Nordea

Nordic Housing Report

What's trending?

Marketing Material
11/2017

Nordic Housing Report: What's trending?

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Foreword

Since the financial crisis, monetary policy globally has been extremely accommodative in an effort to bring economies and inflation back on track.

While central banks' success in fulfilling their mandate is debatable, the historically low level of interest rates has clearly been the key driver behind the new golden era of housing markets in many parts of the world.

In this report we take a closer look at trends in the four Nordic countries where home prices – especially in Norway and Sweden – have seen a sharp rise.

For each country we review the three most important market themes at the moment. Although this is not a country comparison, trends in the individual countries have several common features.

First, prices have seen markedly stronger rises in the capital cities of Stockholm, Oslo, Copenhagen and Helsinki than in the rest of the countries.

Second, all the countries have implemented new regulatory measures to curb price rises and indebtedness. In Norway and Denmark, additional measures are aimed at addressing developments in one or several of the large cities.

Third, price trends and the low financing costs have triggered strong growth in new construction, notably in Sweden and Norway.

This combination of rising home prices and a pick-up in new construction could be a toxic cocktail if prices start to fall. Prices are already falling in Norway, but we judge that this is merely a modest correction from a high level.

The same could happen in the other countries, too, and the trends will be interesting to follow over the coming years. Only when monetary policy is tightened and interest rates rise will the stability of the Nordic housing markets really be tested.

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1. Sweden: A wobbly market

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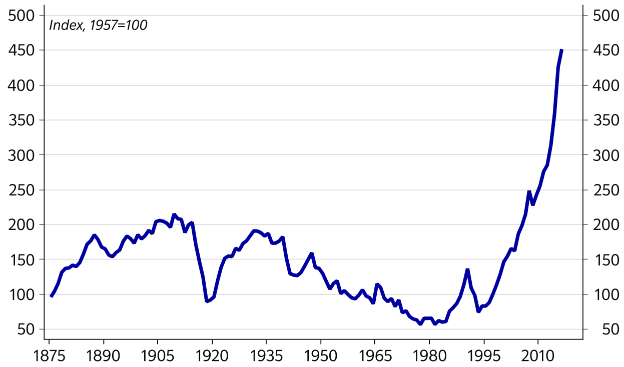
Over the autumn developments in the housing market have sparked considerable uncertainty. Home sales activity has become more sluggish, and prices have dropped. Supply is relatively high, especially newly built homes, and this is likely to drive down prices further near term. The nervous sentiment has also triggered a plunge in the share prices of several property companies since the spring. Is this the beginning of the end of a 20-year bull market?

Figure 1. Real house prices in Stockholm may drop



Source: Söderberg et.al.(Riksbank,2014) for 1875-2011, HOX/Valueguard & SCB for 2012-2016, Nordea Markets & Macrobond

1.1. Construction activity

Housing construction has grown rapidly for some time now. Housing starts for multi-dwelling buildings (flats) are at the highest level since the beginning of the 1970s. The upturn is broadly based and not limited to the metropolitan areas. In all counties housing starts are at a 25-year high.

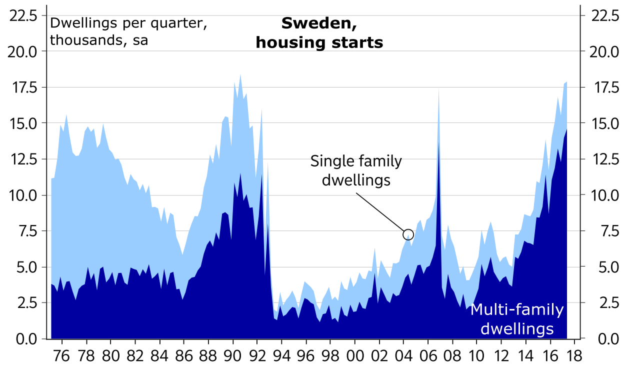
This upturn is welcomed by policymakers who at the same time argue that it is not enough. A common argument is that for a long time too little has been built, creating a large pent-up demand for homes, so there are hardly any limits to the number of homes that can be built.

Yet it is questionable whether a general housing shortage exists.[1] Looking at the trend in the number of homes and comparing this with population growth over an extended period, we find a housing surplus. Stockholm is the only place where housing construction has not matched population growth since 1975. This result is in line with a study by the Swedish Riksbank showing that only Stockholm is experiencing a housing shortage as the population is exceeding the number of beds.[2]

Nor can the expected population growth and urbanisation be equated with greater demand for housing. Rather, what is decisive is market demand.[3] If the financial conditions of households worsen, for example if mortgage rates rise, market demand for housing will decrease.

The steep upturn in construction adds to the risks in the housing market. Experience from previous property crashes in Sweden and in other countries (for example Denmark, the US, Spain and Ireland) shows that price falls were preceded by a number of years with sharply accelerating housing investment. We believe that the high level of housing investment is a necessary precondition for a major price correction – but not enough. To impact home prices fundamentally, it will likely require a change in households' housing costs.

Figure 2. Housing starts



Source: Nordea Markets and Macrobond

1.2. Mortgage rates

Over the past 20 years the pick-up in house prices has coincided with a sharp drop in interest rates. The housing market has only faltered twice during this period: in 2007-08 and 2010-11. On these occasions the

[1] For more details, see Sweden: The myth about housing shortage, May 2017.

[2] Emanuelsson (2015): "Supply of housing in Sweden", Sveriges Riksbank, Economic Review 2015:2.

[3] According to a survey by the Swedish National Board of Housing, Building and Planning from 2016, all counties report a more difficult situation in the housing market for resource-poor households. This applies to persons who are new to the housing market, such as students, young people and newcomers. All counties also report that acute homelessness is becoming increasingly widespread. So the housing shortage to a large extent affects resource-poor households who cannot afford newly built flats.

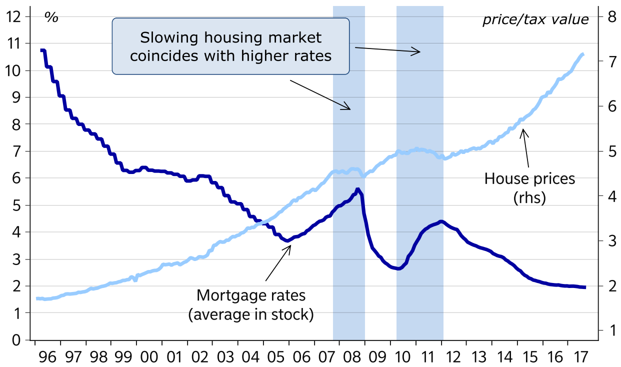
subdued trend in house prices coincided with an increase in mortgage rates, suggesting a close correlation between interest rates and housing prices.

Our forecast sees mortgage rates moving somewhat higher. But the upturn will be modest as much suggests that current low levels of interest rates will largely remain intact globally.[4] The Swedish Riksbank, which to a large extent determines short-term mortgage rates, is set to raise rates only three times until the end of 2019. We judge that the bank is chiefly inclined to sanction fewer rather than more rate hikes. The rise in short-term interest rates is consequently set to be limited.

At the same time households are sensitive to changes in interest rates, and we have recently seen large price rises despite small declines in interest rates. Over the past two years home prices have risen by close to 20%, whereas mortgage rates on average have only come down from 2.3% to 2.0%. So we would not preclude a scenario in which small rises in interest rates could have a major impact on home prices. Given higher indebtedness, the interest rate sensitivity of households has increased.

In addition, all guesses about the future are uncertain; a major rise in mortgage rates cannot be precluded. As late as 2011 variable mortgage rates stood at just over 4% and the 5-year mortgage rate just over 5%. These interest rate levels would imply more than a doubling compared with current levels and are not deemed to be consistent with current home prices. Housing supply could then prove to exceed market demand, which inevitably will lead to a fall in home prices.

Figure 3. The impact of interest rates



Source: Nordea Markets and Macrobond

1.3. Measures and forecasts

Measures to dampen recent years' rally in home prices have been conspicuously absent. Policymakers have talked about the risks, but have not managed to agree on measures to curb developments.[5] At the same time the Swedish Riksbank has stopped leaning against the wind and now focuses solely on inflation prospects.

Almost all parties in the Swedish Riksdag have recently expressed their support for a reduction of interest deduction. But a reduction of interest deduction seems a long way off and will be implemented gradually. A deal on this before the general election in September 2018 is out of the question. The parties that have been specific about scaling back interest deduction have indicated a reduction from 30% to 20% over a 10-year period (the Liberal Party) or a complete phase-out over 20-30 years (the Christian Democrats). Several opposition parties have moreover tied a scaling-back to lower income taxes, which could prove difficult to agree on in the Riksdag. We believe that interest deduction will be reduced, but the process will not start at least until 2020.

The Swedish financial supervisory authority continues its work on measures to mitigate the risks related to household indebtedness. In June 2016 an amortisation requirement was implemented for all new home loans with a loan-to-value ratio exceeding 50%. The proposal implies that households must amortise at least 1% of their loans at loan-to-value ratios between 50% and 70% and at least 2% for loan-to-value ratios exceeding 70%.

Now the financial supervisory authority will proceed with a stricter amortisation requirement: households with new home loans that exceed 450% of their gross income must amortise 1% point more of their mortgage. The proposal, which still awaits the government's approval, would imply that households with the highest debt burden must amortise at least 3% of their loans, equating to a rate of amortisation of 33 years. In an international perspective this is still a rather long period. In several European countries a rate of amortisation of 20 years is common regardless of the loan-to-value ratio.

Households' borrowing conditions could therefore tighten somewhat further, which should also put a damper on home prices. The financial supervisory authority reckons that home prices will drop by 3% in Stockholm and by 1.5% nationwide as a result of the stricter amortisation requirement. However, it remains unclear whether the proposal will actually be introduced.

Overall, our forecast sees relatively stable home prices going forward. As long as mortgage rates remain low, it is difficult to see a marked rise or decline. The risk picture has changed, though. Earlier we have pointed out that the risks are probably on the upside. We now see a greater risk that prices will fall, rather than rise.

[4] See for example Rachel and Smith (2017): "*Are Low Real Interest Rates Here to Stay?*", International Journal of Central Banking.

[5] The scrapping of the real estate tax in 2008 has contributed to the rise in prices. The real estate tax amounted to 1% of the taxable value, corresponding to approximately 75% of the market value. Today the market value of an average one- or two-dwelling building is around SEK 3m, which would have implied a real estate tax of SEK 22,500 a year. At present, only a municipal real estate fee of a maximum of SEK 7,412 is charged.

2. Norway: Cooldown, no meltdown

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This year the Norwegian housing market has cooled, following several years of sharp price rises. In this research note we take a closer look at why home prices have increased so sharply, the importance of home loan rules and the outlook for housing construction.

2.1. Are home prices too high?

Home prices have seen a significant increase over an extended period, rising by more than 200% since the beginning of the 2000s. Even if deflated by income, home prices have risen considerably. For a family the average home costs 4.7x income today compared with 3x income 15 years ago. Many traditional measures tell us that home prices are high.

Home price trends should, however, be considered in light of the effects of income growth and falling interest rates on home prices. Trends in these underlying fundamental factors indicate strong growth in home prices. Since 2000 the median income after tax for a family has increased by 90%, and the normal home loan rate has come down from 7% to 2.5%. We have examined the implications of these underlying fundamental factors.

We have observed that over time marginal buyers (buyers who purchase a home at the price level applicable at any given time) spend a relatively constant share of their income on interest and principal payments. For Oslo this percentage has averaged 32% since 2000 versus 22% for the country as a whole. So there is a considerable premium in the capital city.

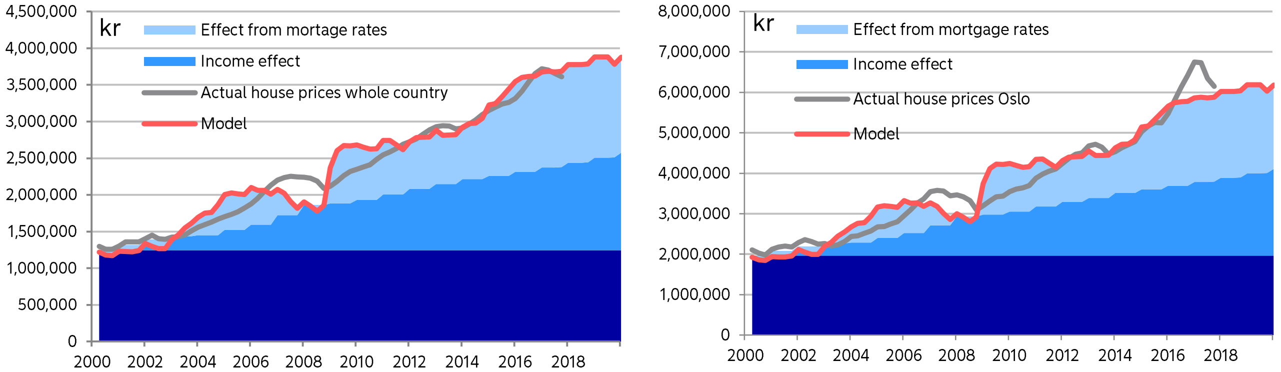
The starting point of our analysis is that the percentage of the homebuyer's budget is kept constant at 22% for the country as a whole and at 32% for Oslo, matching the average since 2000. We then consider actual trends in interest rates and income and determine a home price which is explained by these underlying fundamental factors. Our calculations are made for an average home of 90 square metres. Our result for the country as a whole and Oslo is presented in Figure 1.

The red line of the figure shows home price with a constant percentage of income allocated to interest and principal payments. The actual average price of a home of 90 square metres is shown by the grey line. As a percentage of income, it consequently costs as much to pay interest and principal when buying a home today as it did in early 2014 even though the average home of 90 square metres costs NOK 700,000 more.

The trend in home prices has been broken down into an income effect and an interest rate effect. The bottom area shows the price level in 2000. Since then the model-based home price has increased by around 200%, with around half being attributable to income growth and the other half attributable to falling interest rates.

In recent years the decline in interest rates has been especially important. The interest rate effect is particularly strong when interest rates are already at a low level. In the framework presented here, a change in interest rates of 1% point today will correspond to a 10% change in home prices.

Figure 1. Home prices inflated in Oslo, but otherwise well anchored



Source: Nordea Markets

For the country as a whole, home prices seem well anchored in underlying fundamentals. However, most major cities have experienced a small drop in prices in recent months. Prices could fall somewhat further, but we do not expect a marked decline as in Oslo.

Prices in the Oslo market became inflated last year and the downturn in home prices will therefore continue in Oslo. Home prices in Oslo are set to drop another 5% before prices are back at a level that can be explained by interest rate and income trends. High construction activity, which we discuss below, poses a risk that prices could move below this level.

2.2. New regulations

New regulation governing home loans was introduced at the turn of the year. The new rules were in part an extension of the existing regulation. Already in 2015 the authorities introduced stricter practices for home loans. Homebuyers were required to have 15% equity when buying a home and be able to withstand a 5% point rise in interest rates. There were also requirements which limited interest-only options.

At the turn of the year these requirements were extended and a stricter interest-only requirement was introduced. At present, an interest-only option must not be granted for loans with a loan-to-value ratio exceeding 60%.

A loan-to-income (LTI) requirement was also introduced, according to which the homebuyer's total debt cannot exceed 5 x income. In response to the sharp price increases in Oslo, the authorities also introduced a requirement for 40% equity when buying a secondary home in Oslo. Banks have also less flexibility in the Oslo market. Banks can deviate from the above requirements in 8% of cases, whereas for the country as a whole they can deviate from the requirements in 10% of cases.

As we have shown above, the Oslo market was poised for a price correction, but the catalyst was probably the new home loan rules. As home prices are highest in Oslo, the LTI requirement implies a greater tightening in Oslo than elsewhere. Through 2016 we also have good indications that investors contributed to pushing up home prices, especially for small flats. This group of buyers has been sharply restricted by the requirement of 40% equity.

2.3. Housing construction will slow – somewhat

Home prices rose by 29% from the bottom at end-2013 until the peak was reached in March this year. It took about a year, but then the price rises led to a relatively sharp pick-up in construction activity. Housing investment is up 19% from 2013, and the past year housing starts exceeded the level in 2013 by 25%.

From April this year, however, home prices have dropped by 3%. Homebuilders are reporting that sales of new homes are slowing sharply. Although construction activity will remain high for some time because many new projects are already under construction, lower off-plan sales of new projects imply lower construction activity further out.

Figure 2. Higher home prices have led to strong growth in construction

That homebuilders are struggling to sell new projects suggests that they have not cut prices in step with the weak housing market. Whether sales of new projects will remain low depends on what homebuilders do with prices going forward. Probably there are a number of profitable projects at lower prices, and we therefore expect prices on new homes to be cut.

Then the question is the magnitude of the overall price fall in the housing market and, equally important, the number of profitable projects at the new price level. We believe home prices will fall somewhat further before they bottom. But even if we take an aggressive view and assume that prices fall 5% beyond our forecast, they are still at the spring-2016 level and still 20% above the bottom. This suggests continued relatively high construction activity, but at a somewhat lower level than at present.

3. Denmark: Avoiding a new bubble

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Once again the Danish housing market is attracting considerable attention. Higher prices, a higher number of home sales and a pick-up in new construction are lifting economic activity. At the same time the upturn is spreading to more parts of the country, with the strongest price rises now seen outside the largest cities. Historically low financing costs and steady employment growth are some of the factors driving the housing market upturn.

But with the gains comes the risk of a new housing bubble. To avoid the situation from 2004 to 2006, the Danish authorities have initiated a number of measures chiefly aimed at curbing the price rises in and around the largest cities. This represents a major departure from previous policies and will likely help reduce the risk of a new housing bubble.

While tougher regulation is set to dampen prices, the impact of interest rates on the Danish housing market is much more uncertain. If interest rates suddenly rise sharply, will this trigger a new sharp, downward price reaction, or is the housing market more resilient to external shocks today than ten years ago?

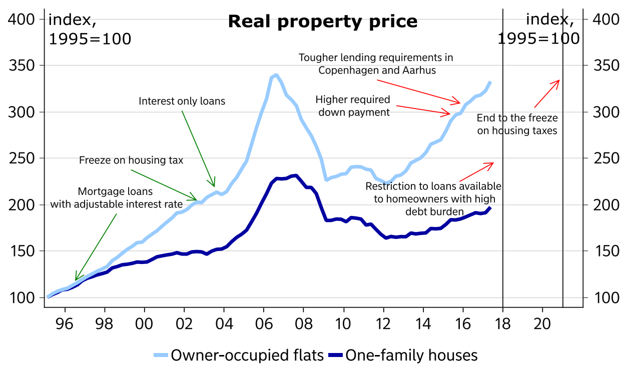
3.1. Learning from past mistakes

Since the bottom five years ago, real prices of owner-occupied flats have increased by more than 50% and single-family house prices by 20%. The relatively strong price gains are chiefly driven by higher demand caused by historically low financing costs and a solid improvement in households' disposable income. A psychological effect where expected future price increases have been incorporated into current prices has delivered a further boost. Moreover, an extended period of low construction activity has limited the supply side, driving up prices notably in the areas with the strongest demographic inflow.

Although home prices have increased, the annual price rises are still significantly lower compared with the period from 2004 to 2006. A significant difference since that time is now-tougher regulation. Studies conducted by the Danish central bank show that 30-40% of the change in real home prices from 2002 to 2008 can be explained by the freeze on housing taxes and the introduction of new loan types for mortgage lenders.

Based on this costly experience, the authorities have implemented a range of macroprudential measures relatively early in this upturn to prevent a housing bubble. This includes a higher required down payment by homebuyers and tougher lending requirements for homes in Copenhagen and Aarhus. From the start of 2018, the loans available to homeowners with a high debt burden relative to the value of their homes and the household's income will be restricted. The government has also decided to end the freeze on housing taxes from 2021.

Figure 1. Real home prices and regulation



Source: Nordea Markets and Macrobond

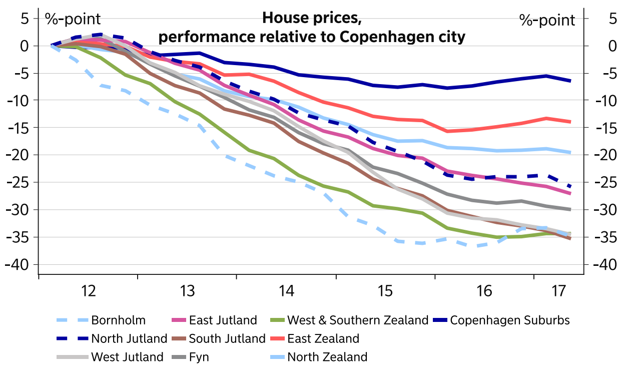
These tougher requirements have reduced the percentage of homeowners with the most risky loan types. At the same time households' debt as a percentage of disposable income has declined – despite the rise in home prices. This debt ratio has been reduced by nearly 50% points since the peak in 2009. Danish homeowners are much better able to withstand shocks than they were ten years ago – and past experience has helped the authorities ensure a much more balanced situation this time.

3.2. A ripple effect…

As a significant effect of the tougher regulation, the housing market upturn has relatively quickly spread to most parts of Denmark. So while the largest price increases during the upturn as a whole have been concentrated around the Copenhagen area and Aarhus, these increases have had a ripple effect, spreading to almost all of the country. Over the past year the largest price increases for single-family and terraced houses have been evident in western and southern Zealand. Also, the general trend is that interregional price differences are no longer widening.

This effect will, we think, be reinforced by the macroprudential measures which are chiefly aimed at curbing the price increases in the largest cities.

Figure 2. Regional home prices



Source: Nordea Markets and Macrobond

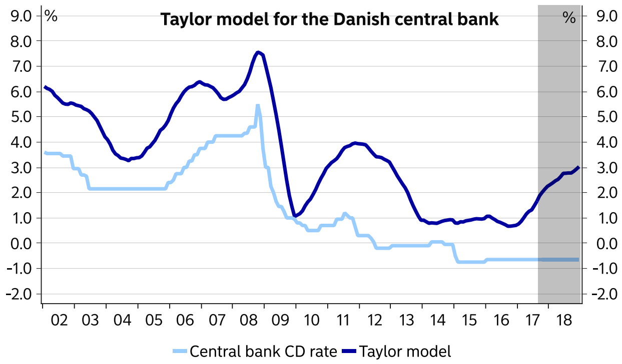
The upward trend in the housing market is not only evident when looking at prices. Home sales numbers are rising in all parts of the country, and recently there have also been signs of higher prices spreading to holiday homes. This has contributed to lifting residential investment, which measured as a percentage of GDP is now back around the historical average. The broadly based upturn across property categories and geography boosts mobility in the housing market – and will thus ultimately increase the overall flexibility of the Danish economy.

3.3. What will happen when interest rates rise?

Historically low financing costs are probably the most important factor behind recent years' accelerating prices in the Danish housing market. Over the past five years alone, the effective rate of interest on a 30-year fixed-rate mortgage loan has been halved, equating to a drop of 2% points. As a crude rule of thumb based on the ADAM model, a permanent interest rate decline of 1% point will trigger an increase of around 10% in cash home prices over the medium term. So although a small portion of recent years' rate declines has been offset via higher administration and reserve fees charged by mortgage lenders, it does not change the very strong relationship between falling interest rates and rising home prices.

Obviously the current very low financing costs increase the risk of a price correction when interest rates at some point start moving higher. At this juncture Danish interest rates are at an "unnaturally" low level as, under the fixed exchange regime, the Danish central bank follows the monetary policy set by the ECB. Based on the current level of inflation and growth in the Danish economy, a simple Taylor model indicates that the rate on certificates of deposit at the central bank should be around +2% – the actual level is -0.65%.

Figure 3. Taylor model



Source: Nordea Markets and Macrobond

In our baseline scenario we expect the central bank to start raising rates in late 2019. As a result, short-term mortgage rates will only start to edge higher in the first half of 2019. Long-term mortgage rates are set to rise slightly faster, almost 1% point higher, towards the end of 2019.

In the coming years higher interest rates combined with tougher regulation will likely curb price rises mainly in the largest cities. This is where borrowers are most sensitive to interest rate changes and where the macroprudential measures hit the hardest. Our forecast sees nominal home prices as a national average rising broadly in line with gross disposable income. This means that rising interest rates will cap the price rise, ensuring a soft landing for the Danish housing market.

As part of this process, however, the Danish economy might be hit by a negative external shock that will disrupt the soft landing. For the housing market the worst-case scenario would be a situation involving a sudden sharp rise in interest rates combined with a drop in employment. This might be triggered by a geopolitical event where commodity prices rise and global demand is hit by a dramatic decline in risk appetite among consumers and businesses.

Combined with tougher regulation, such a scenario would trigger downward price pressure on the Danish housing market. Owner-occupied flats in the largest cities would likely see the biggest price declines, whereas single-family house prices would be less sensitive. The price falls and the spill-over effects on economic activity would in all probability be much less pronounced than in 2007 and 2008. The reason is that today the Danish housing market is on a much firmer footing given the lower interest rate sensitivity of homeowners and the fact that current prices are not far from fundamental values.

4. Finland: A divided housing market

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The Finnish housing market is characterized by wide regional differences in both dwelling prices and price trends, and low household debt on a Nordic scale. Price bubbles are not an issue. In most regions prices fall relative to disposable income.

4.1. Too much household debt?

Finnish household debt has increased every year since the turn of the millennium. The rise was relatively rapid until 2007, after which it slowed down in the aftermath of the financial crisis. There are many, the central bank included, who believe that the steady rise in indebtedness is at least somewhat worrying, even if current debt levels do not yet pose a problem.

In mid-2017, Finnish households owed a total of EUR 145 billion, equivalent to 127.6% of disposable income. On an international scale, this debt-to-income ratio is low. In Sweden, the corresponding figure is about 185%, in Norway 225% and in Denmark, close to 270%.

The debt indicators, however, completely overlook household wealth, which obviously exceeds the debts. At the end of June this year, Finns held more than EUR 300 billion in financial assets. The value of the capital stock they owned, mostly housing assets, is sizeable, although the estimates vary.

The debt statistics reassuringly tell us that half of all households are debt-free. Mortgages are owed by almost precisely one-third of all households. Some live in rented housing, some have paid off their debt and only a fairly small number owe a lot of debt. The share of households with a mortgage also appears to have peaked in 2012, declining very slowly ever since. This has happened almost simultaneously in all regions.

Private consumption has grown faster than disposable income in recent years. Consumption has been driven by higher consumer confidence, low interest rates and loan repayment holidays provided by banks. The lower rate of saving is a reason for some concern. It forces us to ask whether households have prepared (or hedged) enough in case interest rates rise, and whether lower saving will suffice for repaying debt or whether they will have to make compromises in their consumption in the future.

Another concern that has been raised lately is the stealth debt households take on through the housing companies that manage their dwellings. In new housing, in particular, there has been a tendency to sell dwellings at exceptionally low prices with the caveat that the buyer will assume a larger debt through the housing company. The housing company loan does not need to be paid off initially, allowing buyers to take a smaller mortgage. The increase in housing company debt has clearly outpaced that of mortgages, which has raised suspicions of hidden problems. The good news, however, is that households' share of housing company debt is already included in the debt statistics used for calculating household indebtedness. In other words, there is no stealth debt.

4.2. Large regional differences

The Finnish housing market has very large regional disparities. The nationwide averages, for example, do not give an accurate picture of prices anywhere in the country. The high cost of housing in and around the capital relative to the rest of the country is well-known, which is why the country is often divided into two – the Greater Helsinki area and the rest of Finland – when comparing prices and other statistics. But even this division is not very useful, as there are major local differences outside the Greater Helsinki area.

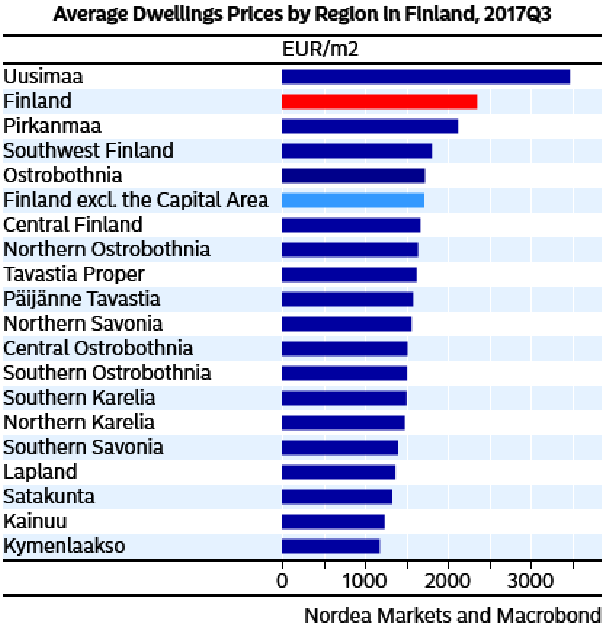
The average price per square metre in old flats and semi-detached and terraced houses in all of Finland was about 2,350 euros in Q3 this year. Mainland Finland has 18 regions, and only one of them exceeded this average. In Uusimaa, which encompasses the large cities of the capital region – Helsinki, Espoo and Vantaa – and the commuter towns surrounding it, the average price per square metre was close to 3,500 euros, almost 50% higher than the national average. The region is home to 30% of Finland's population and it generates close to 40% of value added.

Beyond the Greater Helsinki area, the price per square metre is slightly above 1,700 euros, more than a quarter lower than the national average. This average, however, is exceeded in only three regions.

The large disparities between different cities, on the one hand, and between cities and their surrounding areas, on the other, are problematic for the labour market. Most new jobs are created in growth centres. This makes it harder for families to move in search of work, as the price of a spacious family home would fetch them a much smaller apartment in a city.

Viewed more widely, the disparity in prices has the makings of human tragedies. Renovating your home might not be worth it, as a major plumbing renovation could cost you more than the value of your home. Moreover, banks are no longer willing to provide loans for buying some homes.

Figure 1: Large regional price differences



4.3. No price bubble

Are there any signs of a price bubble in the housing market? This is a question often posed to Finns without any particular reason, although a possible explanation could be that elevated prices in the other Nordic countries are raising worries about the Finnish market.

A price bubble is difficult to detect in advance, as there is no precise definition for it. Bubbles, however, typically emerge when prices continue to rise in relation to consumers' ability to pay even after the positive sentiment extends to the construction sector and the supply of dwellings increases significantly.

With this in mind, there is no price bubble in Finland. Housing prices have not yet appreciated too much in relation to the fundamentals with which they would normally correlate. When you also consider the large price disparities between regions, a potential bubble would be limited to certain localities rather than spreading throughout the country. In many areas, prices have actually dropped relative to income and market rents.

We compared the prices of old flats to households' disposable income and the same income per person. Disposable household income increased by 79% from 2000 to 2016. This extensive indicator includes labour and capital income, transfers received (pensions and unemployment benefits), interest and direct taxes paid.

Calculated per person, income grew by nearly 69%. Housing prices rose by as much, almost to the decimal. Since 2000, housing prices have therefore decreased by more than 5% relative to disposable income, and remained unchanged relative to the same income per person. Before the financial crisis, prices rose at a faster pace than income, but have since declined. Since 2005, prices have decreased by 9% relative to income per household and more than 4% relative to income per person.

We made the same comparison at the regional level. Although the latest income data available is for 2014, we can draw some significant conclusions. Housing prices in 16 regions fell steadily in relation to income per person between the financial crisis and 2014. Since 2014, housing prices have declined in all these regions, only slightly in some and more clearly in others. Since income has, meanwhile, most probably increased thanks to higher employment, the drop in housing prices in relation to income per person has continued to this day. In some regions, the price decrease has been considerable.

There are four regions where the rise in housing prices has clearly outpaced growth in income (per person) since 2000. Among these, Uusimaa and Central Ostrobothnia stand out. Neither of these saw prices decline relative to income up until 2014. Prices in the latter, however, have since then declined, almost certainly also relative to income.

This leaves Uusimaa, which includes Greater Helsinki, as the only place where a price bubble could be emerging. Here housing prices increased by about 20% more than income per person in 2000–2014. Since then housing prices have continued to rise, which means the ratio between prices and income has hardly been corrected. Buyers have to pay extra for moving into the attractive capital region, but that does not mean there is a bubble.

New housing construction is only starting to meet annual demand, so there are no signs of oversupply yet. We hope that construction will remain brisk for a long time so as to address the housing shortage and to keep prices under control.

As a final note, let's look at the relation between flat prices and market rents. The data per city we have available since 2010 indicates that flat prices have risen hand in hand with rents only in Helsinki. In the other cities of the capital region and elsewhere in the country, increases in rents have clearly outpaced the rise in flat prices.