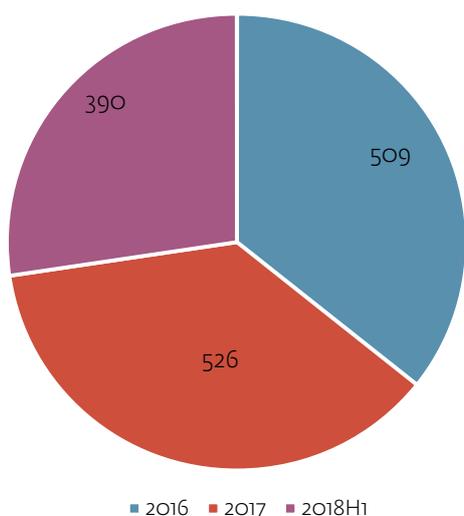
	May 2018
Total payment value*	553,430,705 ISK
Number of accepted applications	15,070
Average income applied to calculation	377,634 ISK
Average investment value applied to calculation	883,981 ISK
Average housing benefits payment	32,529 ISK
Average rent payment	125,938 ISK

\* This number includes settlement payments for the first four months of 2018, a total of ISK 63 million.

## Housing benefits payments

	May	January-May
2018	553,430,705 ISK	2,534,229,750 ISK
2017	441,596,036 ISK	2,225,932,619 ISK

## Number of homes financed by initial contributions



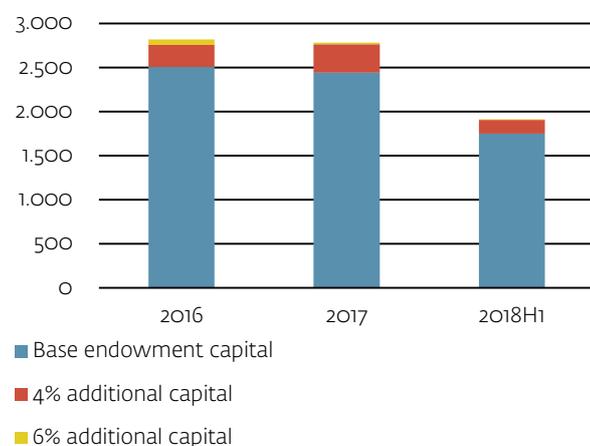
## Allocation of initial contributions

The Housing Financing Fund has now overseen five application rounds of so-called initial contributions towards the construction or purchase of rental dwellings for low-income households. The first allocation for 2018 has been finalised, and before that initial contributions were allocated twice in 2016 and twice in 2017. In total, initial contributions have been granted to the amount of ISK 7.5 billion, intended for the purchasing and building of 1,425 homes. For 2016, initial contributions were granted for building and purchasing 509 homes. For 2017, contributions were granted for 526 homes. The first 2018 initial contribution payment accounts for 390 homes.

Of the total initial contribution payments that have been finalised thus far, the government's 18% base endowment capital amounts to ISK 6.7 billion, with a 4% additional capital being approximately ISK 730 million and a 6% additional capital being approximately ISK 84 million.

## Initial contributions 2016-2018

Million ISK





# The Housing Financing Fund

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This is a translation of a document originally written in Icelandic. In case of discrepancy or difference in interpretation, the Icelandic original prevails.

Housing Finance Fund's Research Department is not obligated to provide access to further information than is disclosed in this report.