



Over 20% of homes are in the rental market, most of them low earners. Their condition has greatly worsened since 2006, while the position of homeowners has improved, due especially to lower interest rates in recent years. Tenants must now spend a much higher proportion of their disposable income on rent than they did before. On average, rent takes up 45% of disposable income and a large part of tenants has an excessive rent burden.

It's been said that rent should stay below 25% of disposable income, but given an average of 45% across the entire group, and seeing that a large group has to pay 70% or more, we are looking at a crisis.

OECD statistics show that the condition of low earners in the Icelandic rental market is unusually bad and in no way reflects the wealth of the nation. Rent is high in an international context and rent subsidies have not kept pace with rising rent in the last decade. Rent subsidies must rise significantly and unrestrained rent rises must be held back.

The abject condition of tenants

The jungle of the unrestrained market

The Icelandic rental market has long been marked by being unrestrained. The government has seen it as a temporary stopover for young people on their way to buying a home. Therefore, the rental market has been smaller here than in the other Nordic and continental European countries. A private ownership policy has dominated and the social housing system, in existence until 1999, supported it. The aim was for interest relief to maintain such support, but it has been greatly eroded.

Over 20% of homes are now in the rental market, mostly low earners. That market has thus long been marked by uncertainty for tenants and steeply rising rent. In the last 10 years, rent in the capital area has risen by 102%, far beyond what the rest of Europe has seen. Governments have not wanted to cap rising rent, even after a rent brake was promised as collective agreements were signed in 2019.

In recent years, rent rose much faster than wages, though this development slowed during the pandemic. Now in 2022, the pace is picking up again, and big increases may be expected in the coming economic upswing.

The condition of tenants has worsened

Excessive housing costs of homes, 2006-2021

Tenants and homeowners paying more than 40% of disposable income for housing

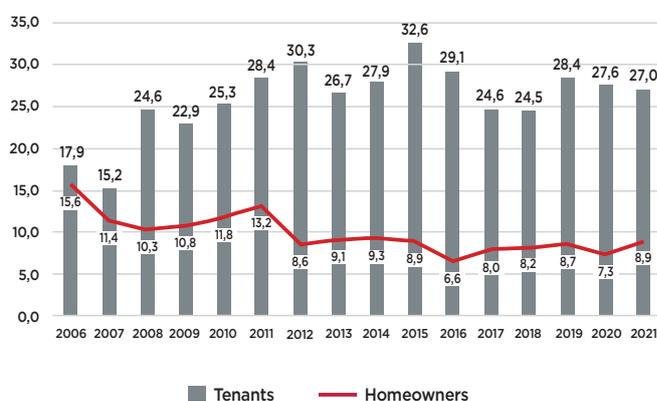


Image 1: Proportion of tenants and homeowners paying excessive housing costs (over 40% of disposable income), 2006-2021. Calculated cost.

Source: Statistics Iceland

The data thus shows great changes in the condition of tenants during this period. Before the crash, there was little difference between tenants and homeowners in terms of excessive payments. In 2007, the proportion paying those was 15.2% among tenants, 11.4% among owners. In 2021, the corresponding numbers are 27% and 8.9%. Rising prices of homes have hit both groups. After the crash, higher loan payments affected homeowners but increased interest relief softened the blow until 2012. When that relief was drawn down from 2013 onward, the lower interest rates in turn lowered costs, especially from 2016–2020.

Rent in the capital area rose greatly in 2016 and 2017, then slowed down until the pandemic led to a small drop in rent

in 2020–2021. In 2022, rent has started rising considerably, so the outlook is bad. The rent subsidy hasn't risen in line with the rising rent, so tenants have had to pay an ever greater share of their disposable income.

Too many with an excessive rent burden

On average, tenants paid 45% of their disposable income for rent in 2021, a rise from 40% in 2019. Image 2 shows how many tenants at each type of landlord pay excessive rent, either 50–69% of disposable income or 70% or more. This is an unsustainable burden.

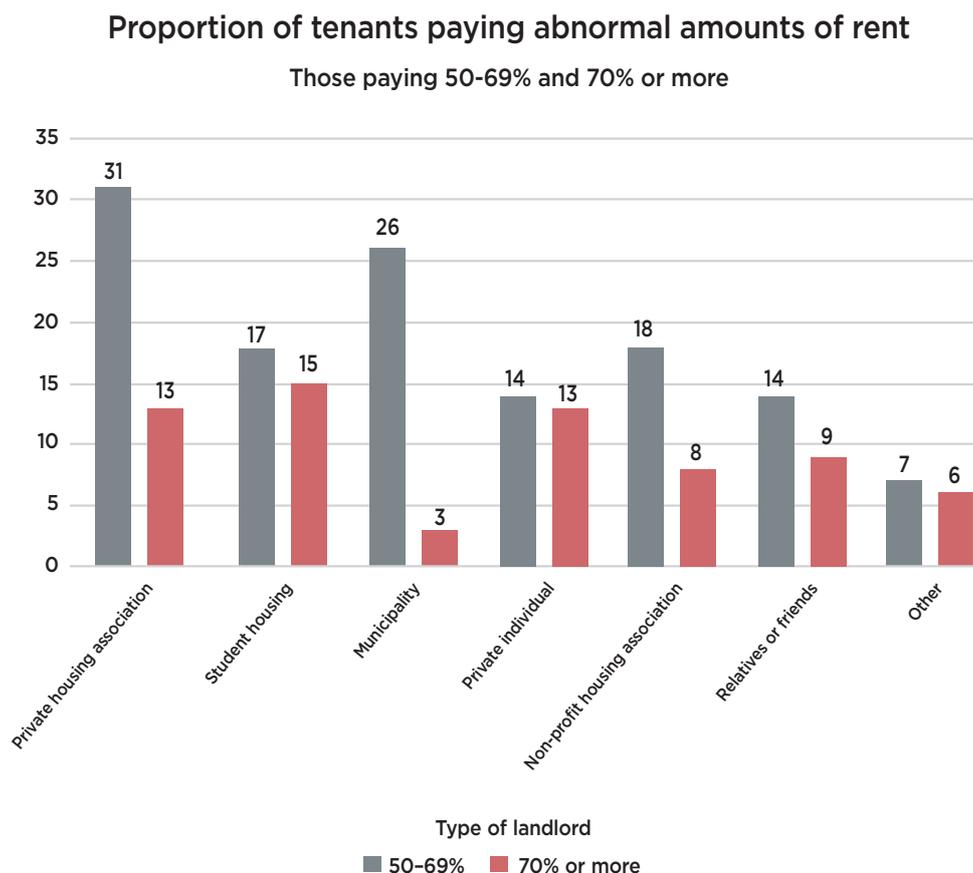


Image 2: Excessive rent burden. Proportion of tenants paying abnormal amounts for rent (50–69% and 70% or more of disposable income). Broken down by type of landlord. Source: HMS, *Leigukönnun* 2021.

The highest burden is at the private housing associations, where 31% of tenants pay 50–69% of disposable income and 13% pay 70% or more. The burden is high for students, but that is explained by low income, rather than high rent. The burden is also high when municipalities or private individuals are the landlord. Still, municipalities have the lowest share of people paying 70% or more of their disposable income. But 26% of their tenants paying 50–69% of their disposable income for rent is much too high.

Those renting from non-profit housing associations don't suffer an excessive rent burden to the same extent, but their

condition is not substantively different from those who have a private individual or relatives/friends for a landlord.

Generally, too many tenants suffer from an excessive rent burden. It has been said that rent shouldn't exceed 25% of disposable income, but given an average for the entire tenant group of 45%, and a large section paying more than 70%, the situation should be called a crisis.

The situation in Iceland is also bad compared with other countries.

International comparison of low earners' rent burden

The OECD has recently published numbers on the rent burden of low earners in its member countries, as it was in 2016–2017. There we see Iceland in the second worst place, along with Spain, only topped by Greece, which has had a long cost of living crisis since 2008.

For Iceland to share places with Spain and Greece is reprehensible, since Iceland is a much more prosperous country. The situation here is also worse than the USA, New Zealand and Britain, countries known for their great admiration for unfettered markets and weak welfare states. Norway, Sweden and Finland find their places well below Iceland (with 40–50% of low earners paying excessive rent - as opposed to 60% in Iceland).

Share of low earners paying over 40% of disposable income for rent The year 2016/2017

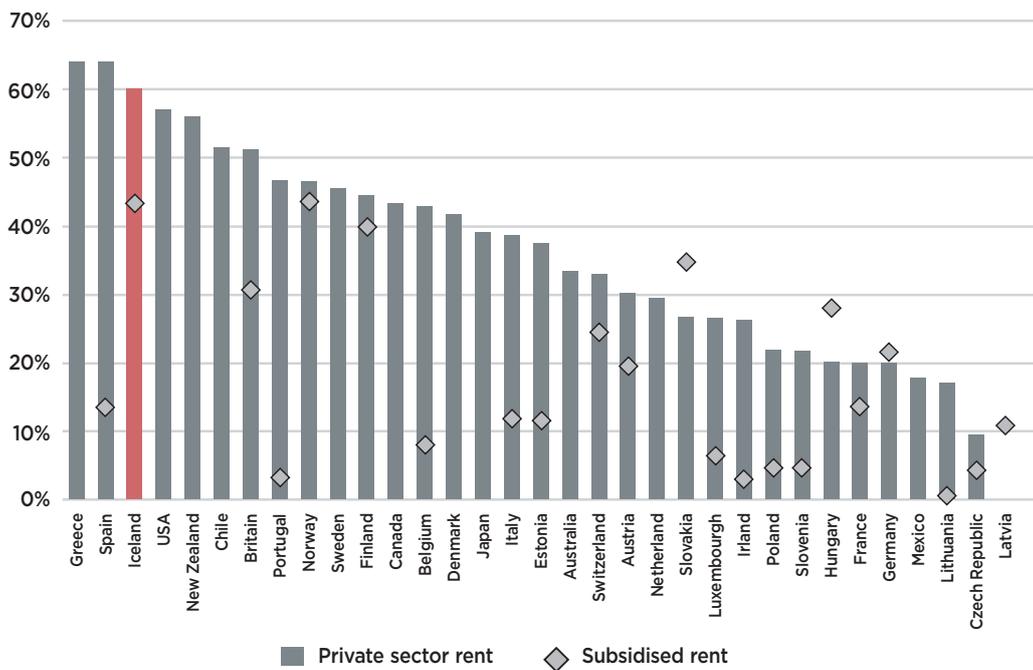


Image 3: Unusually burdensome rent in OECD countries. About 60% of low earners in Iceland pay over 40% of their disposable income for rent. Low earners = bottom quintile of households. Source: OECD.

These OECD data indicate that the condition of tenants is unusually bad in Iceland, and it is normally the lowest paid who rent, either short- or long term.

When looking at public expenditure for housing benefits, about 10 OECD countries pay a greater share than Iceland: Britain, Finland, Germany, Denmark, France, the Netherlands, New Zealand, Sweden, Austria and Greece. It's clear that Iceland isn't doing enough to protect low earners who rely on the rental market (see OECD 2021, **Public Spending on Housing Allowances**).

Conclusion

The housing costs of tenants have risen far above those of homeowners from 2006–2021. Rent now occupies a much greater share of tenants' disposable income than was the case before the crash. Tenants are often living on low incomes, and are often young people. As homeowners paid lower interest in recent years, nothing of the kind happened to tenants. The rent subsidy hasn't kept up with rising rental costs and is too small a share of it. The support it provides is insufficient.

A rising rent burden has thus eroded a significant part of the gains negotiated in the last collective agreements. Even if rent

dropped during the pandemic, it is now rising again, and this will be reinforced when foreign labourers and tourists start coming to the country.

An international comparison shows that the Icelandic welfare system doesn't protect tenants sufficiently from the insecurity and rising rent in an unfettered rental market, such as the one we have.

Rent has risen by 102% in the capital area in 10 years, a lot more than in other European countries. The government is now raising the rent subsidy by 10% to compensate for inflation. This will result in 2–3,200 kr for most tenants. That doesn't make up for the great increases in the cost of living recently, to say nothing of the rising rent in recent years.

The rent subsidy has to be increased and unrestrained rises in rent must be kept in check.

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