Affordable housing in the Nordics

Norway – A land of house owners

Over the past two years, rising interest rates and higher inflation have increased already high entry barriers to the housing market, despite softening house prices. In particular first-time buyers and low-income households struggle to gain footing in the housing market, but the recent developments have intensified the house hunt for an increasing share of the population. At the same time, the volume of new housing construction has declined dramatically, hindered by increased funding and production costs. Thus, we see an increasing mismatch between production costs for new housing and what households can afford.

In this series of focus reports we take a closer look at the various systems for affordable housing in the Nordic countries. In the publication *Affordable housing in the Nordics* we presented an overview and comparison between the different systems for affordable housing in the Nordic countries.

In this country focus report, we take a closer look at the system for affordable housing in Norway. The affordable housing market in Norway dates back to the 1850s. For many years, the primary tool for the authorities to provide affordable housing was via cooperative housing companies that performed development activity in close cooperation with the Norwegian municipalities.

The cooperative housing companies remain a major part of the Norwegian housing market. Over time, however, the direct support to the construction of new housing has decreased. With the decline of social housing construction, overall house building has declined in Norway. Over the years, the supply of new housing has lagged population growth. **Consequently, house prices have risen, increasing the difference between the 'insiders' and 'outsiders' in the housing market.**

Today there is hardly any direct social housing construction. Instead, the housing policy has become more consumer oriented, i.e. with an ambition to support the households that have failed to find adequate housing in the market. **The modern Norwegian housing policy is centred around home ownership.** The three main parts of the current support system are *the housing allowance system*, *municipal housing* and *assisted purchase schemes*.

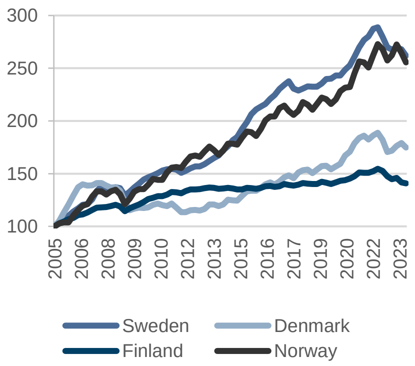
With the increased focus on social issues the sustainable bond market has developed into new forms. This includes both social bonds and sustainability-linked bonds (SLBs). For real estate companies we see these instruments as interesting complements supporting the focus on social challenges and solutions.

The Norwegian real estate companies with relevant exposure to the residential market under our coverage include **OBOS BBL, Carucel Property, Bane NOR Eiendom, Olav Thon Eiendom and Thon Holding. Norwegian Property is exposed through its JV Nordr.**

Key points

- In a series of focus reports we look at the various systems for affordable housing in the Nordic countries.
- In this country report, we take a closer look at the system for affordable housing in Norway.
- The modern Norwegian housing policy is centred around home ownership.
- Sustainable bonds could be one financing source for potential social initiatives.

House price development 2005 - 2023



Source: Eurostat, Statistics Sweden, Statistics Denmark, Statistics Finland, Statistics Norway

Note: Nominal prices, not inflation-adjusted

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Content

Norway – The land of house owners

Affordable housing in Norway

The affordable housing market in Norway dates back to the 1850s when Kristiania Arbeiderboliger was founded as a socially founded housing developer, with branches in Bergen and Trondheim. Strong population development, and increased financial prosperity and industrialisation shifted the population from farms to cities. While the government included housing in their political agenda during the 1920s, the cooperative housing market in Norway became more relevant in the 1930s as OBOS (established in 1929) became the blueprint for cooperatives.

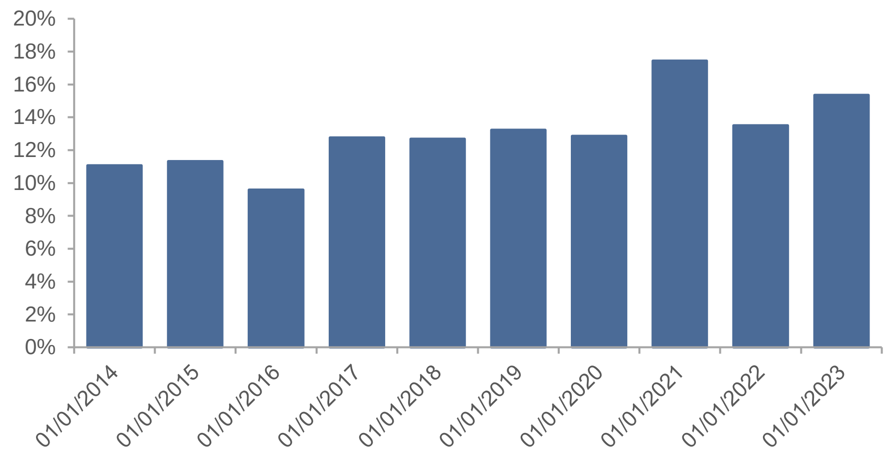
After the Second World War, the cooperative housing market in Norway expanded. In the subsequent decades this model, whereby the cooperative housing companies performed development activity in close cooperation with the municipalities, became the primary tool for the authorities to provide affordable housing in Norway.

As the social housing policy changed in the 1980s, this also meant that the cooperative housing companies became more market oriented, and the previous system with supply subsidies and price controls was phased out.

The direct support to the construction of new housing has decreased, and today there is hardly any direct social housing construction. Cooperative housing was initially focusing on social housing, but today these structures have become dependent on market-based sales and rent prices, as they construct and compete on commercial terms.

The cooperative housing companies remain a major part of the Norwegian housing market. In total the 39 cooperative housing associations in Norway have more than one million individual members, with OBOS alone having more than half a million members. The total number of cooperative dwellings in Norway amounts to close to 350,000, equivalent to some 13-14% of the total stock of dwellings. In 2022, Norwegian cooperatives represented on average 13-14% of housing starts, reflecting the fragmented Norwegian property development segment. OBOS is the largest residential cooperative property builder, representing 47% of the cooperative build units, but closer to 6-7% of the total market.

Chart 1. Cooperative share of housing starts



Source: Prognosesenteret, Norges Boligbyggelag, Danske Bank Credit Research

When the housing supply subsidies were phased out in the 1980s, the housing policy instead became more consumer oriented, i.e. with an ambition to support the households that had failed to find adequate housing in the market. The lack of support in the construction phase further resulted in a decline in overall house building. For many years the supply of new housing has lagged population growth and as a consequence, house prices have risen. This has led to an increasing difference between the 'insiders' and 'outsiders' in the housing market. The increasing immigration and aging of the population is further expected to increase the long-term pressure on the housing market.

To access a mortgage, the buyer needs to hold a minimum of 15% equity, i.e. the bank can only fund 85% of the purchase. This equity level has created a barrier to entry for young adults, immigrants and other financially pressured home buyers. The increase in housing prices over time has enabled several families to provide their young with the 15%, often supported by increasing leverage in their own assets, which further increases the insider/outsider problem.

The average property in Norway cost NOK4.8m, NOK6.9m in Oslo, while the average salary is NOK608,000 (2024), i.e. 15% equity represents more than one year salary in Norway, two years' salary in Oslo, before tax. Taking tax into account, the 15% equity share is further out of reach. As the Norwegian property market has increased by more than the average return on savings over time, the hill to climb has become even steeper. The banks have some flexibility and are allowed to borrow more to a share of its pool, representing 8-10% per quarter. The 15% equity share is constantly under discussion in the media.

The modern Norwegian housing policy is centred around home ownership. In comparison to its neighbouring countries, Norway has little corporate-owned rental apartments. Instead, the private rental market is dominated by non-professional individual homeowners that either rent out part of their house or a second home.

The Norwegian government published its national strategy for social housing policies for 2021-2024 in 2020. According to the publication, 179,000 people were struggling in the housing market, of which 78,000 individuals below 20 years old. The municipalities hold the main responsibility for providing social housing, while State Housing Bank (Husbanken) should aim to prevent people struggling in the housing market. Both the municipalities' and Husbanken's approach are based on financing support to tenants, rather than support developers and property managers. Thus, the properties are largely priced at market rates. Husbanken is funded over the government budget.

Apartments within the housing cooperatives are sold on market terms, with no price regulation. Hence the buyer of the apartment buys the apartment on the open market and takes over the remaining joint loan of the apartment of the co-owner in the particular cooperative. Consequently, buying an apartment in a cooperative housing company may be rather costly and does thus not in itself constitute affordable housing. Worth noting is that the ownership forms of owning an apartment through a share or through a housing cooperative typically omit a 2.5% government tax on the property value at transaction compared with freeholder apartment, i.e. represent a slightly lower up front equity injection needed.

The three main parts of the current support system are *the housing allowance system*, *municipal housing* and *assisted purchase schemes*. *Housing allowance* means a transfer of cash to households that cannot afford housing on their own income. *Municipal housing* means homes that the municipalities either own or have at their disposal. Access to municipal housing is means-tested and typically with temporary contracts. Municipal housing in Norway is of limited scale and only constitute some 2% of all homes, and as of 2023, a total of 110,000 homes were at the municipalities' disposal. Property managers and municipalities can enter into referral agreements where the municipality can have access to 40% of the units in a project for at least 20 years, and the property developers will be able to apply for a loan from the state-owned bank Husbanken at beneficial terms. An 85% loan-to-costs for properties where cost of building exceed market cost could support development projects outside the city centres and support the overall housing development.

According to BOVEL, Centre for Household and Welfare research, nine of 10 municipalities in Norway lack sufficient public housing for its inhabitants. This typically comes down to funding and government policies not being sufficiently aligned with the actual need in the municipalities.

Assisted purchase schemes are loans titled "start-up loans" that are tailored towards households lacking the equity needed to obtain a mortgage. There is also a system for low-income households called shared ownership. This means that the household initially buys part of a home and rents the remaining part. A share of the rent payment is used as a saving so that the household eventually can buy out the rented part of the house and become the full owner. A similar model has been applied by some commercial and cooperative companies such as OBOS and others.

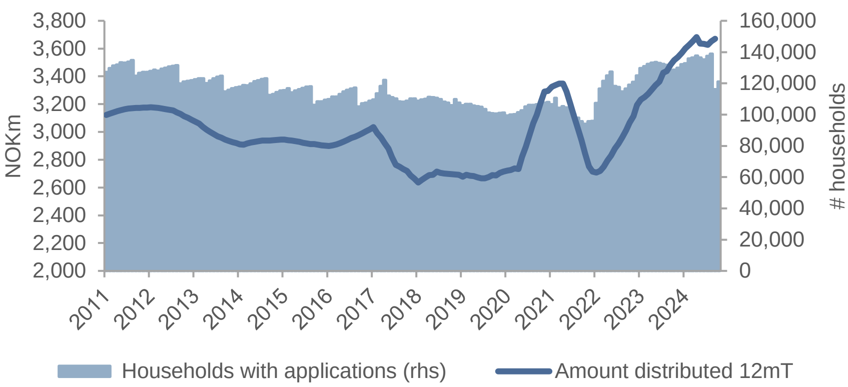
With regard to the start-up loans there is a special emphasis being placed on assisting families with children and people facing social and health challenges. The loans can also be supplemented in certain cases with grants from municipalities.

For the housing allowances they are adjusted for household size and costs differences between cities. Also, in these cases the municipalities can provide additional support with benefits. In 2020, some 5% of households in Norway were recipients of housing allowances.

During the past years, both the applications for housing allowance and the amount distributed have increased, according to Husbanken, and as the Norwegian interest rates continue to remain elevated, a continued high level should be expected.

According to Samfunnsøkonomisk Analyse SA, 62% of the population would be able to receive an ordinary loan through a bank at commercial terms in 2023, down 5% since 2020, reflecting the increased interest rates cost increases impacting disposable income. The increasing cost of living and interest rates further negatively impact households' ability to service a loan given by Husbanken. In 2022, close to 7,900 households received start loans from Husbanken, a historically high number. However, the increasing cost of living has resulted in increased demand for instalment deferral.

Chart 2. Applications for housing support, 2011-ytd 2024



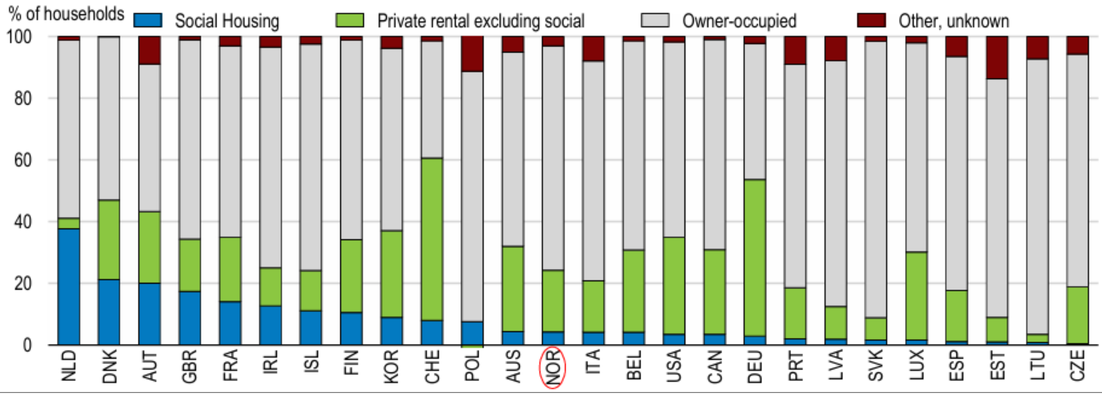
Source: Husbanken, Danske Bank Credit Research

More recently there has been an increased focus in the social housing strategy in Norway on socially sustainable urban development, with measures taken to allocate low-income households to dwellings in better neighbourhoods. Certain municipalities have received grants from Husbanken for urban regeneration programmes, especially targeting areas with challenging living conditions. The increase in costs further places pressure on property owners in the districts as there may be more difficulties in disposing assets should there be need to downscale or shift housing options.

Overall structure of the Norwegian housing market

Starting in the 1940s the Norwegian housing policy has had home ownership as a main policy target. Relative to many other countries the share of home ownership in Norway is high. As of 2020 more than 75% of all households in Norway owned their homes.

Chart 3. Households by tenure type in different countries



Source: OECD Affordable Housing database. From the report Making Norway's housing more affordable and sustainable, OECD Working Papers No. 1711 (2022).

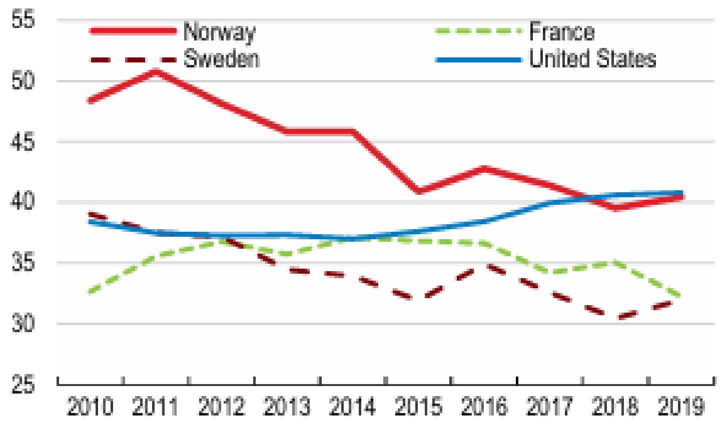
Part of this home ownership policy has been a system with tax advantages for homebuyers, such as tax rebates on interest paid. When the mortgage rate peaked at 13-14% in the early 1990s, 100% of the interest costs was tax deductible. Further, the average debt burden was closer to 110% of disposable income, compared with 250% today.

Another tax policy is that property values are taxed lower than cash holdings and many other asset classes, 25% of values up until NOK10m is taxable, 70% above NOK10m. As part of the political push for people to own their own homes, the taxation on secondary housing is based on 100% of property values. Further, in Oslo a secondary home would require 40% equity, compared with 15% for the remaining country and for a primary home.

The regulations thus favour owner occupied housing, while the availability of housing for rent is becoming harder to financially justify – visible with several investors in the housing market divesting apartments as interest rates have diminished the yield gap leaving very little to cover costs. Furthermore, once a property owner sells a home where the owner has not lived 12 of the last 24 months, the sales gain is taxable.

Previously there was also a more wide-ranging system with public subsidies for homebuilding. However, ever since the housing and financial markets were deregulated in the 1980s the gap in home ownership between high- and low-income households has widened. This is despite some supportive measures such as first homebuyer policy support and subsidised mortgages for low-income families.

Chart 4. Share of owner households among low-income households



Source: OECD Affordable Housing database. From the report Making Norway's housing more affordable and sustainable, OECD Working Papers No. 1711. Bottom income quintile.

Outside of the larger cities the private rental markets in Norway are relatively small. It also appears that a large share of tenancies are informal, with indications that up to a quarter of tenants living in dwellings owned by friends or family. Interestingly, income from private and longer-term rentals are exempt from tax in Norway up to half a landlord's primary residence, providing an incentive to the private lease market.

Social housing is only targeted at a small share of low-income households. Only some 4% of homes were social rental dwellings in 2020. While a share of the market remains undocumented it appears that the average rent burden in Norway relative to average incomes is fairly high relative to other countries. If this would lead to reduced worker flows to urban areas this could have a negative impact on economic growth. The high share of ownership in itself is also a restrictive factor on the worker mobility flows.

Worth noting in terms of social housing is that the Norwegian system NAV, i.e. social security, provide 60% of an employee's salary (maximum 6G (1G=NOK110.000 as of 2024)) should the employee become unemployed or long-term ill, or have an inability to work resulting in a cushion for the housing market and the need for social housing by the general working population.

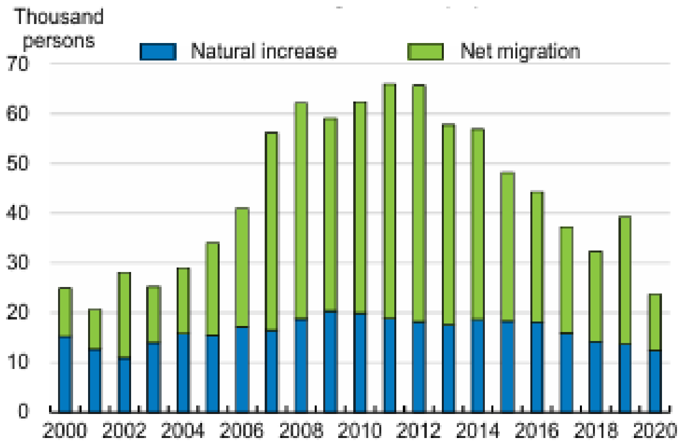
Rental regulation and regulatory environment

Norway adopted a new Rent Act in 1999 that stipulates that rents are to set at market rates. For time-specific contracts, the minimum time is three years, one year where the owner lives in the same space. However, the agreed rent can only be adjusted according to the consumer price index during the first three years of the contract. During the third year the landlord and the tenant can demand an adjustment to reflect market conditions. The continued shortage of housing in especially Oslo has driven the rent prices upwards. A new proposition to the law governing rental houses has been debated. Amongst the changes proposed are an extension of the minimum lease time to 5 years, a right for the tenant to extend its lease at current terms, a right for the tenant to at all times be able to cancel the contract with three months' notice. These changes increase flexibility and rights for the tenants, but industry experts point out that these restrictions from landlord side could increase costs for tenants and reduce attractiveness in having housing for rent. In the recently published government budget, a finalisation of the proposition has not been included, thus it seems that a new regulation will be postponed to after the government election in 2025.

Demographic trends and supply-demand dynamics

During the past 20 years the construction of new housing units have not kept up with the overall population growth. The mismatch has been especially large in the more rapidly growing cities such as Oslo, while the balance between supply and demand has been better outside of the larger cities.

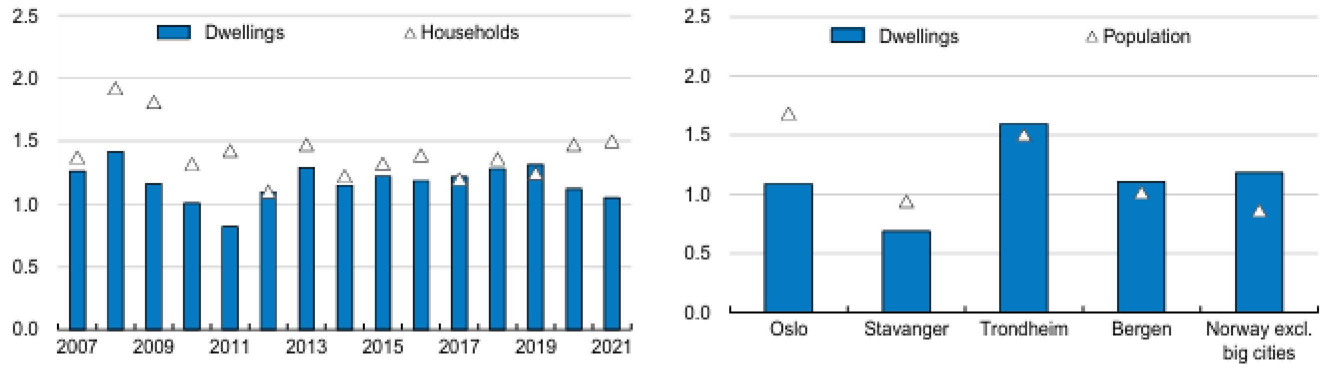
Chart 5. Annual change in total population



Source: Statistics Norway. From the report Making Norway's housing more affordable and sustainable, OECD Working Papers No. 1711.

Especially in Oslo where the net flows of migration have been higher than in other parts of Norway, the mismatch between population growth and new housing construction in the period 2010 – 2020 has been large.

Chart 6. Growth in the number of dwelling units and households (left) and growth in population and dwellings (right), (in %)



Source: Statistics Norway. From the report Making Norway's housing more affordable and sustainable, OECD Working Papers No. 1711 (2022).

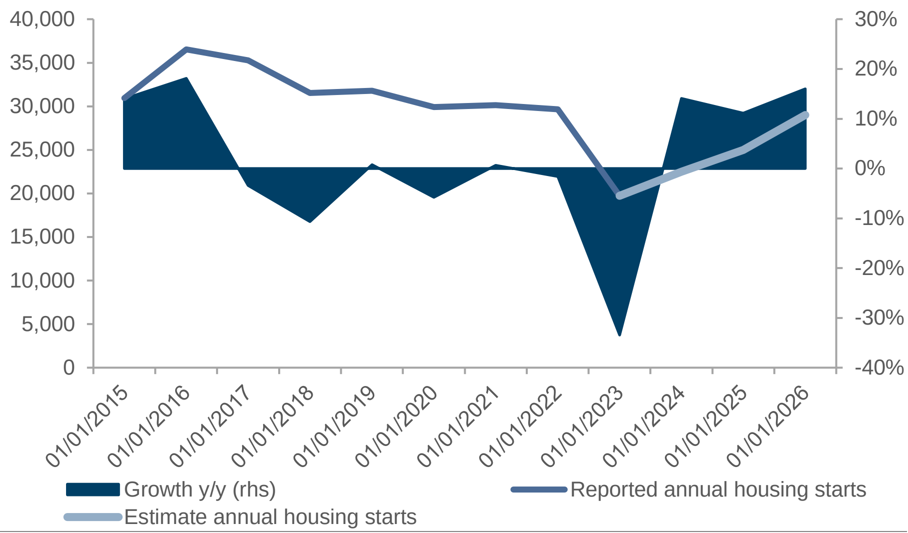
Housing construction

More recently, the increasing interest rates together with a rapid increase in production costs have put pressure on housing starts. Typically, construction begins once the developers obtain a pre-sale rate of a minimum 50%, as this is usually a requirement from the banks to release funding. The land is often acquired prior to this, with regulation work commencing prior to pre-sale, thus costs for the developer are relevant even before the construction phase has begun.

The rapid increase in interest rate created an uncertainty regarding the development of housing prices. Newbuilds typically take between 12-24 months from start to completion. Thus, buyers withdrew from the newbuild market as uncertainty regarding the value of newbuilds versus the potential sale price of its current dwelling two years in the future – and even the ability to sell its current dwelling – reflected a risk few were willing to take. The demand for newbuilds thus evaporated and with it funding opportunities for new housing projects.

Cooperatives are able to receive loans from Husbanken to fund the cooperative building process, but the usage has deteriorated over time as the process is seen as cumbersome. The share of loans from Husbanken used in the cooperatives building process reflected three-fourth of the newbuilds in 1990s. Since then, the share has reduced to zero in 2021 and 2022 – albeit with a short-term spike in 2009 to 60% as the global financial crisis puts pressure on the overall economy and housing starts.

Chart 7. Housing starts (number of dwellings)

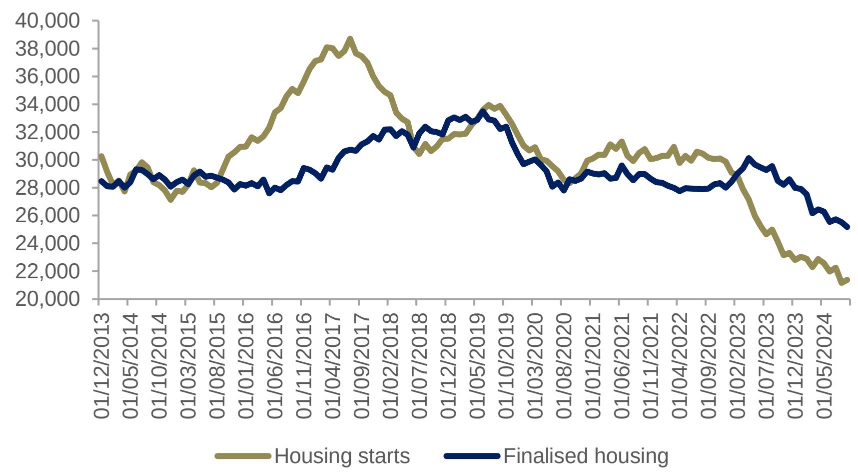


Source: Prognosesenteret, Danske Bank Credit Research

Little has been done to support housing starts this year, and developers such as OBOS BBL have initiated development without external funding. The continued development without sufficient pre-sale, or even sale at finalisation, has resulted in a debt build-up in the cooperative, which has negatively impacted the credit quality. However, as the Norwegian interest rate is expected to be reduced in 2025, Danske Bank expects 1% in total by the end of 2025, the housing market is expected to rebound and support for newbuild development is expected to once again strengthen.

However, during this period of weakness, we have seen several smaller construction companies defaulting and as a large share of workers are from abroad, the weakening NOK has negatively impacted the supply of workers. These factors could hinder a solid rebound once the demand returns and could push housing prices even higher – once more increasing the insider/outsider dilemma. We further expect to see finalised housing weaken reflecting the weak housing start the past two years.

Chart 8. Norwegian housing construction starts and completions (R12m, number of dwellings)



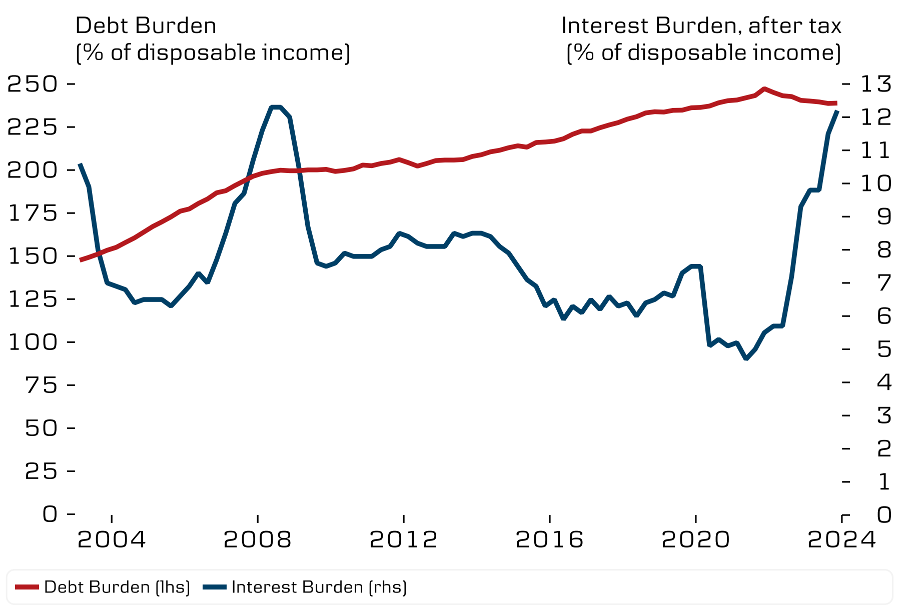
Source: Prognosesenteret, Danske Bank Credit Research

House prices and affordability

There are notable differences with regards to mortgage financing and amortisation requirements and property taxations between the different Nordic countries. It appears that Norway together with Sweden has the toughest amortisation requirements. Also, with a higher share of house owners and a subsequent overall higher debt burden, this also means that Norway is the country that has the higher debt interest burden in relation to income among the Nordic countries. Mitigating the high amortisation requirements is the increase of frame agreement loans, i.e. loans with lower LTV, below 60%, where the loan holder does not need to amortise. The low-interest rate environment increased the housing values, enabling more usage loan frame agreements, which share of total loans lifted from 12% in August 2020 to 14% as of August 2024, or growing by 32% while traditional down payment loans grew by 12% over the same 4 years.

The housing prices has remained quite solid compared to the development in interest rates could have resulted in. The transaction market and the new build market has remained subdued, while salary growth has been strong around 3-5% annually. The average debt burden has thus marginally reduced the past two years. Meanwhile, the interest rate burden has rapidly increased. The high share of floating interest mortgage loans results in a 6-week delay from market interest to bank interest hikes are reflected in the mortgages. Thus, the rapid increase seen has significantly impacted the average mortgage holder. In the chart below, the interest burden, after-tax, can be seen to have reached levels similar to the GFC in 2009, but with a significantly higher total debt burden – and with energy costs and inflation impacting the consumer simultaneously.

Chart 9. Household debt and interest payments, Norway



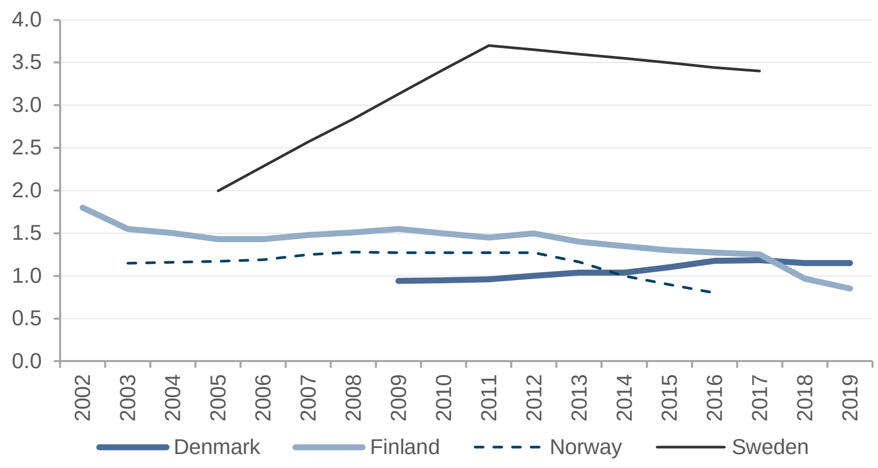
Source: Macrobond Financial, Eurostat, Danske Bank

Level of homelessness and over-crowdedness

The difference in institutional setup and support systems between the Nordic countries is evident when looking at various social data such as the level of homelessness and over-crowdedness in the different Nordic countries. While the general level of poverty and inequality is low in all the Nordic countries in an international comparison, there are still fairly large differences between the Nordic countries.

In Norway, the level of homelessness is low. In 2020, Norway reported c.3,300 homeless people, split by long-term homeless persons, acutely homeless persons and 'new' groups of homeless. Norway has set a target to bring homelessness down to zero, and from 2012 to 2020 the number of homeless persons in the country has been halved.

Chart 10. Homelessness per 1,000 inhabitants in the Nordic countries



Source: Measurement of Homelessness in the Nordic Countries, European Journal of Homelessness, 2020, Danske Bank Credit Research

To have a precise view of how large a potential shortage of housing supply could be is difficult as it ultimately depends on what trade-off households are willing to make between what type of housing they would like and what type of housing they can afford. For example, in more difficult times a household could be willing or forced to share a dwelling with another household in order to save money, which in the statistics could show up as less demand for vacant premises.

When looking at available statistics it appears that the number of overcrowded households has increased in the Nordic countries in recent years, especially in Sweden. In Norway the number of overcrowded households remains at a relatively low level. According to Eurostat, 17.0% of Sweden's population lived in overcrowded households in 2022, roughly in line with the EU average of 16.8%. In comparison, some 5.9% of Norway's population lived in overcrowded households (Finland 8.4%, Denmark 9.8%, Iceland 10.4%).

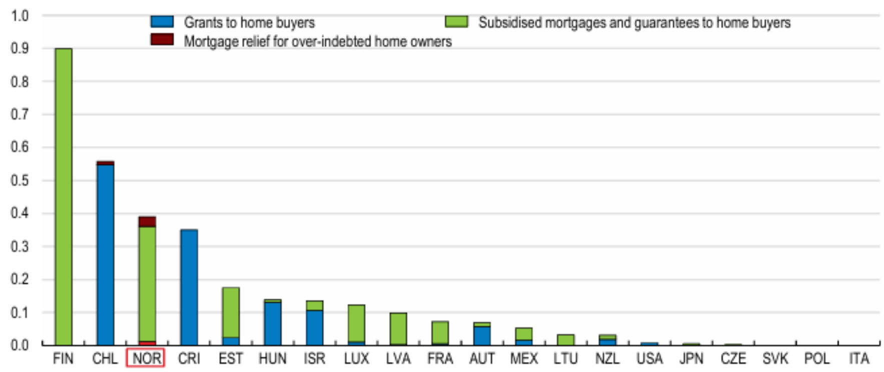
Financial support systems

There is no direct financial support system in Norway that is targeting the housing cooperative associations. With regards to housing finance, Norway is applying a combined state and bank model whereby Husbanken and the Agricultural Bank can provide a mortgage loan for new construction and extensive renovation, which then can be topped up by other loans by commercial banks. Husbanken is directly financed from the state budget.

The help for low-income households to buy a home is a primary aim of the housing policy in Norway and this is also the part of the system that costs the most (see graph below). The start-up loans to low-income households are administered by the various municipalities and commissioned by Husbanken. The definition of what constitutes an eligible household has changed over time.

Municipalities also have access to grants and loans from Husbanken for the construction of new municipal housing, and when acquiring new houses on the existing market.

Chart 11. Public spending on grants and financial support to homebuyers and homeowners as % of GDP

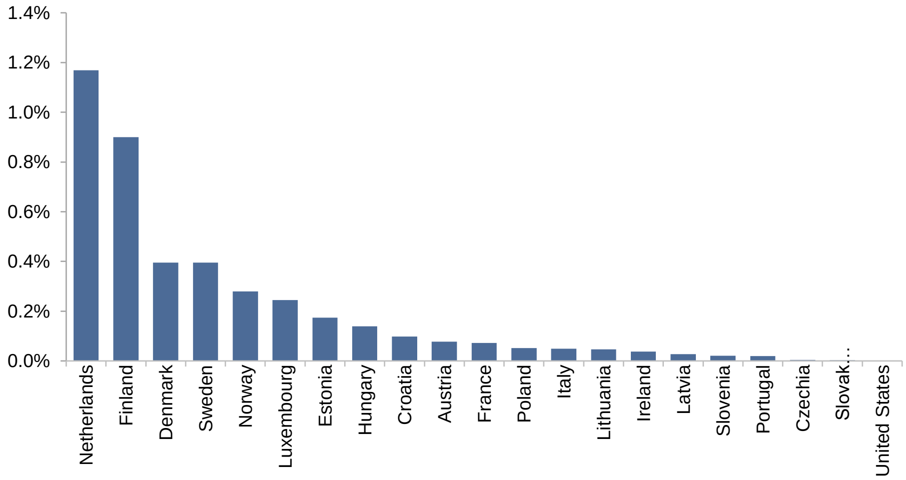


Source: OECD Affordable Housing database. From the report Making Norway's housing more affordable and sustainable, OECD Working Papers No. 1711.

Cost of the financial support system

Housing support measures are distributed differently across the Nordic countries. As a starting point, both Finland and Norway are spending fairly large amounts of money on grants and financial support to homebuyers and homeowners. In Norway, subsidised house savings accounts are helping first-time buyers to cover the (currently) 15% equity requirement to receive a mortgage loan in order to enter the housing market. Another major social housing policy in Norway is the so-called 'start-up loan', which helps low-income households to buy homes with low interest-rate mortgages. These mortgages are available to those households that cannot get a loan from a commercial bank. In Sweden the financial housing support is instead targeted towards general interest rate tax deductions.

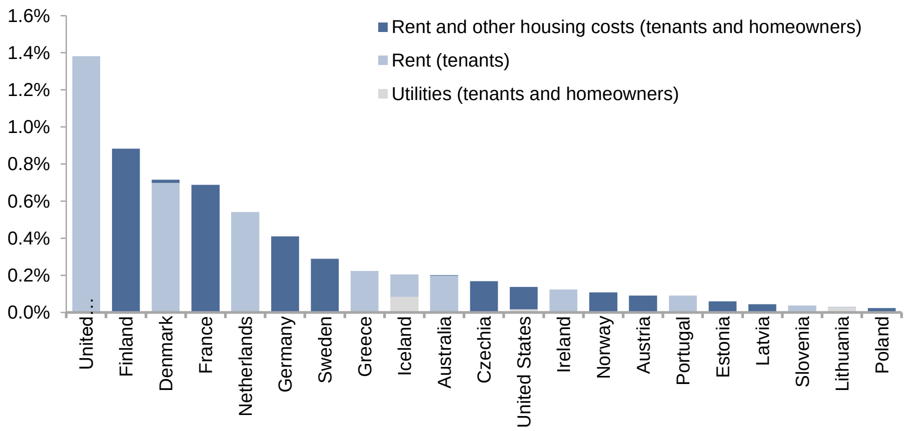
Chart 12. Public spending on grants and financial support to homebuyers and homeowners as % of GDP (2022 or latest)



Source: OECD Affordable Housing database, Statistics Denmark, OECD calculations, Danske Bank Credit Research

With regard to housing allowances, the size of these is more limited in Norway and Sweden than in Denmark and Finland (see graph below).

Chart 13. Government spending on housing allowances as % of GDP (2022 or latest)



Source: OECD Affordable Housing database, OECD calculations, Danske Bank Credit Research

In the above figures, part of the costs related to the various state guarantee systems is not included.

Conclusion and policy implications

In what ways could the availability of affordable housing in Norway be improved? Ultimately, this is a political issue that must be weighed against the cost of various support measures. In our initial report (*Affordable housing in the Nordics)* we presented an overview and comparison of the different systems for affordable housing in the Nordic countries. Examples of further housing support measures that could be introduced in Norway with inspiration from its Nordic neighbours are:

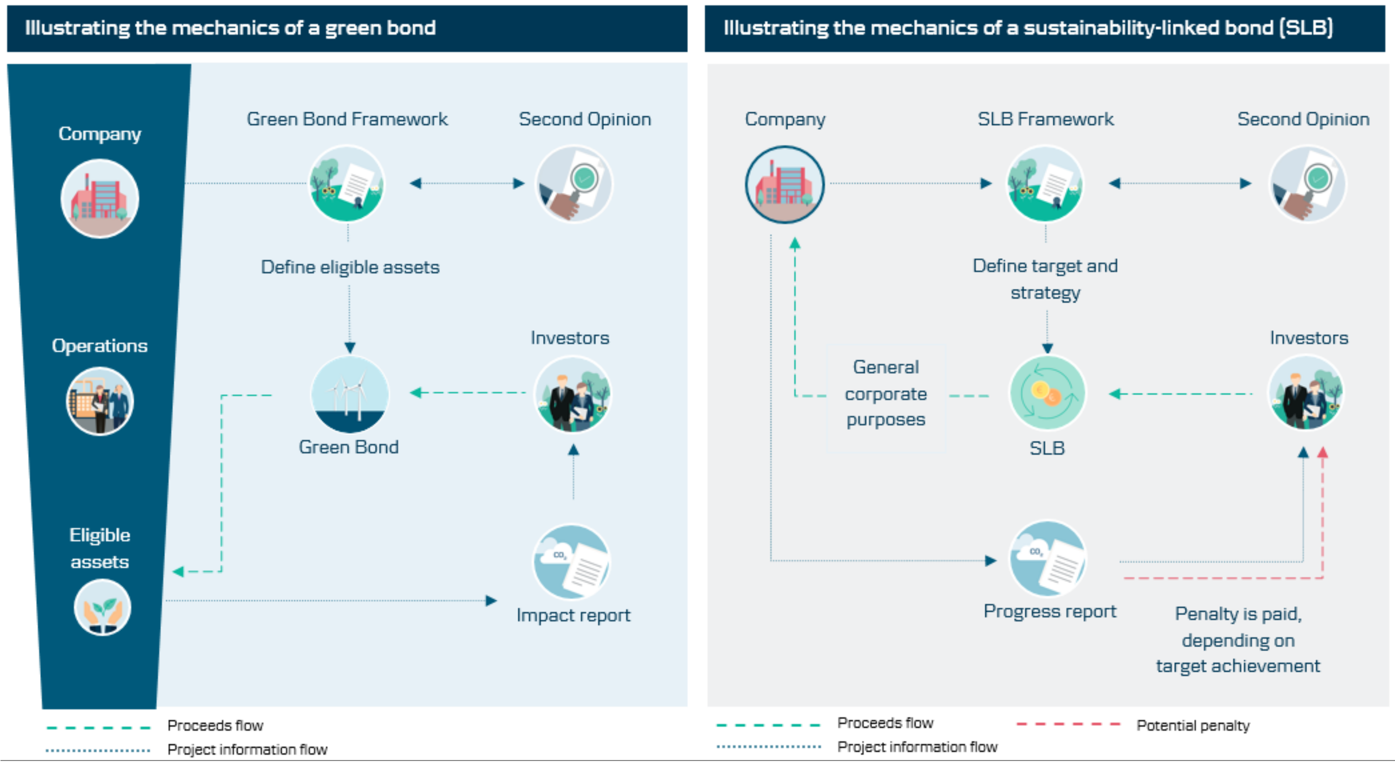
- Targeted housing production support measures and more generous housing allowances for low-income households and other weaker groups, similar to those in Finland. In the currently tight construction market, a significant deficit of housing is expected to arise as few companies can financially lift a significant residential project at affordable prices for the average consumer. Thus a targeted production support could ensure sufficient housing starts. However, as seen in Finland, the housing prices has been kept down by these measures – which from a social aspect is supportive, however we assess that the 'insiders' would be against a structure where their assets would be depreciating or flat in value. While the current government has shown quite high intervention rate into business structures and taxation, we would expect them to be reluctant in pushing forward a resolution to which the majority of the voters would object to.
- Market-based pricing of mortgages with a higher degree of flexibility for households (similar to the system in Denmark). If introduced with some type of incentive for households that apply a longer interest fixing period, this could result in overall longer fixed interest periods. This could be positive both for individual households and from a financial stability perspective.

Sustainable and sustainability-linked financing

Following the increased focus on social issues the sustainable bond market has developed into new forms. This includes both social bonds and sustainability-linked bonds (SLBs). For real estate companies we see these instruments as interesting complements to green bonds that can help to increase the focus on social challenges and solutions.

Sustainability-linked bonds (SLBs) were established as late as 2019. In an SLB there are financial and/or structural characteristics that are tied to predefined sustainability / ESG objectives. Different from a green bond, the proceeds of SLBs are intended for general purposes and the use of proceeds is not determinative in their categorisation.

Figure 1. Conceptual set-up of a green bond and a sustainability-linked bond



Source: EU Commission, Danske Bank Credit Research

As there is typically a larger greenium for green bonds than for SLBs, we expect most real estate companies to issue green bonds rather than SLBs. Nevertheless, SLBs could complement green bonds.

Our recommendations

The Nordic real estate companies under our coverage with exposure to the residential housing market includes **Kojamo** and **SATO** in Finland, **Akelius Residential, Balder**, **Heimstaden Bostad**, **SBB** and **Titania** in Sweden and **OBOS BBL, Carucel Property, Bane NOR Eiendom, Olav Thon Eiendom and Thon Holding. Norwegian Property is exposed through its JV Nordr** in Norway.

The Norwegian residential property development market enjoyed a solid development while the interest rates were low, and the projects generated significant results supported by increasing housing prices. When the interest rate increases began three years ago, as inflation had begun to increase significantly, demand for new housing faded. The fear of negative housing price development made purchasers reluctant to commit to a newbuild, as the sale price for their current home at completion was unknown. Weak demand, high costs and costly and unattainable funding has significantly reduced housing starts, with expectations of a significant market imbalance once the confidence in the housing market returns. However, for now, residential developers build stock and debt, developing unsold housing aiming to be ready once the market bounces back. The companies in our coverage have the balance sheet to cover this development, but not indefinitely.

A selection of Norwegian property companies under our coverage

OBOS BBL (Overweight)

OBOS BBL is the largest residential property developer in Norway, originating from Oslo in 1929. The cooperative is owned by more than 500,000 members in Norway and Sweden. The majority of property development consists of multifamily dwellings in the larger Oslo region, but the company also has operations in greater Norway and Sweden. In addition to residential development, the group consists of several supporting functions diversifying the risk for bond holders and supporting the retention of members. The largest business areas outside property development include property management and consultancy services, banking and real estate brokerage and commercial property. Commercial property is governed by OBOS Eiendom, an individual bond issuer rated BBB-/Stable.

OBOS BBL is a recurring issuer of bonds. Having secured its BBB-/Stable rating this June and updated its green bond framework, we expect the company to continue being an attractive, high-yielding investment grade rated bond issuer. With the reduction in new house sales over the past few years, credit metrics have weakened, albeit mitigated by stability in its supporting business areas. Our Overweight recommendation reflects that the company's spreads have widened significantly on the back of the development, with increased fear of a potential rating downgrade to high yield. As the credit rating was confirmed and adjustments to the rating placed the issuer more firmly within its level, we believe that spreads should improve as investor confidence in the IG level should be secured.

Bane NOR Eiendom (Marketweight)

Bane NOR Eiendom is an indirectly government-owned infrastructure property developer and manager focused on railways and railway stations or hubs. The company's mandate is to improve the attractiveness of utilising trains as a mode of transportation, and thus develop and manage areas near important train stations, i.e. often tier-1 locations. Some 45% of the company's property market value relates to the development portfolio, where residential properties are a relevant part. Bane NOR Eiendom typically engages in development of residential properties through joint ventures or other structures, aiming to reduce the risk as it builds for sale.

The company is rated 'A'/Stable due to the company's market position within its niche, solid tenants and expectation of government support if needed. We note, however, that the company's credit metrics have deteriorated significantly due to the increased interest rates and property yields, with ICR of 2.8x and LTV of 38% at T1 23 compared with ICR of 12.6x and LTV of 28% in 2021. Note that the company reports property by book values and adjusts its market values once a year in its annual report. Adjustments should be made when comparing with peers and the company reports per four months, not on a quarterly basis. Our Marketweight recommendation reflects our view that the bonds, trading in line with 'A-' peers, are fairly priced on a relative basis, supported by a strong portfolio with solid tenants mitigated by interest rate sensitivity and relevant development risk.

Carucel Property (Marketweight)

Carucel Property is a commercial and residential property manager and developer, with a portfolio of largely high-quality assets in the central areas of Oslo. Carucel Property's portfolio consists of retail, office space, logistics, and residential properties, organised through wholly owned companies and joint ventures. In total, the property portfolio managed by Carucel Property is NOK12bn as of Q2 24, including minority-owned companies. Carucel Living, the residential part of the portfolio, represent 30% of the portfolio (pro-rata) and represent 21 residential properties in the city centre of Oslo, offering co-living solutions, one and two bedroom apartments and serviced apartments.

The company's credit quality is burdened by weak credit metrics, as interest rate increases have outpaced growth in rent and sales revenue, similar to the rest of the Norwegian real estate market. In September, Carucel Property issued a NOK550m senior unsecured bond aiming to refinance a 2025 maturity and support a front-loaded debt maturity profile. The bond is attractive relative to peers, notwithstanding an upcoming maturity of secured debt and a large share of encumbered asset. We hold a market weight recommendation on the credit.

Norwegian Property (Underweight)

Norwegian Property is a commercial property manager, owning and renting out largely office space (75%) and retail (15%). Nordr, a JV in which Norwegian Property own 42.4%, is exposed to the residential property market. While the JV is fairly small compared with the overall property portfolio of Norwegian Property, we note that Norwegian Property's credit rating, 'BBB-'/Negative outlook, amongst others factors depend on continuation of dividends from Nordr to Norwegian Property in order to go back to a Stable outlook.

The residential property developer had, as of Q3 24, 1.066.units under development (incl. tenant owned units) and a total sales ratio of 74% and 87 units completed but unsold. Nordr expect delivery of 717 residential units Q4 24- Q4 25, which should support liquidity and potential for dividends, as units under construction represent a market value of NOK5bn. While there are other factors impacting the credit quality of Norwegian Property, such as a LTV significantly above its negative rating threshold (55% vs 50% respectively) and the expectation of a NOK1bn equity injection within the next 3-4 months, we note that a continued deterioration of the residential market could maintain some pressure on the credit. We hold an underweight recommendation on Norwegian Property as we see continued risk for a rating downgrade.

Olav Thon Eiendomsselskap (Marketweight)

Olav Thon Eiendomsselskap has a property portfolio highly tilted towards shopping malls and retail, but with some exposure to the residential property market. The company is indirectly impacted as well by the consumers debt burden, as the retail market and shopping mall footfall is typically dependent on share of disposable income. Olav Thon is rated Baa2/Stable with credit metrics and liquidity commensuration the credit quality, and we hold a Marketweight recommendation.

Thon Holding (Overweight)

Thon Holding is part of the overall Thon Gruppen, with its sister company Olav Thon Eiendomsselskap. A majority of the property portfolio is related to retail and hotel, while 6% relate to residential property. Thon Holding has quite solid credit metrics compared with its peers, however the company is fairly inactive in the bond market and we don’t see any signs of this changing in the immediate future. However, as we believe the bonds provide a solid carry and little refinancing risk, we hold an Overweight recommendation.

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