

REPORT

September 2018

The Mortgage Market in Sweden



Svenska
Bankföreningen
Swedish Bankers' Association

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Introduction

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 and the number of housing starts have reached the record figures from the beginning of the 1990s. The housing prices have increased for a number of years, but the past year they have started to fall. At the end of June 2018 the price of single family homes has, on average, decreased by –2.4 percent during the last year and the price of tenant owned apartments has decreased by –6.7 percent.

Residential mortgage lending amounted to SEK 4,085 billion in June 2018. The rate of growth for mortgages was 6.6 percent annually, which is a decrease as compared with the same period last year when the growth rate was 7,0 percent. The rate of lending to single-family homes was 5.4 percent annually in June 2018 which is unchanged compared to the same time last year. The rate of lending to tenant-owned apartments is higher than for single family homes and was 9.3 percent annually. The rate of lending to tenant-owned apartments has declined the last year and was 11.3 percent in June 2017. Mortgage interest rates have generally declined over the last six 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 Swedish economy has been operating above capacity since 2016 and will peak this year, writes the NIER (National Institute of Economic Research). GDP grew by 2.3 percent in 2017 and one of the important drivers behind the rise is increased housing investments as well as exports and households' consumption. Housing investments is expected to fall during 2018 and next year, and this means that GDP growth will slow down.

The NIER writes that housing investments have increased steadily the last four years and have made up a considerable share of the GDP growth. The number of housing starts reached 64,000 last year, the highest figure since 1992. Different measures have been imposed on housing loans the last years, among others a fundamental amortisation rule and an additional rule based on the debt ratio. This has affected the demand on new built dwellings and has contributed to falling prices on parts of the housing market.

Table I. The NIER indicators for the Swedish economy, June 2018, annual percentage change and percent, respectively

	2017	2018	2019	2020
GDP, market price	2.3	2.4	1.9	2.3
Employment	2.3	1.6	0.7	0.5
Unemployment ⁽¹⁾	6.7	6.2	6.2	6.2
Commercial productivity ⁽²⁾	0.7	1.1	1.1	1.5
CPI	1.8	1.8	2.2	2.5
Repo rate ⁽³⁾	-0.5	-0.5	0.0	0.5
Ten-year government bond rate ⁽³⁾	0.7	0.8	1.2	1.8

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

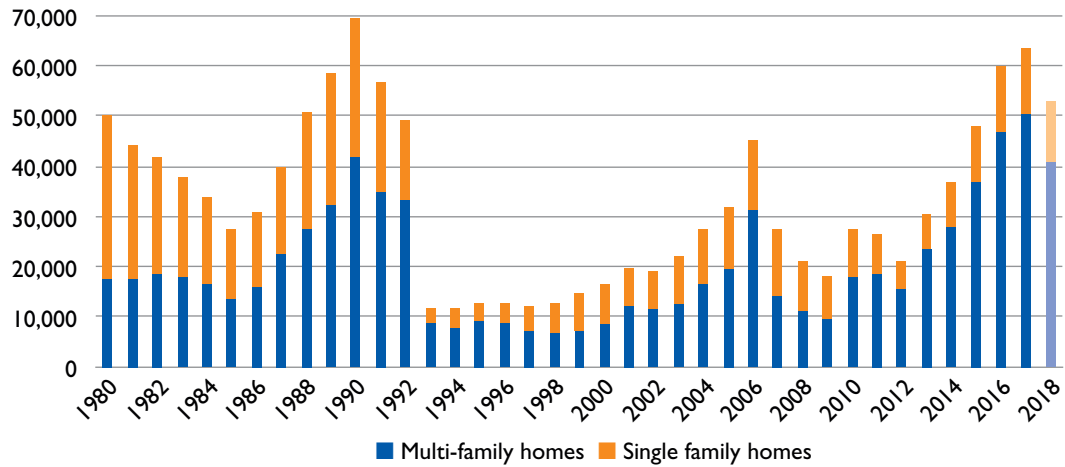
Household real disposable income will rise relatively quickly this year, partly due to strong growth in employment and various fiscal policy measures targeting households in the budget for 2018, writes NIER. Consumer confidence has nevertheless fallen in each of the past seven months, in contrast to developments in, for example, the euro area. One possible reason for the decline in consumer confidence in Sweden is the recent fall in housing prices.

Employment has continued to rise rapidly during 2017 and 2018, and the employment figures have reached the levels of the first years of the 1990s, writes the NIER. The NIER estimate that demand for labour will grow further and that the unemployment will diminish somewhat in during 2018. The slowdown in job creation and a major influx of immigrants into the labour force mean that unemployment will not fall much further from the current level of 6.2 percent.

2. The housing and construction market

Residential construction has increased rapidly since 2013 after several years of weak figures. There were 63,600 housing starts in 2017. The construction growth has levelled off and the increase of housing starts was 6 percent in 2017 compared to 26 percent in 2016. The National Board of Housing expects that construction will amount to 53,000 housing starts in 2018. Some important explanations are that the number of sold newly-constructed tenant-owned apartments has dropped and that the number of building permits has diminished. 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 1980–2018



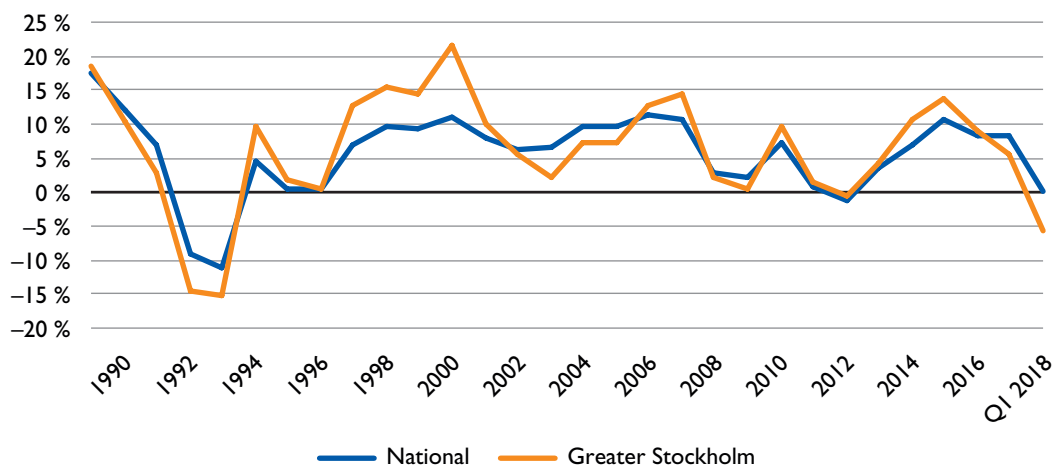
Note: The number of housing starts fell sharply in 2007. This is largely explained by the Government decision in 2006 to abolish general housing subsidies for dwellings (multi-family homes) started after 31 December 2006. This meant that many property developers accelerated the start of construction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

Source: Statistics Sweden and 2018 forecast from the National Board of Housing.

A significant percentage of new construction is taking place in metropolitan areas. In 2017, the Stockholm, Gothenburg and Malmö metropolitan areas accounted for 50 percent of housing starts in Sweden. Greater Stockholm alone accounted for 30 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.

Chart 2.2. Single family home prices, annual percentage change

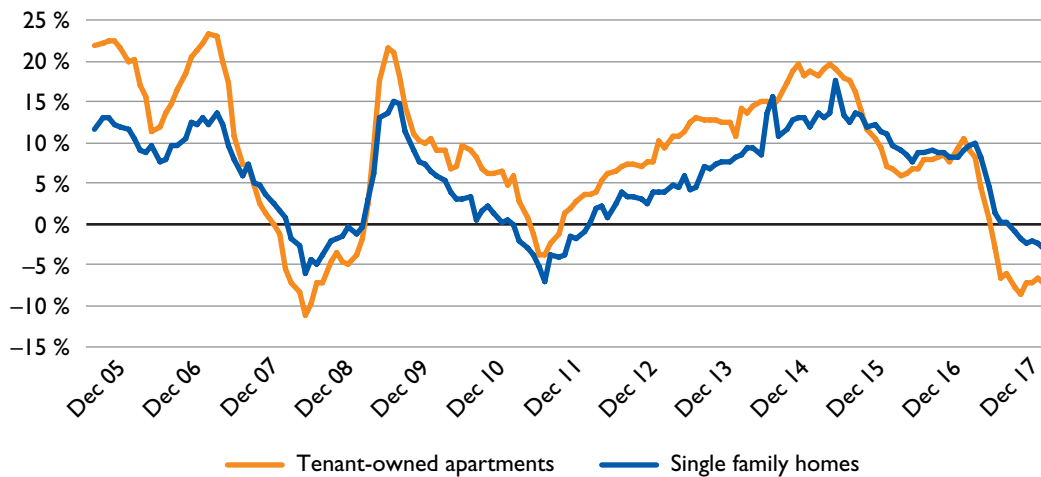


Source: Statistics Sweden.

Prices for single family homes has increased during a number of years, but from the end of 2017 the growth of house prices has decreased and above all in the Stockholm region. In 2017, single family home prices rose by 8.3 percent nationally and by 5.5 percent in Stockholm. During the first quarter 2018 the price increases has stopped and the prices was unchanged, 0 percent, nationally on an annual basis. In Stockholm the prices on single family homes diminished by –5.8 percent.

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. From 2016 the price increase for tenant-owned apartments has slowed down considerably and in addition the price increase has mostly been lower than for single family homes. At the end of 2017 the prices for tenant-owned apartments even started to fall on a yearly basis and continued falling during 2018. In June 2018 the prices on tenant-owned apartments have gone down by –6.7 percent on a yearly basis and for single family homes by –2.4 percent. According to the HOX-index in June 2018 the prices have fallen most in Stockholm; tenant-owned apartments by –7.7 percent and single family homes by –7.3 percent.

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

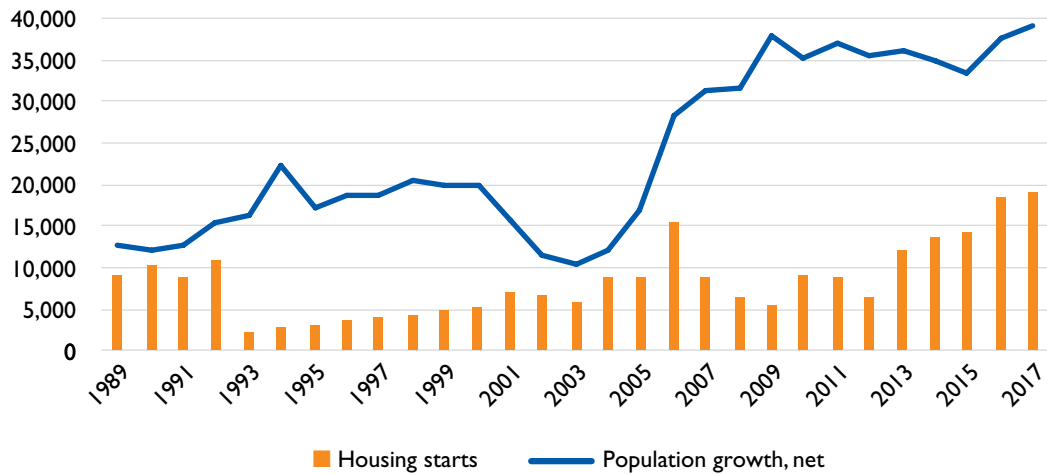


Source: HOX-index/Valueguard

Unlike many other European countries, housing prices in Sweden did not fall in the wake of the financial crisis but instead continued increasing until the end of 2017. There are a number of reasons for the price increases, which could be derived from both a low supply and increasing demand. The demand has increased as a result of several factors, 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.

On the supply side the limited housing construction relative to population growth, especially in urban areas, has been a fundamental explanation for the rise in prices. One example is the Stockholm County, where the annual net increase in population has been 35,000 on average the last 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 five years in Stockholm and amounted to about 19,000 dwellings in 2017 (see Chart 2.4).

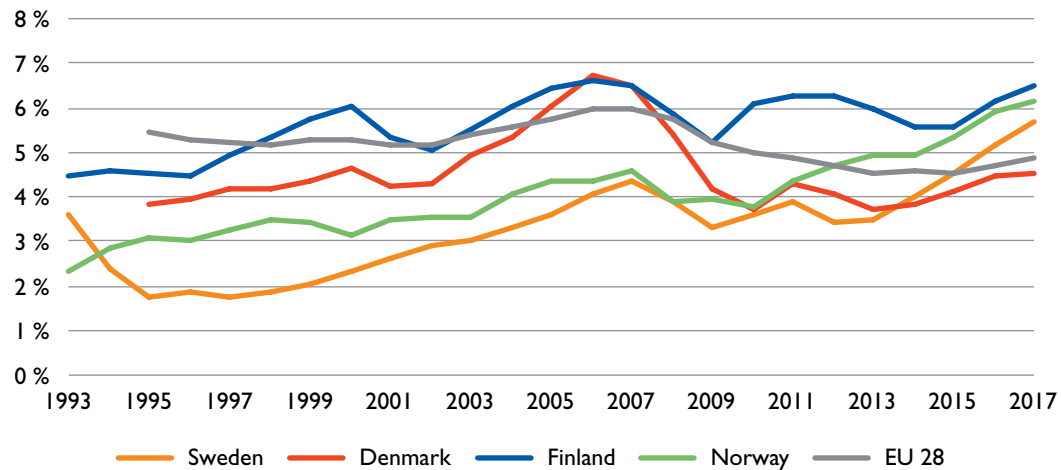
Chart 2.4. Net population growth and housing starts in Stockholm County



Source: Statistics Sweden.

Housing construction fell dramatically after the crisis in Sweden in the 1990s, as illustrated by Chart 2.1 earlier in this publication. 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 2017, amounted to 5.7 percent of GDP. That is also higher than the EU-average of 4.9 percent. This can be compared with the 2017 figures for Finland, with the highest rate of residential investment in the EU with 6.5 percent of GDP and with Greece, with the lowest rate at 0.6 percent of GDP

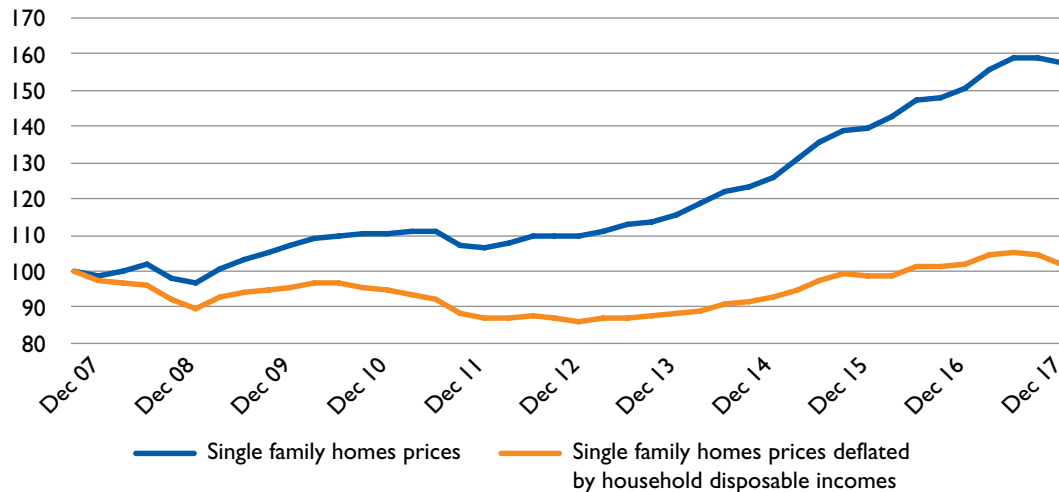
Chart 2.5. Residential housing investments as percentage of GDP



Source: Eurostat.

The Swedish households increasing incomes is a further explanation to increasing housing prices for a number of years. Single family homes prices have increased by almost 60 percent the last decade, from December 2007 to the first quarter 2018. 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 slightly more than 2 percent the last ten years.

Chart 2.6. Single family homes nominal prices and single family homes prices deflated by household net disposable incomes, index 100=2007



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.

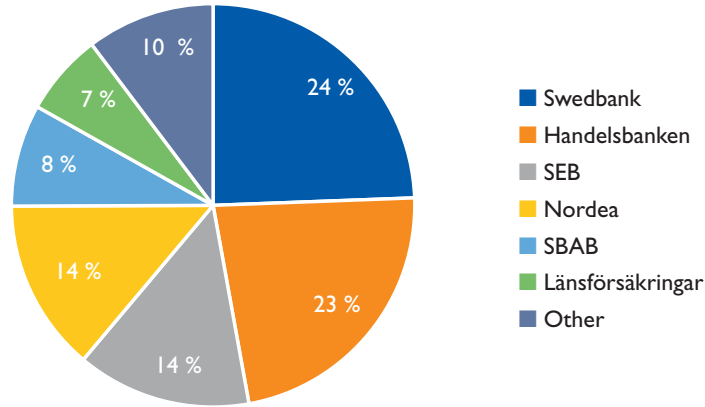
3. Competition on the mortgage market

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 2018, total lending in Sweden secured by housing was SEK 4,085 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 2018 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 2018



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 4,085 billion at the end of June 2018. Three years ago, in June 2015, the corresponding figure was SEK 3,308 billion. Lending has thus increased by 777 billion, or 23 percent, in three years.

Table 4.1. Total lending secured on single family homes, tenant-owned apartments and multi-family homes, SEK billion, June 2018

	Single family homes	Tenant-owned apartments	Multi-family homes	Total
Hushäll	2,161	1,045	55	3,261
Företag	71	6	747	824
Totalt	2,232	1,051	802	4,085

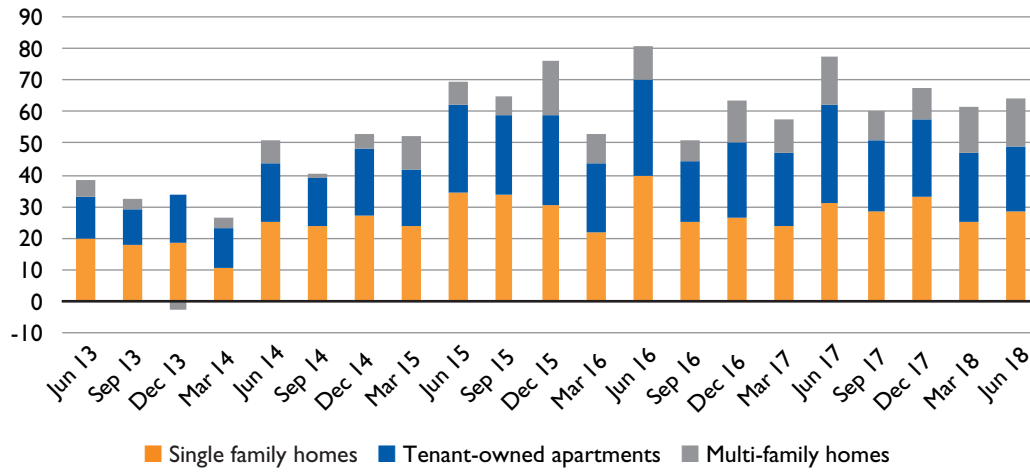
Source: Statistics Sweden.

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 years.

The rate of lending to single-family homes was 5.4 percent in June 2018 (see chart 4.2). The rate of lending to tenant-owned apartments is higher than for single family homes and was 9.3 percent annually. The rate of growth in the Swedish home loan portfolio was stable around 5 percent some years before the end of 2014 when the rate of growth started to increase. In the middle of 2016 the growth rate peaked and levelled off around 7,0 percent annually. The change in home loan growth rate 2016 has coincided with the introduction by Finansinspektionen of the amortisation rules for new housing loans, see 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 nine 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.

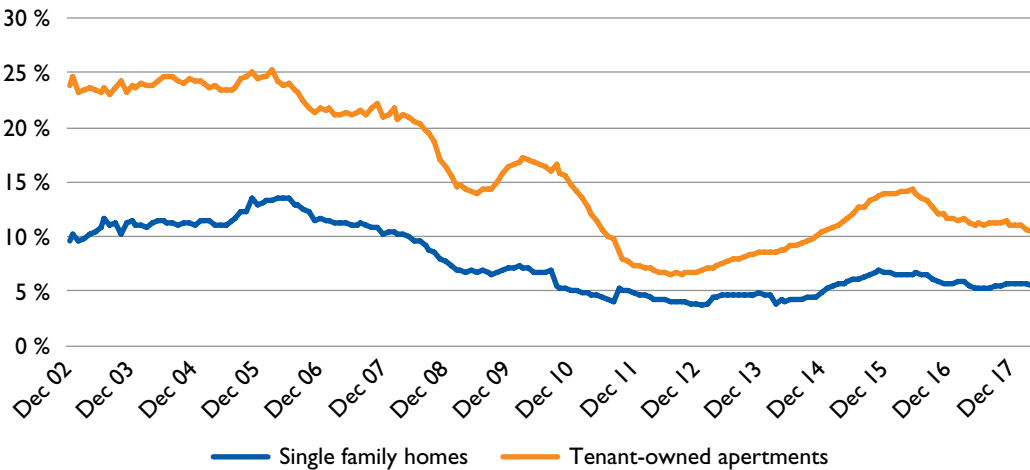
Chart 4.1. Quarterly change (net increase) in lending secured on single family homes, tenant-owned apartments and multi-family homes, SEK billion



Source: Statistics Sweden.

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

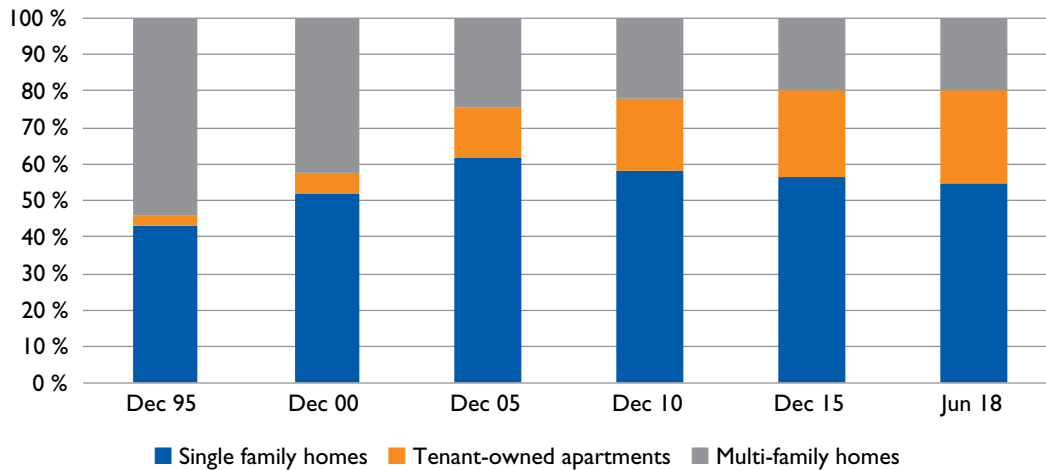


Source: Statistics Sweden.

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, slightly more than 50 percent of newly constructed multi-family homes have been intended for tenant-owned apartments. Chart 4.4 below illustrates the change, from 1990 until 2017, 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 2017, the percentage of tenant-owned apartments was 38 percent. In Stockholm, the percentage of tenant-owned apartments is higher. In 2017, the percentage of tenant-owned apartments in the multi-family housing stock in Stockholm was 53 percent.

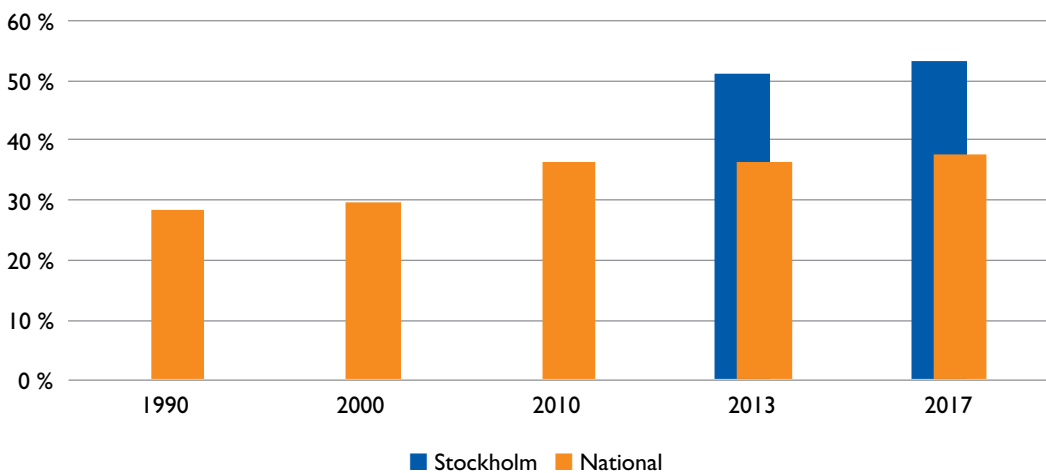
Chart 4.3. Outstanding mortgage loan portfolio broken down by type of security



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 2018, loans to tenant-owners' associations amounted to SEK 473 billion (secured on the property and all other loans). In comparison, household loans secured on tenant-owned apartments amounted to SEK 1,045 billion.

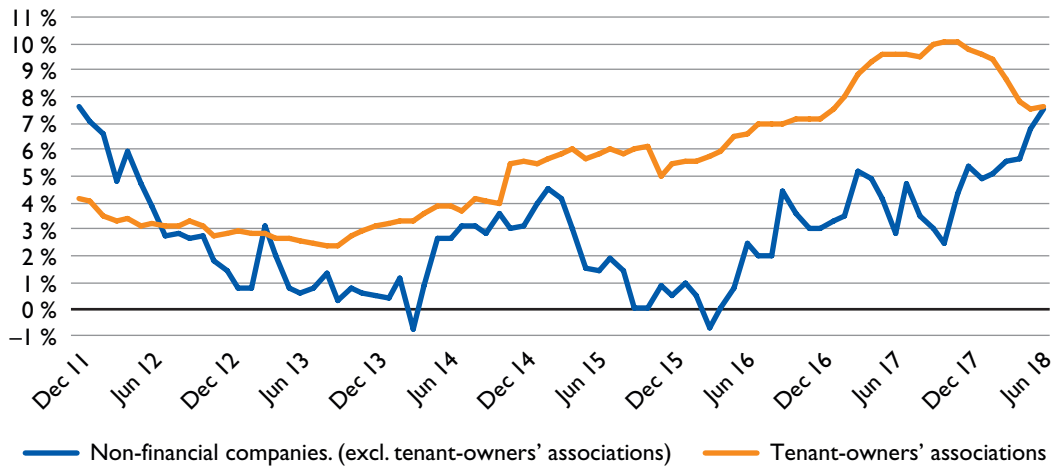
Chart 4.4. Share of tenant-owned apartments in multi-family homes



Source: Statistics Sweden.

For statistical purposes, a tenant-owners' association is counted as a non-financial company and tenant-owners' associations aggregated loans represent 21 percent of outstanding loans taken by non-financial companies. The rate of lending to tenant-owners' associations has risen during a number of years until the end of 2017. Since then the lending rate has decreased somewhat and in June 2018 the growth rate of loans to tenant-owners' associations amounted to 7.6 percent annually. The lending rate for loans to non-financial companies (excluding tenant owners' associations) has on the contrary increased during 2018 and amounted to 7.6 percent in June 2018 (see chart 4.5).

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

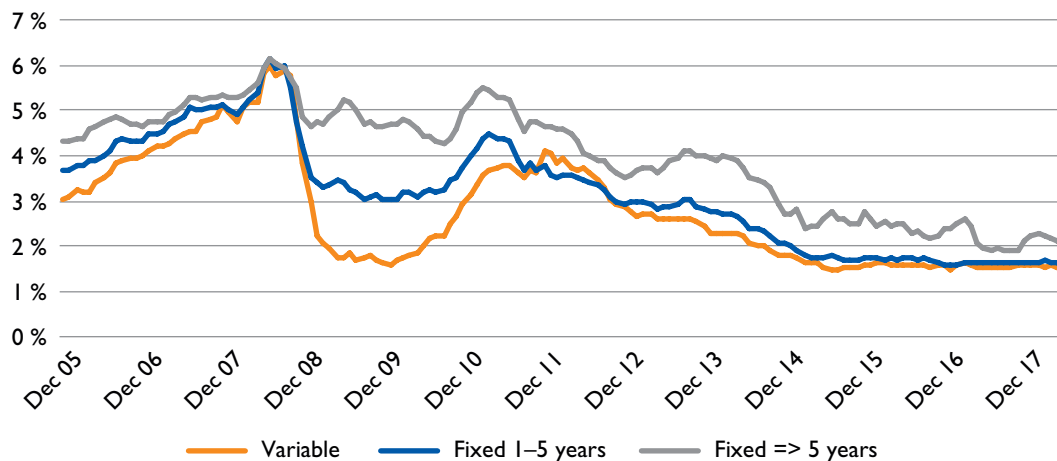


Source: Statistics Sweden.

From 2012 and until June 2018, 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 1985. Variable interest rates are also at historically low levels. From mid-2015 the mortgage interest rates and especially the variable mortgage interest rates and initial fixed 1 to 5 years 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.

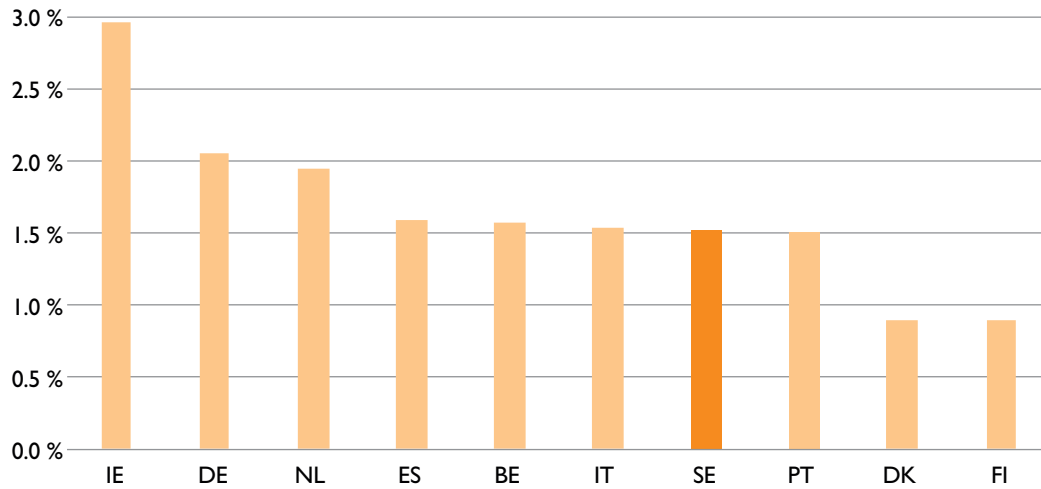
As well as the Swedish mortgage interest rates, the European mortgage interest rates have decreased. Variable mortgage interest rates in Sweden belongs to the lowest in Europe. Denmark and Finland have the lowest variable interest rates in Europe (see chart 4.7).

Chart 4.6. Lending rates to households for housing loans, new loans. December 2005 – June 2018, broken down by interest term



Source: Statistics Sweden.

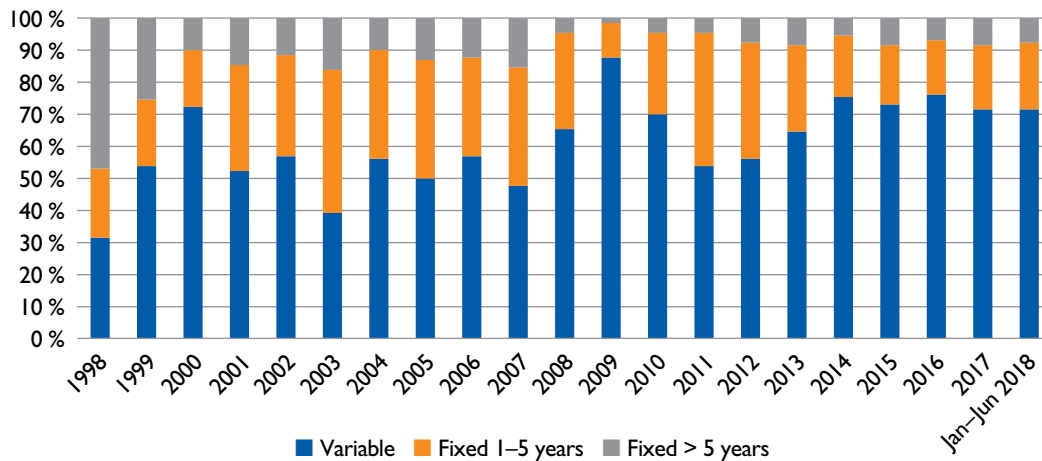
Chart 4.7. Variable mortgage interest rates (variable and initial fixed period rate up to 1 year), first quarter 2018, percent



Source: European Mortgage Federation.

During the period from January to June 2018, 72 percent of new home loans taken by households had variable interest rates (see chart 4.8). 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 2018. The share of initial fixed period rate rates has however increased somewhat during 2017 and during the first six months of 2018, partly due to that also initial fixed period rates has decreased to a record low and that the future interest rates are expected to increase.

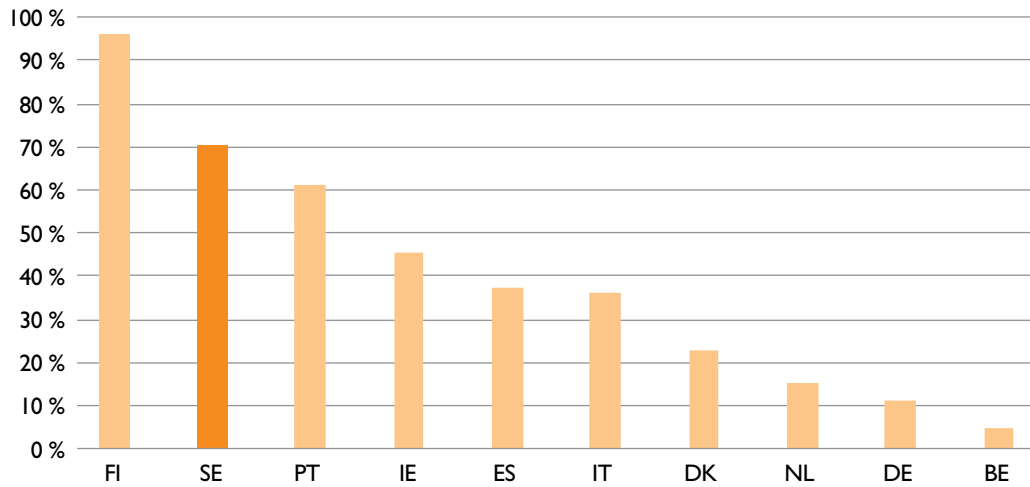
Chart 4.8. New loans to households, housing finance institutions, percentage breakdown by interest term



Source: Statistics Sweden.

The share of variable interest rates among new housing loans to households is higher in Sweden than in many other comparable European countries. Chart 4.9 illustrates the share of variable interest rates among new housing loans in the first quarter 2018 in a number of European countries. In Finland 96 percent of the new housing loans have variable interest rates compared to Sweden where 70 percent of the new housing loans have variable interest rates. In for example Belgium housing loans with variable interest rates are rare.

Chart 4.9. New housing loans with variable interest rates (fixed up to one year) during the first quarter 2018. Share of total, percent



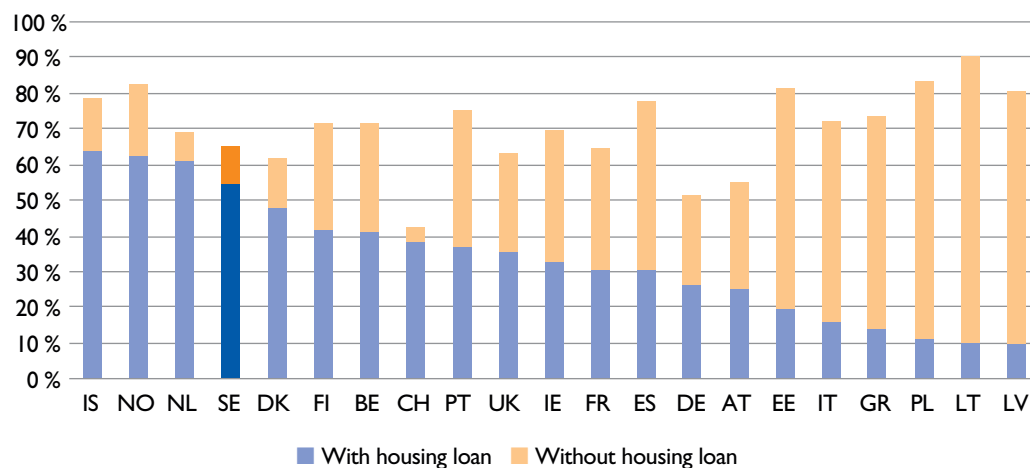
Source: European Mortgage Federation.

5. Household indebtedness

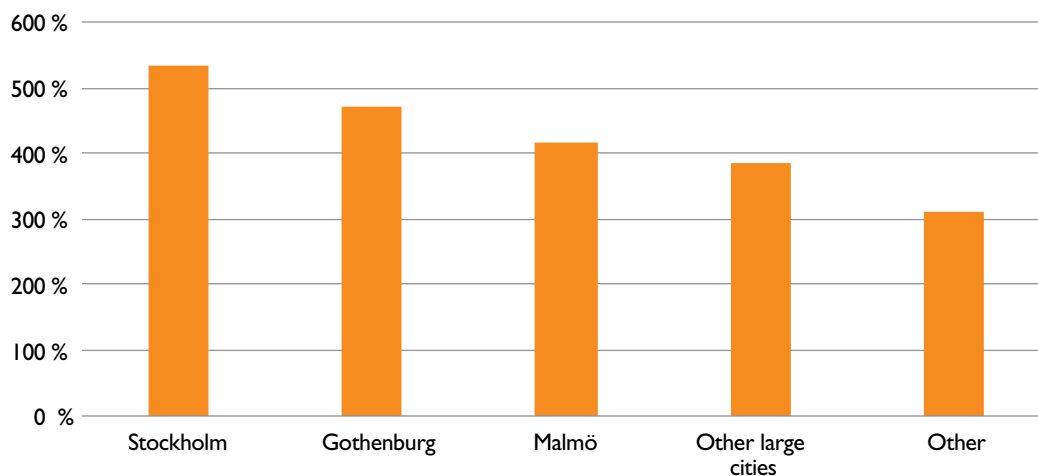
In Sweden, over 65 percent of the households own their homes. Of these households, 84 percent have a home loan (see chart 5.1 below). The relatively high percentage of households (who own their own home) with a mortgage is a sign of a mature mortgage market, as well as of a tradition of taking loans 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 slightly more than 40 percent of the 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.

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

Source: Swedish Financial Supervisory Authority.

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 185 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 534 percent, i.e. their loans correspond to more than five times their annual income after tax.

A number of measures have been taken in recent years for the purpose of counteracting high indebtedness. In 2010 the Swedish Financial Supervisory Authority 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.

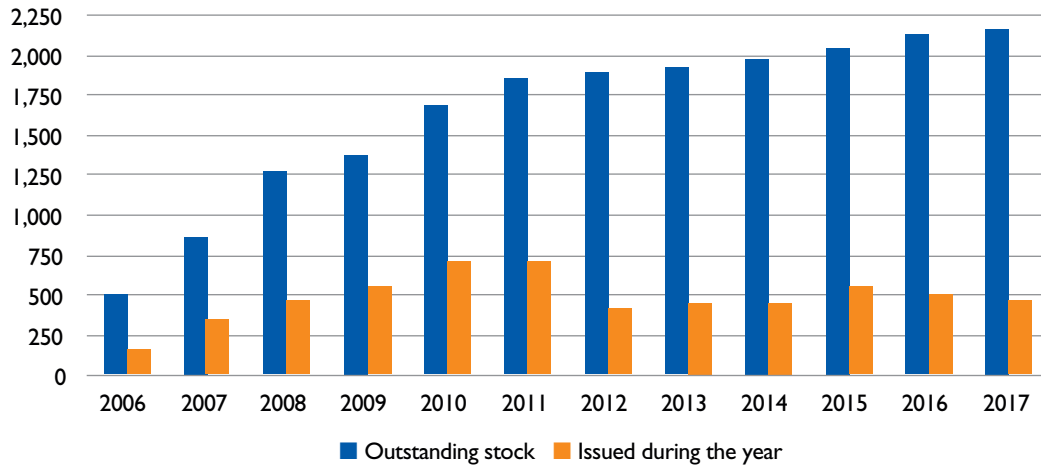
Another measure to tackle high indebtedness is the introduction of amortisation requirements. In June 2016 the Financial Supervisory Authority's regulation on amortisation requirements entered into force. The regulation means that new mortgage loans from June 2016 with a loan-to-value (LTV) above 50 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.

From March 2018 stricter amortisation requirements entered into force. The stricter amortisation requirement implies that new borrowers, with a housing loan, and whose housing debts exceeds 4,5 times gross income, must amortise at least 1 percent additional to the fundamental amortisation requirements.

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 in the form of loans from the parent bank. Loans from the parent bank amount, 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

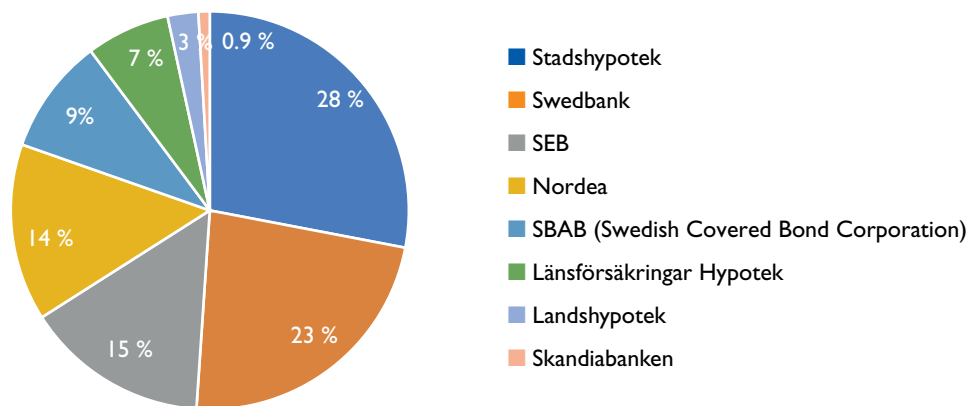


Source: Swedish Bankers' Association.

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. Almost 40 percent 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 in the end of 2017.

Chart 6.2. Covered bonds – outstanding stock per institution on 31 December 2017



Source: Swedish Bankers' Association.

7. Other events in 2017–2018

The Swedish Financial Supervisory Authority's Mortgage Survey

During the autumn of 2017 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 households loan-to-value (LTV) ratio for new loans has decreased somewhat the last years and amounted to 63 percent in 2017. However, the authority writes that there is still a large share of households with new housing loans, that have a high debt-to-income ratio or high debt-to-value ratio.

The survey also shows that the share of households which amortise and the size of the average amortisation has increased considerably in 2016 and remained at the same level in 2017. The main reason for this is the amortisation requirements which entered into force in 2016, see below. In 2017, 79 percent of households with new mortgage loans amortised in comparison to 67 percent in 2015.





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