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)
Housing prices vary massively between towns and regions

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

Source: Statistics Iceland
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

Sources: Central Bank of Iceland, The Housing Financing Fund, Arion Research. *Change in total domestic lending to households used as a proxy
Continued positive economic outlook is likely to push real estate prices higher.

We forecast 5.1% GDP growth in 2017, 3.1% in 2018 and 2.2% in 2019.

Source: Statistics Iceland, Arion Bank Research
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

Sources: Statistics Iceland, Registers Iceland, Arion Research. *Compared to number of people per home in 2015.
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.

Sources: Statistics Iceland, Registers Iceland, Arion Research.
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.

Sources: Statistics Iceland, Registers Iceland, Arion Research.
Disclaimer

• This presentation is for information purposes only and is not designed to form a basis on which recipients should make decisions. The information contained in this presentation does not represent any promise or forecast of future events. The Bank is not obliged to provide the recipient with access to further information than that contained in this presentation or to update the information contained within. The Bank is not obliged to correct information should it turn out to be incorrect.

• The information on the Bank, its subsidiaries and associate companies has not been verified. This presentation does not represent exhaustive information on the Bank, its subsidiaries or associate companies.

• The information contained in this presentation is based on existing information, projections of expected developments in external conditions etc. The information is subject to various uncertain factors and may change without warning.

• The Bank, including shareholders, management, employees and their advisers, take no responsibility for the information, assumptions and conclusions contained in the presentation or the information or information provided in connection with it. The above parties will not issue statements that the information, assumptions or conclusions are accurate, reliable or sufficient and they shall not be liable for damage which can be traced to such information being inaccurate, unreliable or insufficient.

• Receiving this presentation does not represent investment advice on the part of the Bank.

• By receiving this presentation the recipient accepts the above disclaimer.