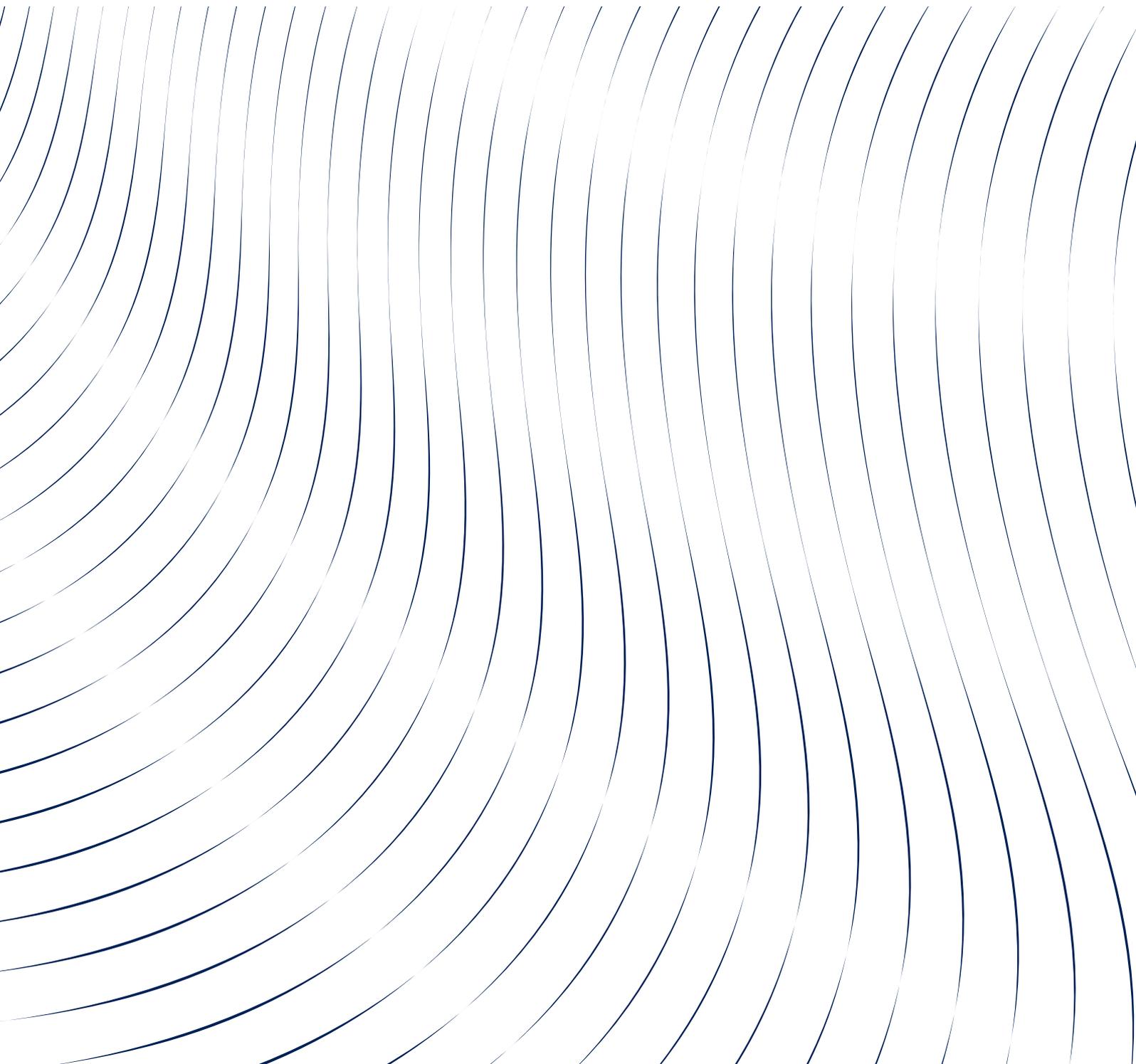




DANISH BUILDING RESEARCH INSTITUTE  
AALBORG UNIVERSITY COPENHAGEN

# **BOUNDARIES|ENCOUNTERS|CONNECTIONS**

PAPERS PRESENTED AT THE HOUSING & WELFARE CONFERENCE  
COPENHAGEN, 7-9 MAY 2015



# Introduction

The Housing and Welfare conference and exhibition were held 7-9 May 2015 in Copenhagen, organised by the Danish Building Research Institute at Aalborg University Copenhagen in cooperation with the School of Architecture at the Royal Danish Academy of Fine Arts. The intention was to bring together professionals and academics across disciplines and countries to discuss urban and suburban developments. With a focus on housing and urban spaces, the intention of the conference and the exhibition was to examine the role of architecture and built environments in relation to the ongoing transformations of our societies.

The recent growth of many cities calls for a rethinking of urban and suburban development. How are suburbs and former industrial areas transformed to provide room for new citizens and functions? How do housing and urban space shape communities and everyday life? How can architecture and urban planning deal with current challenges like segregation, climate changes and ageing societies?

The exhibition focused on the future of Copenhagen; a city that – like many other cities – has been through innumerable changes, expansions and renewals. Different actors – the central and local governments, inter-governmental organisations, landlords, private developers and other private agencies – are now playing increasingly important roles in the development of housing and urban areas. They are not only decisive for modes and temporalities of urbanisation, but also introduce new logics and approaches that influence our everyday behaviour in Copenhagen.

The conference focused on boundaries, encounters and connections – between urban and suburban neighbourhoods, between new and old, between different social groups, between public and private actors, and between different disciplinary approaches to housing, suburbs and cities. During the conference, scholars and practitioners within housing and urban design discussed the present and future of urban and suburban development through keynotes, panels, dialogue sessions and workshops.

The papers presented at the workshops are published in these proceedings. The papers were all peer-reviewed in accordance with the definition stated by the Academic Committee of the Danish National Agency for Research and Innovation. The process was conducted as attributed peer reviews.

# Housing in the light of an economic meltdown in Iceland

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## Abstract

An economic meltdown in Iceland was an inherent part of the global economic decline that began in 2007. At the same time it was quite unique. In October 2008 the major banks in the country collapsed completely and needed to be reconstructed from scratch. This was the end of an era in which the cooperation of these same banks and building companies, with the help of engineers and architects, had created a building bubble of unimaginable dimensions, in only six years, thereby expanding the Reykjavík Capital Area by 25%. The built environment in Iceland is evidence of an exaggerated version of a pattern of capitalism; the cycle of boom and bust.

Between 2000 and 2008, the volume of dwelling in Iceland, as of other building types and physical infrastructures, grew far out of proportion with population growth and a considerable amount of the population growth was due to migrant workers in the construction industry. Many, if not all, of the economic, social, environmental and spatial problems that emerged in Iceland after the crash are intrinsically entangled with the environment produced in the boom years. The boom in Iceland puts the future of housing design, urban design, housing production and ownership of housing into a new perspective.

This paper is, with a few changes, identical to a chapter in the book "Scarcity in Excess – The Built Environment and the Economic Crisis in Iceland"<sup>1</sup>, which is derived from a case study on the relationship between the built environment and the economy under the extreme circumstances of the financial meltdown in Iceland. The case study was part of the SCIBE project; "Scarcity and creativity in the built environment"; a joint research project between three universities: Westminster University in London, The Vienna University of Technology and the Oslo School of Architecture and Design. It was supported by a grant from HERA, Humanities in the European Research Area, and it explored, both conceptually and empirically, the relation between scarcity and creativity in the context of the built environment.

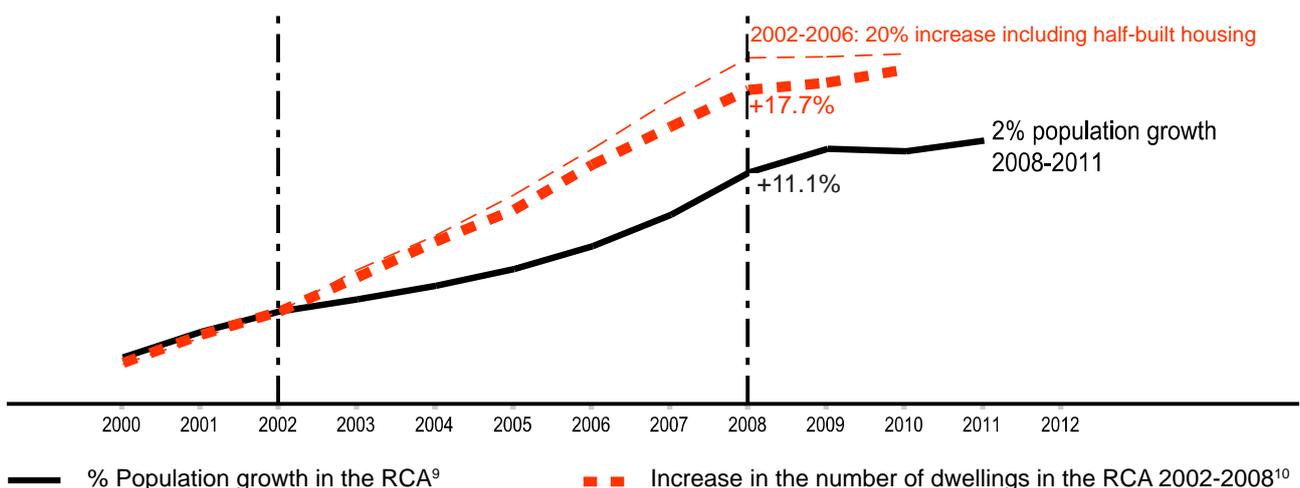
## Introduction

Leading up to the financial crisis in 2008, there was fierce building activity in Iceland, with consequent inflation in the cost of public buildings, commercial space, office space, and the physical infrastructures of energy, roads, and residential space.

Between 2000 and 2008, the number of dwellings in Iceland, including those under construction, increased by 26.8 %, while the number of inhabitants grew by just 13 %.<sup>2</sup> During the same period, there was a 33% increase in the number of summerhouses, many of which are inhabitable all year.<sup>3</sup> During the eight years preceding the crash, 0.7 apartments were built per each new inhabitant in the country, and the units were large, 350 cubicmeters of residential volume being allocated to each new citizen.<sup>4</sup>

Half the population growth in the boom period was due to immigration from abroad.<sup>5</sup> Among the foreign workers in Iceland in 2007 and 2008, 36% were employed in the construction sector,<sup>6</sup> contributing to the transformation of the built environment. Most of the immigrants, now amounting to 8% of the total population (3% before the boom), are still in Iceland and the vast majority of them are not planning to leave, despite unemployment.<sup>7</sup> In the meantime, many Icelanders have been leaving the country seeking better opportunities to overcome their financial problems, arriving mainly in the Nordic countries. If one didn't know better, one might think that the rationale for the urban development in this period was to supply enough housing for immigrants, but at the end of the day insufficient numbers turned up.<sup>8</sup>

Two thirds of the Icelandic population, or slightly more than 200,000 people, live in Reykjavík and adjacent municipalities, amounting to seven municipalities in total. Within six years, the footprint of the Reykjavík Capital Area (RCA) was enlarged by 25%, mainly consisting of residential areas on the outskirts of the existing footprint of the city.



The banks were major players in the building bubble, as generous lenders of money to pay for construction and to finance building companies, some of which were even run from the banks' premises. After the crash, the building came to a complete halt, at all stages of completion, and a crisis ensued for many of the homeowners. Many large companies in the building industry went bankrupt along with the banks, and some have now resumed practice with new registration numbers and no debt. Negative equity (owing more than the value of a home) among homeowners rose from approximately 6% in 2007 to 37% by the end of 2010.<sup>11</sup>

## Housing Types in the Boom

Essentially the building typology is similar to development from the 1970s on but in the new neighbourhoods, there is a more striking contrast in housing types, with accompanying disparities in housing standards, which reflected the increased economic inequality Iceland experienced over the above-mentioned period.<sup>12</sup> On the one hand, there are quite densely built multi-story apartment blocks, with inadequate outdoor spaces, which tend to be placed on the least attractive sites - the windy northern hillsides, or as a buffer protecting the rest of the residential area from the noisy motorway, polluting industries or prevailing winds. On the other hand, there are detached single-family houses, typically between 300 and 400 m<sup>2</sup> (3,200 and 4,305 square feet) in size, on the sunny hillsides and/ or by the water. These often have a large part of the private garden surrounded by high fencing to shelter the outdoor space from the winds (a climatic challenge on the barren heaths that has failed to be addressed by the building pattern), thereby greatly limiting interaction between neighbours.

The block developments had insufficient funds for the design work, and it was often undertaken by technologists who had no educational training in architecture or urbanism. For villas and second homes, the standards were set by financial institutions; their innovative finance packages were designed for buying homes, and viewed the financial elite as role models, reflecting their affluent lifestyles in the built environment.

The aspirations can best be illustrated with an example. The top lighting designers were hired to show the buildings, and figuratively speaking the future inhabitants, in the best possible light. Even if the specialist found the ideal lighting fixture in a catalogue from an expensive brand, it was still deemed not good enough. Everything had to be specially designed from scratch, so that it would surpass anything available in terms of exclusiveness, even if it meant copying the exact same fixture as the one found in the catalogue.<sup>13</sup> Regardless of how good the edifice looked, illuminating the apparent wealth became questionable after the crash.

The more frequent habitation of areas not primarily designed for residential purposes, such as industrial expanses, is a new trend<sup>14</sup> which can possibly be traced to economic problems. This type of space is not necessarily inexpensive to rent though, and the phenomenon is perhaps also evidence of a demand for alternative housing types from the ones provided in the boom, which were tailored around a traditional family unit of four, living predetermined lifestyles.

Typical housing types in the boom settlements



## Availability and Demand

Since the meltdown, there are plenty of empty flats and houses. Many of these are in the countryside, but a considerable number are in the greater capital region. This surplus could be treated as a resource, in terms of housing the people. Approximately 3080 apartments in Iceland, owned by loan institutions, lay empty in December 2013, the greatest portion belonging to the state-owned Housing Financing Fund, and half of those defined as inhabitable.<sup>15</sup> At the same time, there was, and still is, a huge shortage of flats available for rent.

The uncertainty regarding the state of the economy following on from the crash converts residential buildings into something beyond a dwelling, and/or a display of the status of its inhabitants. Apartments in the city centre have become popular investment objects for those with excessive capital which, under current circumstances, cannot be taken out of the country, as capital controls restrict the export of currency out of Iceland. A new master plan for Reykjavík backs up this trend, as it highlights the qualities of the city centre.

The investments have, moreover, taken on an organised form by the establishment of investment groups of capital owners. These groups have been known to invest in 100 housing units in the city centre at one fell swoop.<sup>16</sup> As a result, individuals and firms who have capital gained prior to, or after, 2008 can take advantage of the situation, and can profit even further at the expense of others who are unable to afford to buy, or rent, a decent roof over their heads.

Despite the excess of housing units at the time the crash hit, the price of housing has dropped only to the level it was in 2004, and thanks to the investments prices are on the rise again.

There is pressure to keep house prices up, because if they drop, homeowners will have paid off a smaller portion of their home, while still owing the same amount of money. When equity (the amount of a home that has been paid off) finally collapses to a position of owning nothing, leaving just debt, the debt is a permanent fixture anyway. This system deviates from the one operating in the US where negative equity owners can walk away without debt, and start from scratch again. A bill to change this, 'Lyklafrumvarpið', was turned down by the Icelandic parliament in 2013. Throughout the period prices have remained high, the housing market has remained inaccessible to a large proportion of the population, especially the younger generation, and yet investors profit.

High demand for investing in residential buildings in the centre was well supported by the municipal planning office, which has explicitly labelled it as the most attractive part of town.

Retrofitting the building mass in the city centre, to turn it into hotels for the ever-increasing flow of tourists, has shown itself to be a further means of harvesting as much profit as possible out of these investments. This has come at the cost of the new residential areas on the fringe - they are dealing with urban shrinking, even before they are completed. So closely linked with the crash, the fringe is not considered a favourable location, and is consequently little in demand. However, building activity has resumed there as well, during the last year.

The scenario has contributed to higher housing prices than one would have expected post-crisis, but it has also helped the government to make things look better on paper, by demonstrating that people own a larger portion of their homes (less negative equity) even though the debts are just as deep.

The government has newly announced a plan to lift the capital controls, claiming it will boost the economy. However, the way in which this will be done will greatly affect whose economy will be boosted. If the 'investment housing' is going to be put on the market and prices then collapse, it will certainly be an opportunity for the young people, and the people who did badly out of the crisis, to finally find somewhere decent to live. If the hotel owners, however, are given incentives from the government and the city, ensuring it is more profitable for them to run their hotels and stick to their hotel plans, instead of taking their money off the island, then it will have the opposite consequence.

## **Ownership**

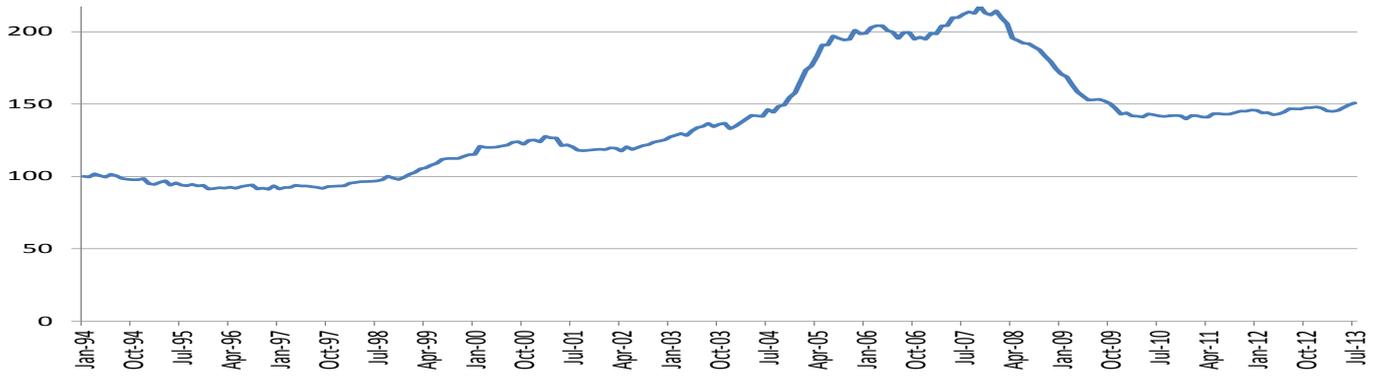
Owning your own home has been considered an important part of welfare in Iceland, the idea being that an owned home could function as a pension in advanced years. Before the crash, homeownership had been the ruling model for housing in Iceland. From the turn of the century until the financial crash, homeownership was at its peak, when around 90% of the housing stock was owned by the inhabitants.<sup>17</sup> Once the financial meltdown became a reality, however, homeownership turned into a burden for many households, rather than a safety net or even safe haven as it tends to be regarded. The crash has therefore permanently altered the notion of welfare politics through housing.

After the meltdown, many people could not afford to pay their mortgages (financial stress), and others were indebted even if they were able to sell their home (negative equity); or in some cases both of these problems arose. The Icelandic króna was devalued by roughly 50% overnight. For those who had taken mortgages in foreign currencies (as was encouraged in Iceland, but would have been considered a fairly risky business in most countries), the debts doubled. However, the type of loans of which about 80% of Icelandic mortgages consist, could (depending on the composition of the loan) come out even worse as a result of the crash. Such loans are linked to indexes which can change at any time, making future debt unforeseeable. These kinds of mortgages skyrocketed after the crash.

The average equity ratio of the housing mass under private ownership of individuals dropped from 67% in 2005 to 49% in 2010.<sup>18</sup> It effectively meant that Icelandic house owners were, on average, owing more than they had actually paid towards the properties. Everything else was in the hands of loan institutions, for whom the debt of others constitutes assets. These institutions are the state-owned Housing Financing Fund, with 42% of the loans,<sup>19</sup> and banks, almost 50% of which are also state-owned, following a restructuring of the banking system after the meltdown.<sup>20</sup> The banks are also owned by foreign creditors (some of them so-called vulture funds) which can thus be considered de facto owners of a considerable share of the Icelandic housing stock.

Due to the prominent homeownership model, a strong rental market has been lacking, which very much reduces the options for those, ever increasing in number, who cannot afford to buy. Even though it is very difficult for some people to pay their mortgages, they hang on to their property as long as possible because the alternatives to doing that are worse. Housing rent is more expensive and tenants can be thrown out, or the rent raised, at short notice because of the lack of regulation and controls in this market. It is a particularly difficult situation for families with children in local schools.

The economic situation makes it hard for young people to enter the housing market, and rented accommodation is even more expensive to pay for each month; the result is they stay living in their



Real apartment prices in greater Reykjavik 1994-2013<sup>22</sup>



parents' home longer than they would have done before the crash. This alters the sizes of households and the need for space per housing unit (flat/house).

The people, mostly young, who bought their homes during the boom were the hardest hit. They are also the people who are of parenting age and, therefore, often in need of larger and/or more flexible space. From the beginning of 2009 until the end of 2012, on average at least 1.9 households lost ownership of their homes each day,<sup>21</sup> and many of the inhabitants had to move out. If that figure were to be translated into the American context, it would mean an average of 1900 foreclosures every day of the year (numbers from 2014).

## **Policies**

The efforts of the state, to help the poorer section of the population get a decent roof over their heads, started after World War 1.<sup>23</sup> In the beginning, assistance was aimed at helping self-builders complete their houses for their families. This was later reduced to assistance in buying flats, arranged by a state-run mortgage lending institution, founded in the mid 1950s. The State Housing Agency was closed down in 1999 and a new institution opened under the title The Housing Financing Fund, which functions like a bank, and competed with the other banks in offering attractive mortgages during the boom. Social housing had always been under the ownership of the inhabitants, and could not be sold on the open market. However, in 2002 this was changed and people could sell their housing units in the same way as any other property. Now social housing is reduced to much fewer subsidised flats offered to those who qualify for housing benefits, after they have been means-tested.

When the Icelandic banks collapsed, developers stopped building overnight, and many of the building companies went bust. This created multiple troubles for future inhabitants. People had nowhere to turn, having paid part of the purchase price before the building process was finished. They also faced difficulties claiming their rights with regard to building failures caused by the rapid construction speeds during the bubble. With hindsight, it is clear that at the end of the day it is the inhabitants who take on all the risks, as the big companies are not held liable when an economic crisis strikes, even though it is fair to assume they profited well in the boom. Many householders are stuck deep in debt, and trapped in residential architecture and an urban environment that is catering badly to the current needs.

Housing policies, launched by the parliament in 2013, stressed the importance of establishing a rental market for housing, as an alternative to the house ownership model that holds sway. It is followed up by a new master plan for Reykjavík City, providing new building grounds in a central location. The politicians said that the intention is to give the plots free to non-profit housing cooperatives. It is worth noting that many so-called non-profit housing cooperatives outsource budget management tasks to developers that have a tradition of maximizing their profit margins.

Fast release of the units owned by the state (through The Housing Financing Fund) for badly needed rental homes was argued against by the Fund, on the basis it would have a negative effect on property values. In the meantime unused units, the result of a period of abundant resources, are left to fall into disrepair, and neither does the state receive any rent from owning them. The policies were revised in 2014, and hundreds of these flats were put on the market for sale and for rent, but only for those without any unpaid financial obligations. Pets (which for some might make the obstacles in life a little more bearable) were not allowed.

## Changed Needs and the Design Responses

Adjusting to the needs of the time is inevitable for individuals and groups, whose economic or private conditions have changed because of the crash. A low currency rate, as a result of the economic situation in the country, has triggered mass tourism (e.g. on average 15,000 overnight stays each day in July 2012).<sup>24</sup> If all these people are welcome, they need to be accommodated.

The question remains how, and to what degree, the authorities respond to the changed needs. New housing can be built, and/or the existing building mass can be transformed. Architectural measures are important for both strategies. And both will provide many jobs. A reflection on recent experiences can be a constructive starting point for new design and its implementation.

From the perspective of sustainability, recycling is important. Recall the housing types built in the boom - the large single-family houses and the mass-produced, poorer quality blocks of flats? There is a certain flexibility embedded in the large units. The size makes them easier to redesign and transform into something else, whereas smaller ones often come tailored with minimal solutions that are rather inflexible. All the outdoor space can be remodelled to create a better urban environment. Furthermore, there is an excess of commercial property that has the potential to be converted for other uses, such as housing or mixed-use developments.

This all requires effort, organising and different attitudes as well as policies. Considering the scale of the task, and based on previous experience, leaving further building projects to financial speculation might entrench the problems. Recent changes (since the crash) in the centre of Reykjavík also indicate that to be the case, as it is more or less being transformed into a field of temporary tourist accommodation quarters, with hundreds of new hotel rooms. This arrangement squeezes out the city's permanent residents, and is founded on the assumption that tourists come to Iceland to experience life in the centre of Reykjavík, as opposed to the interesting geology of the country, which is to be found out of town, and on the fringe of the metropolitan area. Meanwhile the tourist industry warns against a black market, and complains about private households earning income by inviting tourists into their spacious homes.

If the authorities are to take different approaches to planning for the benefit of the housing situation and the general public, the rules determining the function of plots need to be changed, and also the urban context, in relation to job development strategies in the city, needs to be reconsidered. In this respect the public sector could adopt a new role as facilitator; helping the inhabitants to organise, and implement changes, in order to make better use of all the building mass in a way that doesn't accentuate the current problems.

Unfinished buildings of all types might prove easier to alter than finished projects, when it comes to redesigning existing building mass to fit in with new functions. It is worth noting that the different building stages may not necessarily correspond with the economy of the respective inhabitants. When it comes to houses (as opposed to blocks built by developers), it is paradoxical that unfinished buildings are often owned by people who did not come out of the crash too badly, and in fact the ones that are affected most badly financially, took out loans to finish the work, and may not be enjoying their splendid villas very much because of their debt.

## Ownership and Design

Ownership is an important premise when it comes to design. The homeownership model put social pressure on the population; not owning your home was stigmatising. Why would one not own one's home when renting was more expensive (rental space being very scarce and hard to find) and one could save, and most probably make money, by buying a property? Wouldn't it just display a certain foolishness? In the light of the crisis, however, wouldn't it be important to redefine what ownership really is? Is it ownership if you owe more in your home than what it is worth? Is it important to die a millionaire? Across the scales of the built environment this is architecturally significant since there are totally different design criteria for rental space as opposed to owner-occupied housing. Is homeownership a way to fool people into spending more resources on maintaining something, and consuming unnecessary goods, because they think they own something that they don't in reality?

Generally speaking, it is fair to assume that if someone lives in a particular environment, they will have greater incentives to improve that same environment, to make it more comfortable, useful or beautiful, than owners who never physically experience that environment - companies, for example, whose aim is to maximize profit (for example vulture funds, or even sovereign states on the far side of the globe).

Housing units, built by companies to be sold on the open market, can exist primarily for the purpose of making profit, although the situation can be dressed up in public debates as helping politicians provide the citizens with housing. From an architectural point of view, this equals design that is known to have sold before, and materials that look neutral and are cheap, but have not been selected for their resilience. With this way of doing things, a large chunk of money disappears into profits for the developer rather than being spent on improving the housing. The more economically beneficial for the developers, the bigger the consequences; poorer quality housing, and more debts for the inhabitants.

Despite some crucial particularities, housing policy in Iceland has developed in parallel to that in the Nordic countries and others in Europe.<sup>25</sup> Thus the famous Red Vienna<sup>26</sup> housing project (1919–1923) by Adolf Loos, from the heyday of self-build housing, has its matches in Iceland too. Even though there has been a complete transformation of all the systems, there are a few cases where its origins can still be traced. A publicly organised self-build tradition still runs in a couple of municipalities in Norway. This model makes it possible for first-time homebuyers to participate in the building process, and pay the work-related costs of professionals. The model, which expels profit-driven developers from the process of mass-produced housing puts the scale of housing developers' profits into an interesting perspective. Take the case of a project of 73 units, designed in the author's architectural practice (2003-2005). On taking over their apartment (this was within the housing ownership model), the owners could sell their unit on the open market, as soon as it was completed, for double the price they paid. The Norwegian example, which has cross political support in its context, provides a reality check when it comes to the true price of building.

If Iceland was to take up manifold housing solutions to prevent a monopoly of one system (in which unnecessary profits are hidden) it could draw on the experiences of various such models abroad. Another idea would be to create the kind of conditions that stimulate designers to achieve what they are good at - making the most of scant resources.

Allowing homeownership to be the ruling model creates a culture that has become challenging when faced with reaching agreement on the uses, and maintenance of, the shared space in and around apartment blocks. House owners who live in their own property are probably quite concerned that their house should display their specific tastes, and the way they would like to be represented. In this context, personal tastes and changes in fashion mean more generous, and not always so rational, use of the resources of private space, as time passes. It was, for instance, quite common before the crash to tear out all the (perfectly well-functioning) floor coverings, kitchen cabinets and even doors, when buying a new apartment, and replace them with alternatives that were new. One might reasonably presume that this particular premise for the architecture drove much of the urban development during the boom, where the ideal was, the more spacious and the more expensive-looking and newer, the better.

An agency that has long-term aims with housing in mind would hardly want to spend considerable sums of money on maintenance, the latest fashions or changing around spaces. For such an owner, a fair price, long-lasting timeless materials and flexible space, allowing and stimulating the inhabitant to flourish and treat the housing well, would probably be the most versatile solution.

In Iceland, the plots in urban areas are usually owned by the municipalities, and people have to buy rights to build on the plots, according to the relevant masterplans. In theory, this gives the public sector more control over further developments than if the plots were privately owned. Moreover, the fact that a large portion of the housing debt portfolio has been taken over by the state as a result of the crash has offered a window of opportunity to reduce the stigma attached to renting a home. Public investment in upgrading all the apartments owned by the state, making them inhabitable and affordable rental flats, could prove to be a better investment in the long run than the housing subsidies that are the focus of a new housing bill recently presented by the Minister of social Affairs and Housing. It could actually offer real competition to the housing ownership model, with its legacy of upward spiralling house prices and enslaving debts.

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## Endnotes

- 1 Mathiesen et al. 2014 p. 160-168
- 2 Increase from 8.633 to 11.454 summer houses according to Registers Iceland.
- 3 Statistics Iceland.
- 4 Ibid
- 5 Ibid
- 6 Sigurðursson and Arnarson, 2011.
- 7 Wojtynska, et al. 2011.
- 8 Statistics Iceland.
- 9 Ólafsson et al. 2012 et al. 2012. p 1.
- 10 Discussed by Ólafsson and Kristjánsson. 2010.
- 11 Ibid
- 12 Statistics Iceland.
- 13 Interview in summer 2010 with an Icelandic engineer who moved to Norway in spring 2008 (about half a year before the crash became public knowledge) after his acquaintances in the banks told him what would happen.
- 14 Information from a telephone consultation in June 2012, with the Fire Department of the Capital Area, which systematically maps this activity, allegedly to uncover potential fire hazards.
- 15 *RUV*, December 10, 2013
- 16 *Viðskiftablaðið*, 2012.
- 17 Sveinsson. 2011.
- 18 As presented in *Silfur Egils*. September 18, 2011.
- 19 Arnar I. Jónsson, Landsbankinn. 2011.
- 20 Bankasýsla ríkisins, 2013, 2013. *A report on the activity of Icelandic State Financial Investments*. p 27 and 44.
- 21 Velferðarráðuneyti. 2013 *Greinargerð um fjárhagsstöðu heimilanna*. p 20.
- 22 map by Elíasson, 2014, based on figures from Statistics Iceland.
- 23 Sveinsson. 2011.
- 24 Óladóttir, O. Þ., Icelandic Tourist Board 2013 p 9.
- 25 Sveinsson, J. R. Húsnæðisvefurinn. 2011
- 26 Spatial Agency. 2007.