



INTERNATIONAL UNION FOR HOUSING FINANCE FACT SHEET

> DENMARK

Member Contributor: Association of Danish Mortgage Banks

Date of Publication: October 2010

1. DEMOGRAPHIC OVERVIEW

Denmark has a population of 5.5 million inhabitants, which has been steadily increasing thanks to net migration over the last five years. The largest age group is that aged between 21 and 44 years (29.5%), closely followed by those aged between 45 and 64 (27.1%) and the under 21 group (26.7%). Denmark's aging population, which is already declining the ratio of workers to retirees, will have a major long-term impact on the housing sector in the country.

2. MACROECONOMIC BACKGROUND

The Danish economy grew between 1995 and 2007 at an average rate of 2.3%, although the effects of the slowdown in the housing market together with the start of the global financial crisis – lower investment, confidence and export demand as well as increased borrowing costs – were already felt in 2007, with growth 50% lower than in the previous year, evolving into a negative real GDP growth rate in 2008 (-0.9%) and in 2009 (-4.9%).

The unemployment rate, which had been decreasing since 2005, rose again in 2009 to levels similar to those observed in 2005 (4%). The opposite can be said of the GDP per capita, which had been increasing since 2005 and in 2009 decreased to a level comparable to that of 2006 (DKK 301,160 or EUR €40,445). The consumer price index presented a different evolution over the past five years, changing from an average of 1.8% during 2005 to 2007, to a sharp increase in 2008 and to a reduction in 2009, reaching lower levels than those of 2005.

Denmark, despite being a member of the European Union and meeting all the convergence criteria for joining the euro area, decided by a referendum in September 2000 that it would not join the area. However, given that the Danish Krone (DKK) is pegged to the euro, its interest rates and money market rates fluctuate with those in the euro area.

Although agriculture only represents 4.6% of Denmark's GDP and 2.5% of its labour force, its advanced technology makes Denmark a net exporter of food. The industrial sector, while also representing only 30.7% of GDP, possesses some of the leading pharmaceutical firms as well as maritime shipping companies and renewable energy players. In fact, Denmark is also a net exporter of energy. Therefore, being largely dependent on exports, its economy quickly suffered the effects of the global crisis

3. HOUSING MARKET

3.1. Housing Supply

There are approximately 2.7 million dwellings in Denmark. The rate of housing starts, which was very high in the mid-2000s (34,460), has faced a steady decline over the past five years. This same pattern has been observed in the number of building permits issued. Although housing completions continued to

grow until 2007, ever since, they have shown a downward trend in parallel to the decline in house prices (7.8% in 2008 and 7.5% in 2009). This decline in the house-building sector can also be observed when analysing other indicators such as the real fixed investment in housing growth rate that has continuously decreased since 2005.

3.2. Housing Tenure

A little more than half of the dwellings in Denmark are owner-occupied (53.7%). Therefore, the rental sector is quite developed in the country. While the proportion of dwellings rented from private landlords is 21.1%, the proportion rented from government or social landlords is actually 22.6%. This indicates that an important section of the dwellings are dedicated to those most in need where not only does the government intervene, but also mortgage banks, who finance social housing on a regular basis as well.

4. RESIDENTIAL MORTGAGE MARKET

4.1. Lending

Specialised mortgage lenders cover approximately 90% of all mortgage lending in Denmark. The main products they offer are fixed-rate loans up to 30 years, adjustable-rate mortgages and floating-rate loans, with or without interest rate caps. However, in 2009, 80% of homeowners who took out new loans chose adjustable-rate mechanisms (ARM) instead of fixed-rate loan, making the variable rate mortgage loans the most common type of loans in Denmark.

Currently, the residential mortgage debt to GDP ratio is 103.7%. This ratio has seen an impressive growth over the last five years, being 85% in 2005. While 2009 has been the year with the lowest level of activity in the housing market since 2004, the low interest rates led to an increase in re-mortgaging, which reached similar levels to those observed in 2005.

The total value of outstanding residential mortgage loans in Denmark is DKK 1.7 trillion (EUR €231.2 billion), a figure which has been rising over the last five years. At the same time, the total number of new loans has approximately halved since 2005 to 291,659 in 2009, and the representative interest rate on new mortgage loans has fallen to 5.2%, close to 2006 levels.

In cases of default, mortgage banks generally try to assist borrowers by postponing payments, refinancing or reaching agreements of mortgage forbearance or sale of property. Only when no solutions are found does a forced sale procedure start at the enforcement court, which typically takes no more than six months. If, following the enforcement court's decision, the mortgage bank takes over the property, it tries to re-sell the property as soon as it is possible so as to return it to the market.

4.2. Funding

Mortgage banks in Denmark completely finance their lending activities with covered bonds secured by the mortgage. In 2009, the new issues of mortgage bonds were DKK 992.2 billion (EUR €133.3 billion).

5. GOVERNMENT HOUSING POLICIES

Mortgage lending is regulated by the Financial Business Act and the Act on Mortgage Credit Loans and Mortgage Credit Bonds. However, it is expected that, following the economic crisis, new regulation will be introduced.

Mortgage loans for social and affordable housing are currently publicly guaranteed and their interest and instalment payments are subsidised by the authorities, as are low income families' rents. However, more generally, all mortgage loan interest payments, which include all payments and not just the mortgage interests, are deductible in the taxable income of the borrower in Denmark.

6. REFERENCES AND DATA SOURCES

Association of Danish Mortgage Banks
<http://www.realkreditaadet.dk/>

Central Intelligence Agency, The World Fact Book
<https://www.cia.gov/library/publications/the-world-factbook/geos/da.html>

European Central Bank
<http://sdw.ecb.europa.eu/browseSelection.do?DATASET=0&CURRENCY=DKK&node=2018794>

European Mortgage Federation, Hypostat
www.hypo.org

International Union for Housing Finance (IUHF), International Housing Finance Sourcebook 2000 and 2005 Fact Sheet
<http://www.housingfinance.org/housing-finance/facts-and-figures>

Statistics Denmark
www.statbank.dk

The Ministry of Social Affairs
<http://english.sm.dk/Sider/Velkommen.aspx>

7. HOUSING FINANCE INTERNATIONAL ARTICLES ON DENMARK

November 1986 - Mortgage Financing in Denmark and the Use of Modern Technology
http://www.housingfinance.org/uploads/Publicationsmanager/8611_Den.pdf

August 1988 - Danish Institution which Operates Internationally
http://www.housingfinance.org/uploads/Publicationsmanager/8808_Den.pdf

March 1997 - Mortgage Finance in Denmark
http://www.housingfinance.org/uploads/Publicationsmanager/9703_Den.pdf

8. CONTRIBUTOR CONTACT INFORMATION

For the **Association of Danish Mortgage Banks**:

Mr Jan Knøsgaard
Deputy Director General
Zieglers Gaard, Nybrogade 12
DK-1203 Copenhagen K
Denmark
rkr@rkr.dk

For the **International Union for Housing Finance (IUHF)**:

Ms Paloma Repullo Conde
Economic Adviser
Avenue de Cortenbergh 71
B-1000 Bruxelles
Belgium
repullo@housingfinance.org

DISCLAIMER

While the International Union for Housing Finance (IUHF) endeavours to ensure that the information contained in this Fact Sheet is up to date, complete and accurate, there may be some errors. The IUHF shall not be responsible for the use by third parties of the information contained in this Fact Sheet.