Analysis

Separating buy-to-let mortgages from other housing loans provides a clearer look into household debt

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The stock of buy-to-let mortgages stood at EUR 8.1 billion at the end of March 2021, comprising 7.9% of the total stock of housing loans. It is estimated that buy-to-let mortgages have grown faster than the rest of the housing loan stock since the global financial crisis. Buy-to-let mortgages are smaller than residential mortgages and have shorter repayment periods. In March 2021 the average interest rate applied on new buy-to-let mortgages was higher than on residential mortgages, but lower than the rate applied on housing company loans.



Private landlords own the majority of non-subsidised rental flats

According to data by the Finnish Tax Administration 328,000 private persons rented out a flat in 2019[1]. The Finnish Landlord Association estimates that two-thirds of all non-subsided rental flats in Finland are owned by private landlords. The largest number of landlords can be found in Helsinki, followed by Tampere, Espoo and Turku.[2] The largest number of buy-to-let mortgage drawdowns between April 2019 and June 2020 were also for flats located in Helsinki[3]. At the same time, almost one-fifth of all one-bedroom flats sold as investment housing in 2019 were located in Helsinki according to Statistics Finland. More generally, about a fifth of all flats sold in 2019 were acquired by private persons engaging in residential property investment[4].

Buy-to-let mortgages accounted for 10% of all new drawdowns of housing loans

For a number of years now loan-level data collected by the Finnish Financial Supervisory Authority (FIN-FSA) has provided information on new drawdowns of buy-to-let mortgages by households. Between April 2019 and June 2020 buy-to-let mortgages comprised 8.3% of all newly originated housing loans. On a monthly level this share ranged from 6–10%. As of March 2021, the Bank of Finland's statistics have been able to sort buy-to-let mortgages from other housing loans. According to the newly available data, EUR 210 million of buy-to-let mortgages were drawn in March 2021, comprising 10% of all newly originated housing loans.

The average interest rate applied on buy-to-let mortgages drawn in March 2021 was 0.87%, compared with 0.69% on residential mortgages and 1.29% on drawdowns of housing company loans[5]. Interest rate margins on buy-to-let mortgages are typically higher than on owner-occupied residential mortgages. This would suggest that banks view buy-to-let mortgages as being exposed to slightly more risk than residential mortgages. The average margin on buy-to-let mortgages was 0.82% between April 2019 and June 2020, compared with 0.64% on owner-occupied residential mortgages during the same period. As with other housing loans, buy-to-let mortgages are seldom based on any other reference rate than the Euribor rates. More than one-fifth of the newly originated buy-to-let mortgages had an interest rate cap. Interest rate caps were slightly more common with owner-occupied residential mortgages.

Buy-to-let mortgages are smaller and have shorter repayment periods than other housing loans

According to the data by the FIN-FSA, new buy-to-let mortgages are smaller on average than owner-occupied residential mortgages. The average amount of a new buy-to-let mortgage drawn between April 2019 and June 2020 was slightly under EUR 100,000, compared with EUR 125,000 for owner-occupied residential mortgages drawn during the same period. In Helsinki, newly originated buy-to-let mortgages were larger on average (over EUR 150,000), as were owner-occupied residential mortgages (almost EUR 200,000). Buy-to-let mortgages are smaller than residential mortgages because flats purchased for investment purposes are similarly smaller on average. According to Statistics Finland, over 85% of flats which can be inferred as being investment housing are one or two-bedroom.

Repayment periods for new residential mortgages have been on the rise since 2014. In recent years mortgages with longer repayment periods (over 29 years) have especially become more common. For new residential mortgages drawn in March 2021 the average repayment period stood at 21 years and 7 months. The repayment periods for buy-to-let mortgages are typically shorter than for other housing loans. The average repayment period for a new buy-to-let mortgage drawn in March 2021 was 18 years and 4 months, compared with 21 years and 11 months for an owner-occupied residential mortgage.

For buy-to-let mortgages, the ratio of the mortgage loan and the housing company loan relative to the unencumbered price of the flat (i.e. the loan-to-value ratio, LTV) is generally slightly higher than for other housing loans. Indeed, buy-to-let mortgages are more likely to backed by significant amounts of other housing collateral when compared with other housing loans.

Residential property investors are also accumulating debt through housing company loans

According to an estimate based on transfer tax data, households have long held more than 80% of new drawdowns of housing company loans.

Purchases of residential investment properties are often partly financed with housing company loans. According to the FIN-FSA's data[6], almost a third of flats purchased with a buy-to-let mortgage are also encumbered with a housing company loan. Yet buy-to-let mortgages were seldom coupled with housing company loans in the case of new-build housing. Indeed, new builds are increasingly purchased with large housing company loans. The buyer's share of the housing company loan can finance as much 80% of the unencumbered price of the flat, so the rest of the

price might be covered by the buyer's savings, for instance. According to a survey conducted by the Finnish Landlord Association, almost one-third of landlords held a share of a housing company loan in connection with a new-build property. The tax treatment of residential property investors is likely to have increased the share of housing company loans in new builds. Other factors which are likely to have contributed to raising the stock of housing company loans are the gradual removal of the tax deductibility of housing loans, the low level of interest rates, and the high level of house prices. The stock of housing company loans is especially concentrated around the Helsinki metropolitan area and the country's major urban areas.

Whether this incentive for residential property investors to take on leverage warrants action is being discussed by policymakers (see Imposing a loan-to-value limit on housing company loans would only affect a share of construction finance. The Finnish Government Programme for 2019–2023 includes plans for 'an investigation [that] will study the prospects for reforming taxation of housing investment'. Among other measures, the reform aims to limit the right to deduct housing company loan repayments from rental income.

The ratio of buy-to-let arrears relative to the loan stock is smaller than for other housing loans

The stock of delinquent housing loans has slightly increased in recent months and comprised 1.6% of the total loan stock at the end of March 2021. Relative to the loan stock, buy-to-let mortgages had a smaller number of delinquencies than other housing loans. A full 98% of respondents to the survey conducted by the Finnish Landlord Association reported having no difficulties in meeting their share of housing company loan fees during the coronavirus crisis. In spite of the pandemic, housing company impairment losses and arrears have remained small throughout the country.

According to the FIN-FSA's data, overall indebtedness relative to annual income is slightly lower for holders of buy-to-let mortgages than for holders of owner-occupied residential mortgages. However, a third of buy-to-let mortgage borrowers still had a debt-to-income ratio in excess of 450%, which is comparable with second-time and subsequent homebuyers. (See New mortgage-borrowers have an increasing amount of debt relative to income)

Having the ability to examine buy-to-let mortgages as a distinct whole separate from other housing loans promises to provide a sharper and more complete view of household indebtedness in Finland.

Notes

1. In 2019 rental income from flats was accrued by 282,000 persons and rental losses ↑

incurred by 46,000.

2. Where members primarily serve as landlords: Finnish Landlord Association. ↑
3. Source: Finnish Financial Supervisory Authority. The primary housing pledge was most often located in Helsinki. ↑
4. Based on record information by Statistics Finland. ↑
5. Source: Credit data collection. Imputed average rate on new mortgage drawdowns. ↑
6. Loans drawn between April 2019 and June 2020. ↑

Keywords

buy-to-let mortgages, households, indebtedness, investment, mortgages