

The Mortgage Market in Sweden

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Executive Summary

Mortgages comprise a significant percentage of the loan portfolio in Sweden and are an important component of the household budget for many individuals with home loans. The Swedish Mortgage Market describes both current and historic mortgage and construction trends. These developments are illustrated using statistics shown in tables and charts.

First, a brief description of general economic trends is given, followed by a discussion of developments in housing construction. This shows that there has been a significant increase in construction in recent years, albeit from relatively low levels. Home prices have continued to rise and the price of single family homes has, on average, increased by 12.4 percent during the last year. There are several explanations for rising house prices and an important factor is that there has been insufficient residential construction.

Residential mortgage lending amounted to SEK 3,577 billion in June 2016 and the rate of growth for mortgages is 8.2 percent annually, which is an increase as compared with the same period last year. The rate of lending to tenant-owned apartments is higher than for single family homes, and is 13.8 percent annually. Mortgage interest rates have generally declined over the last 4 years and interest rates are at historically low levels. Household indebtedness is outlined, as are implemented and proposed measures to counteract high indebtedness. Finally, an overview is provided of the main forms of borrowing for mortgage institutions and of various events related to the mortgage market during the past year.

I The economic situation in Sweden

The GDP continued to rise in 2016 and according to the NIER (National Institute of Economic Research) the Swedish economy is booming. The expansive monetary policy means that the economy will strengthen somewhat further. According to the NIER, GDP is expected to increase by 3.3 percent in 2016 and by 2.0 percent in 2017.

Housing investments have increased substantially the last years, and especially in multi-family homes according to the NIER. Prices on tenant-owned apartments have risen more than on single family homes, which has made multi-family homes more profitable to build in relation to single family homes. Housing investments and housing starts are expected to increase in the coming year.

Table I The NIER indicators for the Swedish economy, August 2016, annual percentage change and percent, respectively.

Source: The National Institute of Economic Research (NIER)

	2015	2016	2017	2018
GDP, market price	4.2	3.3	2.0	1.9
Employment	1.4	1.8	1.3	0.8
Unemployment (1)	7.4	6.7	6.3	6.2
Commercial productivity (2)	2.6	0.7	1.0	1.1
CPI	0.0	1.0	1.4	2.7
Repo rate (3)	-0.35	-0.5	-0.25	0.5
Ten-year government bond rate (3)	0.7	0.5	0.8	1.6

(1) As percent of labour force. (2) Working-day adjusted. (3) At year-end.

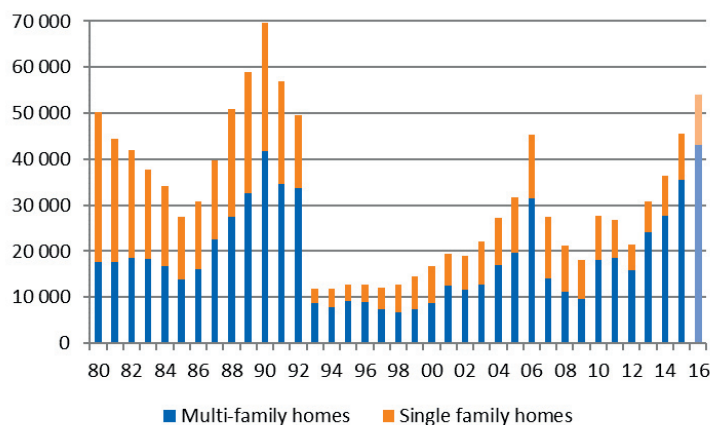
Household real disposable income will continue to increase 2016 according to the NIER. It will contribute to a strong increase in consumption even if the household saving will remain high.

2 The housing and construction market

Residential construction has increased rapidly since 2013 after several years of weak figures. There were 45,700 housing starts in 2015. This is an increase of almost 25 percent as compared with 2014. The National Board of Housing expects that construction will continue to rise to 54,000 housing starts in 2016. The forecast is based primarily on assessments made by Swedish municipalities in the Board's housing market survey taking into account, among other things, current trends in prices, sales, building permits, and residential construction.

Chart 2.1 Housing starts 1980–2016.

Source: Statistics Sweden and 2016 forecast from the National Board of Housing.



Note: The number of housing starts fell sharply in 2007. This is largely explained by the Government decision in 2006 to abolish general housing subsidies for dwellings (multi-family homes) started after 31 December 2006. This meant that many property developers accelerated the start of construction to begin before the end of 2006 in order to receive subsidies.

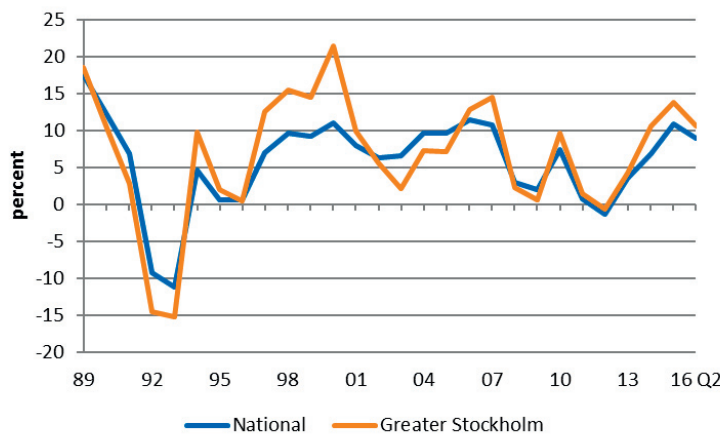
A significant percentage of new construction is taking place in metropolitan areas. In 2015, the Stockholm, Gothenburg and Malmö metropolitan areas accounted for 48 percent of housing starts in Sweden. Greater Stockholm alone accounted for 29 percent of Swedish housing starts. The change is significant if one goes back to 1990, when 25 percent of housing starts were in the three above mentioned urban areas.

Another change in the home construction market is that a larger share of the new construction is multi-family homes dwellings. Since 2010 the share of multi-family homes dwellings among total housing starts has on average amounted to 75 percent. During the 1980s the share of multi-family dwellings amounted to almost 50 percent of the new construction and during the 1990s and 2000s to around 60 percent of the new construction.

Prices for single family homes has increased during a number of years. In 2015, single family home prices rose by 10.8 percent nationally and by 13.8 percent in Stockholm. The price increase for single family homes in Stockholm and Gothenburg has been greater than the average, while increase in the Malmö area has been lower than average. Prices for single family homes have continued to increase nationally in 2016, but at a slower pace. During the second quarter 2016 the prices for single family homes increased by 8,9 percent annually.

Chart 2.2 Single family home prices, annual percentage change.

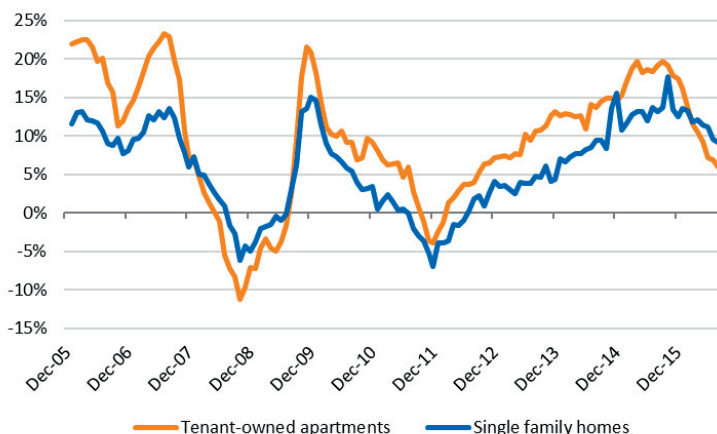
Source: Statistics Sweden



There has been a significant difference in price trends for single family homes and tenant-owned apartments for several years. The HOX-index (Valueguard / KTH) shows price trends for both single family homes and tenant-owned apartments (see Chart 2.3). For several years the prices for tenant-owned apartments have risen more than for single family homes according to the HOX-index. During the past year the price increase for tenant-owned apartments has slowed down considerably and from spring 2016 the price increase has been lower than for single family homes. In August 2016 price increase for tenant-owned apartment was 6.2 percent, while the average rate of increase for single family homes was 8.6 percent.

Chart 2.3 Housing prices, annual percentage change, quarterly values.

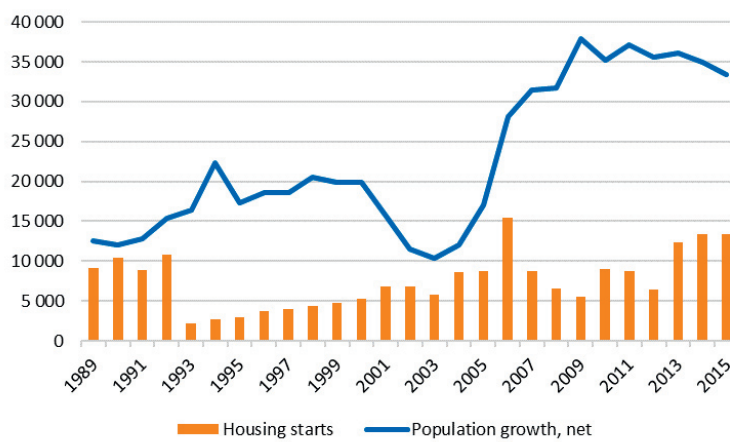
Source: HOX-index / Valueguard



Unlike many other European countries, housing prices in Sweden have not fallen in the wake of the financial crisis. There are a number of reasons for this, including a relatively favourable economic growth in Sweden, increasing household incomes, low interest rates, good access to credit, changed tax rules, an increasing population and rapid urbanisation. Another important explanation for the continued rise in prices is limited housing construction relative to population growth, especially in urban areas. One example is the Stockholm County, where the annual net increase in population has exceeded 30,000 for almost 10 years. The number of housing starts has not, however, corresponded to the significant increase in population. Between 2007 and 2012, only between 5,000 and 9,000 dwellings were started per year. However, the number of housing starts has risen slightly over the past three years in Stockholm and amounted to about 13,400 dwellings in 2015 (see Chart 2.4).

Chart 2.4 Net population growth and housing starts in Stockholm County.

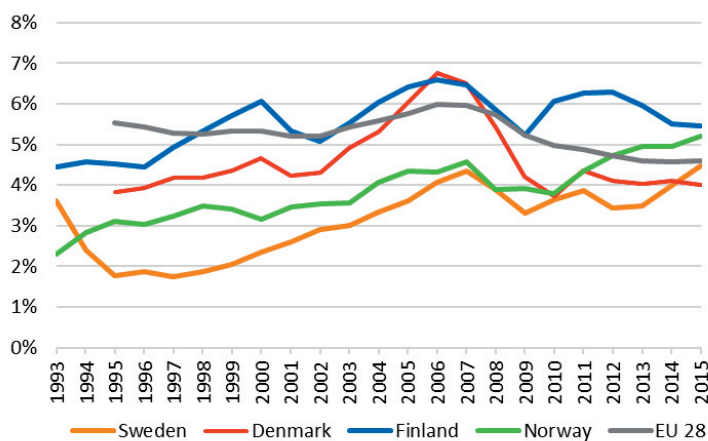
Source: Statistics Sweden



Housing construction fell dramatically after the crisis in Sweden in the 1990s, as illustrated by Chart 2.1. From the middle of the 1990s until 2014, residential housing investments represented a lower percentage of GDP in Sweden than in other Nordic countries (see Chart 2.5). Swedish housing investments have also been lower than the EU average until 2015 when housing investments reached the EU-average. During recent years, however, Swedish housing investments have increased as a percentage of GDP and, in 2015, amounted to 4.5 percent of GDP. This can be compared with the 2015 figures for Germany, with the highest rate of residential investment in the EU with 5.9 percent of GDP and with Greece, with the lowest rate at 0.8 percent of GDP.

Chart 2.5 Residential housing investments as percentage of GDP.

Source: Eurostat



The Swedish market is characterised by a number of conditions that reduce the risk of declining prices and more widespread problems on the mortgage market. One factor is that banks' lending processes are stringent and governed by a well-functioning legislation. Banks have long based their credit decisions on the borrower's repayment capacity rather than the value of the collateral. There also exists an efficient infrastructure in the form of, for example, a property register and good access to credit information about borrowers. The welfare system is another significant factor, since households can maintain an acceptable financial position even in the event of unemployment or illness.

Unlike, for example the British market, the Swedish market is also characterized by very limited speculation. Most Swedes regard their homes primarily as a residence and not as an investment opportunity.

3 Competition on the mortgage market

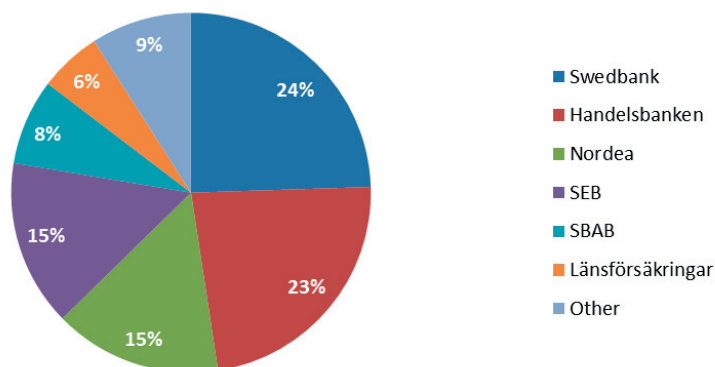
Property lending in Sweden is, to a great extent, offered by specialised housing finance institutions (mortgage institutions), but is also offered by banks. As of June 2016, total lending in Sweden secured by housing was SEK 3,577 billion. Mortgage deeds serve as the primary security for home loans from banks and housing finance institutions.

The three largest housing finance institutions are owned by Swedbank (Swedbank Hypotek), Handelsbanken (Stadshypotek) and Nordea (Nordea Hypotek). SEB has no separate housing finance institution and residential lending is offered directly by the bank. SBAB Bank was originally a state-owned mortgage institution which was reorganised into a bank in 2010. Home loans are also offered by Länsförsäkringar Hypotek and by Danske Bank and Skandiabanken, both of which are banks. In some cases the smaller institutions may be significant participants on the mortgage market by virtue of relatively large market shares with respect to new mortgages.

Market share in June 2016 for total lending to Swedish households secured on housing is illustrated in chart 3.1. The group "Other" includes, among others, Danske Bank and Skandiabanken.

Chart 3.1 Lending secured on housing, Swedish households, June 2016.

Source: Statistics Sweden



4 Residential mortgage lending

According to Statistics Sweden's Financial Market Statistics, total lending secured on single-family homes, tenant-owned apartments and apartment buildings amounted to SEK 3,577 billion at the end of June 2016. Three years ago, in June 2013, the corresponding figure was SEK 2,952 billion. Lending has thus increased by 625 billion, or 21 percent, in three years.

Table 4.1 Total lending secured on single family homes, tenant-owned apartments and multi-family homes, SEK billion, June 2016.

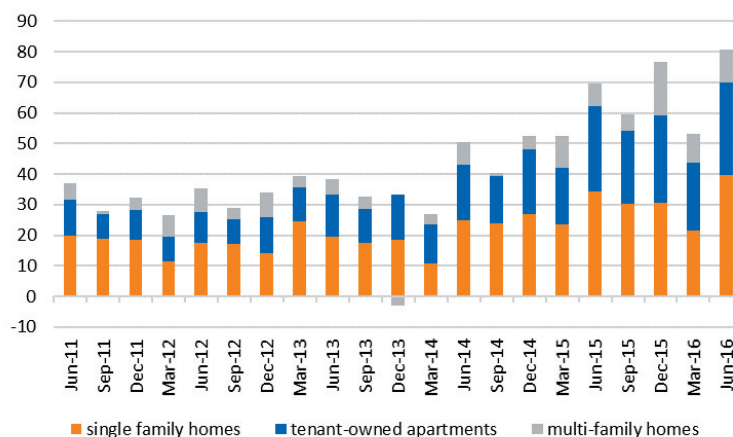
Source: Statistics Sweden

	Single family homes	Tenant-owned apartments	Multi-family homes	Total
Households	1,948	858	54	2,860
Companies	59	5	653	717
Total	2,007	863	707	3,577

Chart 4.1 illustrates the quarterly growth in net lending for housing, broken down into single family homes, tenant-owned apartments and multi-family buildings. The chart shows that net lending levelled off for several years until the middle of 2014. Since the second quarter of 2014, net lending has generally been higher than the previous three years.

Chart 4.1 Quarterly change (net increase) in lending secured on single family homes, tenant-owned apartments and multi-family homes, SEK billion.

Source: Statistics Sweden

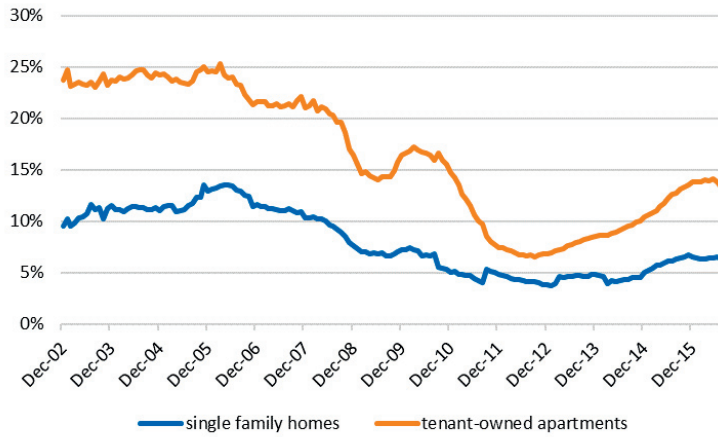


The rate of growth in the Swedish home loan portfolio was subdued for quite a number of years and levelled out after 2011 at a growth rate of approximately 5 percent annually (see chart 4.2). Following several years (after 2011) of stable growth rates for home loans, the rate of lending slowly began to rise again (beginning in the end of 2014) and, in June 2016, the annual rate of increase was 6.4 percent. From June 2016 there is a change in growth and the growth rate has diminished slightly.

The rate of lending for tenant-owned apartments began to increase as early as in 2013 and, in June 2016, amounted to 13.8 percent annually. The rate of lending for loans secured on single-family homes did not rebound until the end of 2014 and, in June 2016, amounted to 6.4 percent in annualized terms. The growth rate for loans secured on single family home loans has varied between 4 and 7 percent while the growth rate for tenant-owned apartments loans has fluctuated between 7 and 17 percent during the same time period.

Chart 4.2 The home loan portfolio, annual percentage change, monthly values.

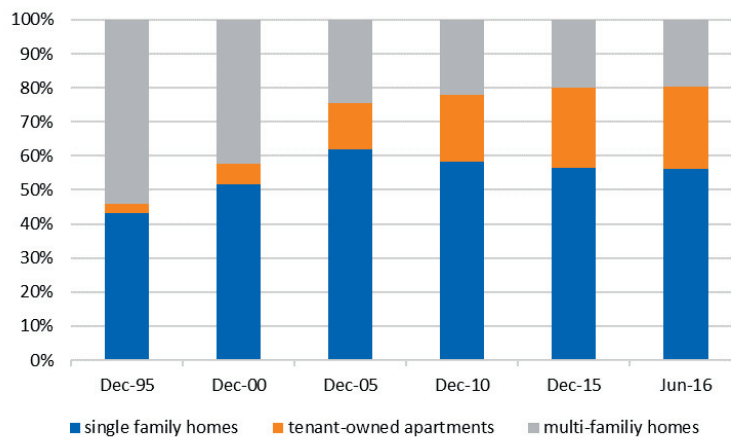
Source: Statistics Sweden



The rate of increase for tenant-owned apartments has, for a number of years, been higher than for single family homes. A couple of reasons for this are the conversion of rental apartments into tenant-owned apartments, primarily in the metropolitan regions, and that more tenant-owned apartments than single family homes have been constructed during the last years. Additionally, prices have increased more for tenant-owned apartments than for single family homes. Chart 4.3 illustrates how the percentage of home loans secured by tenant-owned apartments has increased since 1995.

Chart 4.3 Outstanding mortgage loan portfolio broken down by type of security.

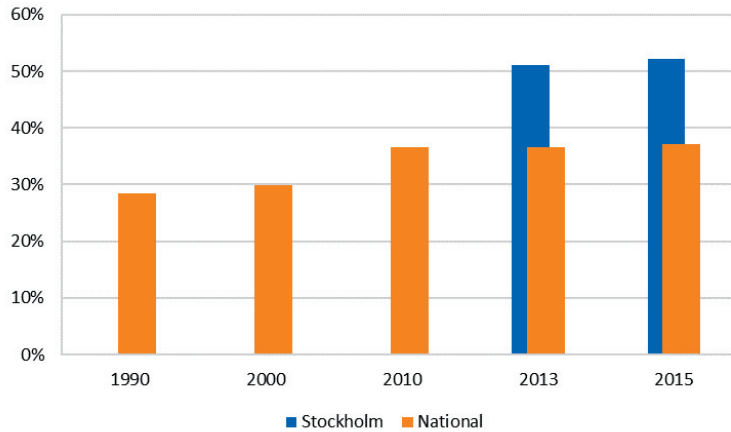
Source: Statistics Sweden



One reason why lending secured on tenant-owned apartments has been higher than for single family homes is, as mentioned above, the conversion of rental apartments into tenant-owned apartments. In addition, for a number of years, the majority of newly constructed multi-family homes have been intended for tenant-owned apartments. Chart 4.4 illustrates the change, from 1990 until 2014, in the percentage of tenant-owned apartments as a component of the multi-family housing stock. Between 1990 and 2000, the percentage of tenant-owned apartments in the multi-family housing stock increased from 28 percent to 30 percent. Between 2000 and 2010, the percentage of tenant-owned apartments continued to increase to 37 percent. Developments since then have been more stable and in 2015, the percentage of tenant-owned apartments remained at 37 percent. In Stockholm, the percentage of tenant-owned apartments is higher. In 2015, the percentage of tenant-owned apartments in the multi-family housing stock in Stockholm was 52 percent.

Chart 4.4 Share of tenant-owned apartments in multi-family homes.

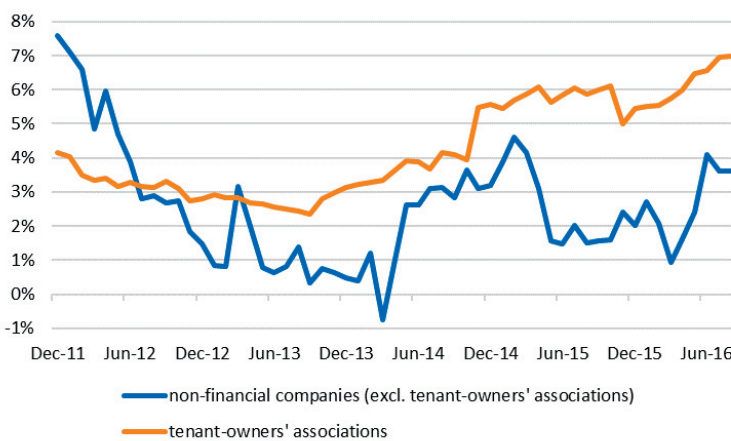
Source: Statistics Sweden



The properties in which tenant-owned apartments are located are formally owned by tenant-owners' associations. A resident in a tenant-owned apartment is entitled to live in one of the tenant-owners' associations' apartments. Since the tenant-owners' association owns the property, any loans secured on the property are the debt of the tenant-owners' association. Tenant-owners' associations are thus significant borrowers in Sweden and, in June 2016, loans to tenant-owners' associations amounted to SEK 402 billion (secured on the property and all other loans). For statistical purposes, a tenant-owners' association is counted as a non-financial company and tenant-owners' associations aggregated loans represent 20 percent of outstanding loans taken by non-financial companies. The rate of lending to tenant-owners' associations has risen in the past two years and, in June 2016, amounted to 6.6 percent annually. This is higher than for non-financial companies (excluding tenant owners' associations), where the rate of lending was 4.1 percent in June 2016 (see chart 4.5).

Chart 4.5 Lending to non-financial companies and tenant-owners' associations, annual percentage change, monthly values.

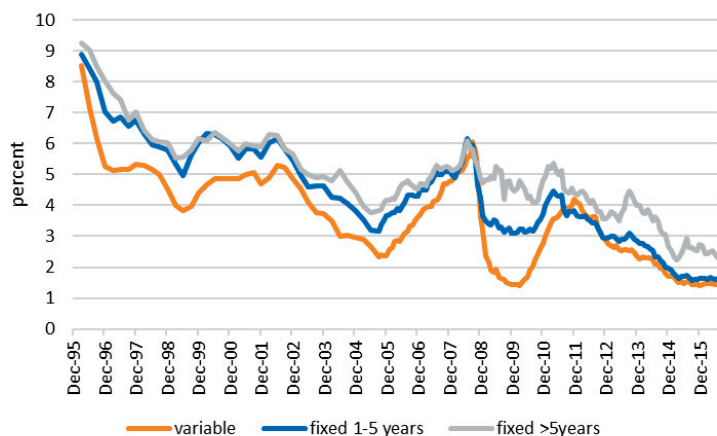
Source: Statistics Sweden



From 2012 and until spring 2015, both the variable and initial fixed interest rates declined. The initial fixed rates have dropped to the lowest levels since at least 1995 (see chart 4.6). Variable interest rates are also at historically low levels. From mid-2015 the mortgage interest rates and especially the variable mortgage interest rates, have levelled out. The low interest rates are, according to most observers, an important factor behind the increasing rate of lending for mortgage loans.

Chart 4.6 Interest rate on new loans, housing finance institutions Dec. 1995 – Aug. 2016, broken down by interest term.

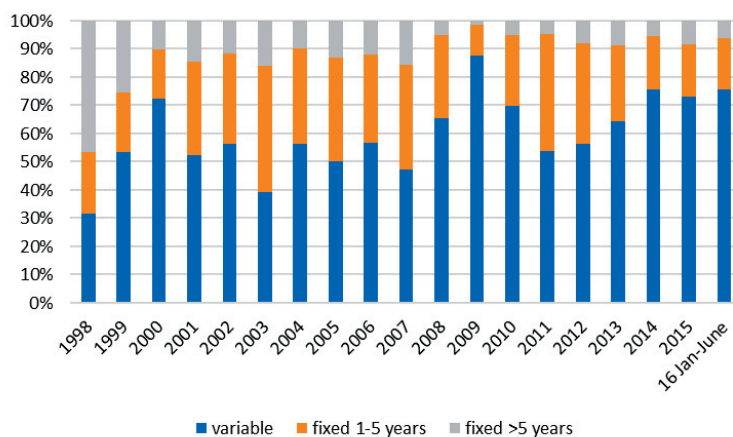
Source: Statistics Sweden



During the period from January to June 2016, 76 percent of new home loans taken by households had variable interest rates (see chart 4.7). Declining interest rates, above all in respect of variable interest rates, was probably a contributing factor to the high percentage of loans with variable interest rates during 2014 to 2016. The percentage was exceeded only by that in 2009, when 88 percent of new home loans were taken with variable interest rates and, at that time, the variable interest rate was like currently at a record low.

Chart 4.7 New loans to households, housing finance institutions, percentage breakdown by interest term.

Source: Statistics Sweden



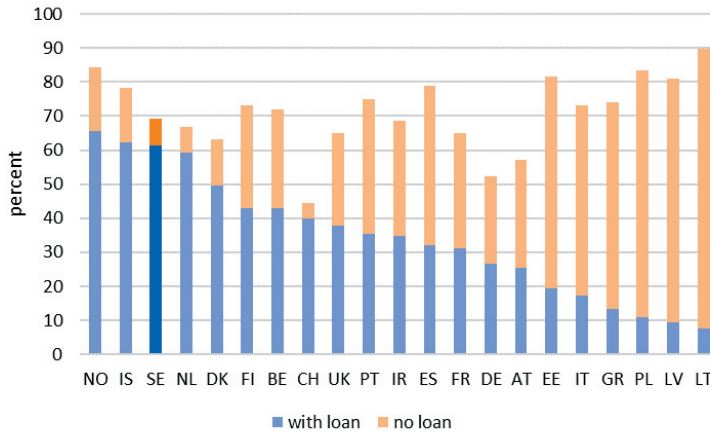
5 Household indebtedness

In Sweden, nearly 70 percent of the households own their homes. Of these households, 88 percent have a home loan (see chart 5.1). The relatively high percentage of households (who own their own home) with a mortgage is a sign of a mature mortgage market, as well as of a tradition of taking loans to finance homes. The percentage of home owners (households) with home loans is also relatively high in the other Nordic countries, with the exception of Finland with a slightly lower percentage. In the rest of Europe, home owners in the Netherlands and Switzerland also have a relatively high percentage of home loans. In Switzerland, however, only around 45 percent of households own their own homes.

In many emerging markets in Eastern Europe, as well as in Italy and Greece, the percentage of households with home loans is relatively low. This may be due in part to the fact that the mortgage market is relatively new and in part, for example in Italy and Greece, to a tradition of financing housing in other ways. Although the percentage of households with home loans is low in these countries, the percentage of households that own their homes is high and customarily exceeds 70 percent.

Chart 5.1 Share of households who owns their home, with or without housing loan, percent.

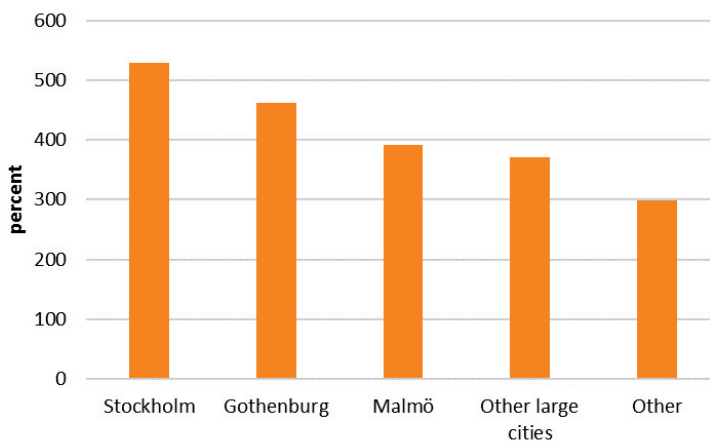
Source: Eurostat



Swedish household indebtedness has risen continuously since the mid-1990s, both in absolute figures and relative to disposable income. The debt ratio (the loans in relation to disposable income) for Swedish household is, on average, almost 180 percent. This level is relatively high when compared internationally. At the same time, it is important to note that young households and urban households have a debt ratio which is significantly higher than the average. Chart 5.2 shows that the debt ratio for households with new home loans in Stockholm is 529 percent, i.e. their loans correspond to more than five times their annual income after tax.

Chart 5.2 Debt ratio of households with home loans, percent of disposable income.

Source: Swedish Financial Supervisory Authority



A number of measures have been taken in recent years for the purpose of counteracting high indebtedness. The Swedish Financial Supervisory Authority has introduced a mortgage cap, whereby home loans may not exceed 85 percent of the value of the home. The Financial Supervisory Authority has also introduced a risk weight floor for Swedish mortgages in order to tie up more capital in relation to banks' mortgage lending. The risk weight floor for mortgages is currently 25 percent. The Swedish Bankers' Association has also recommended that its members present individual repayment plans when granting new home loans.

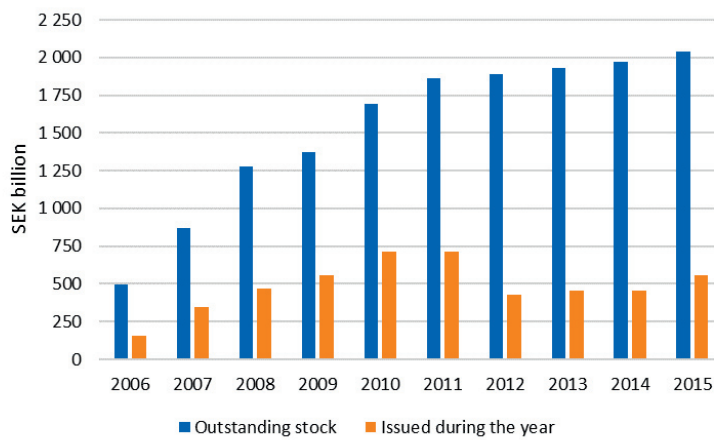
Another proposal to tackle high indebtedness is the introduction of amortisation requirements. In June 2016 the Financial Supervisory Authority's regulation on amortisation requirements entered into force. The regulation means that new mortgage loans from June 2016 with a loan-to-value (LTV) above 50 percent should amortise. Mortgages with a LTV above 70 percent must be amortised by at least two percent of the original loan amount each year. Mortgage loans with a LTV ratio between 50 and 70 percent must be amortised by a minimum of one percent annually. For borrowers with existing mortgages, additional loans from June 2016 may alternatively be paid over a period of 10 years.

6 Borrowing

Currently, the most important borrowing instrument for all of the important participants on the Swedish mortgage market is the covered bond. Following new legislation which came into force in 2004, former housing bonds have all been converted into covered bonds and all new issues are now covered bonds. Chart 6.1 illustrates the growth of the outstanding stock of covered bonds and the amounts which have been issued. In tandem with the covered bonds, housing finance institutions are funded by borrowing, primarily in the form of loans from the parent bank. Loans from the parent bank amounted, on average, to 35 percent of borrowing. On average, only a very small percentage is attributable to other financing, such as certificates.

Chart 6.1 Covered bonds – outstanding and issued during each year, SEK billion.

Source: Swedish Bankers' Association

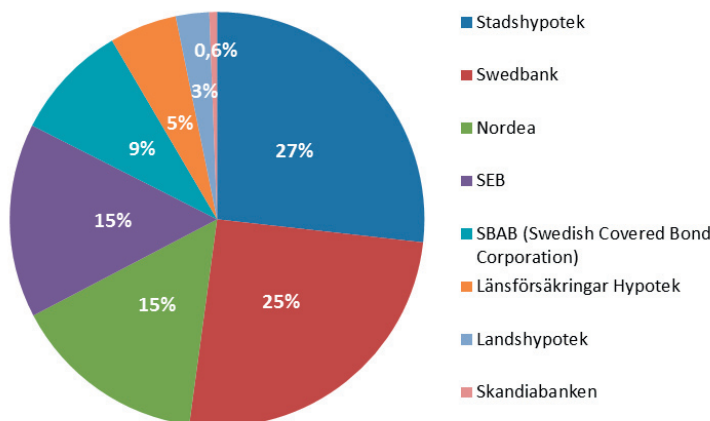


Since their introduction in 2004, Swedish covered bonds have proven to be a well-functioning form of financing. One important explanation is the high credit quality of the stock of mortgages which constitute collateral for the bonds. Unlike in many other countries, the Swedish market worked well even during the recent financial crisis. Approximately 30 percent of the Swedish banks' covered bonds are owned by foreign investors. Approximately the same amount are held by Swedish insurance companies which thereby fulfil an important function on the mortgage market.

During 2006, three institutions issued covered bonds and converted the previous mortgage bonds into covered bonds. These institutions were Nordea, SBAB and Stadshypotek. During 2007 there were three additional institutions, namely Landshypotek, Länsförsäkringar Hypotek and SEB. In 2008, Swedbank Hypotek began to convert housing bonds to covered bonds and Skandiabanken followed in 2013. Chart 6.2 shows how the outstanding stock is allocated among these institutions.

Chart 6.2 Covered bonds – outstanding stock per institution on 31 December 2015.

Source: Swedish Bankers' Association



7 Other events in 2015–2016

The Swedish Financial Supervisory Authority's Mortgage Survey

During the autumn of 2015 the Swedish Financial Supervisory Authority completed the now annual mortgage survey among Swedish banks and housing financing institutions. The purpose of the study is to analyse the situation on the mortgage market and the risks entailed in household indebtedness.

In its study, the Financial Supervisory Authority noted that the household average debt ratio has increased the last year. However, the trend of steadily rising loan-to-value (LTV) ratios has been broken and the average household LTV for new loans has dropped slightly to 65 percent. Households are on average borrowing more, but borrows less in relation to the value of the house or apartment.

The survey also shows that 67 percent of households with new mortgage loans amortise. Taking the total mortgage portfolio as a whole, 65 percent amortise.

Amortisation Requirements

In June 2016 the Financial Supervisory Authority's regulation on amortisation requirements entered into force, which is mentioned above. The regulation means that new mortgage loans from June 2016 with a loan-to-value (LTV) above 50 percent should amortise. Mortgages with a LTV above 70 percent must be amortised by at least two percent of the original loan amount each year. Mortgage loans with a LTV ratio between 50 and 70 percent must be amortised by a minimum of one percent annually. For borrowers with existing mortgages, additional loans from June 2016 may alternatively be paid over a period of 10 years.