

The Housing Financing Fund (HFF), banks, and holding companies owned by the banks have acquired a large number of residential properties following the financial crisis. At the end of September 2011, these parties owned almost 2,500 properties, or around 1.9% of the total housing stock in Iceland. By comparison, the number of purchase contracts registered last year was just over 4,600, and during the first eight months of this year around 3,700 contracts were registered.¹ As Table 1 shows, these parties own just over 1,000 properties in the capital area, or around 1.3% of the total stock in this region. By comparison, almost 3,000 properties were sold in the capital region last year and just over 3,200 in the first eight months of this year.

Almost one-quarter of the residential properties owned by these parties is still under construction (around 550 in all). While it is difficult to obtain exact figures for the total number of houses under construction in Iceland, Statistics Iceland estimated that at the end of 2010 there were around 5,000 residential properties under construction.

1. When HFF, banks, or banks' holding companies appropriate residential properties, no actual purchase contract is concluded indicating the market value of the property, and such agreements are therefore neither included in data on turnover or on real estate market prices. When these parties eventually sell the properties on the market, on the other hand, they are reflected in this data.

Box III-1

Housing owned by the Housing Financing Fund and the banks

Table 1 Residential properties owned by HFF, banks and holding companies

	No. of residential properties	% of total stock in the region	No. of purchase contracts in 2010	Residential properties rented out	Residential properties under constr.	Completed residential properties not rented out
Capital region	1,026	1.3	2,956	444	337	245
Suðurnes area	462	4.7	236	115	62	285
West Iceland	278	4.2	209	124	70	84
West Fjords	48	1.4	123	10	19	19
North Iceland	131	0.8	502	66	4	61
East Iceland	214	4.0	194	72	13	129
South Iceland	323	3.4	417	152	46	125
Total	2,482	1.9	4,637	983	551	948

Around 40% of residential properties owned by HFF, banks, and holding companies are rented out, in most instances probably to former owners of the property or parties who previously rented directly from the former owners. If completed houses that are not rented out are assumed to be for sale, this includes almost 1,000 properties. The average number of properties for sale on the Internet website of the daily *Morgunblaðið* in 2011 is 4,760. Some of the residential properties owned by the above parties is advertised on this website, as real estate agents handle their sale in by far the most cases.

The number of residential properties owned by HFF, banks, and holding companies owned by the banks varies greatly depending upon the region. In the Suðurnes area, for instance, they own 460 residential properties or 4.7% of all properties. In addition, a rental company owned to a large extent by these parties manages almost 1,300 properties on the former military base; around half of them are rented out. In the Suðurnes area, 236 residential properties were sold in 2010, making it clear that the problem is considerably greater there than, for instance, in the capital region or in Iceland as a whole. During the past decade the number of properties in the Suðurnes area has increased by almost 2,400, in addition to the almost 1,900 on the former military base, making a total of over 4,000, while at the same time the number of residents in the area has increased by just over 5,000. The excess supply of residential properties in this region is therefore considerable and is likely to remain so for some time, as unemployment there is the highest in Iceland (10.7% in September).

In West Iceland as well, a considerably high proportion of properties is owned by HFF, banks, or holding companies. They own almost 280 properties or over 4% of the total number of residential properties in the region. In West Iceland, however, these houses are a much smaller proportion of turnover on the residential market than in the Suðurnes area, as some 290 properties were sold in West Iceland last year. Unemployment is also lower there, 3.2% in September. In East Iceland around 4% of residential properties are owned by these parties but their share in turnover in 2010 was considerably lower and unemployment in the region was 3.1% in September.

Possible impact on housing prices

It is expected that the objective of both HFF and the banks is to sell the properties they currently own. It is difficult to assess what the impact would be on residential housing price developments if HFF and the banks decided to sell off their housing portfolios. This would

depend on how rapidly the properties were sold and the general economic situation if and when this occurred. The above figures show that the number of residential properties owned by HFF and the banks is fairly large relative to turnover on the housing market. Compared to the total number of properties, however, their share of the total stock is not great. If these parties disposed of their residential properties in a short period of time, it can naturally be assumed to have some impact on the market. But they are not likely to do so, as that would not be in their interest. They will probably hold these assets as long as they expect to be able to sell them at a higher price than they can currently obtain for them. It is also only natural, under the current circumstances, for banks to proceed with caution in the residential housing market, since housing price developments not only affect the price they obtain for these properties but also their most important collateral for household loans.