

## 10. Housing prices

### Housing market

Cheaper homes, lower costs of living and better value for money regarding living standards have brought about a tripling of the Danish flow from Öresund DK to Öresund SE since the bridge opened in 2000. In the centre of the region, the price for both single family homes and tenant-owned apartments in Copenhagen is EUR 2 900 per square meter, while the corresponding prices in Malmö are EUR 2 400 and 1 700, respectively (3rd quarter 2009). If one decides not to buy an 80 m<sup>2</sup> tenant-owned apartment in Malmö for EUR 134 000 and instead buys a similar apartment in Copenhagen, it would cost about EUR 228 000.

Price trends for tenant-owned housing depend on the supply and demand, and are connected with the amount of new production, the ownership forms and regulations for renting. 44 percent of all dwellings in the Öresund region are tenant-owned, most of which are on the Danish side of Öresund – 47 percent. Meanwhile on the Swedish side

### Copenhagen's housing market (1 000 dwellings)

		1981	2009
Tenant-owned	Tenant-owned apartment	39	64
	Single family housing	15	18
	Cooperative housing	8	96
Rental dwellings	Public housing etc.	59	57
	Other rental dwellings	163	53
		275	287

Source: Statistics Denmark, Öresund Committee's calculations.

only 37 percent are tenant-owned dwellings.

On the Danish side of Öresund, a radical restructuring has recently been done of ownership forms for dwellings. Trends on the housing market in Copenhagen since 1981 illustrate how common rental housing has disappeared and been replaced by so-called *andelsboliger* (cooperative housing). These *andelsboliger* are actually rental apartments that are in some way similar to the Swedish tenant-owned apartments, because the one who lives there pays a relatively large sum. The actual tenant-owned apartments only comprise 28 percent of the dwellings

in Copenhagen and mainly consist of *ejerlejligheder* (tenant-owned apartments) of which some are subletted or are empty because of the high prices of housing.

The rest of the market for rented apartments is highly regulated. Public housing in both Denmark and Sweden has special regulations for fixed rents and tenants. The other rental apartments are not marked in the price development of the market, because rental regulations maintain a relatively low rent.

Otherwise, rents have been raised moderately by about 3–5 percent each year during

the last twenty years<sup>1</sup>. The level of rent for public housing in cities in the Capital Region of Denmark and Region Zealand in 2008 was roughly EUR 95 per square meter per year<sup>2</sup>. The level of rent for private rental dwellings in Copenhagen was about EUR 80 per square meter in 2007. In Swedish metropolitan areas, the average rent in 2008 was EUR 95 per square meter<sup>3</sup>.

### **Housing prices and price bubble**

From 1997 up until the end of 2003 price development was generally similar in Denmark and Sweden. Prices for one- or two dwelling houses increased annually by 5 to 10 percent, while prices for tenant-owned apartments rose by 10 to 15 percent.

In the Capital Region of Denmark and in Region Zealand the rate of increase was a little higher than the general increase in

Denmark, while in Öresund SE prices were at the general level as in Sweden.

Prices accelerated from 2004 to 2006 when the price for a single-family house or a tenant-owned apartment in Copenhagen increase by up to 22 percent per year. Contributing factors to the sharply increasing prices for housing in Denmark were the special types of loans where only interest is paid (afdragsfrie lån) and flexible interest rates that were introduced in 2003. At that time, short-term interest rates were historically low. Price increases during these years were higher in Copenhagen and the Capital Region of Denmark than in Region Zealand and Denmark in general.

Looking back in time, a tenant-owned apartment in Malmö was only one third the cost of a comparable one in Copenhagen up until the increased prices in 2006. Since then the prices have dropped dramatically in Copenhagen compared to Malmö. Now, an apartment in Malmö is only 40 percent cheaper than the one in Copenhagen. Up

until 2006 a one- or two-dwelling house in Malmö was about 15 percent cheaper than in Copenhagen. The difference increased during the price explosion in Denmark, but has since dropped; a one- or two-dwelling house is now about 20 percent cheaper in Malmö.

The price for a single-family house has always been about 30 percent lower in Region Zealand than in the Capital Region of Denmark, so price conditions have been relatively stable except for a few years around 2006 with the price escalation in the Capital Region of Denmark. In relation to the Capital Region of Denmark, a one or two dwelling house in Region Skåne has cost about 40 percent less, and during years of price escalation about 50 percent less. Now the price is about 30 percent lower. A one or two dwelling house in Malmö was cheaper than one in the Capital Region of Denmark for many years, but now it seems that differences disappeared with a square meter price of around EUR 2 300.

<sup>1</sup>Ejendomsforeningen Danmark, Huset Jura 5/2008 and Velferdsministeriet

<sup>2</sup>Landsbyggefonden

<sup>3</sup>Statistics Sweden

Price trends are presented based on converted exchange rates that influence price comparison across the borders and clearly comprise one of the motives of moving across Öresund<sup>4</sup>. The motives for buying a home west or east of Öresund are many, but besides the price itself, there are differences in the possibility for loans and interest levels in the two countries.

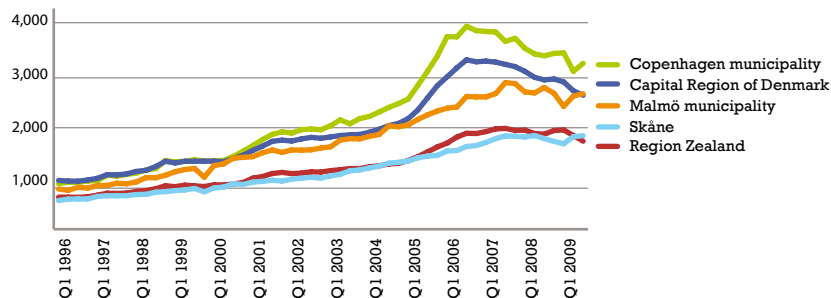
It is clear that the housing market has been overheated with a price bubble that burst in 2006. Prices culminated first for tenant-owned apartments, which first occurred in Copenhagen and in the Capital Region of Denmark. This happened in the summer and autumn of 2006. Then prices culminated in Region Zealand in the spring of 2007, and in Öresund SE and Malmö in the autumn of 2007; in all these places, prices changed first for tenant-owned apartments.

<sup>4</sup>In autumn of 2008, the Swedish crown dropped from a stable rate against the Danish crown of about 80 crowns to a rock bottom notation of 67 crowns in spring of 2009. But by late summer 2009 it stabilized about 72 crowns.

In three years housing prices in and around Copenhagen have dropped 35 percent and are now only a little bit over the level of 2004. The price drop is less the farther away from Copenhagen, and therefore the price difference between Copenhagen and Region Zealand has become less, especially for tenant-owned apartments. In Copenhagen the price per square meter for a tenant-

owned apartment hit EUR 4 400 during the third quarter of 2006. At the same time a single family house was EUR 4 000 per square meter. Three years later prices in Copenhagen for both forms of housing have stabilised at about EUR 2 900. The square meter price for a single family house in Region Zealand fell later and is now down to EUR 1 600, as in Region Skåne.

### One- or two-dwelling houses: Average square metre price EUR 1st quarter 1996 - 3rd quarter 2009



Source: Association of Danish Mortgage Banks and Vårderingsdata AB

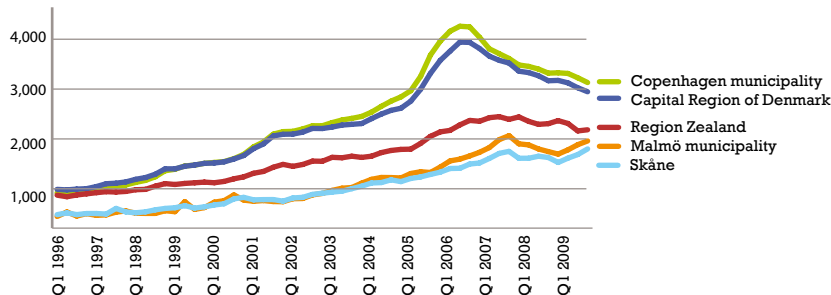
Prices for tenant-owned dwellings in the Öresund region have fallen particularly on the Danish side of Öresund, while on the Swedish side the drop in SEK has been considerably less. The square meter price of a tenant-owned apartment in Malmö in SEK has only fallen 6 percent from the third quarter 2007 to the third quarter 2009. However, when calculating with the lower

exchange rate for Swedish crowns converted to Danish crowns, the decrease is instead 16 percent. The time series calculated in SEK are thus more optimistic than those given in DKK and EUR.

In the Öresund region and in the comparison between Danish and Swedish prices in general, it seems that the Danish tenant-owned apartments are relatively expensive.

But when comparing the Capital Region of Denmark with Stockholm County, we see that tenant-owned apartments in both areas have the same or a bit higher square meter price in relation to single family houses. Even though the Swedish crown is currently at a low rate, this square meter price regardless of housing form is somewhat higher in the Swedish capital city area than in the Danish one. Tenant owned apartments are especially expensive in the city of Stockholm, where the square meter price is nearly EUR 3 800 or 30 percent more than in Copenhagen.

### Tenant owned apartments: Average square metre price EUR 1st quarter 1996 - 3rd quarter 2009



Source: Association of Danish Mortgage Banks and Värderingsdata AB

In relation to other large European cities, tenant-owned dwellings in the city centres of the Öresund region are relatively inexpensive. Most of the large European cities have of course also experienced price decreases, but not as dramatic as in Copenhagen where the square meter price three years ago was over EUR 4 000.

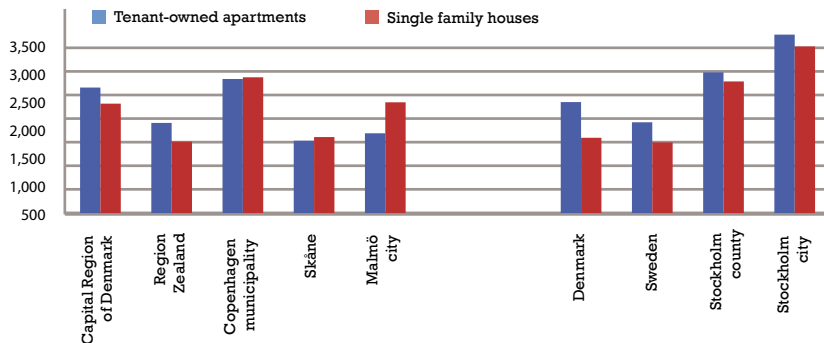
We do not know whether the relatively low housing prices in Copenhagen and Malmö

according to international comparisons indicate a halt for further price decreases. The number of purchased tenant-owned dwellings has dropped steadily for quite some time, and the modest number of housing purchases after the price bubble indicate the difference between the prices for supply and demand. Housing purchases seem to have

increased somewhat during the third quarter of 2009 in the Capital Region of Denmark, but are still dropping in Region Zealand. The market for tenant-owned apartments in Region Skåne is now increasing again, while the purchase of one or two dwelling houses is decreasing.

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### Square meter price Q3 2009 (EUR)



Source: Association of Danish Mortgage Banks and Värderingsdata AB

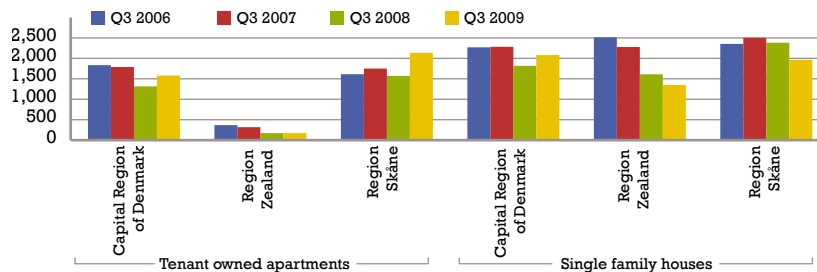
### Price per m<sup>2</sup> tenant-owned dwelling 120 m<sup>2</sup> in city centre 2009

	Price in Euro thousands
London	15.1
Paris	8.8
Rome	6.7
Helsinki	6.1
Barcelona	4.8
Madrid	4.1
Munich	3.8
Stockholm	3.7
Amsterdam	3.4
Milan	3.4
Frankfurt	3.2
Copenhagen	2.8
Zurich	2.5
Brussels	2.4
Berlin	2.2
Malmö	1.7

Source: Global Property Guide 2009

Together with the somewhat increasing number of housing purchases, it seems that the considerable price decreases in Denmark stopped during the third quarter of 2009. However, in relation to the quarter before this trend is not entirely clear. In Denmark the extremely low rate for short-term interest is expected to increase at the end of 2010. This, combined with an expected rise in unemployment, may easily result in a price drop for tenant-owned dwellings during 2010. A somewhat more stable price development is expected in Sweden.

Number of housing sales Q3 2006-2009



Source: Association of Danish Mortgage Banks and Värderingsdata AB

#### Tenant owned dwellings include:

- Single family houses: In Denmark these include detached houses, semi-detached houses (duplexes), linked houses and terraced houses that are owned by those who live there. In Sweden the term one- or two-dwelling house is used.
- Tenant owned apartments: In Denmark these often include apartments in multi-dwelling buildings that are divided into individually owned dwellings. In Sweden these include tenant-owned apartments (bostadsrätter) that correspond to Danish "ejerlejligheder" (condominiums) in many ways, but that have a freely set sales price and rent to a housing cooperative.

"Andelsboliger" (cooperative housing) is a common dwelling form in Denmark where the tenant shares ownership through a housing association with both an invested amount of money and regulated rent. The Danish "andelsboliger" and the Swedish "hyresrätter" (apartments with rights of tenancy) are considered to be rental apartments.