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## Finland

### **The effects of the Ukrainian war in Finland**

The war in Ukraine and the economic sanctions against Russia have caused great challenges among other EU countries in Finland as well.

Russia cut off gas exports to Finland in May, which is why Finland has quickly begun to look for other markets to secure future gas imports. Economic sanctions have also led to a halt in the import of wood from Russia to Finland. Steel materials, bitumen and glass are no longer imported to Finland.

Finland is able to increase its own production of raw wood, but new permanent solutions are being sought for other imported materials. Delivery difficulties have led to significant price increases and shortages for some construction products.

Russia's invasion of Ukraine and the ensuing sanctions also permanently terminated the supply agreement between Fennovoima Oy and Rosatom for the new Hanhikivi 1 nuclear power plant. The project had also previously suffered from significant delays and the plant supplier's inability to comply with the contract. The future of the project is not yet known.

### **Inflation accelerated in Finland in the first half of the year - interest rates have also risen**

According to Statistics Finland, inflation in Finland rose to 5.8 % in March, with electricity, fuels and renovation rising the most. Inflation was 4.5 % in February.

Euribor rates have also risen during the first half of the year. For example, the 12-month Euribor was -0.5 % at the beginning of the year and almost 0.4 % at the end of May. The increase in financing may also affect the financial situation of rental housing companies.

Correspondingly, property maintenance costs also increased by 5.6 % in the fourth quarter of 2021 compared to the same period in 2020. Maintenance costs are likely to continue to rise during 2022.

### **The increase in private rents slowed down on an annual basis in January-March 2022 and decreased compared to the previous quarter**

Compared to October-December 2021, rents in the Helsinki metropolitan area decreased by an average of 0.3 % and remained unchanged elsewhere in Finland. In Helsinki, non-subsidized rents decreased by 0.2 % during the quarter. However, it is interesting that at the same time, rents for subsidized housing rose for example in City of Seinäjoki (2.5 %) and City of Kuopio (1.8 %). Rents fell only in City of Pori (-0.5 %).

### **The property tax will be reformed with regard to the valuation criteria for buildings**

In March, the Ministry of Finance sent a law on real estate tax reform for comment. A request for an opinion on the reform came to KOVA and several municipalities, among others.

The aim is to change the valuation criteria for property taxation to match today's cost and price levels, as well as regional price differences, which will improve fairness and neutrality. The reform is not intended to tighten property taxation. If the average tax value of real estate were to increase, especially for soil, the tax rate zones would be set so that municipalities would not have to tighten taxation in their area but would also not have to give up their current tax revenues. The land tax rate would be separated from the general tax rate.

In its own statement, KOVA considers, among other things, that the real estate tax reduction should be applied to the valuation of land and buildings from real estate that is subject to restrictions on use and transfer in accordance with the Right-of occupancy Act, the Interest subsidy Act or Arava Act. KOVA proposes that the property tax on these properties be 50 % of the tax value generated by the valuation method for both the building and the land.

KOVA states that residential buildings with restrictions do not have the same collateral or real value as properties that are not subject to restrictions, for example due to the state support system. In KOVA's view, it is not justified to apply the same property tax value to limited properties as to ordinary properties.

KOVA supports the proposal to abandon the effect of renovations on the tax value. KOVA considers the redefinition of age reductions in the draft proposal to be clearer and more encouraging. It is also positive that repairs that improve the life of buildings will no longer lead to an increase in property taxes. The change will encourage property owners to renovate their buildings. The effect of the age reduction on the tax value is no longer linear, but the age reduction takes into account the renovations made to the building at the age of 40, after which the value development stabilizes.

The goal of the Ministry of Finance is that the government's proposal reaches Parliament during 2022. The reformed property tax reform would take effect at the beginning of 2024.

### **Situation of the construction industry in Finland**

The upswing following the corona pandemic and the ensuing war in Ukraine have caused a lot of uncertainty in the industry. Construction contractors and customers are suffering from both rising material costs and delivery problems. The outlook for the housing trade is also uncertain, which is why new construction projects are being considered more closely. State-subsidized housing production has run into difficulties due to rising costs, as a result of which the ARA (The Housing Finance and Development Centre of Finland) has approved the inclusion of an index term in works contracts. It is hoped that this will facilitate the bidding of contractors and reduce the risk for the contractor. Despite all this, the construction industry is still doing relatively well, there is a lot of old order book left and there is enough work for companies so far. However, the situation is expected to change by the beginning of 2023 at the latest.

#### **Turnover of construction grew by 13.8 % in March 2022 from one year ago**

According to Statistics Finland, working day adjusted turnover of construction enterprises grew by 13.8 % in March 2022 compared to the year before. The volume of sales, from which the impact of price changes has been eliminated, increased by 8.3 %. Seasonally adjusted turnover in construction rose slightly and the sales volume fell slightly in March compared to February.

#### **Building costs rose by 9.4 % in April year-on-year**

According to Statistics Finland, building costs rose by 9.4 % in April 2022 from one year back. The costs of materials and several commodity groups rose particularly. Among materials, the prices of steel structures rose most. In April, the costs of timber structures made a clear upturn again and were close to the peak experienced in September 2021.

#### **Cubic volume covered by granted building permits decreased in the first quarter of 2022**

According to Statistics Finland, building permits for newbuilding were granted in January to March 2022 for a total of 8.1 million cubic metres, 20.8 % less than one year ago. Building permits for residential building construction were granted for 2.8 million cubic metres, which was 16.7 % less than one year previously. Building permits for 9,090 dwellings were granted over the period, 19.4 % fewer than one year previously.

## Iceland

The Icelandic economy has been relatively quick to recover from the Covid-19 induced recession, going from, from GDP -6.6% in 2020 to 4.9% in 2021. The recovery continues, although slowed down by the adverse effects of Russia's invasion of Ukraine, and the GDP of 2022 is expected to be a robust 4.6%. However, inflation rates have been rising rapidly as have the housing and rental prices<sup>1</sup>.

### Economic situation

The inflation in Iceland measured 7.2% in April<sup>2</sup>, with house prices and other domestic cost items being the drivers, although global oil and commodity prices have risen sharply as well. It is expected to rise above 8% in Q3.

The Icelandic króna has strengthened by almost 5% since the beginning of the year, and its depreciation following the epidemic is now largely reversed. Trade in goods and services is unlikely to be the main explanation for the strengthening. One of Iceland's main economic pillars, tourism, is quickly recovering after the pandemic, which bodes well for the economy, and job numbers are now higher than pre-pandemic levels: The unemployment rate was 4,9% in March and 4.5% in April, 2022<sup>3</sup>.

### Affordable Housing

The development of social and affordable housing has increased rapidly following the introduction of Social Housing Loans in 2016. However, there is still a great demand for more affordable housing.

The affordable housing model in Iceland is non-profit and largely based on two pillars:

- Municipality-operated **social rental housing**, along with rentals provided by **non-profit housing trusts**.
- The **Cooperative housing Sector**.

*Social Rental Sector* - Social rental housing encompasses around 4% of the rental apartments available in the country, and the percentage is rising. The majority of these belong to the capital area municipalities, mostly Reykjavík, and the second largest in the North. *Reykjavik Social Housing*, the city's social rental services, owns 5.1% of all apartments in the capital, or over 3.000 dwellings, with rent cost 71.6% of the regional average in 2021. Reykjavik city's aim is that 25% of new apartments will be run by non-profit organizations.

*Non-Profit Housing Trusts* - Various non-profit housing trusts provide dwellings for specific groups, such as *Brynja*, the non-profit housing trust of the Iceland Disability Association which has 821 rental units. The Worker's Unions have been entering into this market in the past few years, with *Bjarg Housing Foundation* being established in 2018, on its way to build 1300 dwellings, and a new one, *Blær*, was established this May. Both of these are both founded by the Icelandic Confederation of Labour and the Federation of State and Municipal Employees – with the addition of VR when it comes to Blær. *Bríet*, a subsidiary of the HMS (the Icelandic Housing Administration), also rents out 250 apartments across the country.

*Cooperative Sector* - The non-profit housing cooperatives in Iceland are largely based on the Nordic Model to secure housing for the cooperative members. The largest, Búseti, takes care of approximately 1200 dwellings in the greater Reykjavík area, with plans for building 355 more in various stages of development. Two smaller

<sup>1</sup> Central Bank of Iceland, Monetary Bulletin 2022/2: <https://www.cb.is/publications/publications/publication/2022/05/04/Monetary-Bulletin-2022-2/>

<sup>2</sup> Central Bank of Iceland, Monetary Bulletin 2022/2

<sup>3</sup> Directorate of Labour, 10 May 2022: <https://vinnumalastofnun.is/frettir/2022/05/skrad-atvinnuleysi-i-april-var-45percent>

cooperatives exist, Búmenn and Búfesti, operating close to 280 apartments in the North of Iceland. Various non-profit housing trusts are also a part of the cooperative sector.

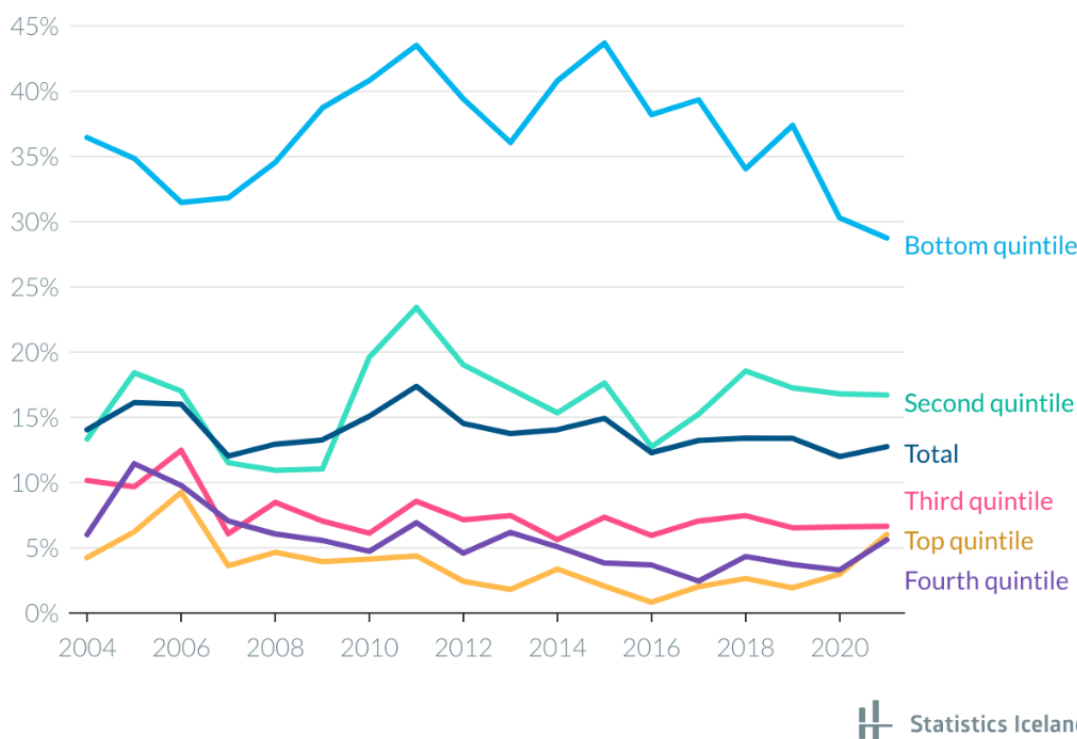
### Rental Market

The rate of increase in rental prices has been picking up recently after some slack that characterized the rental market in 2019 and 2020. In March, the 12-month increase in rental prices in the capital area was 8.1% compared to the rental price index, while in its neighbouring municipalities it was 8.5% and elsewhere in the countryside 5.7%.

The average rent paid is now around 1,504 EUR in the capital area, 1,305 EUR in its adjoining municipalities and 990 EUR in the countryside.<sup>4</sup>

In the HMS's recent rental surveys, the ratio of the rent to disposable income has been measured at 40% on average in recent years. The proportion of tenants who pay more than 50% of their disposable income in rent has increased significantly, from 22.6% in 2019 to 30.1% in 2020. The highest share of the rental market is in the neighbouring municipalities of the capital area, where 45% of tenants say they pay more than half of disposable income towards rent.<sup>5</sup>

## Housing cost overburden rate of households by income quintiles



Picture: Housing cost overburden by rate of households by income quintiles<sup>6</sup>

<sup>4</sup> HMS monthly report, May 2022.

<sup>5</sup> HMS news, 9. March 2022

<sup>6</sup> Statistics Iceland, 2 May 2022, <https://www.statice.is/publications/news-archive/quality-of-life/housing-cost-burden-2021/>

### Property market

The property market continues to rise, characterised by great demand and little supply which has created much competition in the market: Over half of apartments being sold for more than the set price and large price increases. According to an index of paired transactions, the twelve-month rise in house prices was 22.3% nationwide. The increase now covers the capital area, its neighbouring municipalities and other parts of the countryside fairly evenly.<sup>7</sup>

Registers Iceland issued a new Real Estate Appraisals for 2023, announcing a tremendous rise in property value. For apartments the increase was 21.6% while the increase for private houses was 25.4%.<sup>8</sup>

### Construction market

In March 2022, more than 7,200 apartments were under construction according to counting the Confederation of Icelandic Industries and HMS. HMS's economics department estimates that 2,783 new flats will be on the market in 2022 and 3,098 flats in 2023. Although dwellings are on the increase, their number are below what is needed, and the accumulated housing demand is therefore likely to increase. This could lead to negative developments and continued instability in the housing market.<sup>9</sup>

The conclusion of a needs analysis conducted by local municipalities on housing plans is that about 35,000 apartments will need to be built over the next ten years to meet population growth. This calculation does not consider the accumulated need, which is estimated to be around 4,500 apartments. In the opinion of HMS's economics department, 3,500-4,000 apartments will have to be built annually for the next 5-10 years to meet the accumulated need and forecast population growth in the country.

According to information from the Ministry of Social Affairs, the estimated number of people in need of permanent housing is about 3,200 people. This does not take into account the growing flow of refugees to the country, e.g. due to the conflict in Ukraine.

### Government Actions

With the rising housing and rental prices and supply of housing falling far below demand, the government established a working group on measures and reforms in the housing market. The group presented its proposals at a meeting of the National Economic Council in May 2022. Based on the proposals, the Government will now take immediate action on several issues, from improved housing support to the improving legal status and housing security for tenants. It will also put focus on increased housing development: The Government and the Association of Icelandic Municipalities will begin negotiations right away on a framework agreement for the construction of 4,000 apartments annually nationwide for the next five years and 3,500 apartments annually for the next five years. Particular attention will be paid to the goals set out in the working group's proposals, e.g. that social housing amounts to 5% of new housing and affordable housing is as close as possible to 30% with special emphasis on the public housing system.<sup>10</sup>

### Future Prospects

The housing situation, with increased housing and rental prices and lack of supply, will likely continue over the next few years, although hope is for long-term solutions through the recent actions of both government and

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<sup>7</sup> HMS monthly report, May 2022.

<sup>8</sup> Registers Iceland, 31. May 2022.

<sup>9</sup> Report of Working Group on action and reform on the housing market, published 19. May 2022.

<sup>10</sup> Report of Working Group on action and reform on the housing market, published 19. May 2022. <https://www.stjornarradid.is/efst-a-baugi/frettir/stok-frett/2022/05/19/Adgerdir-kynntar-um-meira-oryggi-og-aukid-frambod-a-husnaedismarkadi/>

municipalities. Likely, a tolerance limit has been reached and slower growth can be expected in the upcoming year.<sup>11</sup> This could also be assisted by the governments announced actions to increase supply of housing.

The economy has recovered faster than expected, with around 5% GDP forecast for 2022 and somewhat slower growth in the years to follow. The export will mainly be export driven with a rise in tourism, increased fish farming and export of intellectual property.<sup>12</sup> The inflation is expected to continue over the next two years, driven in part by the increasing housing prices but also due to price increases abroad and increased wages domestically. This calls for actions on behalf of the Central Bank, and the policy rate will likely be around 5-6% by end of year.

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<sup>11</sup> Landsbanki forecast, 2022-2024. <https://www.landsbankinn.is/umraedan/efnahagsmal/thjodhags-og-verdbolguspa-2022-2024>

<sup>12</sup> Islandsbanki forecast for 2022-2024. <https://www.islandsbanki.is/is/frett/thjodhagsspa-islandsbanka-2022-2024-allt-a-uppleid>

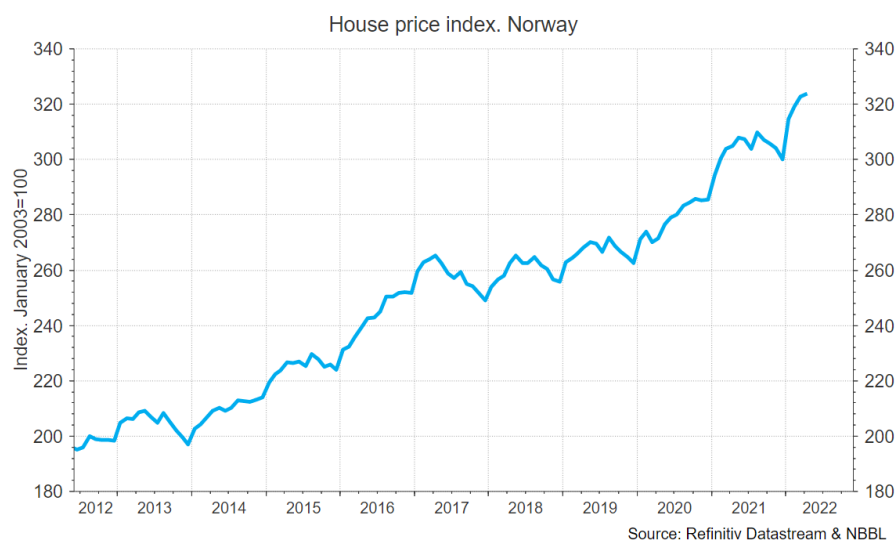
## Norway

### Increased inflation pressure and uncertainty

After house price growth moderated towards the end of 2021, house price inflation has again accelerated in 2022. The acceleration is likely related to new sales regulation from January 2021 which led to a temporary slowdown in housing supply. In addition, housing demand has remained strong, and prices have increased 7.3 percent from January through April.

The increase cause concern both from a social and financial stability perspective. First, data from Statistics Norway show that the proportion who own their own home - although still high (approx. 88 %) has fallen in recent years. Second, from a financial stability perspective price growth leads to increased indebtedness in Norwegian households. Statistics from OECD show that the debt-to-income ratio in Norwegian households has surpassed the Netherlands, and become the second most indebted households in the OECD area.

The pandemic and Russia's war on Ukraine are demand side shocks on the economy. Aside from the horrible human suffering caused by this Russian aggression, both have the potential to destabilize economic growth. Central Banks are in a hurry to raise interest rates to dampen inflationary pressures. The cost of commodities is skyrocketing. The cost of building materials has increased 33 percentage in two years. Adding pressure on housing affordability and housing supply.



### Challenging times in the construction industry

Housing constructors report major challenges in Norway. The construction industry experience challenges with deliveries of building materials, which in turn has led to a significant increase in construction costs.

The housing construction ratio in April was significantly lower than normal, but it is too early tell if this is a new trend.

Due to the very high activity in the Norwegian economy and record low unemployment, the government has proposed to cut or postpone public construction projects. The government has, however, established a scheme to quickly establish housing for refugees in the municipalities, estimated to 15.000 to 35.000.



### Housing allowance evaluation

In total, approx. 100.000 households with very low income receive state housing allowance. The allowance has received a lot of criticism, and an expert committee will evaluate the scheme. The allowance is random, incoherent, and difficult to understand.

### Dilemma with high energy prices

Electricity prices are still at record levels, and petrol and diesel hit record levels day by day. The government will supply costumers 22 billion NOK is electricity subsidies. So far, compensation for petrol and diesel is not in the cards. The government and the municipalities receive record revenues due to the large public ownership in hydro power.

The government is facing dilemmas. Electricity subsidies does not motivate households to save. The government is awaiting the Energy Commission in which NBBL participates, before deciding to terminate electricity subsidies or introducing subsidies for electricity saving in buildings.

## Sweden

### Housing market

Continued large deficit in the housing market in Sweden, says [Boverket](#). Despite a high pace of housing construction, the number of municipalities with deficits in the housing market remains large. 204 of the country's 290 municipalities report housing market deficits in this year's housing market survey. This is a decrease of only 3 municipalities compared to last year. This year, 66 municipalities estimate that there is a balance in the housing market, an increase of 7 municipalities.

It is mainly groups that are new to the housing market who find it difficult to meet their housing needs. These are young people, students, and new arrivals, but also people with disabilities and older people who want or need to change their place of residence.

Preliminary construction of a total of approximately 14,100 new residential apartments began in the first quarter of 2022 according to [SCB](#). This is 13 per cent fewer compared to the quarter of 2021, when 16,242 residential apartments began to be built.

### New economic reality with inflation and high interest rates plus rampant construction prices

Rising inflation and a completely different interest rate environment than before are now putting pressure on many households. The Riksbank sees new challenges for financial stability if costs become higher than expected at the same time as housing prices would fall sharply. "This could lead to a significant decline in household consumption, which could impair corporate profitability and increase banks' credit losses, thus creating problems for financial stability," the Financial Stability Report said.

The Riksbank is now calling for broad reforms in housing and tax policy.

At the same time construction costs are skyrocketing. Building materials, electricity and fuel are increasing in price. There is also a shortage of materials. The situation is extreme and Public Housing Sweden warns that it will be almost impossible to build new housing with rents that most people can afford to pay.

For Public Housing Sweden, the increased costs are mainly coming through in ongoing procurements of new housing. In one third of the public utilities' ongoing procurements, bid prices deviate sharply from the expected price. In some cases, bid prices are 40-50% higher than expected.

In addition, prices are increasing in the public housing ongoing construction projects. On average, contractors want to increase the contract price by ten percent, in some cases it is as much as 30 percent. The rising interest rate situation in combination with rapidly increasing construction costs will negatively affect the pace of construction.

### Historic Tripartite agreement on Swedish rental market

In May, the parties to the rental market presented an agreement with recommendations for the annual lease negotiations: the Tripartite Agreement between Public Housing Sweden, The Swedish Property Federation and the tenants' association (Sveriges Allmännytt, Fastighetsägarna och Hyresgästföreningen). The agreement gives Sweden a better functioning rental market and enables housing available to more people.

- The parties rely on the same economic factors in the annual negotiations.

- A national model for measuring and evaluating management quality is being developed.
- A concrete and common model for systematic rent setting is being developed.
- We will work to ensure that public rent statistics are developed.
- We have formed a digitization forum to meet the digital development.

### **Two governmental enquiries on housing were published in the spring**

One has been looking at the situation for first time buyers and making proposals to make it easier for them, including a model for “startlån”. It proposes that:

- The start-up loan is guaranteed by the state and makes it possible for mortgage players to give mortgages of up to 95 percent of the value of the home to creditworthy first-time buyers.
- The state guarantee provides consumer protection, which means that first-time buyers must be able to borrow 10 percentage points more than the mortgage ceiling allows.
- The start-up loan has a maximum amount of SEK 250,000 or a maximum of SEK 500,000 for two first-time buyers who invest in a home together or for a single parent with custody of children.
- Mortgage players pay a fee for the state guarantee, which is expected to cover the state's costs for the guarantee.
- All persons who have not owned a home in Sweden in the past 10 years are counted as first-time buyers.

There is also an SOU that has been looking into a socially sustainable housing policy and the different tools available. Three proposals from the inquiry

- A new housing supply that includes both the state's and the municipalities' tasks and introduces a new goal for housing supply. The goal should be to create conditions for everyone to live in good housing.
- An obligation for municipalities to provide rent guarantees to families with children against compensation from the state.
- The public housing companies will no longer apply the Public Procurement Act.

## Denmark

### Rising prices

Large parts of the world have been hit by record inflation. In Denmark, inflation has reached an all-time high, as consumer prices rose by 6.7 percent in April. That is the biggest increase in 40 years. On average, goods have risen 10.3% in the past year, the highest annual increase since November 1982. It is especially prices for electricity, food, fuel, and gas that are increasing.

The rising consumption prices hit recipients of public welfare and people outside the labor market hardest - i.e., pensioners, unemployment benefit recipients, students, early retirees, and cash benefit recipients - and general tenants with a limited income.

Before Easter, the Danish government together with several parties adopted an agreement on a heating check for the households that are hit hard by rising energy prices. The heating cheque of DKK 6,000 tax-free will be paid to households with high price increases on heat and an annual income below DKK 650,000. In addition, the government has proposed to give an extra elderly cheque of DKK 5,000 tax-free this year to needy pensioners. The heat check and the extra elderly check can be a helping hand to the tenants in the non-profit housing sector, who are financially challenged by the acute and quite extraordinary situation. However, it is not certain the help is enough.

The economy of the tenants is challenged, and the unique financial advice and good advice provided by the social housing organizations across the country are crucial for the rent to continue to be paid. If prices continue to climb, there is a risk that we will see ordinary tenants unable to pay their rent. We follow developments closely and focus on political solutions that can create security around the residents' finances if prices rise further.

### Construction close to a standstill

Prices are also rising for materials for construction, and price increases have worsened since the war in Ukraine started. This represents a serious barrier to new construction in the non-profit housing sector. We are looking into almost de facto construction halt. In March, we conducted a survey showing that three-quarters of the tendered new construction with municipal approval has been put on hold or abandoned altogether. In addition, there are projects that have municipal approval, but have not yet been tendered. We have proposed a solution where the additional prices are covered by a special implementation contribution financed by either the Danish state or the Landbyggefond.

There is political support for a solution that can help alleviate the new construction of non-profit housing that has become stuck. Most recently the government has tabled an amendment to the latest housing agreement to establish a working group with member from the Ministry of Housing and the Ministry of Finance to provide concrete solutions. Specifically, the government proposes to let the municipalities allow an exceedance of 20 percent compared to the fixed cap on cost to realize non-profit housing in Denmark. There has been a nervousness about overheating in construction. However, a decline is seen in much of the construction industry, with order books and demand starting to dry out. A few construction companies have also gone bankrupt.