



Proposals of the National Economic Council on housing and what they miss

Housing costs in Iceland have risen greatly and are now at the highest levels seen in Europe, both for homeowners and tenants. New proposals from the National Economic Council on actions to take in the housing market are in many cases valuable, but others don't go far enough, especially those on housing support.

The proposals on housing support to homes are adorned with positive goals but on their own they aren't enough because they lack direct measures on the need for financing of foundational grants and other support. They also go against the aims of the financial policy of the government for 2022-2026, which assumes lower spending on housing support in the next years. Housing benefits and interest relief are not sufficient and haven't followed the rise in housing prices, so it is not credible for the government to plan cuts in the field.

There is a risk that the government will merely fold some forms of housing support into others, without adding to the sum of support provided to homes, like the case has been in recent years. Interest relief was tapered down while foundational grants to cheap rental homes were increased and tax rebates on the withdrawal of private pensions to buy a home were introduced, which mostly benefited the well off. The government's housing support was thus transferred from the low earners to the high earners. This must be reversed forcefully if the aims of the group are to be achieved.

Rental market regulation is also lacking and promises made alongside collective agreements in 2019, on a better negotiating position and protection for tenants (rent brake and/or cap), weren't upheld. The committee's proposals aim in the right direction but are too vague on how the relentless rise in prices can be reined in, both in terms of rent and home prices. More is needed.

The working group of the National Economic Council on actions and improvements in the housing market, with representatives from the main interest groups and from the government (May 19, 2022) has turned in 28 proposals for improvements in 7 fields of housing. After big rises in home prices and a failed housing policy through the pandemic, there is a crisis in housing which isn't going anywhere as things currently stand. The group's proposals deal with this problem and it is important that they see success. Therefore, they must be analysed critically and their weak points evaluated.

What follows is a survey of all the working group proposals and a short review on individual parts. Finally, some detail on what needs to be clarified and nailed down.

A housing programme for the whole country

1. The government and municipalities shall make a framework agreement on the construction of 35,000 flats in the next 10 years where municipalities secure plots of land to build 4,000 flats for each of the next five years and 3,500 flats for each of the succeeding five to meet the assumed demand for housing. Of the new flats, 35% should be reasonably priced.
2. Individual municipalities shall be negotiated with on the building of flats, the supply support of the government to secure reasonably priced flats, the necessary buildup of infrastructure and special circumstances within the municipality or region.

Comment: Good - needs rapid and forceful implementation.

Housing demand and housing supply

3. Improved demographic projection; 4. Reviewed housing demand analysis; 5. Municipalities note specially the supply of plots for construction in digital housing plans; 6. More emphasis on using the real estate registry (mannvirkjaskrá) in housing inspections and near real-time registration of the state and progress of construction.

Comment: An obvious change – should happen immediately.

Efficient regulation, administration and execution in planning and construction

7. More efficient procedures following the comprehensive review of planning laws, and the integration of planning procedures and construction permit procedures to achieve simpler administration and lower construction costs.
8. Ensuring that municipalities are allowed to set a 25% minimum on flats being general, social or rental housing, irrespective of ownership - Carlsberg clause.
9. An improved position for municipalities to enforce an accepted development plan on plots where delays occur, but non-municipal parties are responsible.
10. A goal clause instead of a prescription with review on the clauses of the construction regulation and an emphasis on research and development in construction to foster innovation and introduce sustainable housing in Iceland.
11. Take steps toward digital inspections of construction and work on aligning it with Nordic countries where administration is simpler and more efficient.
12. A special law on land plot rental; 13. Harmonizing fees across municipalities in planning and construction and review the allocation of the planning fee to municipalities; 14. See whether laws should include a framework on permissions to set infrastructure fees.

Comment: Useful changes which have long been discussed - without sufficient action. Item 8 was, for instance, promised in 2019 nearly word for word.

Transport

15. Unify plans on transport-related construction and the plans of municipalities on the supply of land plots and flats in growth areas, e.g. by having larger roads built so as to support the developing areas, and to underline the importance of the main traffic routes to and from the capital area.
16. Harmonized and simplified fees for public transport in growth areas with the aim of lowering the sum of transportation and housing costs for residents.
17. Ensuring continued rapid progress for Borgarlína and planning, such that construction in Keldnaland and Blikastaðaland can get started as soon as possible.

Comment: Good and important goals - unclear how they'll pan out.

Special emphasis on continued low-income housing construction

18. The low-income housing system should be strengthened, ensuring further development and buildup.
19. Increase the share of low-income housing in the rental market by increasing the number of flats and nonprofit rental associations.
20. Ensuring constant and longer term financing for the low-income housing market, and increased predictability in the allocation of foundational grants.
21. The operational experience of the low-income housing system and the legislation on it shall be reviewed on the basis of quality, income and assets, increased possibility of social mixing and the variety of flats, define incentives for sustainable construction and increase options for cooperation and joint operations of associations with low-cost housing.

Comment: Good, important goals. What this lacks completely is defining what the share of low-income housing should be in the market. Without clear commitments on increased financing for foundational grants in item 20, this loses a lot of its force.

Housing support

22. A comprehensive review of public housing support with the aim of ensuring reasonable housing costs, with the support mainly going to low-income groups, first-time buyers and those who have excessive housing costs.
23. Key information on housing security and the burden of housing costs should be defined, access and timeliness should be ensured so that rapid reactions to changes become possible.
24. The burden of loans of first-time buyers and the rent burden of tenants shall be especially kept in view to evaluate the need for further countervailing action for low- and middle-income groups with excessive housing costs.

Comment: Insufficient. Despite the goals in item 22 being positive, this is too loose, undefined and directionless. The current public housing support, in the form of rent benefits and interest relief, is too low and hasn't kept up with rising housing costs, either in terms of rent or mortgages. The government has shifted housing support from one form into another, without increasing its sum total, and additionally put too much into support for higher income groups with its tax relief for private pension cashouts to pay down mortgages. See further detail below.

An active and healthy rental market as a real option for housing

25. A review of housing law clauses to ensure equality of parties to contracts and increased housing security for tenants. Learning from countries where a developed rental market is in place. Special emphases:
 - more housing security for tenants,
 - rent becoming a real alternative,
 - a guide on rental prices,
 - permissions to change rent amount, regardless of the term of the rental contract or whether a renewal is taking place,
 - landlords becoming professional associations to a greater extent,
 - hiring always being separate from rental contracts etc.
26. Legislating a duty to register rental contracts and prices.
27. Considering permissions for pension funds to become parties to the construction of flats, whether by financing or by investing in housing associations.
28. Broadening permissions for municipalities to decide the extent of homes being rented out if flats become scarce.

Comment: Good aims, but promises in this direction in the collective agreements weren't kept. This is too general and needs more clarification on how unrestrained rises in rent will be tamed, and how a rent cap will be implemented. See more detail below.

Insufficient housing support

As volume 2 and 6 of the Efling economic analysis stated, public housing support is sorely lacking. Both the purchasing price and rent of homes have risen in recent years, far beyond the construction costs. These changes are in excess of the increases seen in most European countries.

In images 1 and 2, we can see how the housing support has grown insufficiently, given these rises.

Rent rises overtake rises in rent benefits per capita, 2011-2020

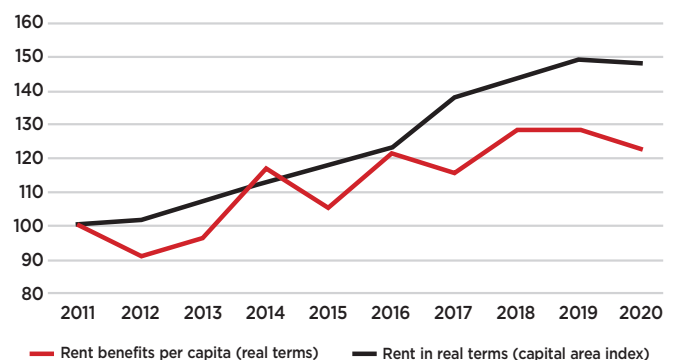


Image 1 The rent index in the capital area and rent benefits per capita in real terms, 2011-2020. Sources: *Registers Iceland and Statistics Iceland*

This has increased the burden of those who have purchased homes in recent years, and the housing costs of tenants are excessive (on average 45% of disposable income). This is far beyond what is considered normal in Europe (not more than 25% of disposable income). Close to 10% of tenants pay about or over 70% of their disposable income into rent, which is totally unsustainable for a household.

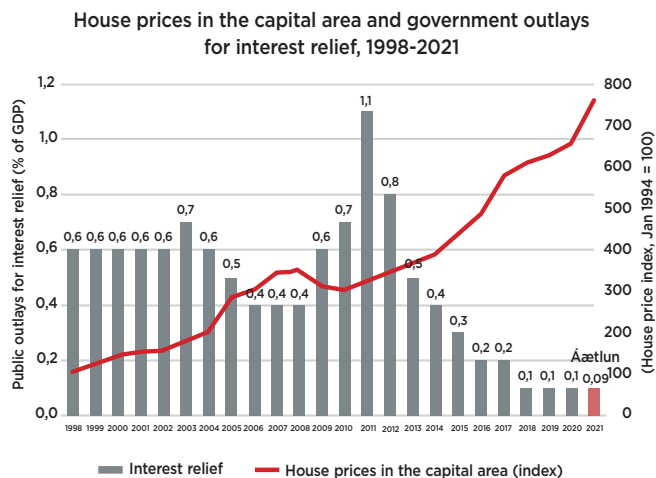


Image 2 House price rises vs outlays for interest relief, 1998–2021.
Sources: Statistics Iceland and Registers Iceland.

It isn't merely important to improve the condition of tenants; people at low incomes should also be able to buy a home, like the workers' housing and social housing systems aimed at for decades. When the social housing system was broken down in 1999, the interest relief scheme was promised as a subsidy for housing costs of middle- and low-income groups, to ease their buying of homes. These promises were betrayed; the interest relief programme has been massively shorn down in recent years. It is currently at a mere 20% of its 2013 level, 10% of its peak just after the crash (anno 2011). This has happened at the same time as house prices have risen to an unprecedented extent.

Instead, the government has increased the foundational grants for the building of low-income rental apartments. While this is well and good, and need expanding, it only helps a few hundred families, and thus doesn't come in the place of interest relief, which helped tens of thousands of households in their home-buying while the system was worth its name.

Previous instalments of Wage news (see at www.efling.is):

- No. 1:** Child benefits are too low in Iceland
- No. 2:** Housing prices keep rising – but interest relief keeps lowering
- No. 3:** Should the longer lifespan of educated people lower the pensions of workers?
- No. 4:** Deficit in the home finances of low-wage earners
- No. 5:** Iceland and Switzerland with the highest cost of living in Europe
- No. 6:** Awful situation for renters in the jungle of unbridled market forces
- No. 7:** Disabled people trapped in poverty
- No. 8:** Proposals of the National Economic Council on housing and what they miss

Partial capital loans are a good addition, and came out of the 2019 collective agreements, but they are only a recourse for a small group.

Another thing the government did to help people buy a home was allowing a tax-free cashout of their private pension to pay down their mortgage after 2014, and to buy their first home. In this scheme, people are paying their own housing grants with their pensions, instead of getting interest relief from the government. The money doesn't end up being a supplemental pension, as it was meant to.

Since lower-income groups have less of a private pension, this method was of more help to higher-paid groups, as the ASÍ has analysed (see here). By greatly eroding interest relief and introducing this tax benefit, public housing support was shifted from the lower income groups to those better off - a total departure from the actual aim of housing support. This needs to be reversed.

It is clear that support for tenants needs to rise by raising rent benefits. Interest relief needs reinvigoration, too. This is important, to prevent the excessive rises in housing costs from eroding the purchasing power gains negotiated for low- and middle-income groups.

Lack in rent market regulations

It has long been a symptom of the Icelandic rental market that it is loosely regulated, so that tenants have had little security and seen excessive rises in their housing costs. The proposals of the housing group of the National Economic Council have good goals in this field. In relation to the 2019 collective agreements, promises were given on this which haven't been kept. The social affair sminister was well on his way to propose a bill which seems to have been blocked in the finance ministry.

To restrain the wild increases in rent, which are now bubbling up again after a lull during the pandemic, more detail is needed on how to regulate rises in rent, both at the start of rent and during the contractual term. Some guidance or cap on permissible rent is also needed, with clear maxima. It is important for these guidelines to include penalties if they're not upheld.

An excessive rent burden is most pronounced at for-profit rental associations. There is reason to focus especially on non-profit rental associations in the development of the rental market.

It is unacceptable that the proposals do not include a public grant to the Federation of tenants, to cost its operations. This was a promise in the Lifskjarasamningur that has not been honored yet. Strong tenants' organization is a very important part of obtaining a more balanced bargaining position between tenants and owners of rented housing and of building up a properly regulated tenancy market.

Further information
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