



ESPN – Flash report

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Responding to the crisis: Iceland's new housing benefit

Stefán Ólafsson
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Contact: Valdis ZAGORSKIS

E-mail: Valdis.ZAGORSKIS@ec.europa.eu

*European Commission
B-1049 Brussels*

EUROPEAN SOCIAL POLICY NETWORK (ESPN)

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| Theme(s): | <i>Housing and Homelessness</i> |
| Title: | Responding to the crisis: Iceland's new housing benefit |
| Category: | <i>Policy debate</i> |
| Abstract: | In June 2015, the Icelandic Minister of Social and Housing Affairs put a proposal to parliament for a new housing benefit. The aim of the new benefit is to equalise public income support to those who live in rented accommodation and make it more comparable to the prevailing more generous support to those living in their own accommodation. |
| Description: | <p>The policy goal of the new housing benefit is to provide a response to the changing housing situation in Iceland following the financial crisis (Ministry of Welfare, May 2014). From the onset of the crisis, housing became a major issue for households and government. Debt servicing problems were the most prominent concern from the beginning of the crisis, but increased difficulties in financing the purchase of own accommodation gradually emerged as another major issue, particularly for younger families (Government Plan 2014). The flow into the market for rented accommodation therefore increased greatly during the crisis years.</p> <p>The proportion of households living in rented accommodation went up from about 17% in 2007 to about 27% in 2013 (Statistics Iceland 2014). The price of rented housing also went up greatly due to the increased demand and ensuing shortage of affordable supply. The shortage was further magnified by greatly increased demand amongst tourists for short-term rented housing in the Reykjavik area. That situation still prevails.</p> <p>The Minister of Social and Housing Affairs' proposal was worked out in cooperation with the social partners and aimed to facilitate the conclusion of a collective bargaining agreement in the spring of 2015. The goal of the new housing benefit is to increase support to households living in rented accommodation to the level of support to those who live in their own house. Owners have enjoyed a substantial subsidy to the interest cost of their mortgages and that support was greatly increased during the height of the crisis years, particularly in 2010.</p> <p>The new housing benefit replaces two separate programmes: the governmentally provided subsidy of interest cost of mortgages and the municipal rental benefit. It is thus for everyone, owners and tenants alike. It will equalise support to renters and owners and it will also specifically increase support to families with larger numbers of children (2+), partly at the cost of support to smaller families living in their own accommodation. Couples with less than two children in own accommodation will get reduced support whereas all couples in rented housing will get a larger increase in benefit values.</p> <p>The overall cost of housing subsidies to the household sector will thus increase. The new benefit is income-tested and also takes account of family size, as indeed did the former interest cost subsidy for owners and the old rental benefit (Ministry of Welfare 2015).</p> |
| Outlook & Commentary: | The legislation for the new housing benefit is still to be passed by parliament. The government will however make it a priority issue to |

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| | <p>conclude soon, since it was cemented in the social partners' collective agreement, in addition to being in the governments' own policy programme. (There is a tradition of including welfare reforms in tripartite collective bargaining in Iceland, in exchange for lower wage rises.)</p> <p>The idea is that the benefit should be functional from the beginning of 2016. The Social Insurance Institution (TR) will pay out the benefit (which is new). While time for preparing this reform is obviously short there is no reason to doubt that it will go ahead. The starting date for the new programme might however be delayed until mid-2016.</p> <p>The main criticisms of these plans have come from some neoliberals within the Independence Party (one of the two governing parties). They argue that increasing the rental subsidies will only increase the price of rented accommodation. Instead they favour supporting builders and financiers to provide more low cost housing (with lower price for public land and deregulation of quality demands). The other governing party (Progressive Party) however seems firmly committed to the plan.</p> <p>The new benefit will certainly be an important move for those relying on the difficult market for rented housing. It will contribute significantly to making rented accommodation more affordable for lower and middle-income households. The Minister of Social and Housing Affairs is also promising additional legislation facilitating a greatly increased construction of affordable apartments for the rental market, with a reorganisation of the housing loans scheme and increased public subsidies (including a tax incentive for owners who rent out property for longer terms).</p> <p>The great speed at which these new proposals are being implemented reflects the great need for improvements and the government's and social partners' will to respond to that.</p> |
| Further reading: | <p>Ministry of Welfare (May 2014). Report of a task force on a new housing policy.</p> <p>Government plan (2013): Reduction of the principal of housing mortgages</p> <p>Leiðréttingin – Kynning á niðurstöðum 2014 (Government's Survey of the Debt Relief Programme's Impact)</p> <p>Statistics Iceland (2014). Social Indicators – Tenants renting at market rates.</p> <p>Ministry of Welfare (2015). Nýmæli í frumvarpi um húsnæðisbætur (Novelties in proposal for a new housing benefit).</p> |
| Author: | Stefán Ólafsson (olafsson@hi.is) |

