



The Icelandic Housing Market Still in search of equilibrium

Highlights of the Icelandic Residential
Housing Market Report

Arion Research
February 2017

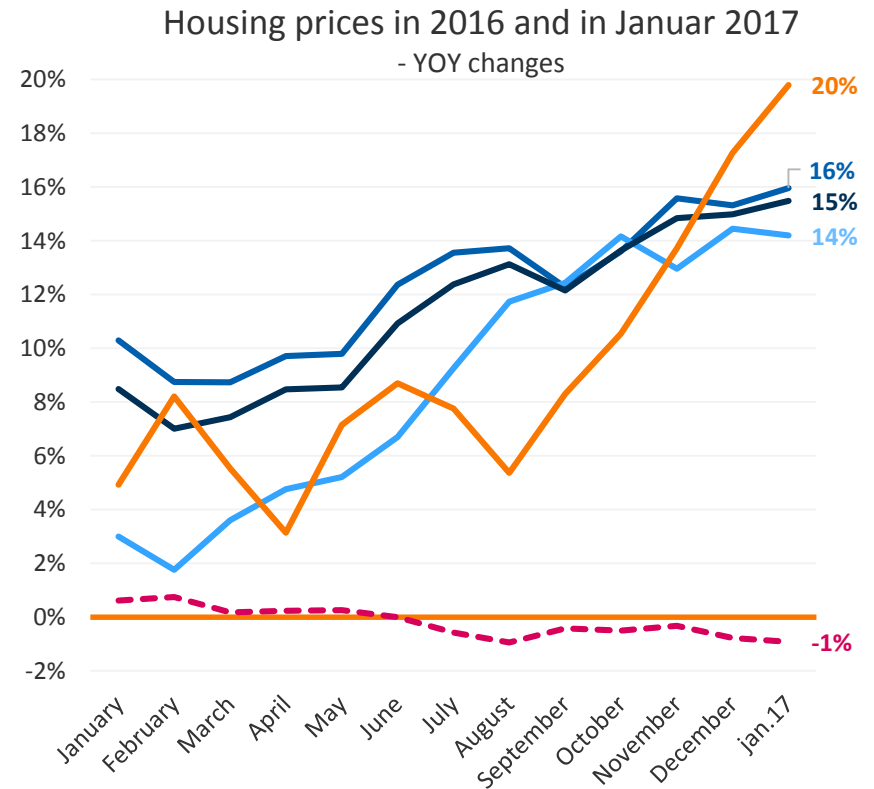
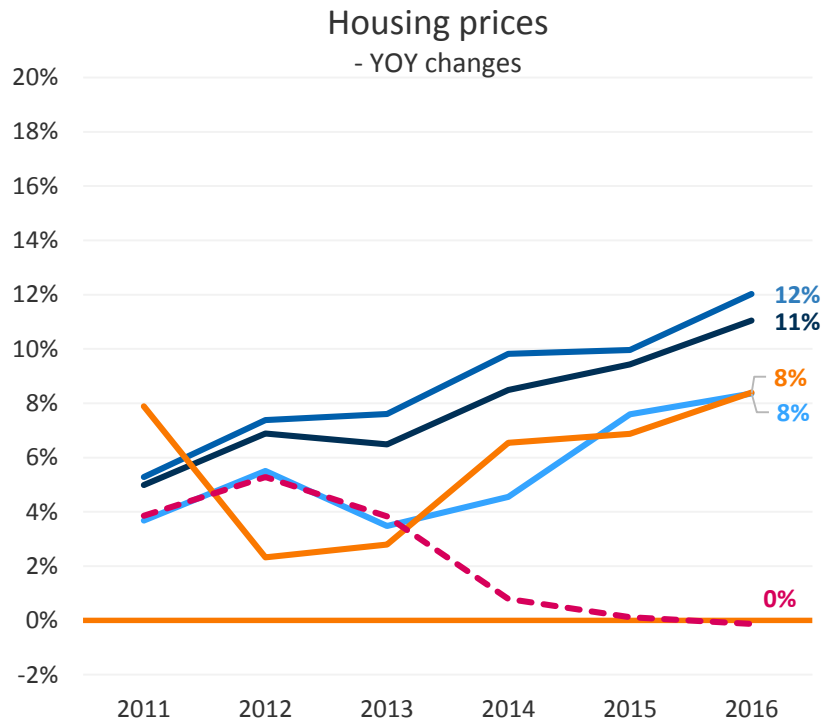
The Icelandic residential housing market at glance

Mortgages account for 31% of bank lending

- Around two-thirds of Iceland's population lives in Greater Reykjavík (Capital region) which makes it by far the largest housing market. About 78% of the population lives in Reykjavík or in less than an hour drive from the capital.
- There are 136 thousand residential houses (homes) in Iceland, which translates in to 2.4 persons per home
- Around 65% of Greater Reykjavík's residential buildings are apartments while 35% are single-family dwellings. The distribution is nearly opposite in other regions.
- Home ownership in Iceland is relatively high and was 78% in 2015. The common rental market is relatively small with only 12% of households paying market rate for rent.
- Real estate is households' primary asset, contributing to 77% of their equity in 2015.
- Household leverage is currently historically low and loan-to-value ratio was 37% in mid-2016
- Half of mortgages in Iceland are provided by banks, 12% by pension funds and 38% by The Housing Financing Fund. Net new mortgages originate roughly 50-50 from banks and pension funds.

Housing prices continued to rise in 2016

And at a faster pace than before – 15% YoY increase in Capital region (Greater Reykjavík)

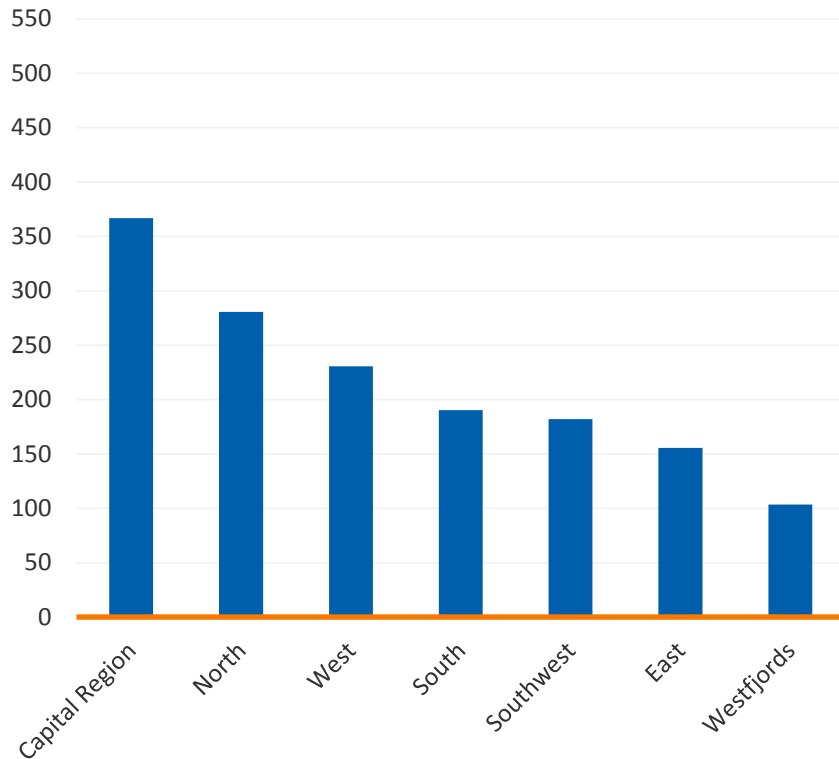


— Capital region - multi family dwellings
 — Capital region - single family dwellings
 — Capital region - total
— Outside of Capital region
 — CPI excl. housing

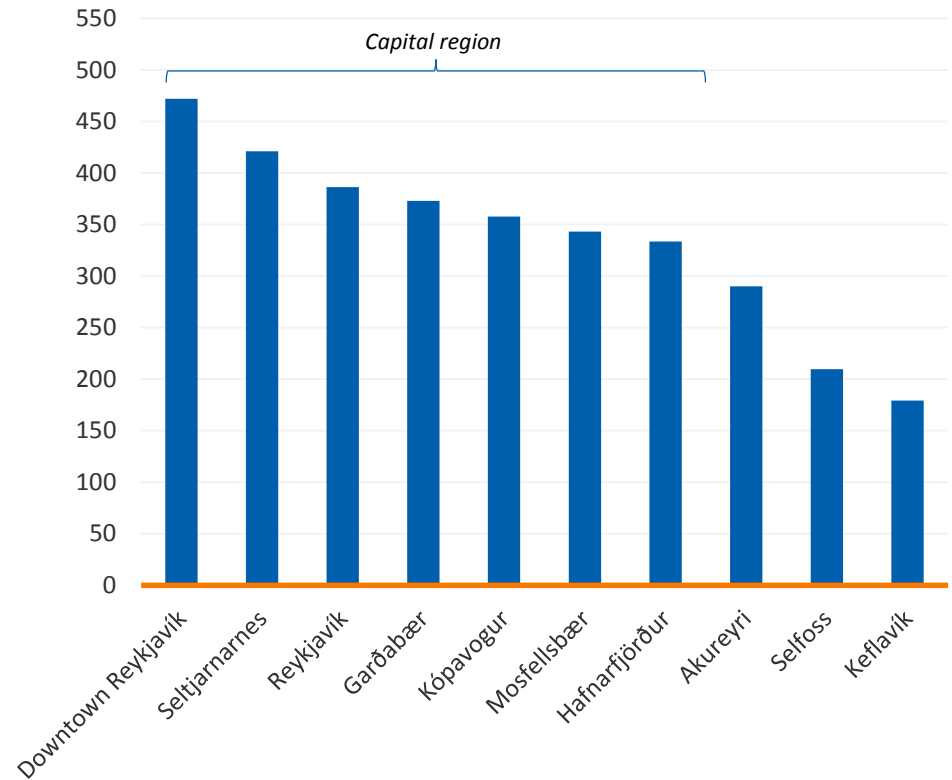
Housing prices vary massively between towns and regions

Downtown Reykjavík and other areas in the Capital region lead the pack

Housing prices per square meter by regions
- thousand ISK, multi family dwellings in 2016

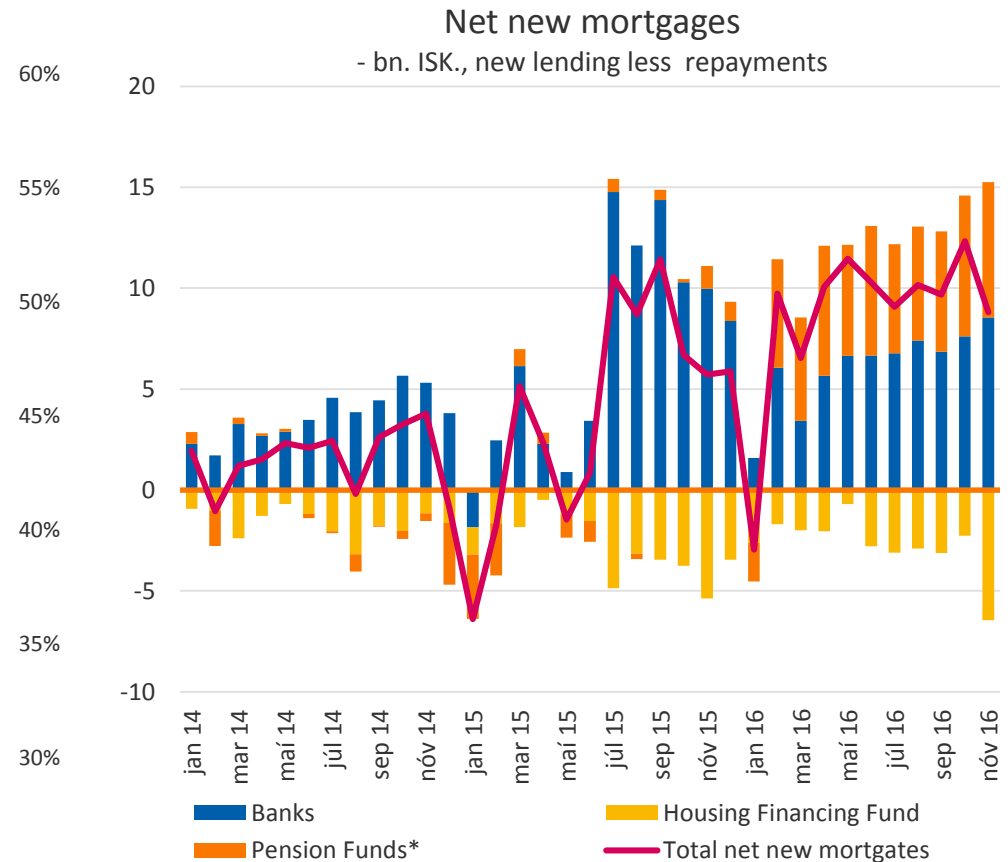
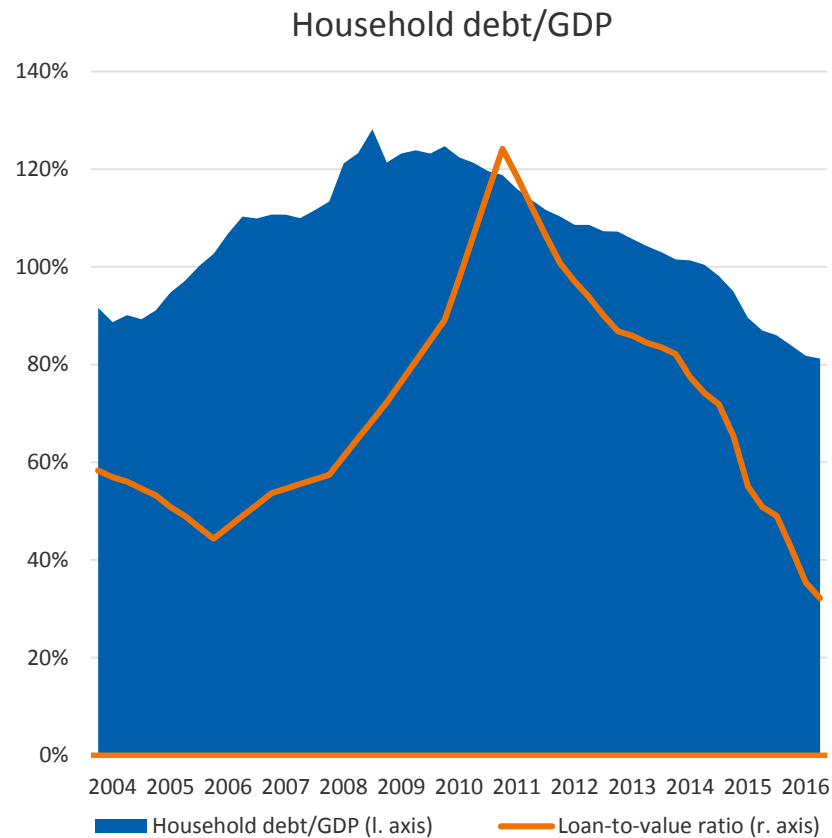


Housing prices per square meter by towns
- thousand ISK, multi family dwellings in 2016



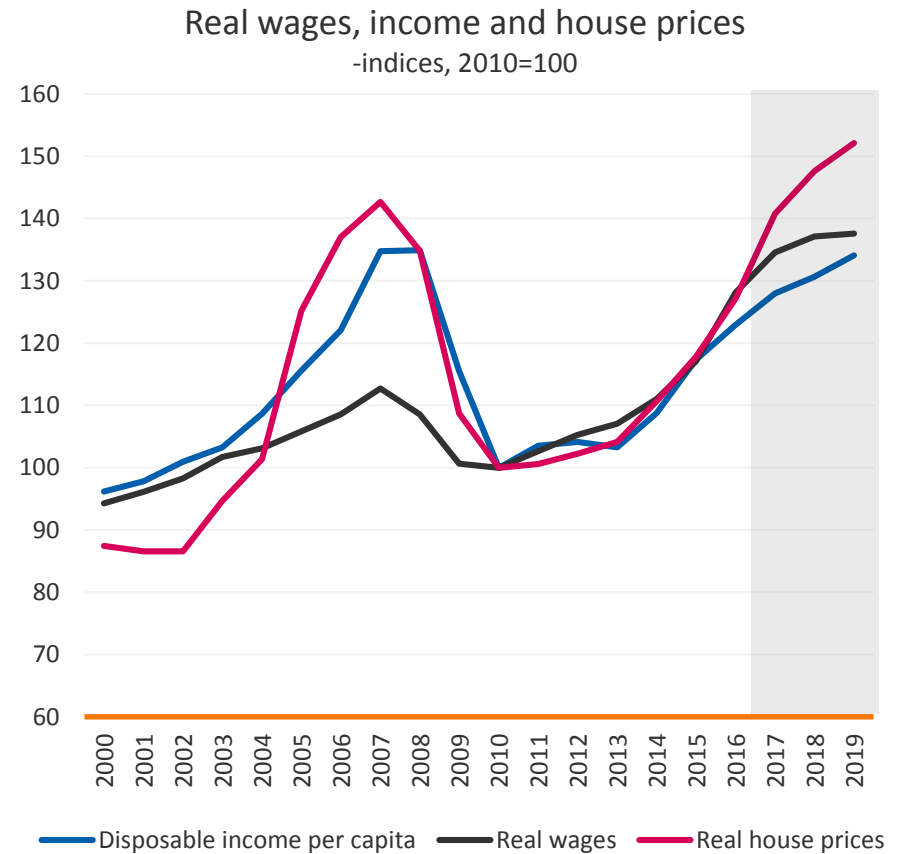
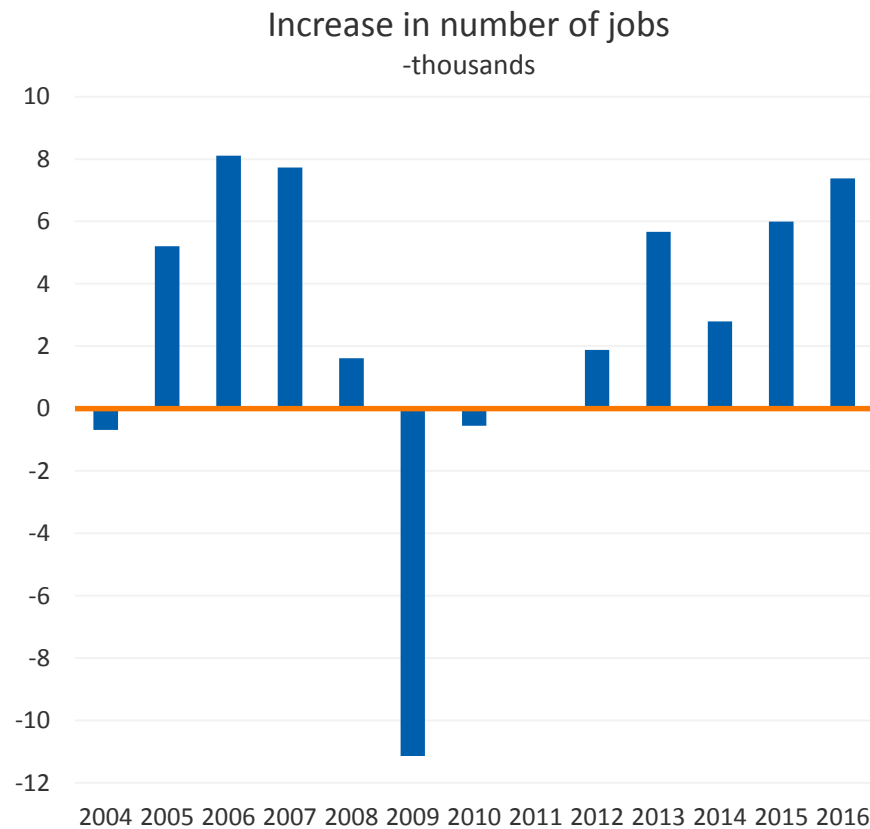
Household debt has dropped significantly but might have reached the bottom

Household debt in Iceland as a proportion of disposable income is at a level not seen in almost two decades



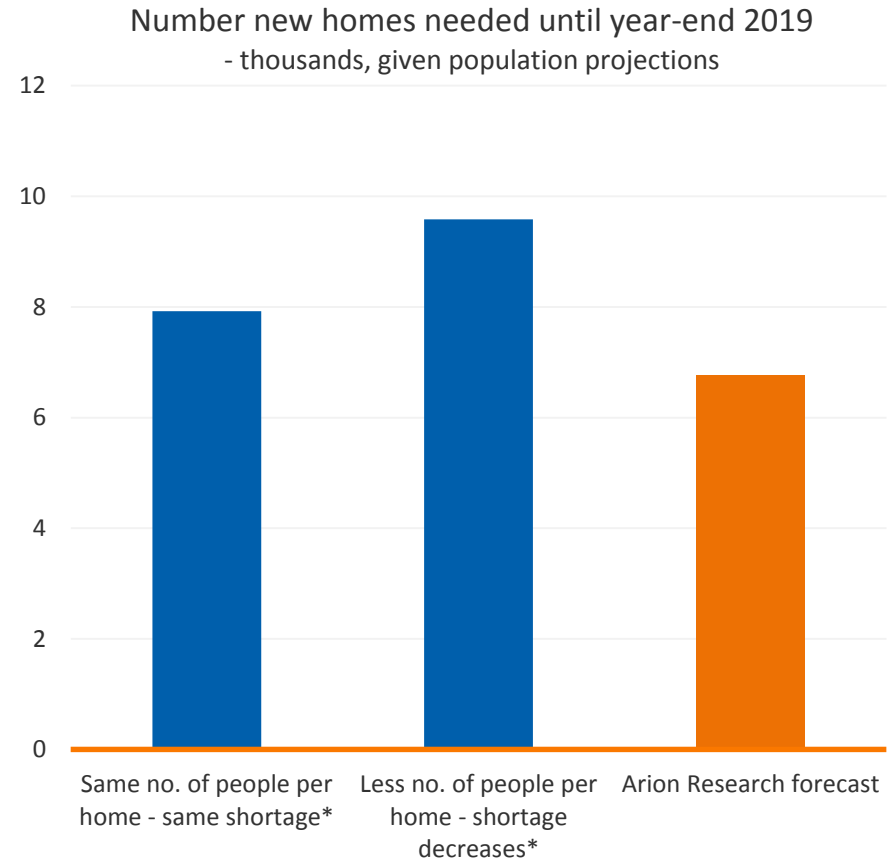
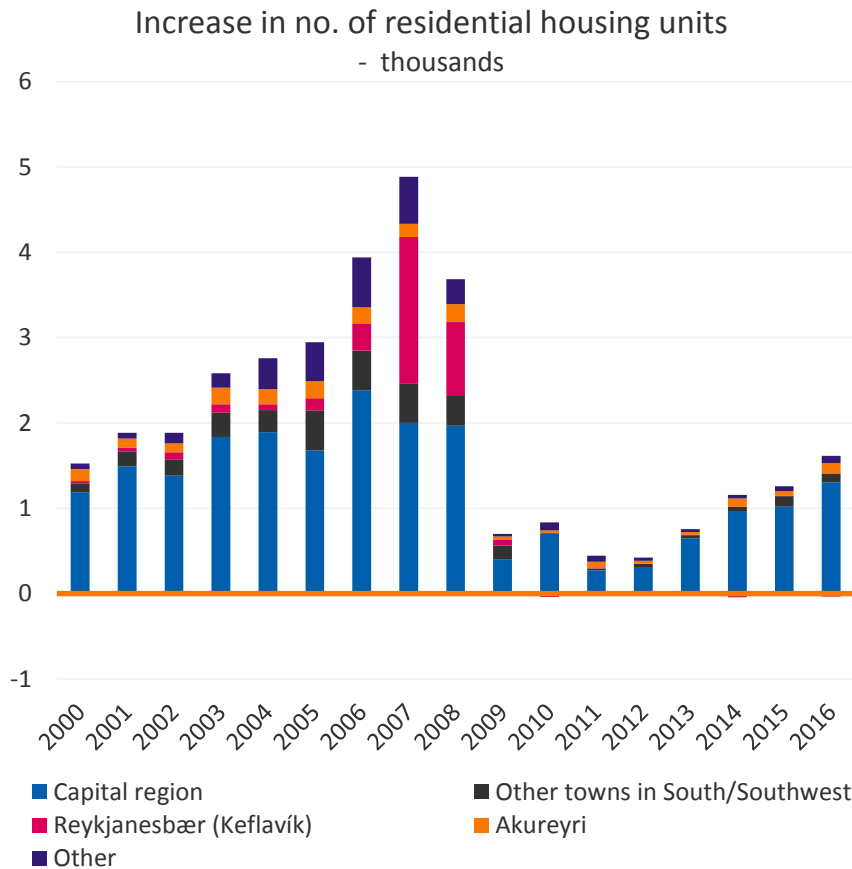
Continued positive economic outlook is likely to push real estate prices hager

We forecast 5,1% GDP growth in 2017, 3,1% in 2018 and 2,2% in 2019



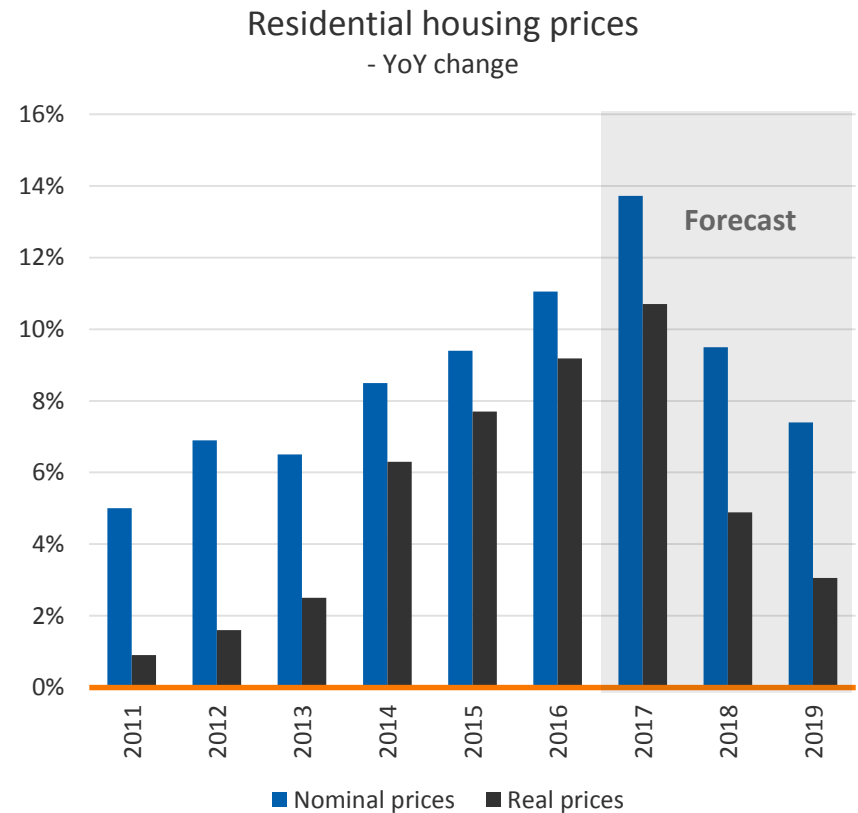
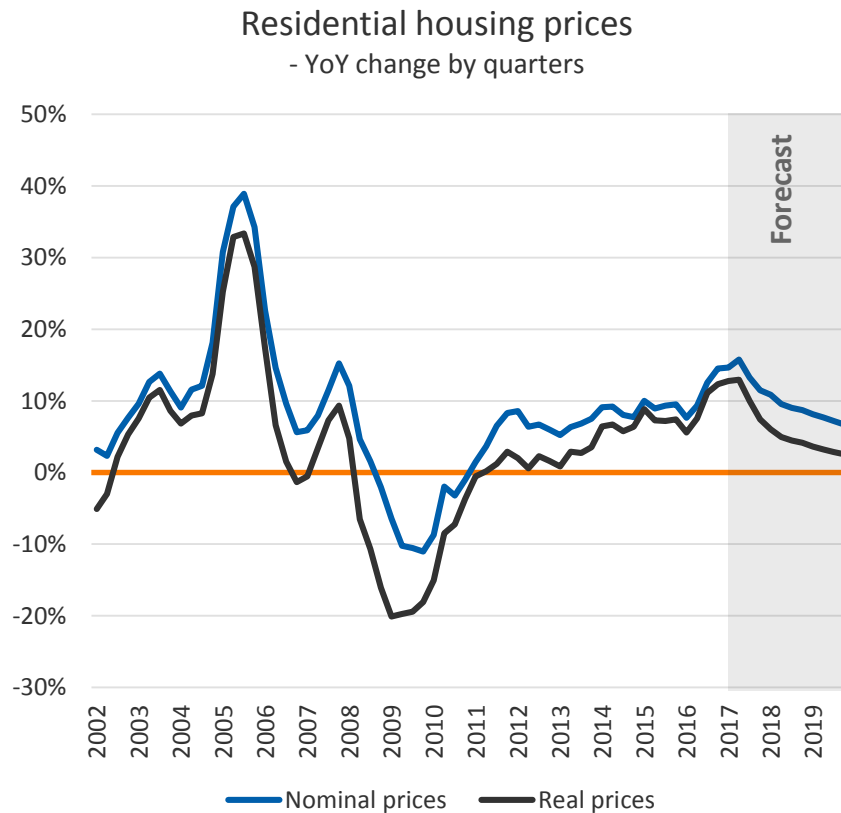
Lack of housing investment is a strain on the market and has had a large contribution to rising house prices

We suspect that population will continue to outgrow housing supply this year and potentially in 2018



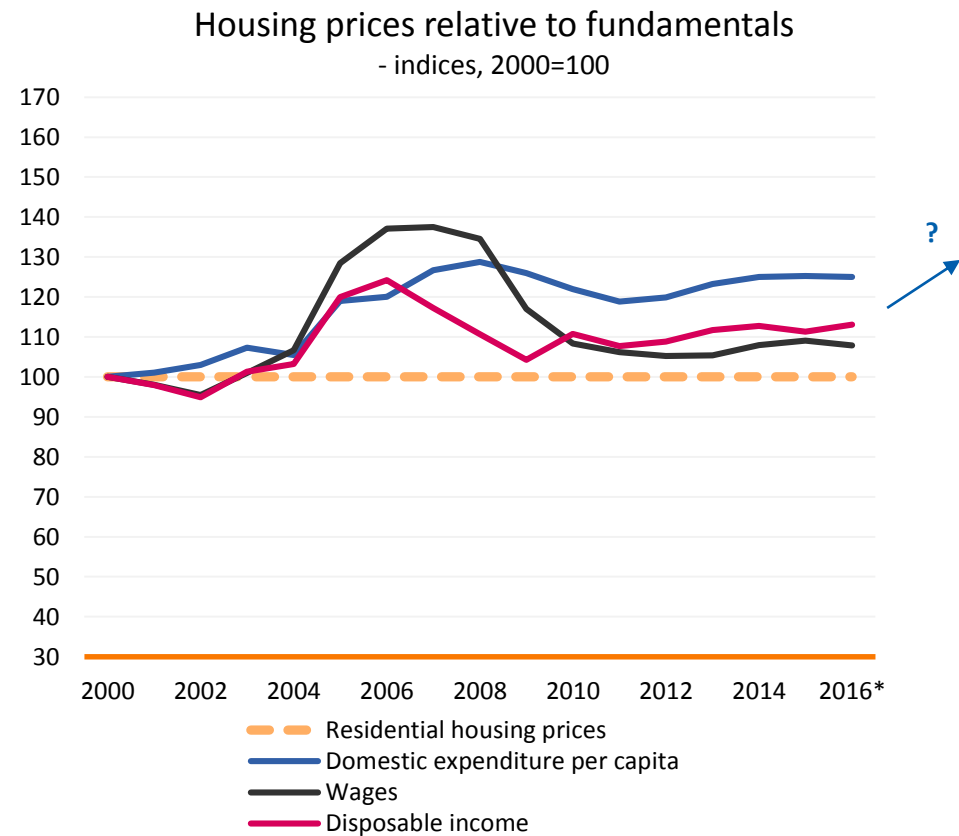
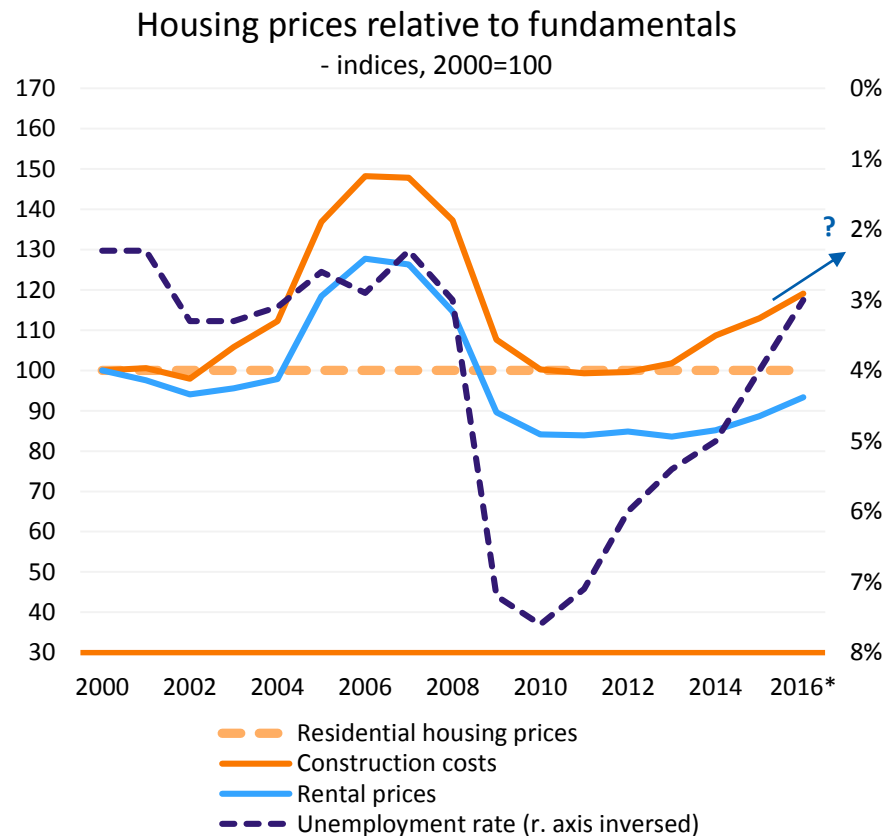
We expect housing prices to continue to rise over the next three years

Increasing population, lack of housing investment and favorable economic outlook are the main drivers. Changes in the forecast's assumptions can have a large impact on the outcome



Is the housing market overheated?

Not yet, but if our price forecast will materialise it probably will become overheated. In our forecast, housing prices will rise by 11% more than wages until 2019



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