



INTERNATIONAL UNION FOR HOUSING FINANCE FACT SHEET

> SWEDEN

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Guarantee Board (BKN)*

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1. DEMOGRAPHIC OVERVIEW

Sweden has a population of 9 million inhabitants which has been growing at a slow pace, i.e. the population growth rate averaged 0.8% between the years 2005 and 2009. The largest population group is that of those aged over 45 years (43.9%), followed by those aged between 21 and 44 years (31.3%) and by those under 21 years (24.8%). However, given that the proportion of the population aged over 65 is only expected to increase by 5 percentage points by 2050, the ageing problems due to the pressures from this group are likely to be smaller than in most other European countries.

Nevertheless, internal migration trends from the economically declining regions to the most active regions will probably pose a number of issues in the housing markets, particularly as recent studies have shown a positive correlation between the change of housing prices in a local area and the proportion of internal migration.

2. MACROECONOMIC BACKGROUND

The Swedish economy experienced an average real GDP growth rate of 3.6% between 2005 and 2007. However, due to Sweden's large foreign trade sector, the global economic downturn hit its economy, which witnessed a negative growth both in 2008 (-0.4%) and in 2009 (-5.2%). This reduction of the GDP growth was accompanied by a steady increase in the unemployment rate which reached peaked in 2009 (9.1%) as difficulties appeared in the labour market in parallel to the recession. The consumer price index, nevertheless, continued the upward trend it had been following since 2005. The crisis, although it affected the Swedish economy, did not seem to alter either the increasing trend of the average disposable income which reached SEK 174,000 (EUR €16,390) in 2009. This however, may be related to the Government's stimulus package launched to counteract recession that mainly focused on employment, although it also included some clauses on tax deduction for home repairs and maintenance.

Given that the hydropower, the timber and the iron constitute the resource base of the Swedish economy, it follows that the agriculture sector only accounts of 1.6% of GDP while the industry sector represents 26.7% and the services sector is 71.6% of the GDP, where the labour force is divided in the same way. It is also important to note that although Sweden is part of the European Union, in September 2003 Swedish voters decided against joining the Euro system.

3. HOUSING MARKET

3.1. Housing Supply

Sweden has approximately 4.5 million dwellings. The rate of housing starts has halved since 2005 (from 32,000 in 2005 to barely 16,000 in 2009) reaching similar levels to those observed in 1999, and the starts of multi-storey buildings have collapsed with the crisis. The rate of housing completions has also

decreased to 2005 levels (23,000) and the number of building permits issued is even lower (20,000) than the number of permits issued in 2005 (34,000). These rates have been affected, on the one hand, by the global crisis but, on the other hand, by the extremely high construction costs of Sweden, which are 55% above the European Union's average.

All of these downward trends are in line with other indicators such as the real fixed investment in housing growth rate, which has been steadily decreasing since 2005. Nevertheless, although the National Housing Board expects a positive growth rate of the above mentioned indicators in 2010, the current situation could lead to a supply shortage in booming economic areas of Sweden due to the internal migration flows to these areas and the general reluctance of existing owners to sell.

3.2. Housing Tenure

The average household size in Sweden is of 2 people, which is the smallest household size in the European Union due to the large proportion (41%) single-person housing in the market. The Swedish housing market differs from many other European markets in that its proportion of owner occupied dwellings is relatively low (37%) while the rented sector is in fact larger than the previous with 23% being rented from private landlords and 21% from the municipality-owned housing companies (MHC). However, the remaining 19% belongs to this very particular category embedded in the Swedish housing system – the tenant-owner cooperatives.¹

The housing tenure has been marked by interventionist housing policies that have led to a housing system where low-cost housing is to be offered by MHCs. However, the concept of social housing differs in Sweden from most other European countries as applications for this type of housing are not restricted just to low income households. In fact, anyone can apply to MHC-owned housing, which has raised questions with regards to the social specificity of the programme.

3.3. Housing Prices

Sweden is witnessing a housing price boom that started in 1997 and had a temporarily slowdown in 2007 and 2008. Throughout the period 1997-2009 the average annual price increase was close to 8%. Once Sweden entered recession, house prices saw a modest drop in single family dwellings which were already increasing by spring 2009. The reasons why the prices started increasing so rapidly were the extremely low interest rates set at the time and the stimulus package promoted by the government.

4. RESIDENTIAL MORTGAGE MARKET

4.1. Lending

Despite the crisis, mortgage lending in Sweden was strong and kept growing throughout the crisis leading to the new high value in 2009, when the residential mortgage debt to GDP became 57.9%. The growth was driven by mainly two factors. On the one hand, the mortgage interest rates were particularly low. On the other hand, the 2009 tax breaks on building renovations and maintenance fuelled these types of construction work. Both these reasons enhanced mortgage credit.

Mortgage loans are provided by Housing Credit Institutions (HCIs) which are mainly commercial and saving banks. These banks offer both fixed and variable rate mortgages. The fixed rate mortgages were originally the main type of mortgages taken out by consumers, but a few years ago the variable rates mortgages became more popular. Recently, however, there is a renewed interest in fixed rate mortgages. The representative interest rate on new mortgage loans is approximately 2.3%. Nevertheless, lending institutions have become cautious, as elsewhere in Europe, and have set stricter lending criteria, including maximum Loan to Values (LTVs) and the withdrawal of the interest-only mortgage for new borrowers.

Currently the average LTV for average borrowers is 45% and for first time buyers it is 70%. Although this may seem low, Swedish households are some of the most indebted in the European Union with a debt to disposable income of 154%. Also, mortgage loans are personal, so even if the house were to be

¹ The tenant-owner cooperative building associations are organizations which own the buildings where flats exist and where the individual member households can sell the right to occupy a particular apartment.

repossessed by the bank, the borrower would still have a debt if it was not covered by the value of the house.

4.2. Funding

The mortgage lenders in Sweden are mainly funded by mortgage bonds (approximately 70%) and saving deposits (approximately 30%).² Since the covered bonds were introduced in 2006 they have become a large proportion of the mortgage bonds – not least in comparison to other European countries. Today, most outstanding bonds have been transformed into covered bonds.

5. GOVERNMENT HOUSING POLICIES

There are no general housing subsidies in Sweden apart from the system of tax reductions for homeowners which, for example, allows homeowners to deduce 30% of the mortgage interest cost. There is also a specific subsidy to housing costs for people without ability to pay (according to certain criteria). A low real estate fee represents SEK 6,000 (EUR €565) for single family houses.

There is no separate social or affordable housing market in Sweden and the market for owned homes is not regulated. In general, rents are negotiated collectively and the law support the tenant's right to keep a contract indefinitely to the negotiated rent. The form for negotiating these rents will be somewhat altered in 2011.

6. REFERENCES AND DATA SOURCES

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Statistics Sweden – SCB

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The National Housing Credit Guarantee Board (BKN)

www.bkn.se

The Swedish Financial Supervisory Authority, Finansinspektionen

<http://www.fi.se/Folder-EN/Startpage/About-FI/>

² Please note that the figures regarding the funding section only include lending from housing institutes, which accounts for approximately 70 % of Sweden's housing loans.

7. HOUSING FINANCE INTERNATIONAL ARTICLES ON SWEDEN

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