



# Norway and the housing market

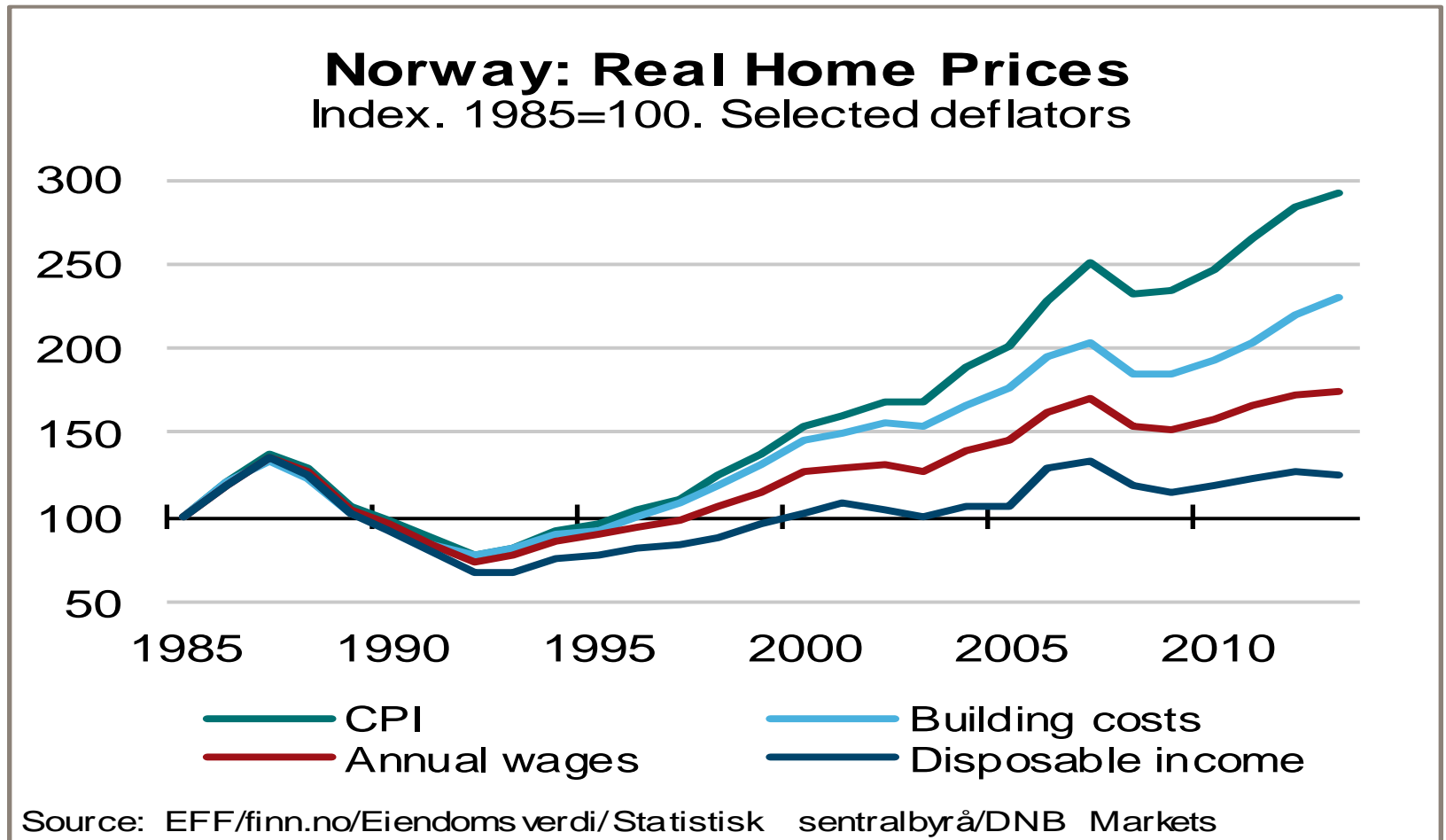
Housing market lunch, London, 10/4 2014

Senior Economist Kjersti Haugland, DNB Markets

DNB

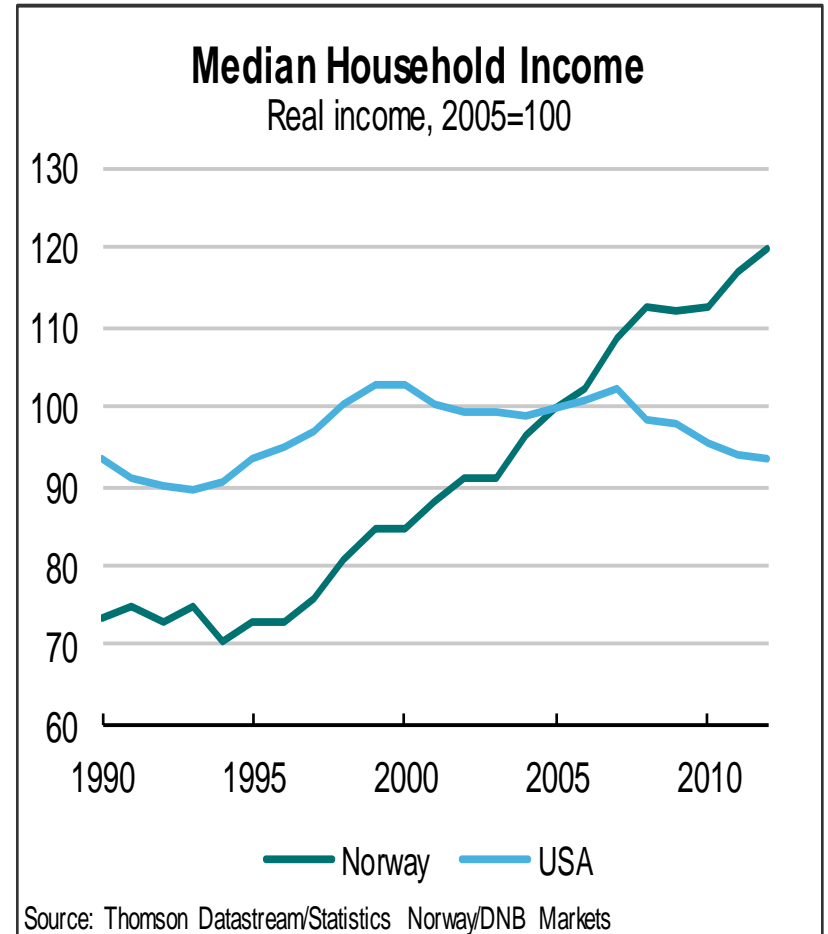
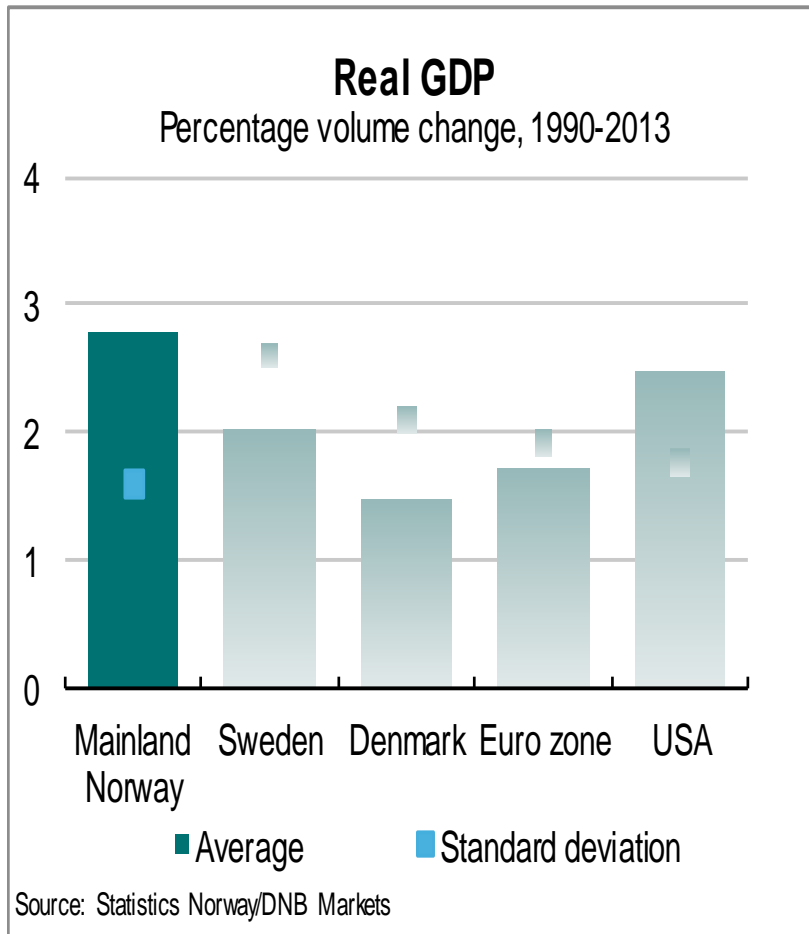
# Norwegian home prices have risen strongly

Higher purchasing power the major driver



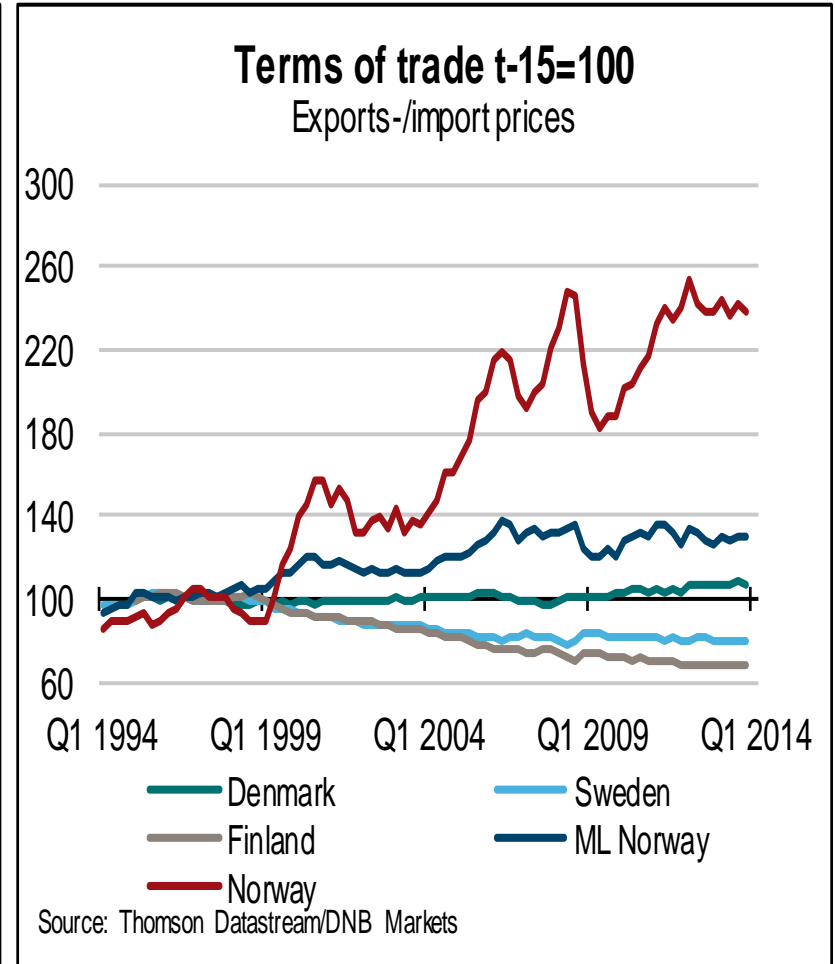
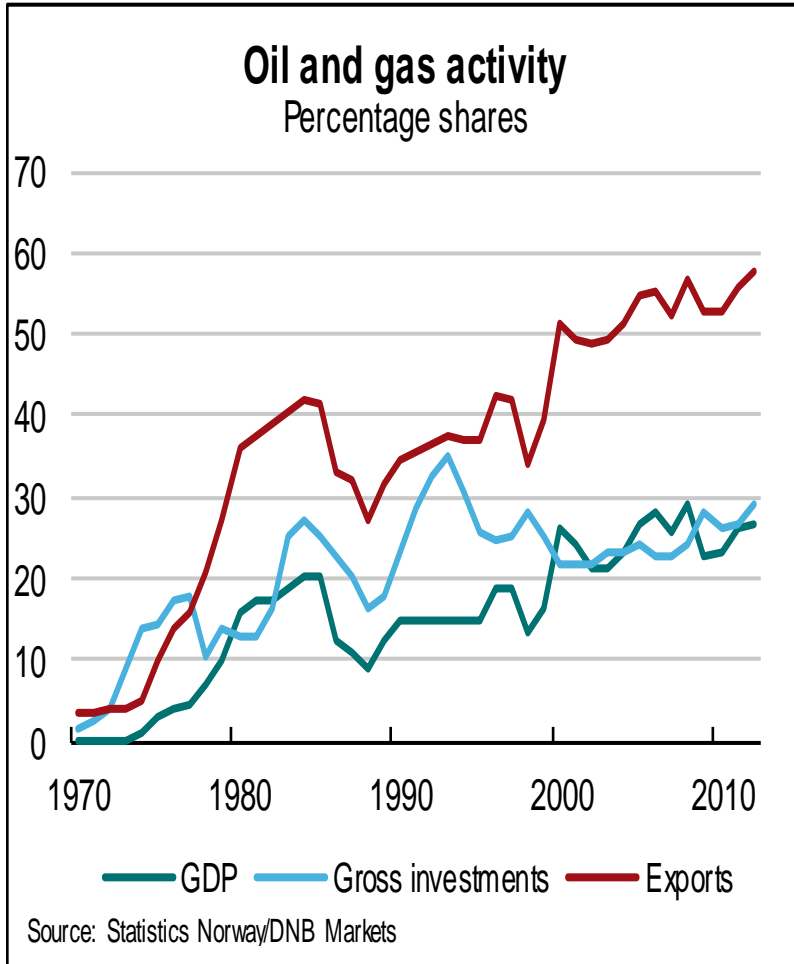
# Backdrop: High growth, low volatility

Unlike in the US, most Norwegians took part in the income gain



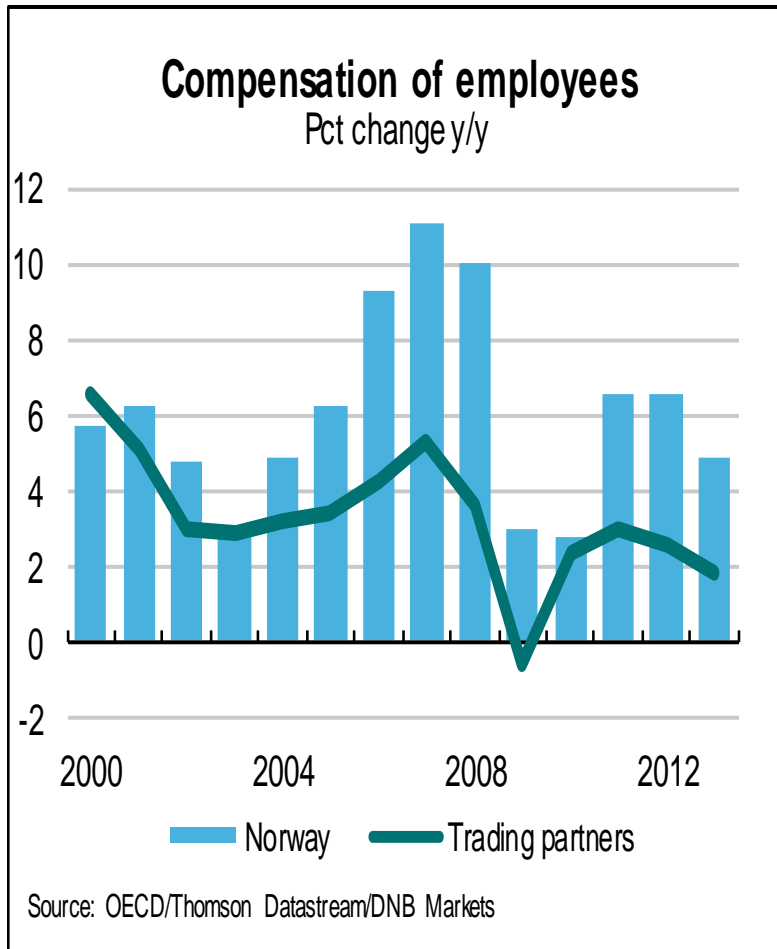
# Oil has boosted the economy

Both through activity impetus and through increased profitability



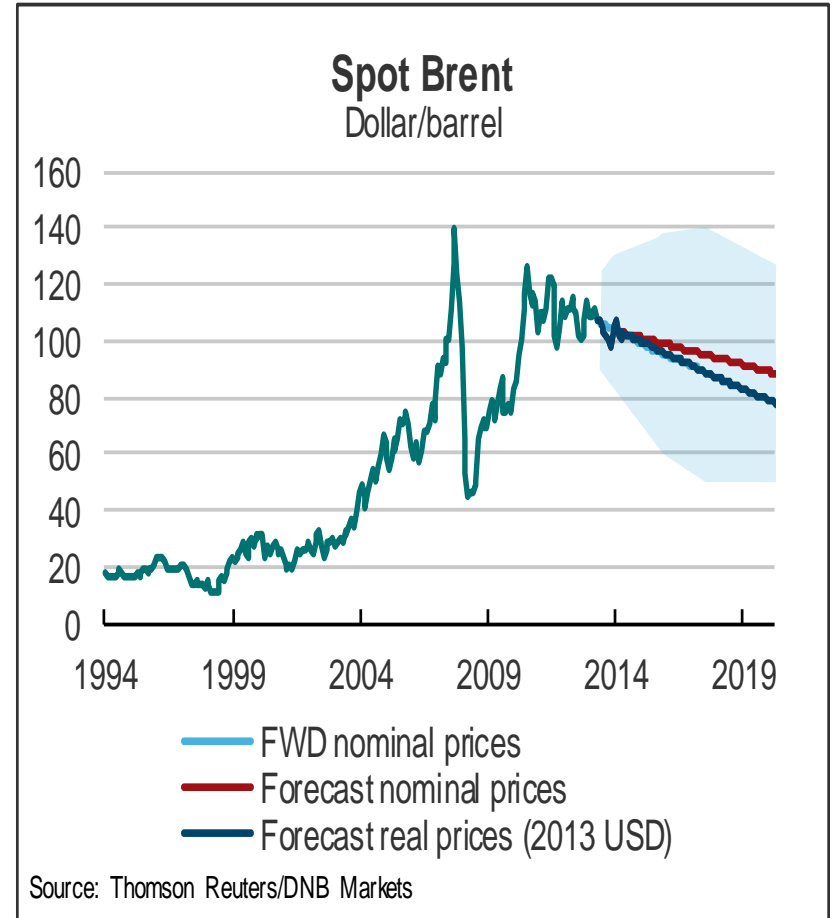
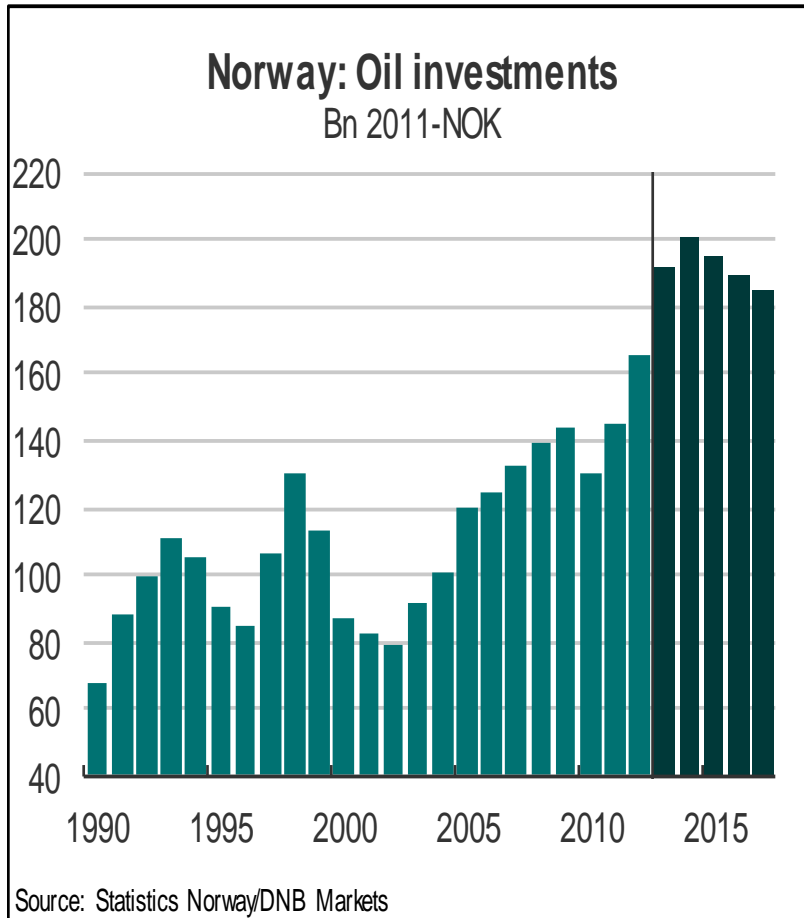
# High profitability led to high wage growth

Wage shares in line with historical average



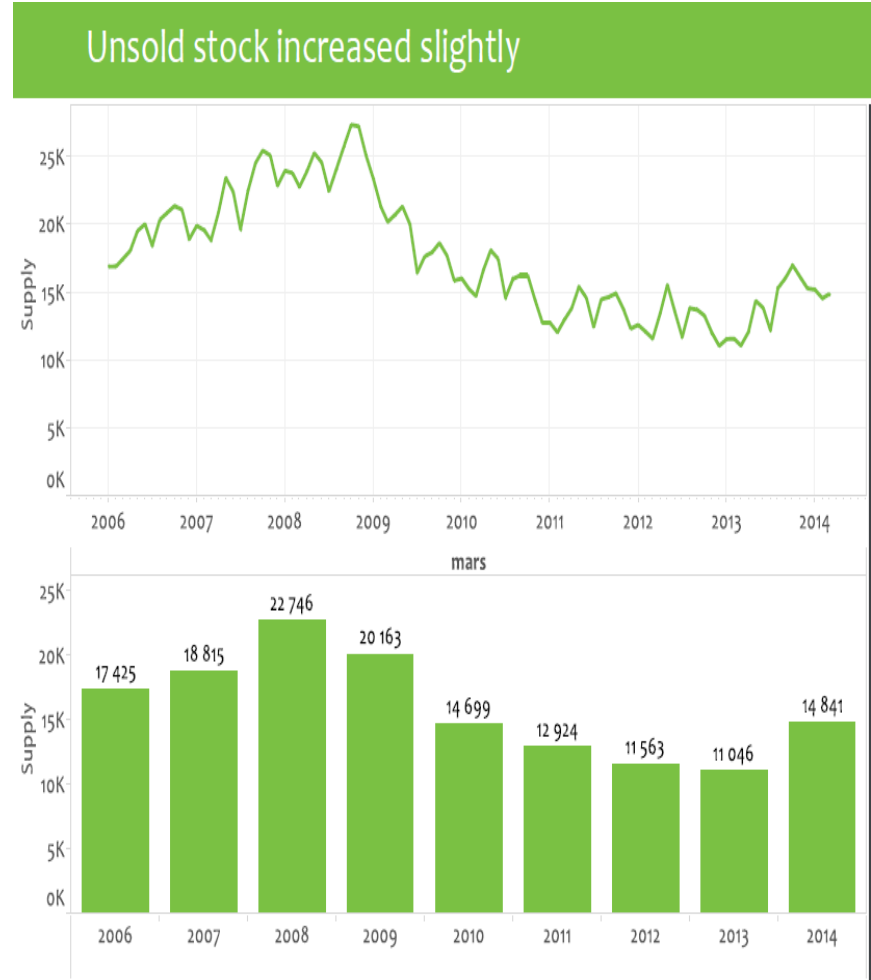
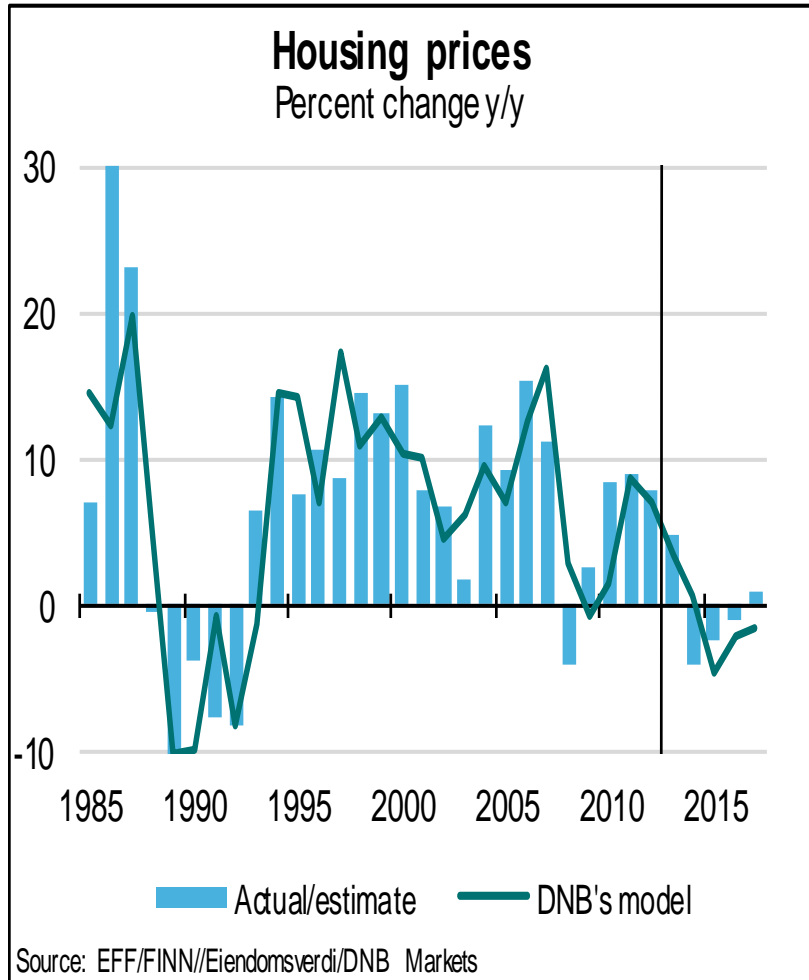
# Oil boom fading, mainland growth below trend

Investments to peak this year as oil price is set to decline to 80\$/bbl (real)



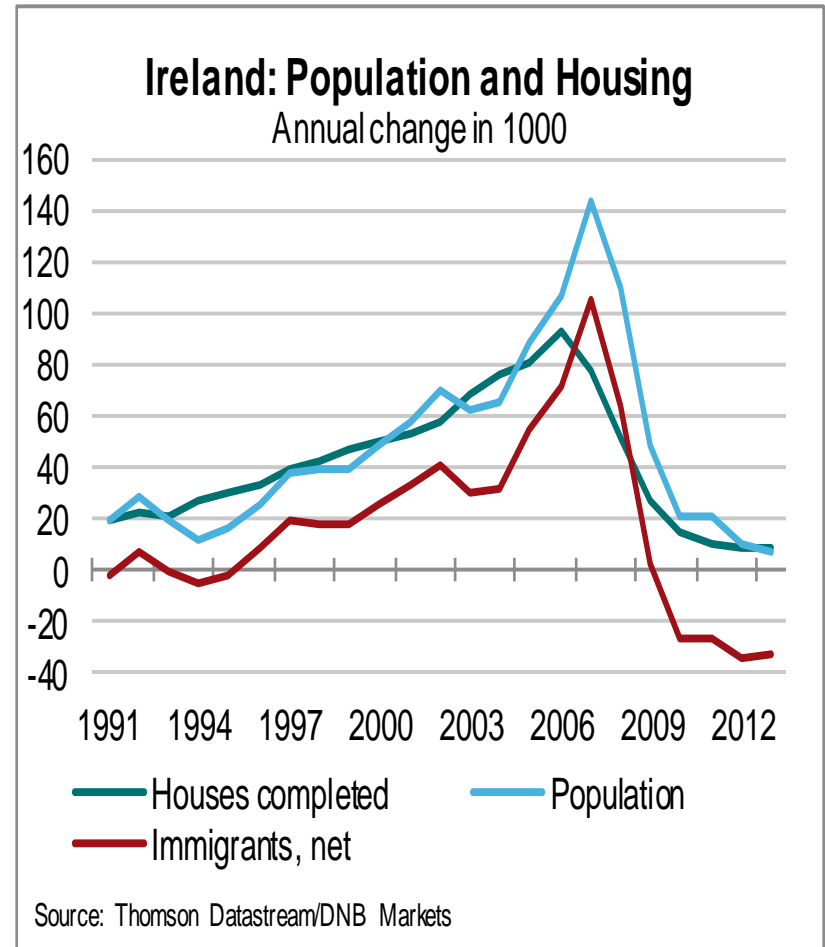
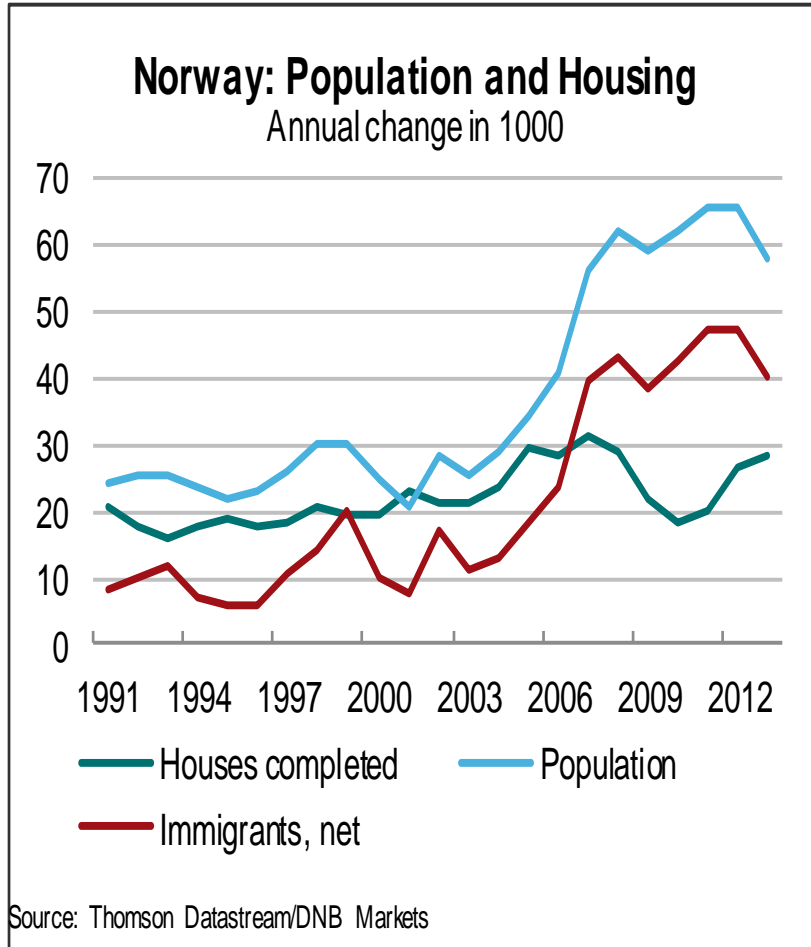
# Home prices to edge down

DNB Markets expect -8% over the next three years



# Limited building boom in Norway

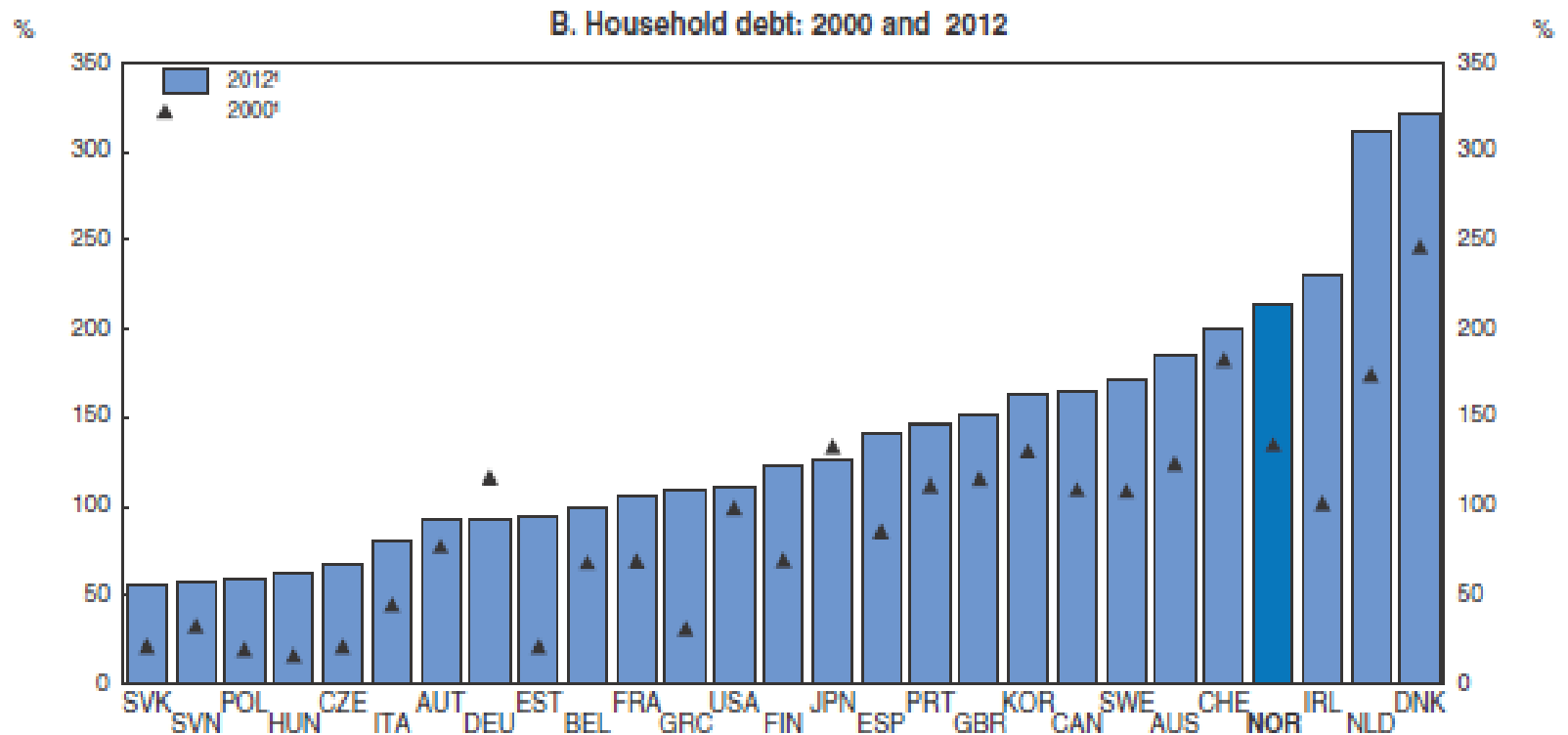
Despite record-high population growth





# Indebted households source of concern

Ranks high in international comparisons



1. Or nearest/latest year available.

Source: OECD Annual National Accounts Database and OECD Economic Outlook Database.

StatLink  <http://dx.doi.org/10.1787/888932998823>

# Expect lower credit growth

Joint effort by authorities

- **FSA guidelines**

- Loan to value (LTV) 85%
- Debt-servicing capability. Must be able to tolerate +500 bp
- Must amortise > 70% LTV

- **Bank regulations**

- Higher capital requirements for banks, including counter-cyclical buffer.

- **Fiscal policy**

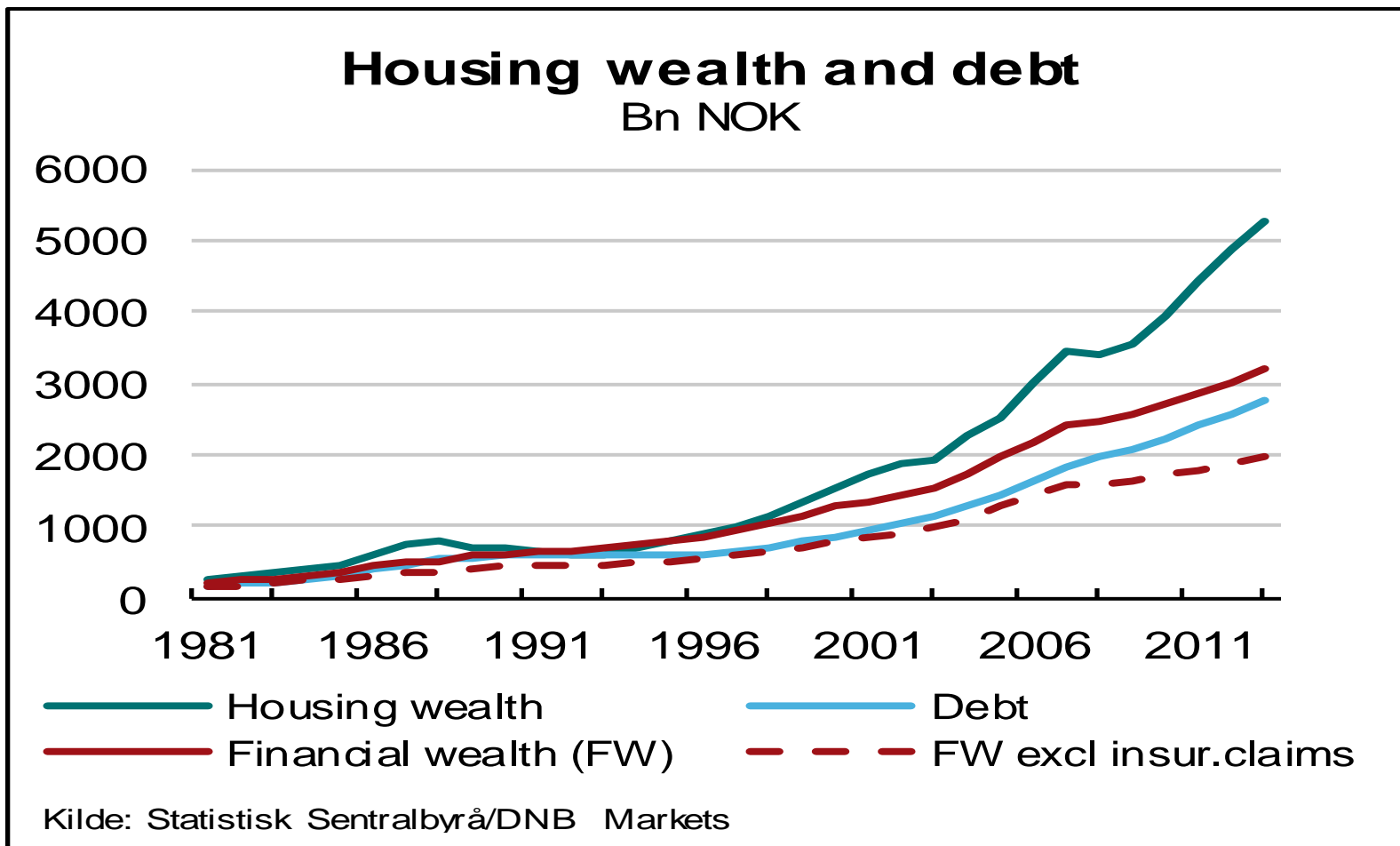
- Higher wealth tax on secondary homes
- +75bp increase in subsidized mortgage rates March 2014

- **Monetary policy**

- “Leans against the wind”

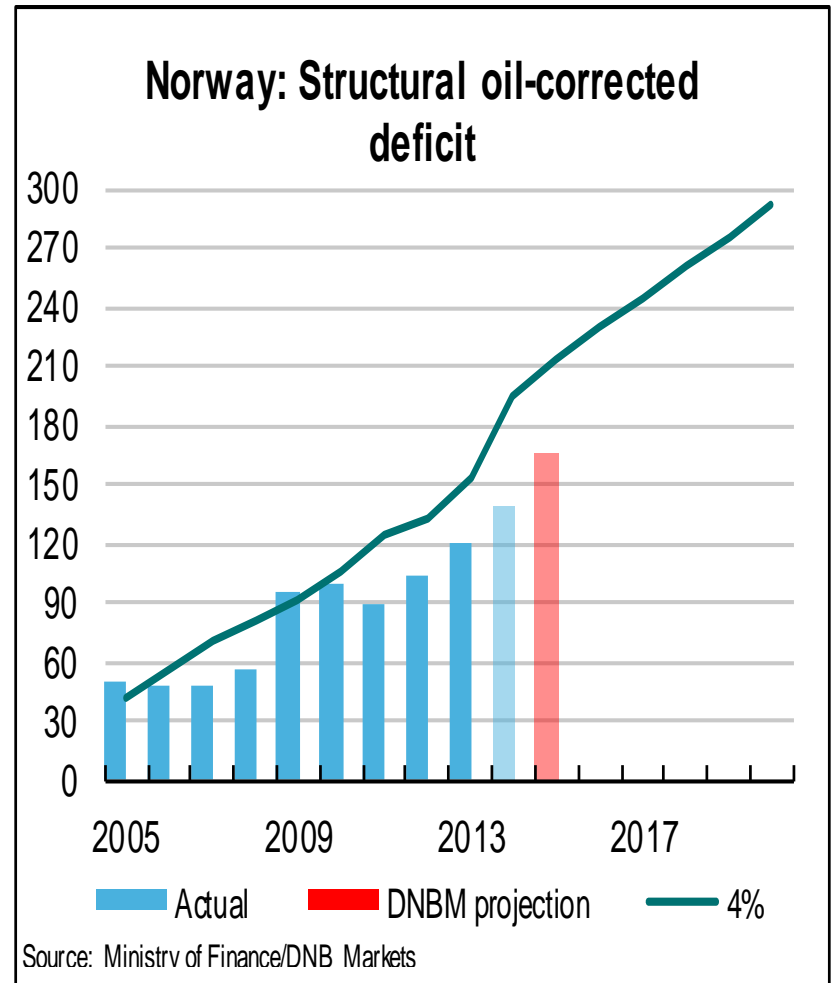
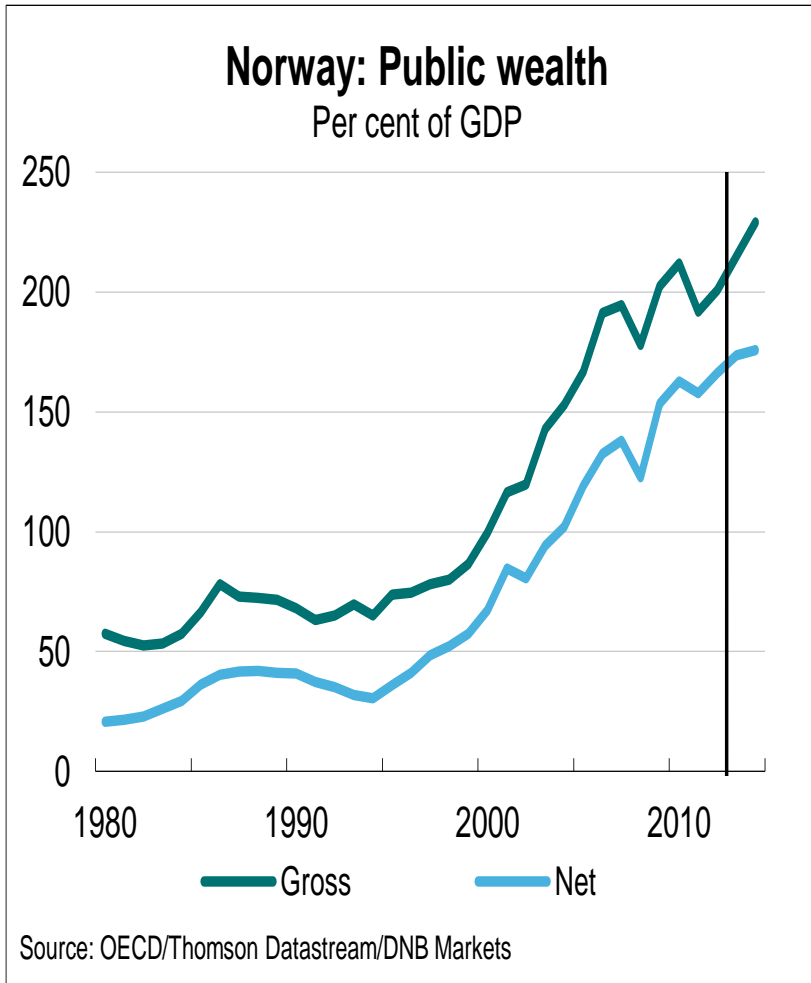
# Households have net wealth

Both sides of the balance sheet has increased



# Oil fund important buffer

Fiscal rule (4% of oil fund's value) provides ample leeway

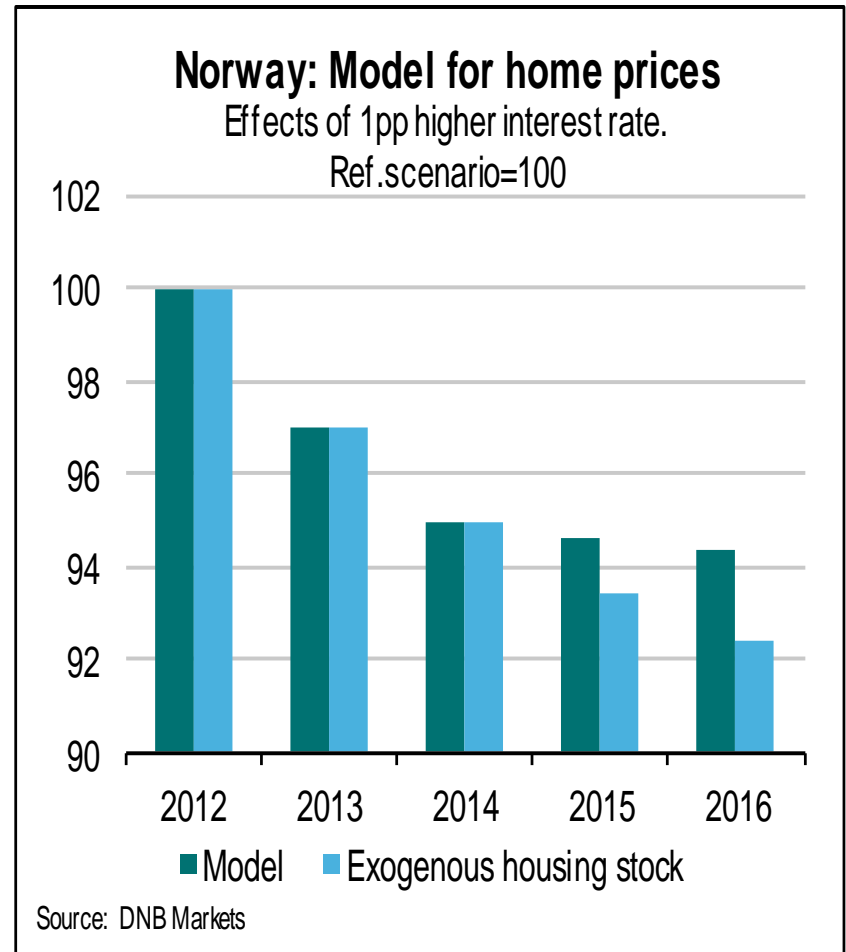
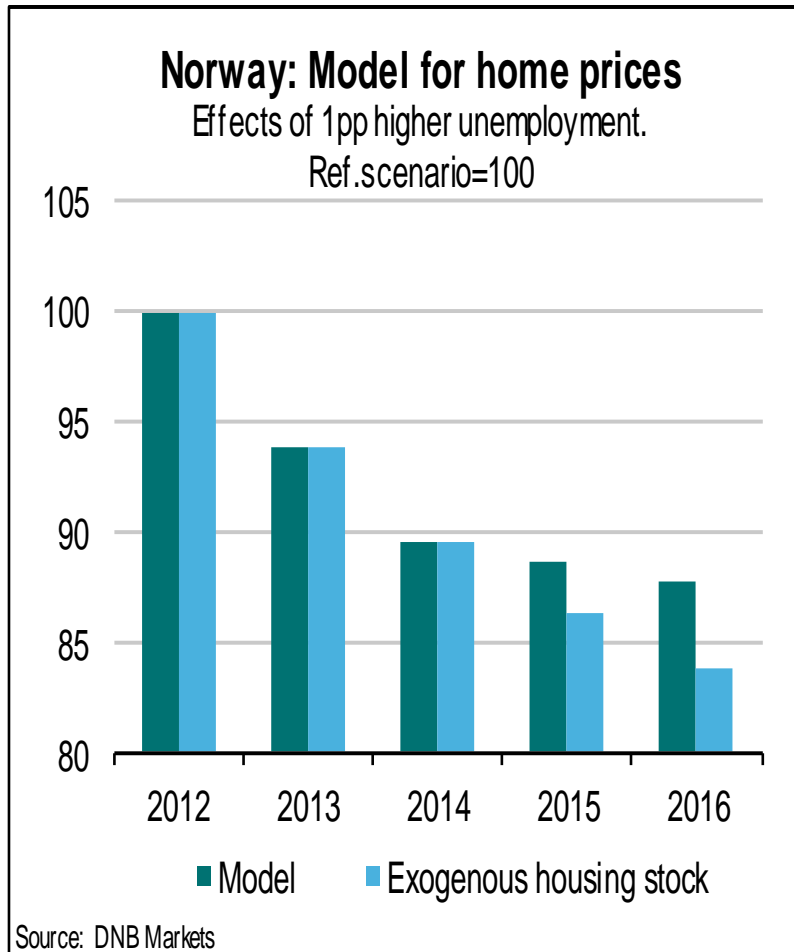


## Summing up: Norwegian home prices...

- **...are high, for good reasons.** Reflects exceptional economic performance throughout the past 20 years, and high income growth.
- **... are set to decline for the next three years (-8%),** as a the oil boom fades and fundamental drivers go from being strongly positive to mildly negative. Moderate income growth, higher unemployment and increasing interest rates.

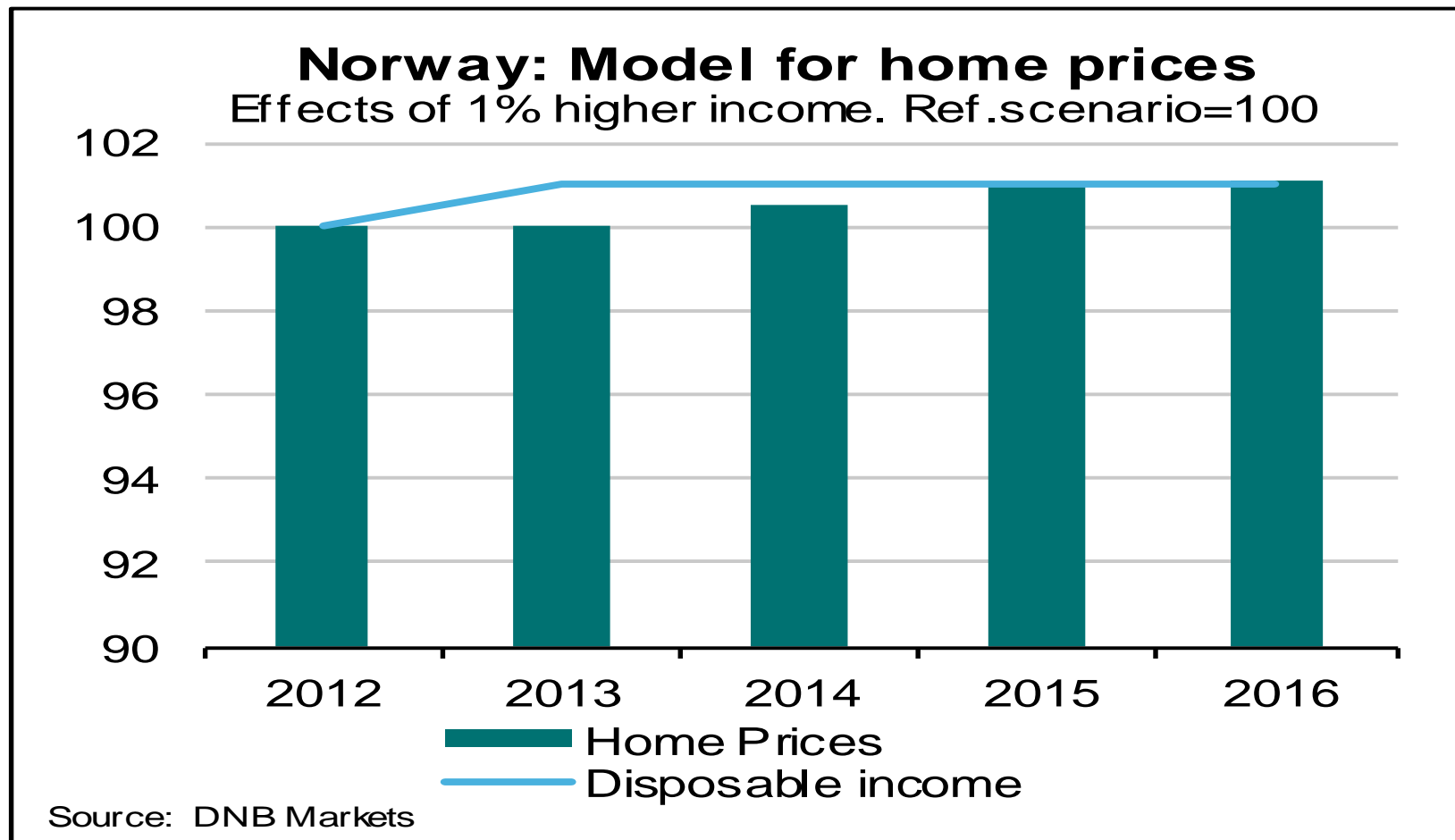
# Memo: DNB Markets' home price model

## Isolated effects



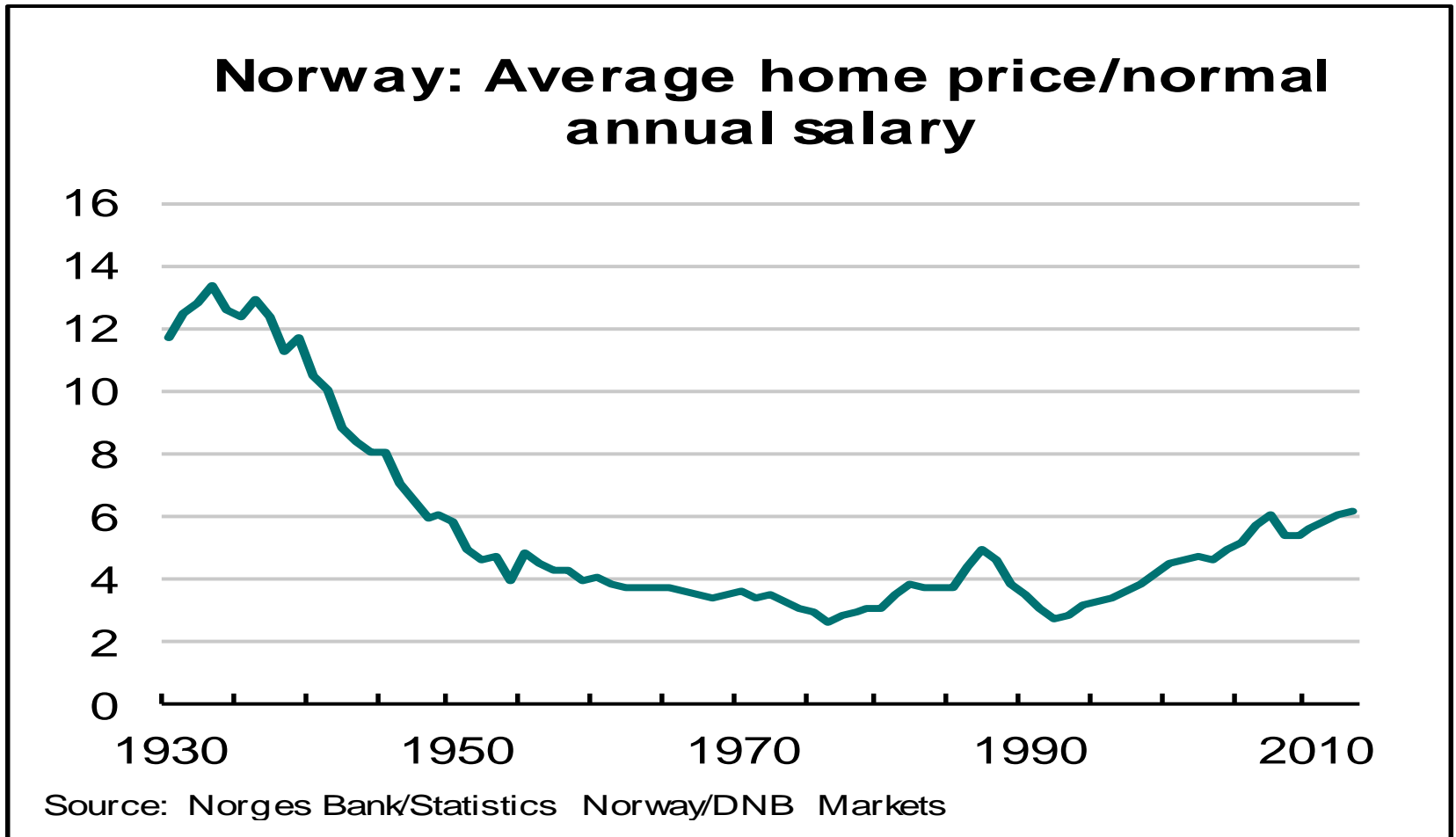
# Memo: DNB Markets' home price model

Isolated effects



# 6 normal annual salaries to buy a home in 2013

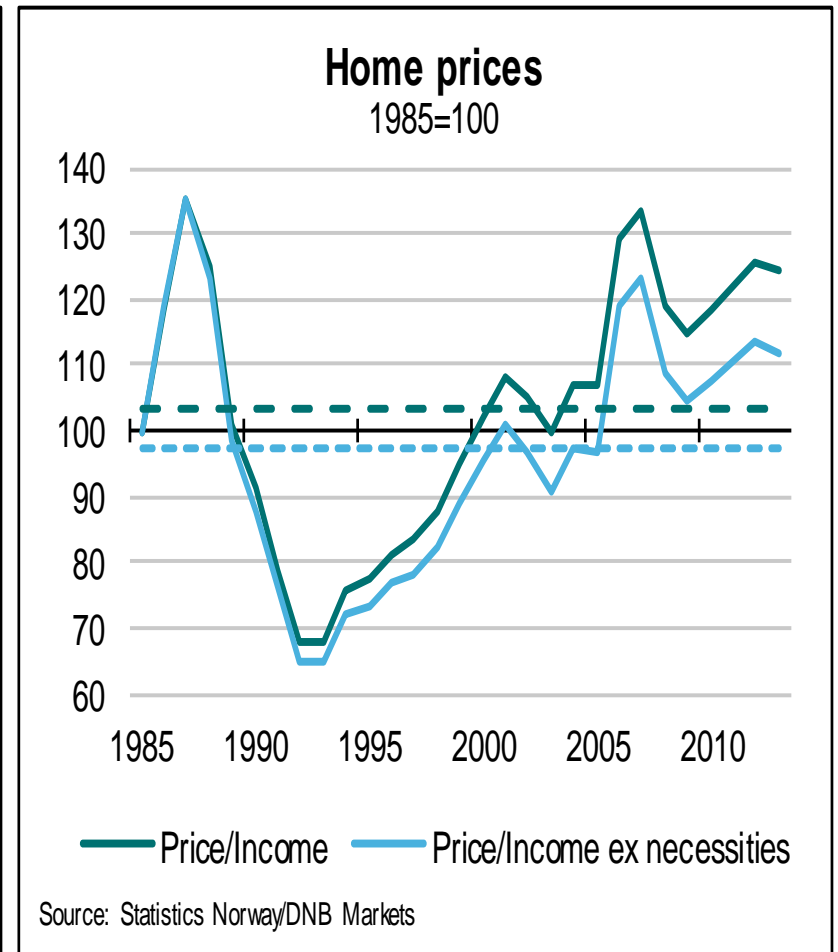
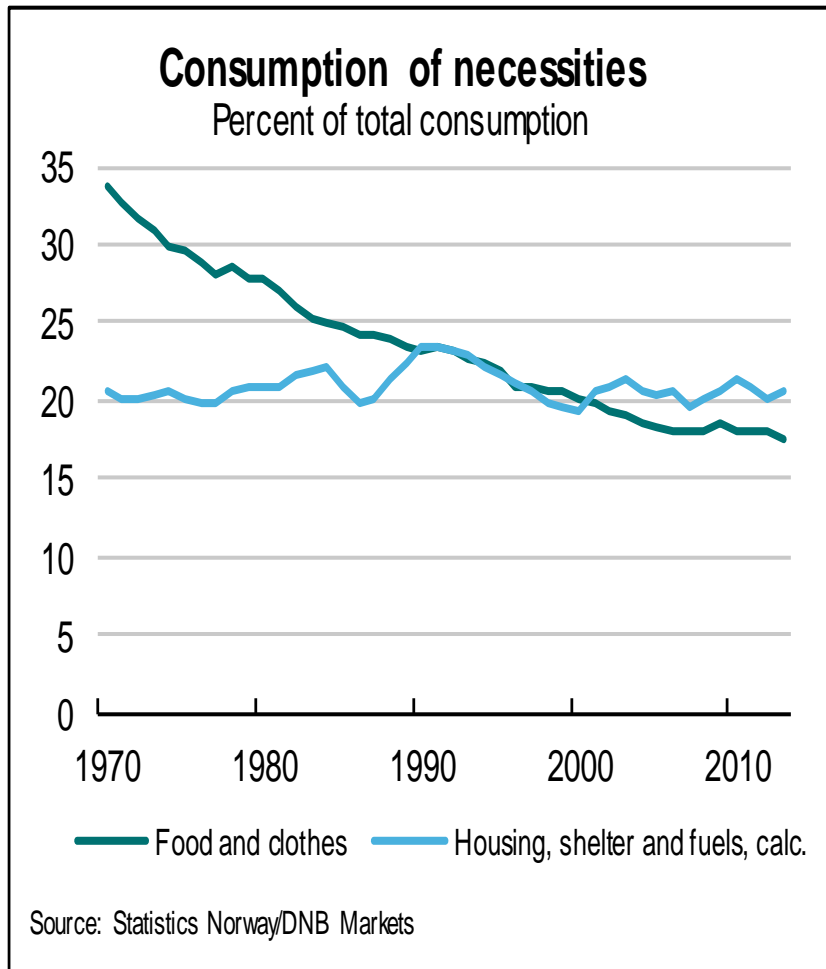
Highest since 1947





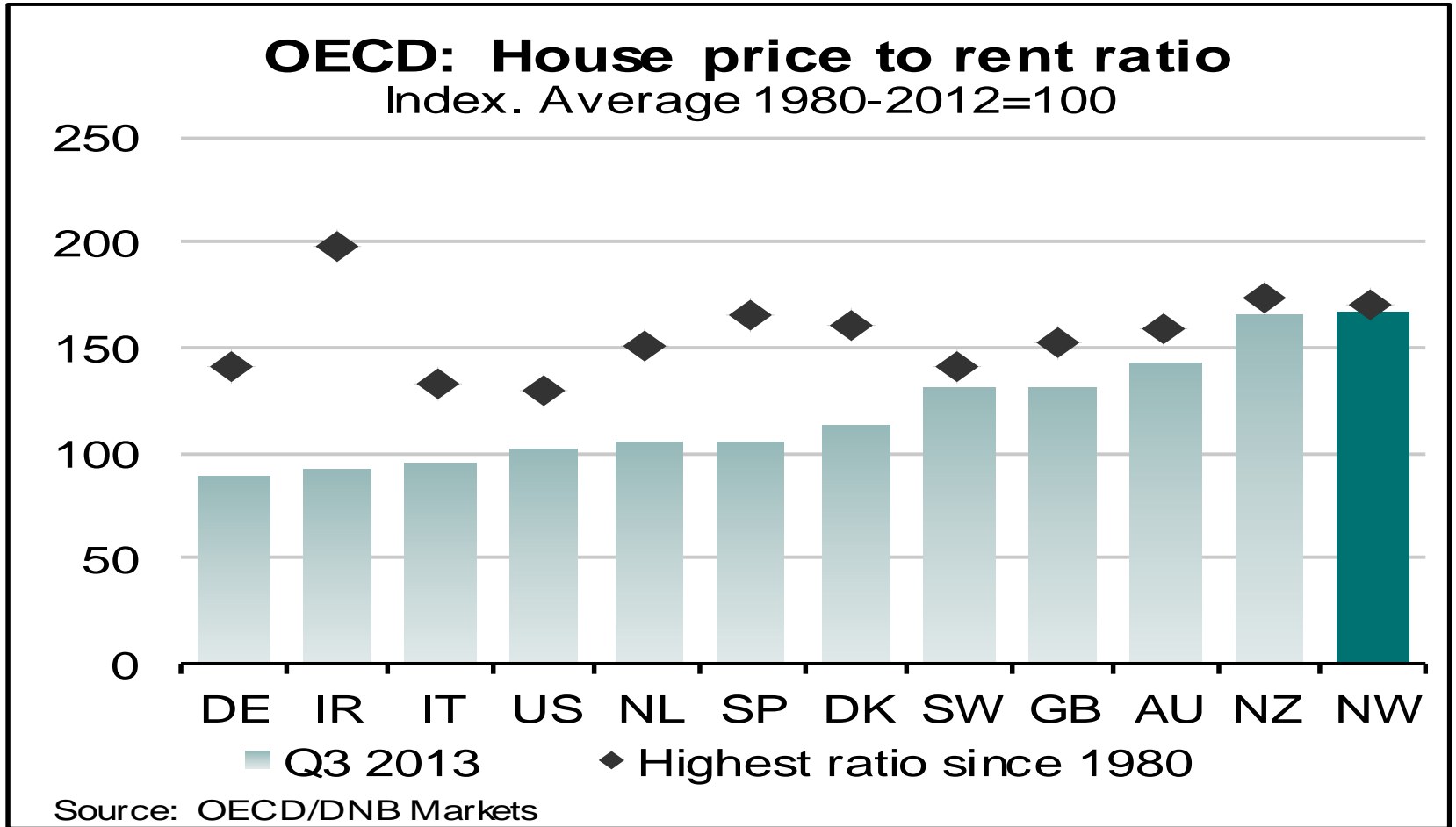
# Price/income 15% above 28-year average

Share of income spent on necessities (food, clothes etc) lower than before



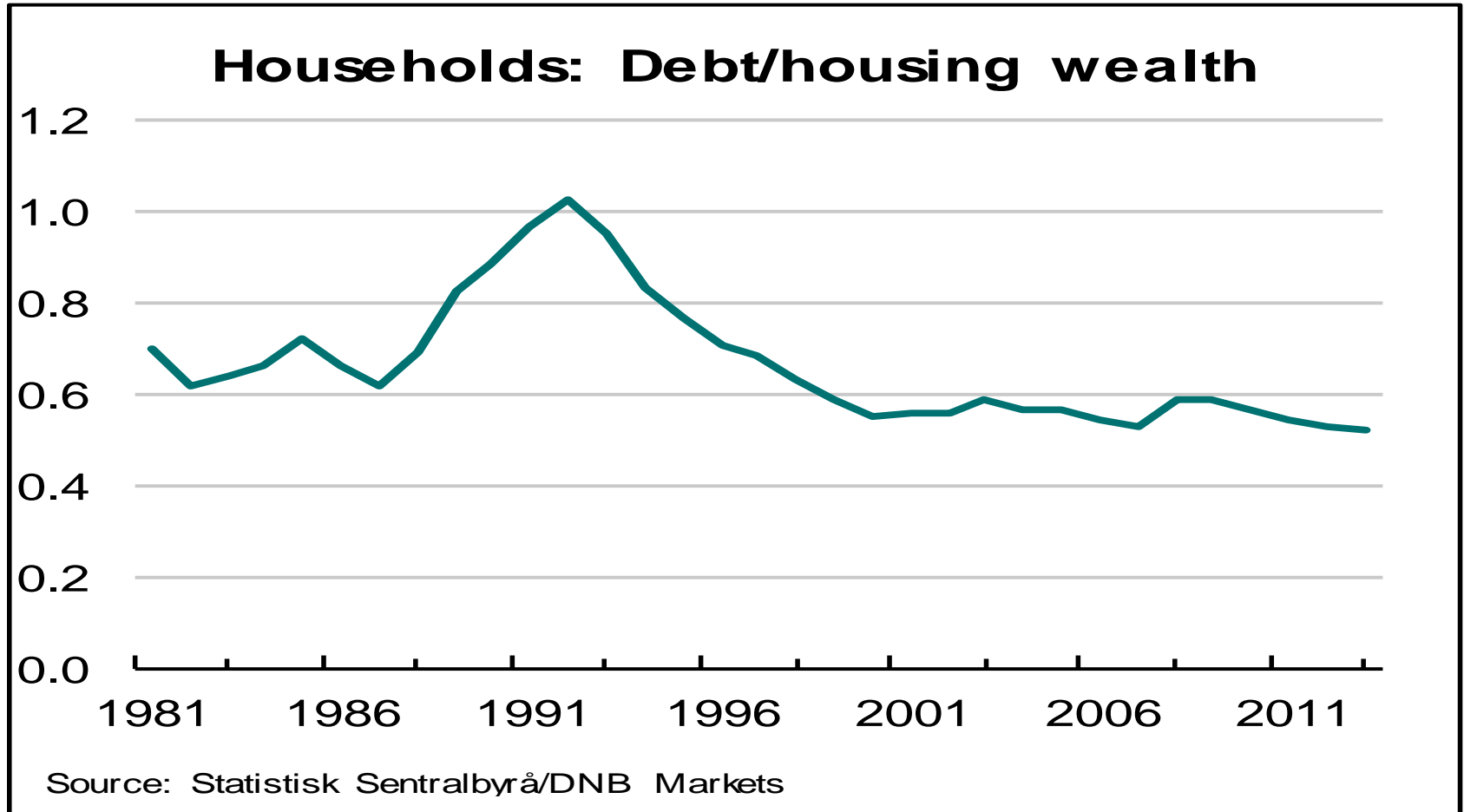
# House prices are high compared to rents

But Norwegian rental market is very small



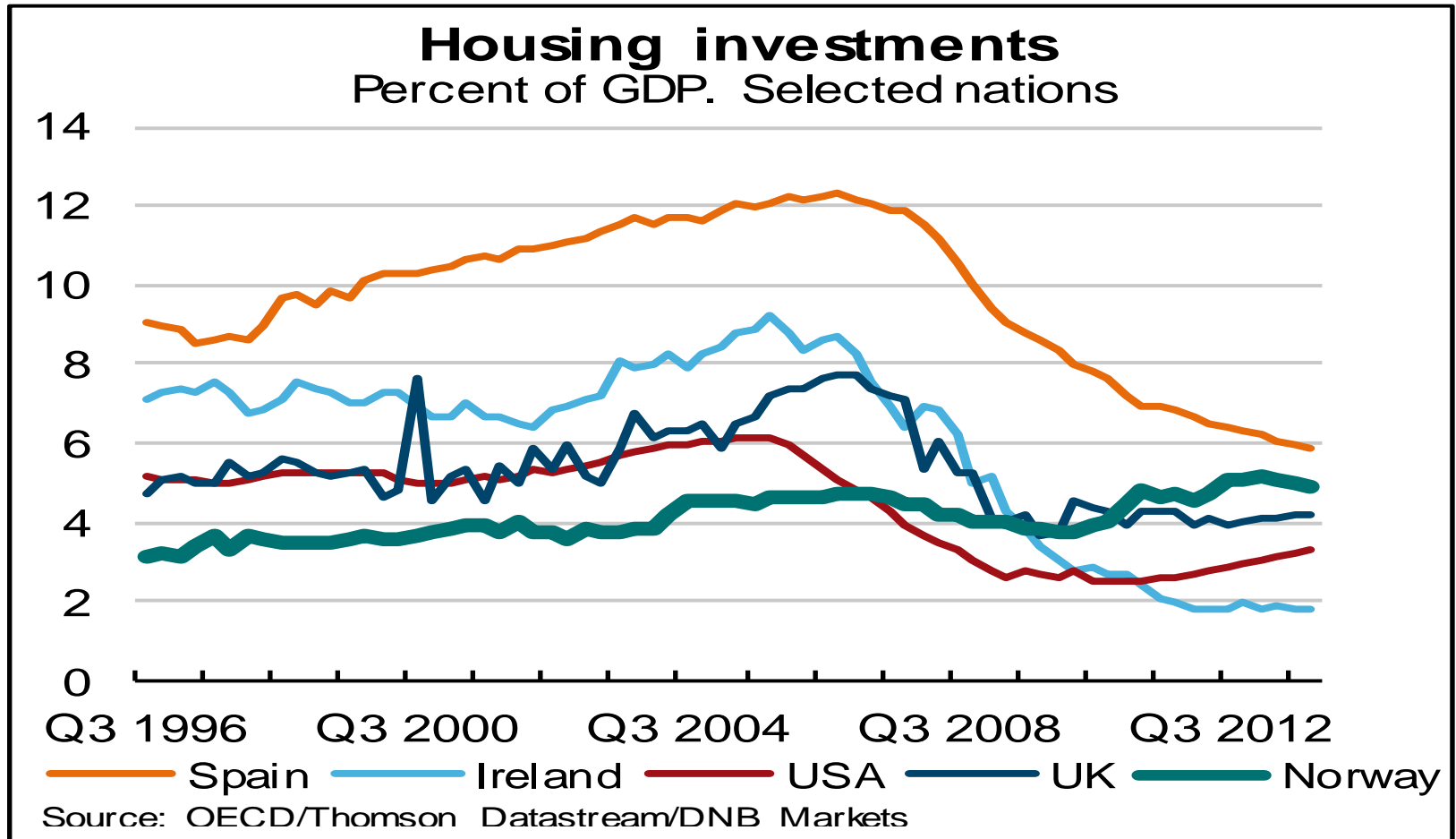
# Stable relation between debt and housing wealth

After decline during the 1990s



# Limited building boom in Norway

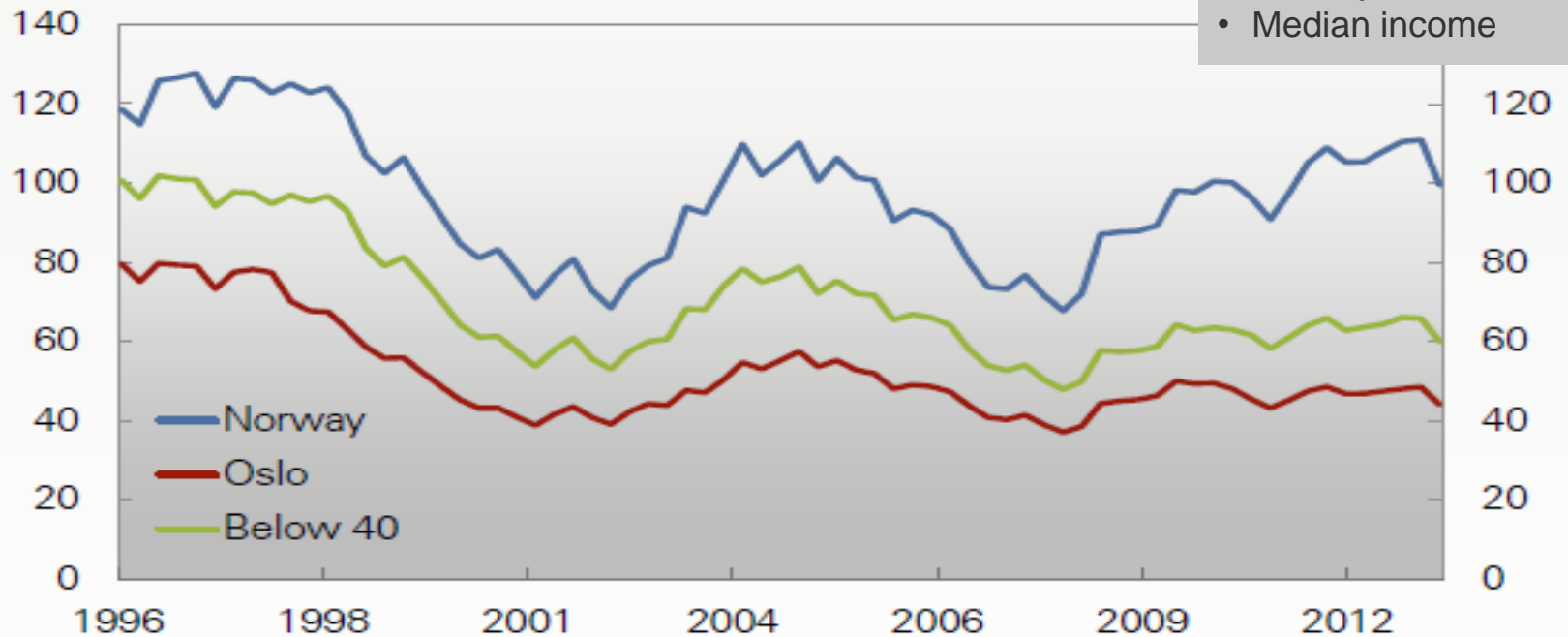
Compared to Spain, Ireland and UK



# Homes are affordable

Affordability decreased for young households and Oslo residents in the 90s

Chart 1 Housing affordability. Indicator. 1995 Q4 – 2013 Q2



Index fluctuates with

- Mortgage rate
- Home prices
- Median income

Sources: Statistics Norway, Norwegian Association of Real Estate Agents (NEF), Eiendomsmeglerforetakenes forening (Eff), Finn.no, Eiendomsverdi and Norges Bank

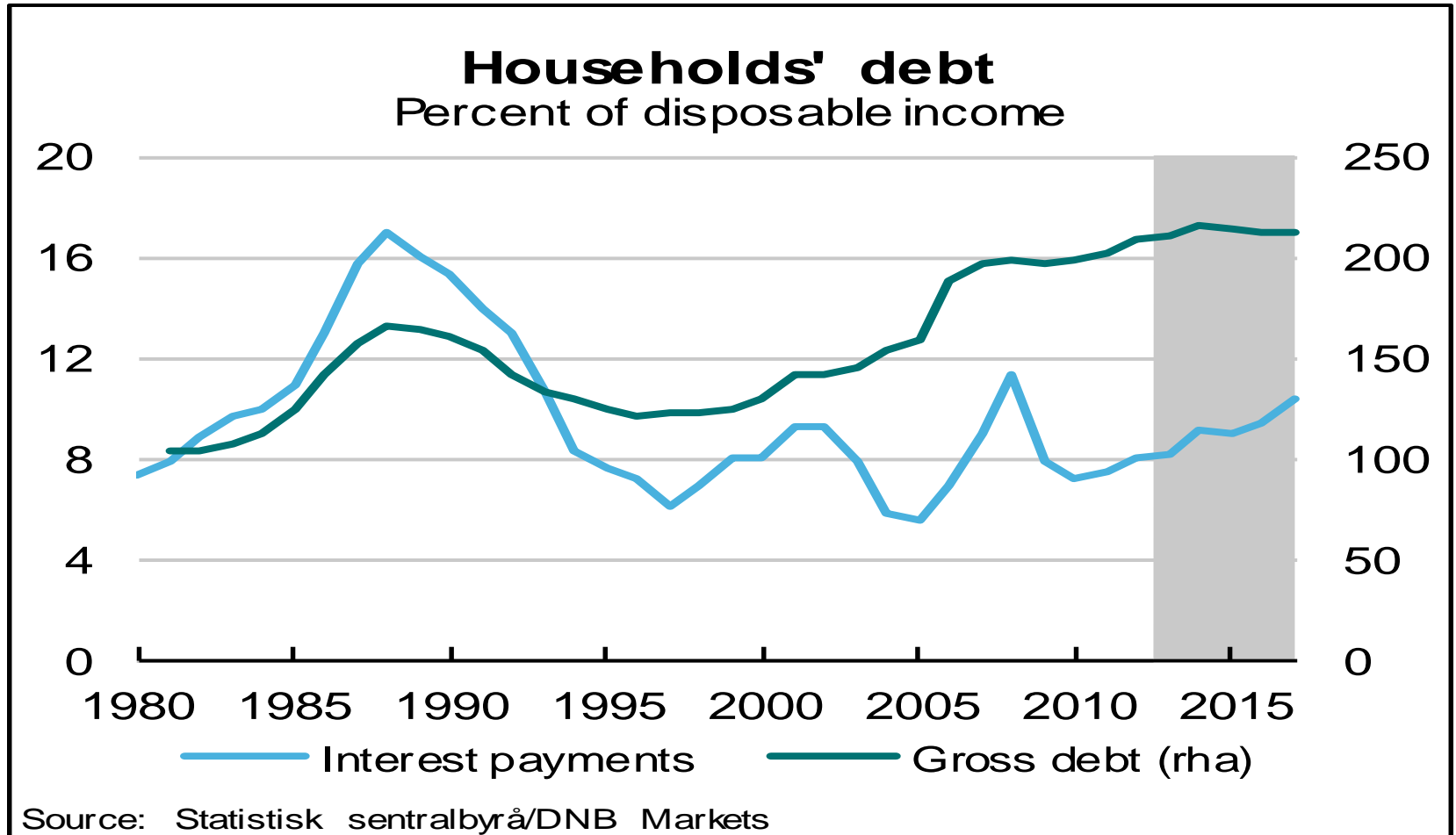
# Memo: Housing affordability index (HAI)

= (Median income/qualifying income) \*100

- **Qualifying income:** after-tax income necessary to pay interest and principal on a loan with benchmark conditions for a standard dwelling.
- **The standard dwelling for Norway is 85 m<sup>2</sup>** (for Oslo 75 m<sup>2</sup>).
- **Benchmark loan conditions**
  - Loan amount is 80% of market value
  - Market value is the size of the standard dwelling multiplied by the square metre price from the real estate industry
  - Self-amortising loan with 30-year term
  - Interest rate is Norwegian State Housing Bank's 5-year fixed rate
  - The indicator is at 100 when 25% of after-tax income is spent on interest and principal
  - No account has been taken of lower principal repayments owing to longer terms and increased use of interest-only periods.
- **Source:** Norges Bank's Financial Stability Report 2013

# Interest rate burden set to rise to 10% in 2017

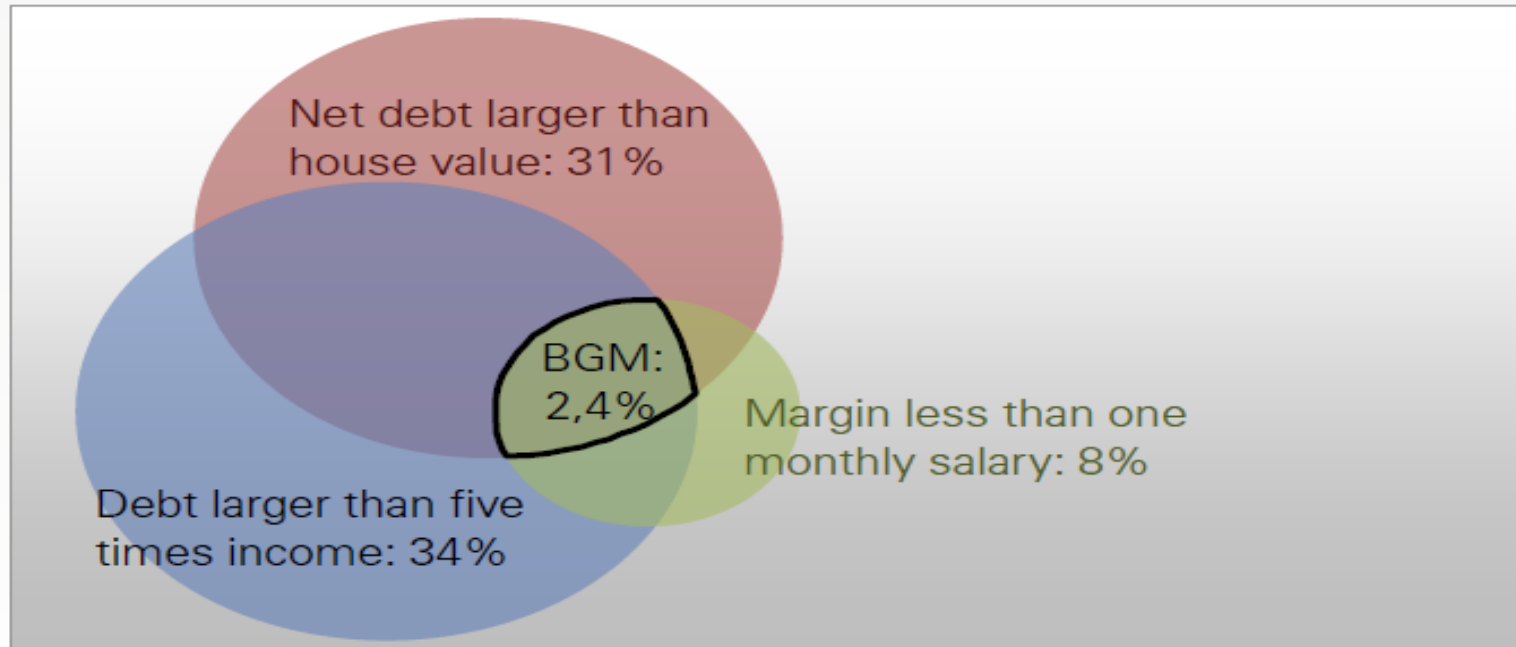
Debt ratio stabilises around 200%



# Many ways to measure vulnerability

2.4% of households defined as “risky” by Norges Bank

Chart 2 Debt of exposed households using three criteria.  
Percent of total debt. 2011

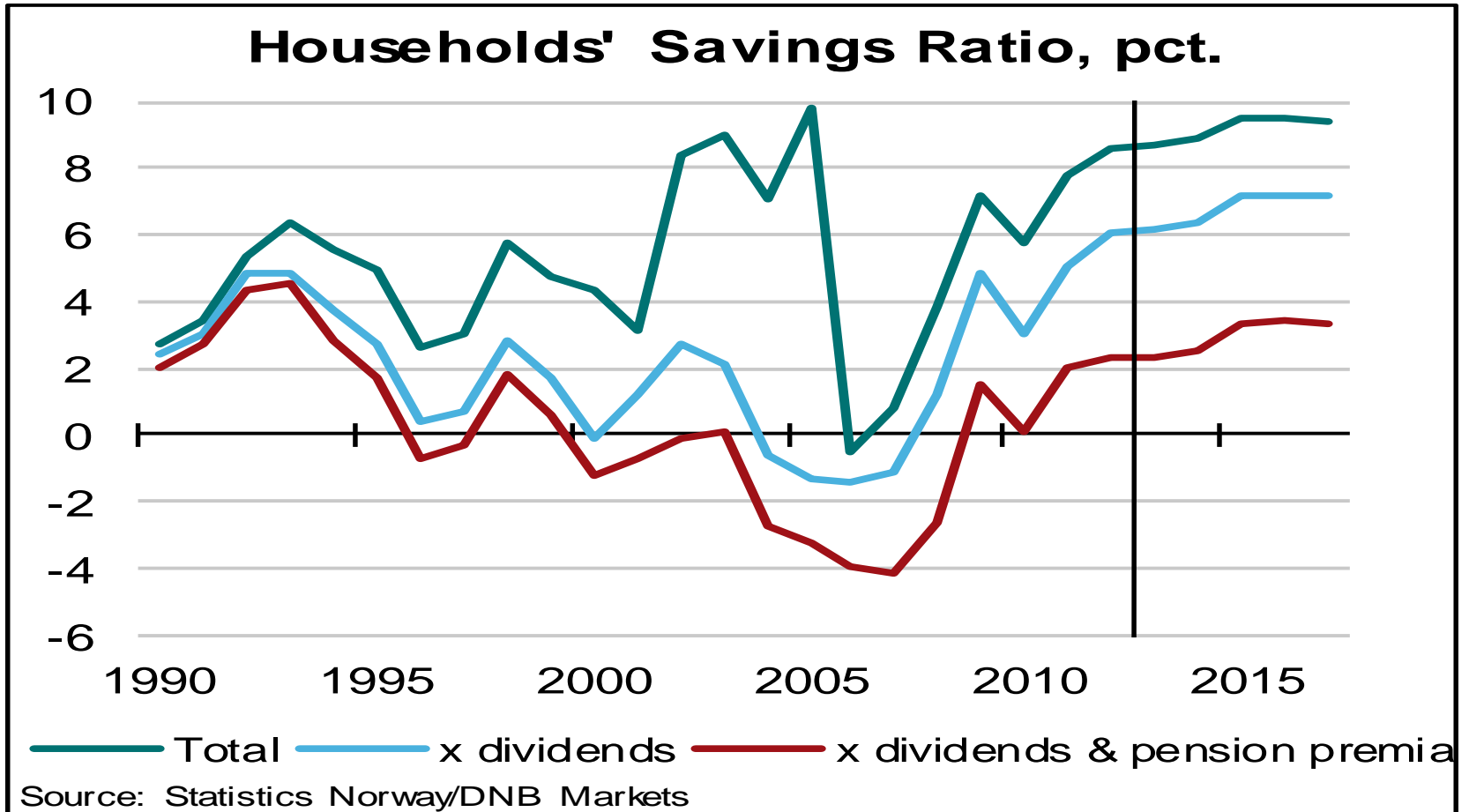


Sources: Statistics Norway and Norges Bank



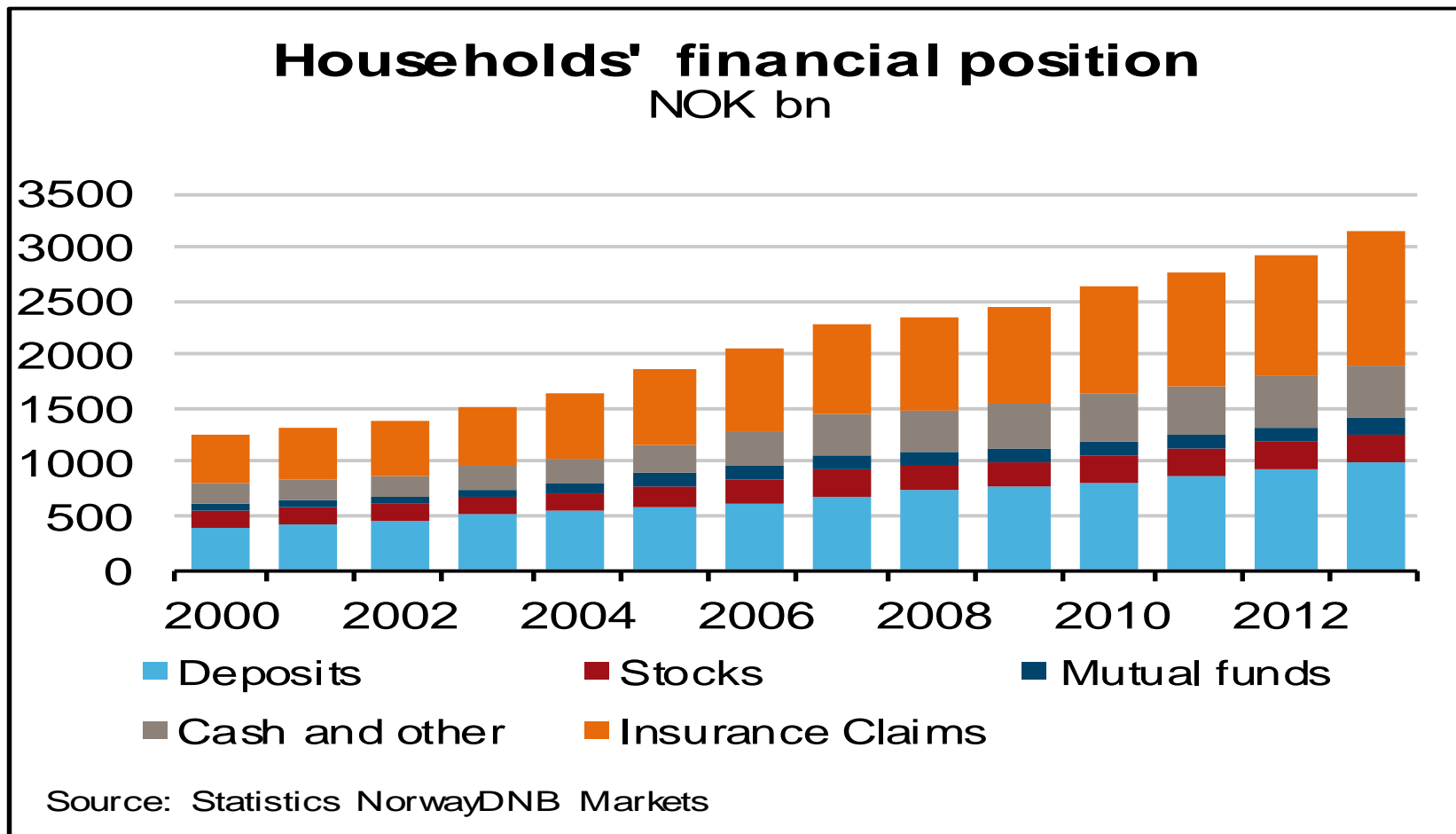
# Households are saving more than before

We expect the saving rate to increase further this year



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