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 9.4 percent during the last year. There are several explanations for rising house prices and some important factors are the low mortgage interest rates and that there has been insufficient residential construction.

Residential mortgage lending amounted to SEK 3,824 billion in June 2017 and the rate of growth for mortgages is 7,0 percent annually, which is a decrease 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 11.1 percent annually. Mortgage interest rates have generally declined over the last 5 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.

1 The economic situation in Sweden

The positive output gap in the Swedish economy will continue to widen, even if the GDP growth will not be quite as high in 2017 as in the past two years, writes the NIER (National Institute of Economic Research). Growth is being driven largely by exports and investment, while government consumption is rising more slowly. According to the NIER, GDP is expected to increase by 3.0 percent in 2017 and by 2.2 percent in 2018.

Housing investment has increased rapidly the last years and is now relatively high according to the NIER. Also in the first quarter 2017 the housing investments are high and there have not been as many housing starts since the early 1990s. Housing investments and housing starts are expected to increase in the coming year.

Table 1 The NIER indicators for the Swedish economy, August 2017

Annual percentage change and percent, respectively

	2016	2017	2018	2019
GDP, market price	3.2	3.0	2.2	1.7
Employment	1.5	2.3	1.0	0.4
Unemployment (1)	6.9	6.6	6.4	6.4
Commercial productivity (2)	1.0	1.4	1.2	0.8
CPI 1.0	1.7	1.6	2.3	
Repo rate (3)	-0.5	-0.5	-0.25	0.5
Ten-year government bond rate (3)	0.5	0.6	1.1	1.7

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

Household savings has climbed to historically high levels and much of this is collective saving in occupational pensions and in the premium pension system (PPM). Also, the saving in real assets, mainly housing, has increased. According to the NIER the high level of saving is due partly to households planning for higher future interest rates to even out consumption over time.

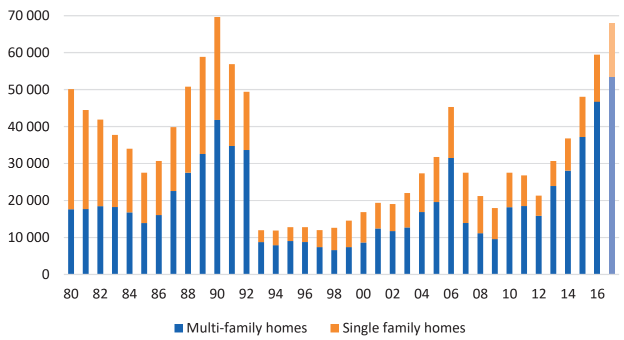
Employment has continued to rise rapidly during 2016 and 2017. The NIER estimate that demand for labour will grow further, but at a slightly slower pace due to among others scarcity of labour with the required skills. Recent years' influx of refugees has, with a delayed effect, increased the labour force and the unemployment will therefore not fall much further as otherwise. However, immigrants account for 80 per cent of the increase in employment over the past year.

2 The housing and construction market

Residential construction has increased rapidly since 2013 after several years of weak figures. There were 59,500 housing starts in 2016. This is an increase of 24 percent as compared with 2015. The National Board of Housing expects that construction will continue to rise to 68,000 housing starts in 2017. 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 1980-2017.

Source: Statistics Sweden and 2017 forecast from the National Board of Housing.



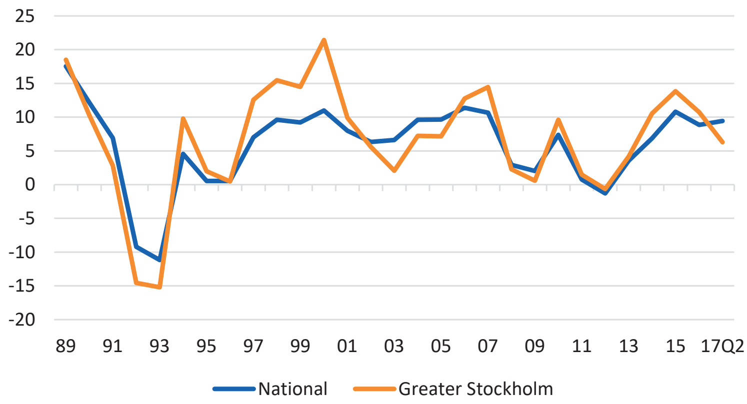
Note: The number of housing starts fell sharply in 2007. This is largely explained by the Government decision in 2006 to abolish general housing subsidies for dwellings (multi-family homes) started after 31 December 2006. This meant that many property developers accelerated the start of construction 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 2016, the Stockholm, Gothenburg and Malmö metropolitan areas accounted for 49 percent of housing starts in Sweden. Greater Stockholm alone accounted for 31 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 per cent. 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 2016, single family home prices rose by 8.9 percent nationally and by 10.7 percent in Stockholm. The price increase for single family homes in Stockholm and Malmö has been greater than the average, while increase in the Gothenburg area has been lower than average. Prices for single family homes have continued to increase nationally in 2017. During the second quarter 2017 the prices for single family homes increased by 9.4 percent annually. In Stockholm the price increases have slowed down and in the end of June 2017 the prices on single family home increased by 6,3 percent annually.

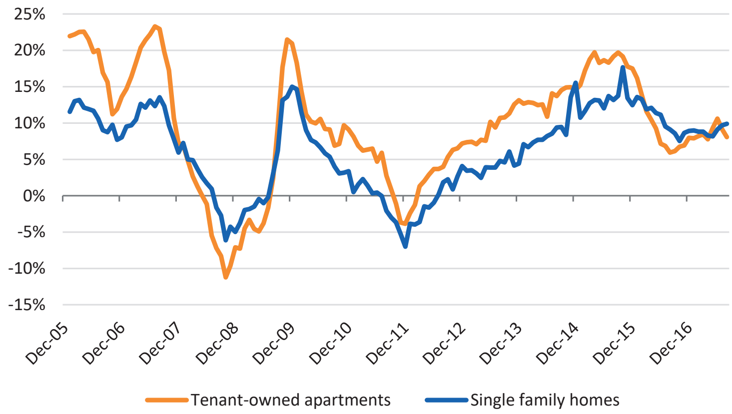
Chart 2.2 Single family home prices, annual percentage change.
Source: Statistics Sweden



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 during most of 2016 and 2017 the price increase has been lower than for single family homes. In August 2017 price increase for tenant-owned apartment was 8.1 percent, while the average rate of increase for single family homes was 9.9 percent.

Chart 2.3 Housing prices, annual percentage change, quarterly values

Source: HOX-index / Valueguard

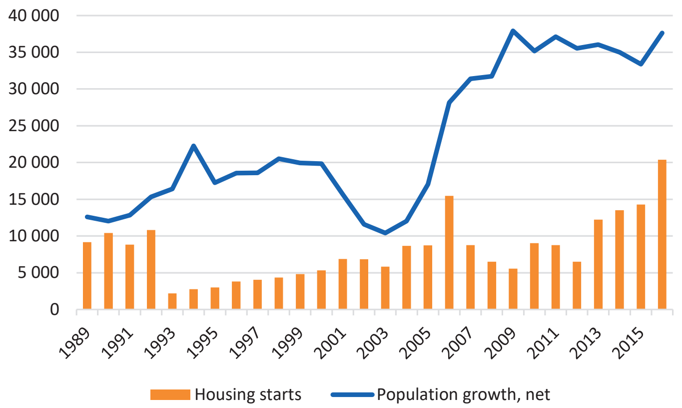


Unlike many other European countries, housing prices in Sweden have not fallen in the wake of the financial crisis. There are a number of reasons for this, including a relatively favourable economic growth in Sweden, increasing household incomes, low interest rates, good access to credit, changed tax 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 been 35,000 on average 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 20,400 dwellings in 2016 (see Chart 2.4).

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

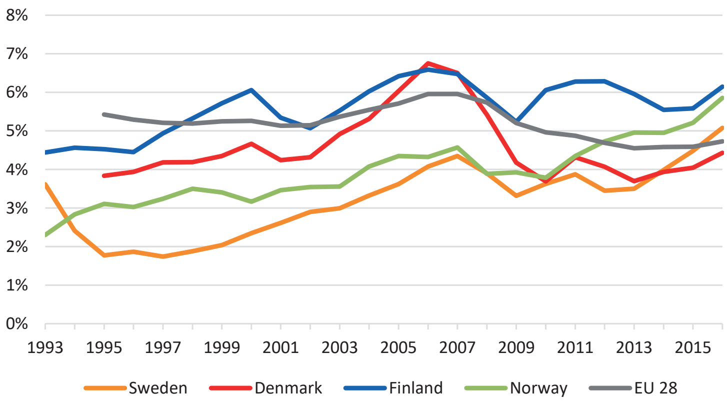
Source: Statistics Sweden



Housing construction fell dramatically after the crisis in Sweden in the 1990s, as illustrated by Chart 2.1 above. From the middle of the 1990s until 2014, residential housing investments represented a lower percentage of GDP in Sweden than in other Nordic countries and the EU-average (see Chart 2.5). During recent years, however, Swedish housing investments have increased as a percentage of GDP and, in 2016, amounted to 5.1 percent of GDP. That is also higher than the EU-average of 4.7 percent. This can be compared with the 2016 figures for Finland, with the highest rate of residential investment in the EU with 6.1 percent of GDP and with Greece, with the lowest rate at 0.6 percent of GDP.

Chart 2.5 **Residential housing investments as percentage of GDP.**

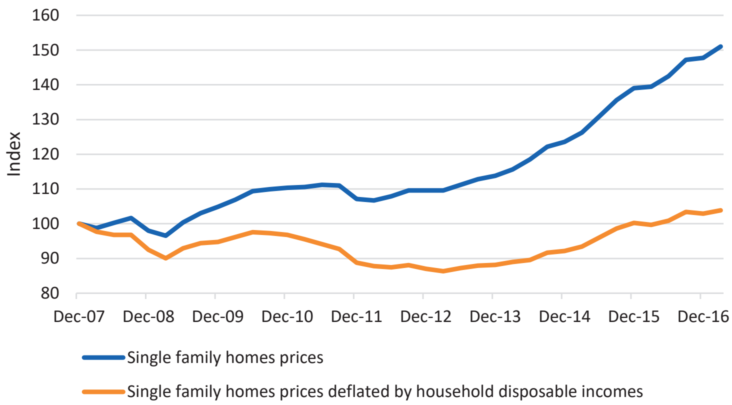
Source: Eurostat



The Swedish households increasing incomes during several years, and thereby increasing household disposable incomes, is a further explanation to increasing housing prices. Single family homes prices have increased by more than 50 percent the last decade, from December 2007 to the first quarter 2017. The price increase on single family homes and the corresponding price increase deflated by the Swedish households' net disposable incomes is illustrated in chart 2.6 below. When the household disposable income is considered the single family homes prices has instead increased by less than 5 percent the last ten years.

Chart 2.6 **Single family homes prices and single family homes prices deflated by household net disposable incomes.**

Source: Statistics Sweden



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.

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

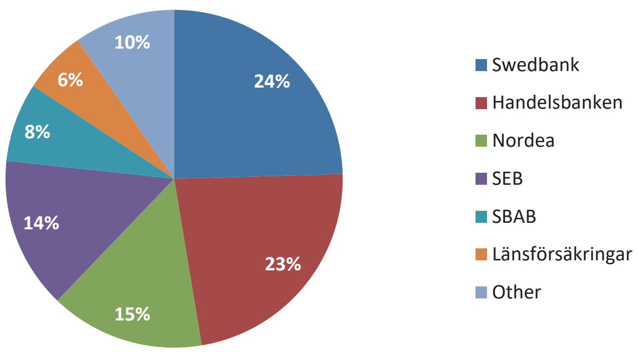
Property lending in Sweden is, to a great extent, offered by specialised housing finance institutions (mortgage institutions), but is also offered by banks. As of June 2017, total lending in Sweden secured by housing was SEK 3,824 billion. Mortgage deeds serve as the primary security for home loans from 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 2017 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 2017.

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 3,824 billion at the end of June 2017. Three years ago, in June 2014, the corresponding figure was SEK 3,093 billion. Lending has thus increased by 731 billion, or 24 percent, in three years.

Table 4.1 **Total lending secured on single family homes, tenant-owned apartments and multi-family homes, SEK billion, June 2017**

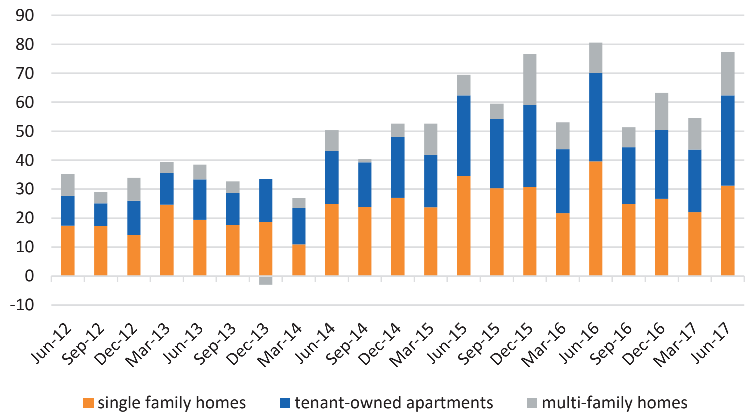
Source: Statistics Sweden

	Single-family homes	Tenant-owned apartments	Multi-family homes	Total
Households	2,051	954	53	3,058
Companies	61	6	699	766
Total	2,112	960	752	3,824

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 since the second quarter of 2014, net lending has generally been higher than the previous two 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

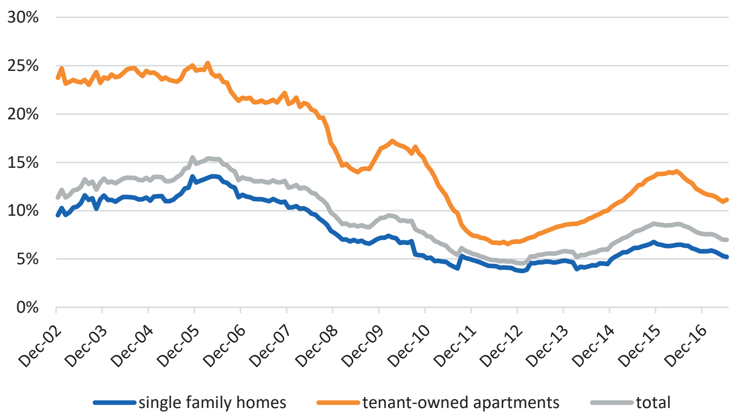


The rate of growth in the Swedish home loan portfolio was subdued for quite a number years and levelled out after 2011 at a growth rate of approximately 5 percent annually (see chart 4.2). Beginning in the end of 2014 the rate of lending began to rise again until June 2016, when there was a change in growth. In June 2017 the home loan portfolio grew by 7,0 percent annually. The last years decreasing home loan growth rate has coincided with the introduction by Finansinspektionen of the amortisation rules for new housing loans, se part 5 below, and which is an important explanation to the slower growth rate.

The growth rate for loans secured on single family homes is in general slower and more stable than for tenant-owned apartments. The last eight years the growth rate for 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.

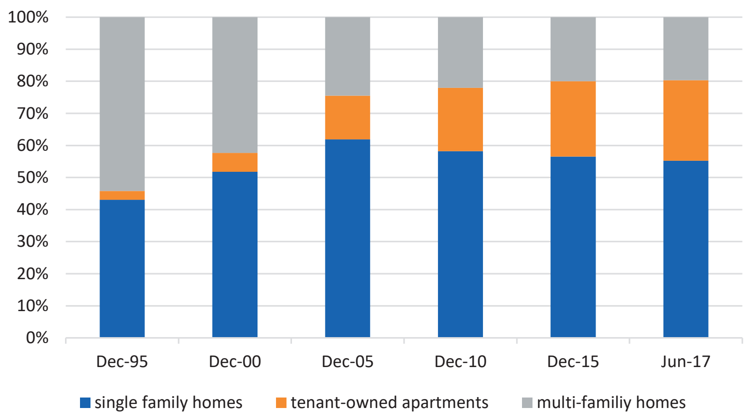
Source: Statistics Sweden



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.

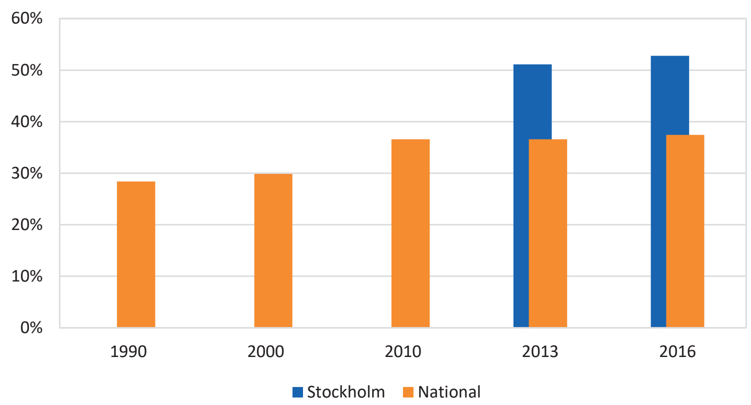
Source: Statistics Sweden



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 below illustrates the change, from 1990 until 2016, 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 2016, the percentage of tenant-owned apartments remained at 37 percent. In Stockholm, the percentage of tenant-owned apartments is higher. In 2016, the percentage of tenant-owned apartments in the multi-family housing stock in Stockholm was 53 percent.

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

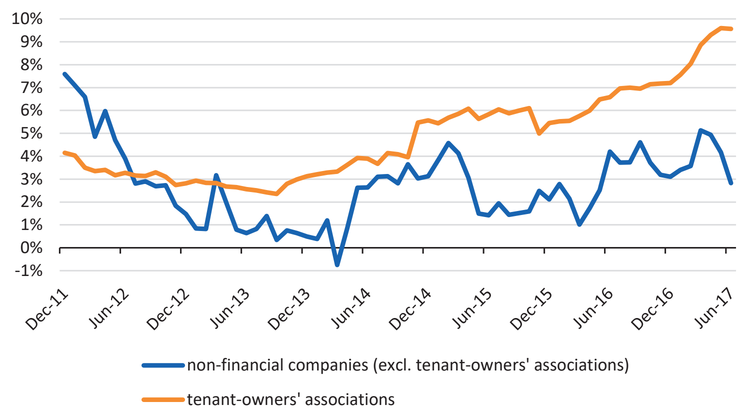
Source: Statistics Sweden



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 2017, loans to tenant-owners' associations amounted to SEK 440 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 2017, amounted to 9.6 percent annually. This is higher than for non-financial companies (excluding tenant owners' associations), where the rate of lending was 2.8 percent in June 2017 (see chart 4.5).

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

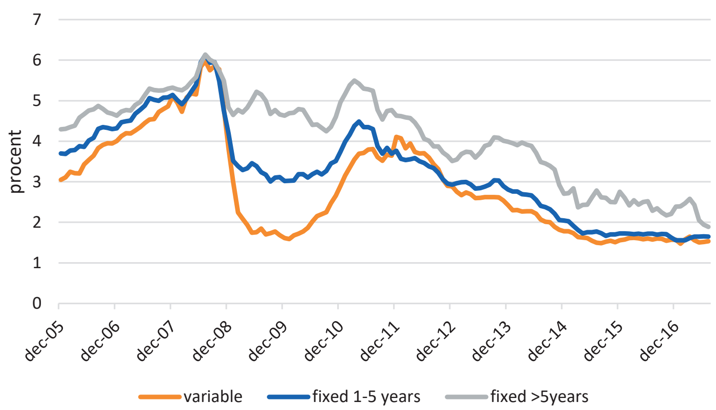
Source: Statistics Sweden



From 2012 and until June 2017, both the variable and initial fixed housing interest rates declined (see chart 4.6). The initial fixed rates have dropped to the lowest levels since at least 1995. 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 Lending rates to households for housing loans, new loans. Dec. 2005 – June. 2017, broken down by interest term.

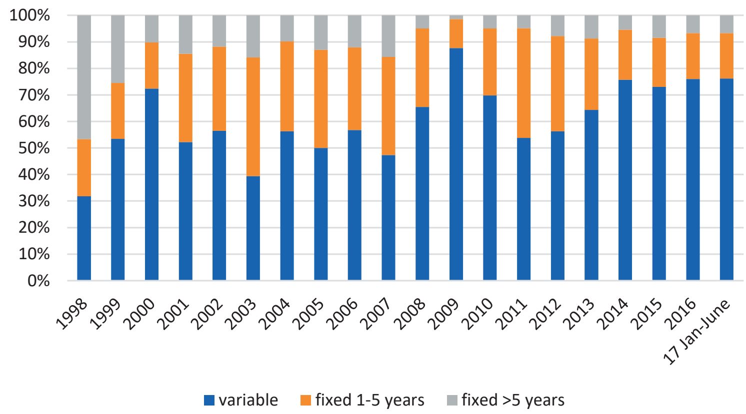
Source: Statistics Sweden



During the period from January to June 2017, 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 2017. 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



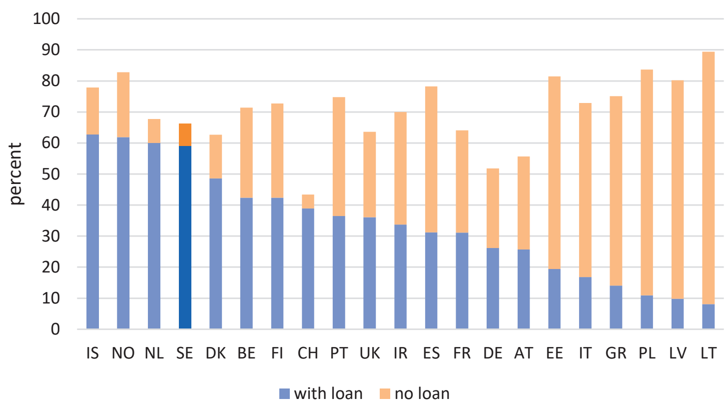
5 Household indebtedness

In Sweden, over 65 percent of the households own their homes. Of these households, 89 percent have a home loan (see chart 5.1 below). 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, except for Finland with a slightly lower percentage. A comparably high percentage of households (who own their own home) with home loans is also found in countries like the Netherlands and Switzerland. 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.

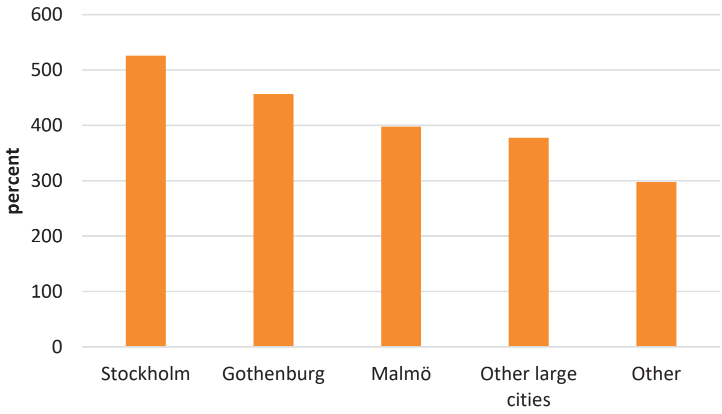
Source: Eurostat



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, slightly more than 180 per cent. 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 526 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 measure 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.

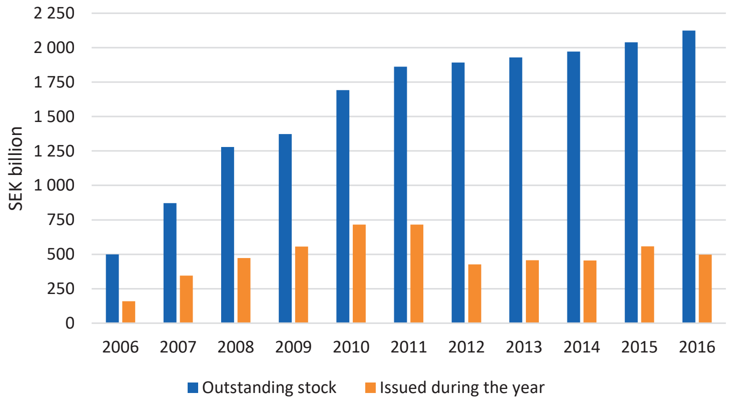
Finansinspektionen has in addition suggested stricter amortisation requirements on housing loans for households with high loan-to-income (LTI). The suggested new requirements would imply that new borrowers, with a housing loan, and whose housing debts exceeds 4,5 times gross income, must amortise at least 1 per cent additional to prior amortisation requirements. The suggested stricter amortisation requirements will enter into force on the 1st of January 2018.

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 39 percent of the housing institutions' total balance. 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

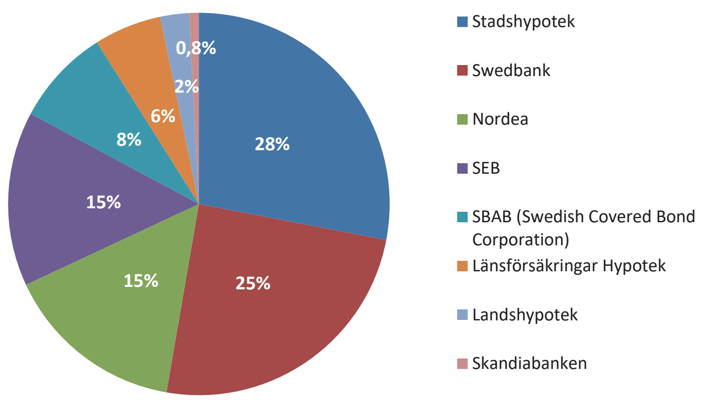


Since their introduction in 2004, Swedish covered bonds have proven to be a well-functioning form of financing. One important explanation is the high credit quality of the stock of mortgages which constitute collateral for the bonds. Unlike in many other countries, the Swedish market worked well even during the recent financial crisis. Approximately a third of the Swedish banks' covered bonds are owned by foreign investors. In addition around 25 percent of the Swedish covered bonds 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 2016.

Source: Swedish Bankers' Association



7 Other events in 2016-2017

The Swedish Financial Supervisory Authority's Mortgage Survey

During the autumn of 2016 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 entitled in household indebtedness.

In its study, the Financial Supervisory Authority noted that the household average debt ratio has decreased somewhat the last year after several years of increase. The households loan-to-value (LTV) ratio for new loans has been stable the last years and dropped slightly to 64 percent in 2016.

The survey also shows that the share of households which amortise and the size of the average amortisation has increased considerably in 2016. The main reason for this is the amortisation requirements which entered into force in 2016, see below. In 2016, 78 percent of households with new mortgage loans amortised in comparison to 67 percent in 2015.

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.

Finansinspektionen published in June 2017 a draft regulation, which suggests stricter amortisation requirements on housing loans for households with high loan-to-income (LTI). The suggested new requirements would imply that new borrowers whose LTI exceeds 450 percent (housing loans equal to 4,5 times gross income), must amortise at least 1 per cent additional to prior amortisation requirements. The suggested requirements will enter into force on the 1st of January 2018.