Economic Commentary

Demographic changes, vacancies and lenders' credit risk

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After a decade of relatively high levels of housing construction, particularly of rental housing, and a downward revision of the population projection, there is a risk that housing supply will exceed demand. At the same time, the long-term urbanisation trend has continued. In some municipalities, especially the smaller rural ones, this can lead to increased vacancies, affecting both real estate companies' rental income and the value of their properties.

The commercial property sector accounts for a large share of banks' corporate lending, with just under 25 per cent going to real estate companies focused on residential property. This Economic Commentary illustrates how banks and other lenders' current exposures to rental housing may be affected by these trends and by a change in demand. The analysis shows that the risks to financial stability are currently limited, although local imbalances may worsen over time and lead to other economic challenges.[1]

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Demographic changes may affect the real estate sector

The commercial property sector is large, capital-intensive and closely interlinked with the financial system as real estate companies have large loans. Moreover, property values have been rising for a long time. This has increased the borrowing capacity of the companies and made bank financing particularly attractive to them, as they have been able to use the properties as collateral.

Historically, however, the sector has often helped to trigger or amplify financial crises.[3] Such crises have often been driven by the rapid impact of changes in property values on banks' collateral values, especially in cyclically-sensitive segments such as offices, retail and logistics. Demographic changes differ from these shocks because

[1] Economic Commentaries are brief analyses of issues with relevance for the Riksbank. They may be written by individual members of the Executive Board or by Riksbank staff. Staff commentaries are approved by the relevant head of department, while Executive Board members are themselves responsible for the content of the commentaries they write.

[2] I would like to thank Annika Svensson, Niclas Olsén Ingefeldt, Martin Regnér and Karl Blom for their valuable comments on the content of this Commentary.

[3] See Financial sector linkages with the commercial property sector, article *in Financial Stability Report,* 2022:2. Sveriges Riksbank.

they evolve slowly and are more predictable, giving lenders a better chance to adapt. But even if they do not trigger quick fixes, demographic changes can still create long-term problems for real estate companies. For example, they can have lasting consequences for both income and property values, especially if the population does not grow at the same rate as housing supply.

The scale, direction and regional imbalances of housing construction

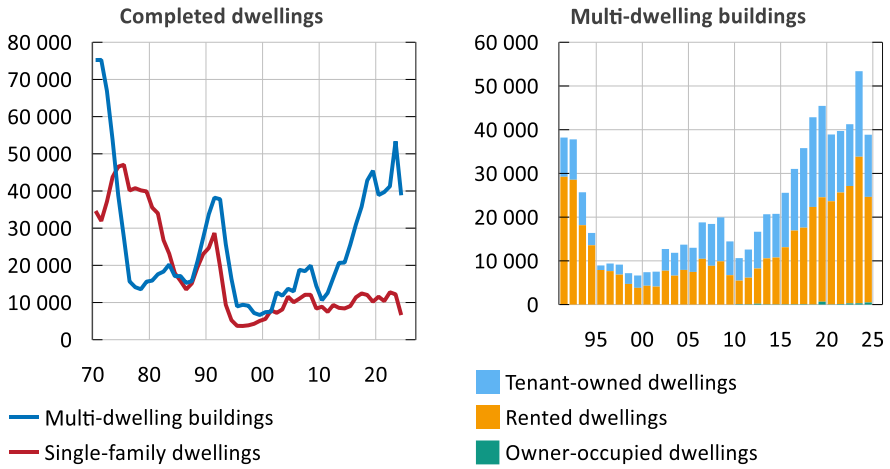
Housing construction in Sweden has varied over time. The high construction rates of the 1970s were followed by an extended period of low production, particularly from the mid-1990s to around 2011. This was at a time when the population was growing faster than before. At that time, more and more municipalities were recognising that there was a housing shortage.

The 2010s saw a significant increase in housing construction, mainly rental apartments in multi-dwelling buildings (see Chart 1). This is because rental property values rose, and later a government investment subsidy was introduced that allowed construction even in locations with weaker demand.[4] However, despite the increase in construction, 255 municipalities reported a housing deficit in 2017. Since then, the balance has improved as construction has continued while population growth has slowed. In 2025, 127 municipalities, mainly in metropolitan areas, reported a deficit. At the same time, 48 municipalities reported a surplus, including several smaller municipalities with declining populations (see Chart 1 in the Appendix). The Swedish National Board of Housing, Building and Planning's assessments, which are based on population size, population composition and current and previous housing construction, show the same pattern. Metropolitan areas are expected to have the largest deficits, while smaller towns and rural areas are expected to have the largest surpluses (see Chart 2). However, the assessments may be affected by the different structural challenges faced by large cities and smaller municipalities. Housing deficits can occur for two main reasons. Either there are too few dwellings in relation to the population, or the supply is sufficient but does not match the demand in terms of type of dwelling or location. Large cities often have deficits despite high levels of construction, which may be related to rapid population growth and high demand for housing in central locations.

[4] For more information on housing construction and the investment subsidy, see Bostadsbyggande - Hurvibor (Housing construction - How we live) and Investeringsstöd - Hurvibor (Investment subsidy - How we live).

Chart 1. Completed dwellings and type of completed dwelling in multi-dwelling buildings

Number

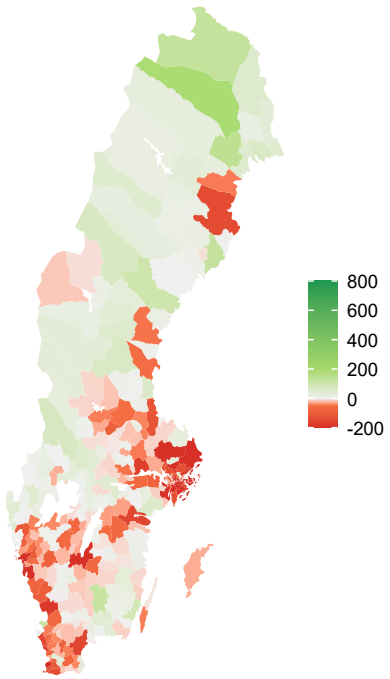


Note. The left-hand chart shows the number of completed dwellings by year and type of building. The chart on the right shows completed dwellings in multi-dwelling buildings broken down by type of tenure.

Source: Statistics Sweden.

Chart 2. Surplus or deficit in the housing market

Number of dwellings



Note. The chart shows the surpluses and deficits estimated by the Swedish National Board of Housing, Building and Planning from June 2025. A negative number (red) means a deficit and a positive number (green) means a surplus of dwellings.

Source: Swedish National Board of Housing, Building and Planning.

Vacancies in rented housing are generally low but have increased somewhat in recent years, both among professional real estate investors and municipal housing companies.[5] Together, these actors own the majority of rental apartments in Sweden, each just over 40 per cent (see Chart 3). Several smaller municipalities and smaller municipal housing companies are facing challenges with increased vacancies in their rental portfolios.[6] Increased vacancies may signal that too many rental units have been built or that new construction does not correspond to the demand. At the same time, some towns may have been affected by changes in the local business sector. If companies that are important to a particular town have relocated or been forced to close, the demand for housing may decline. For housing companies, increased vacancies mean reduced revenue and in the long run, long-term vacancies in a company's portfolio can affect the value of the property.

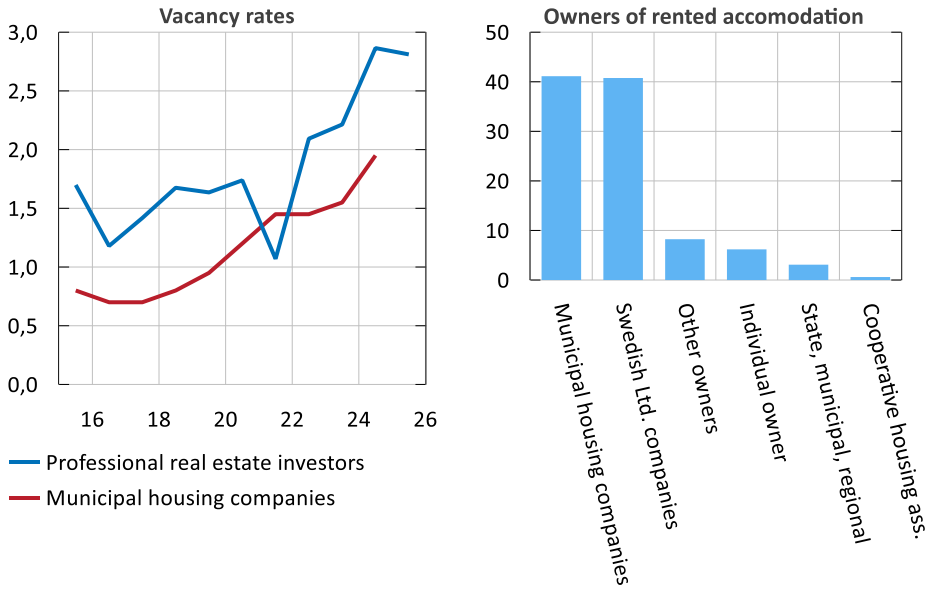
Municipal housing companies often have a geographically concentrated stock and are important players in local housing markets, making them sensitive to changes in demand.[7] Private real estate companies, on the other hand, tend to have property portfolios in several municipalities and may therefore be more geographically diversified and less dependent on developments in a single local housing market.

[5] According to data from MSCI (Notice & Disclaimer | MSCI). Professional investors tend to have slightly higher vacancy rates than the municipal housing sector, which is likely due to higher risk strategies and investments in properties with development opportunities.

[6] A survey shows that four out of ten municipalities have problems with vacant apartments, and a report from Kommuninvest shows that small municipal housing companies have the largest increase in vacancy rates (Dagens Nyheter, 2026; Kommuninvest, 2025)

[7] A municipal housing company is usually owned by the municipality and is most often run as a public limited company. For more information, see Allmännyttiga bostadsföretag - Boverket (Municipal housing companies – Swedish National Board of Housing, Building and Planning).

Chart 3. Vacancies in residential property and owners of rented accommodation
Per cent



Note. The left-hand chart refers to the economic vacancy rate. The right-hand chart refers to data from 2024. Swedish limited liability companies exclude municipal housing companies that are run as limited liability companies.

Sources: MSCI, Kommuninvest, Statistics Sweden and own calculations.

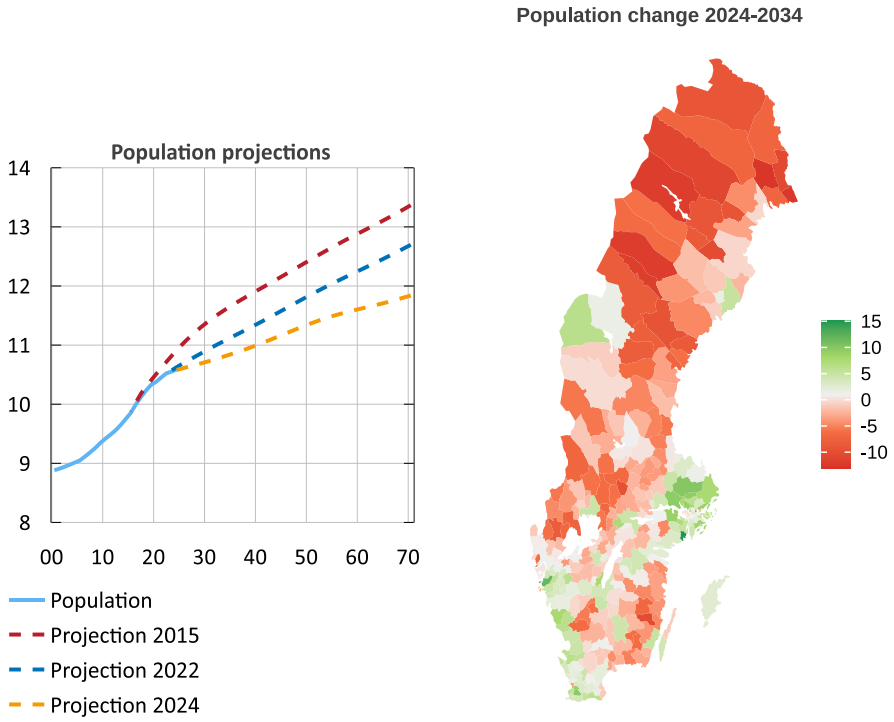
Population will decline in most municipalities

In Sweden and other European countries, birth rates are falling and life expectancy is rising. In 2024, Statistics Sweden revised down its estimate of Sweden's population growth (see Chart 4, left). The population is now expected to grow by a total of 1.9 per cent over the next ten years, compared to 8.6 per cent between 2014 and 2024. The lower growth rate is explained by fewer children being born, an increase in the number of deaths as a larger proportion of the population reaches old age, and the fact that immigration is expected to be lower than in the 2010s. In the past, there have been more births than deaths, but several years are expected in which the number of deaths will exceed the number of births. Today, the population is declining in a fifth of Sweden's municipalities, and more than half of all municipalities are expected to have a declining population over the next ten years (see Chart 4, right). In all 290 municipalities, the number of young people is expected to decrease and the number of older people to increase.

However, developments differ somewhat from region to region. Metropolitan regions have generally experienced stronger population growth than rural municipalities over

the past 20 years. This trend is expected to continue going forward, and is due to urbanisation, more young people living in the metropolitan regions, which contributes to more births, and more people immigrating to the big cities.[8]

Chart 4. Population projection 2024–2070 and population change 2024–2034
Millions, percentage change



Note. The chart on the right shows population change up to 2034. Data on population by municipality is based on Statistics Sweden's population projections made in 2024. For the year 2024, the actual population per municipality has been used.

Sources: Statistics Sweden and own calculations.

Changing conditions for housing construction

Population projections form the basis for assessing future housing needs and are thus central to planning and investment decisions in the housing market. The earlier higher forecast may have resulted in more dwellings being built or starting to be built than there will be demand for after the forecast was revised downwards. The slower rate of population growth generally means that fewer homes are needed, which is reflected in the National Board of Housing, Building and Planning's assessment that 52,300 new homes need to be added each year between 2024 and 2034. This implies a decrease of 12 per cent compared with the previous assessment. The decrease is

[8] For further reading on regional demographic changes see for example Sveriges framtida befolkning 2025–2070 (Future Population of Sweden 2025–2070), Swedbank regional utblick (Swedbank regional outlook) and Tillstånd och trender (States and Trends 2025).

due to both a downward revision of the population forecast and a high number of housing completions in recent years.[9] It is mainly the metropolitan regions that still need new housing, while many rural municipalities have little or no need (see Chart 5, left).

At the same time, it is uncertain how the balance between supply and demand will develop. It is influenced by several factors, such as household preferences, changes in composition of households, economic developments, and the scale and type of new housing construction. Housing construction is also driven by market conditions. For example, construction costs increased during the inflation and interest rate boom of 2022-2024, while demand slowed down, leading to fewer construction starts. The balance is also influenced by how well what is built matches what is in demand. In recent years, new construction has been dominated by rental apartments in multi-dwelling buildings. However, many households prefer to own their home.[10] While capital and lending constraints may limit opportunities to own rather than rent, it indicates an imbalance between what is being built and what is in demand. In municipalities where the population is declining, weaker demand can push down prices so that more people can afford to own a home.[11]

To assess the risk of future imbalances, the share of the housing stock that is estimated to exceed expected demand in 2034 is calculated. The calculations are based on a projection of the housing stock in 2024-2034 and the expected population in each municipality in 2034.[12] This has been done by using the National Board of Housing, Building and Planning's estimate of the need for housing together with Statistics Sweden's population forecast. To better reflect the actual outcome, the construction need is adjusted down by 15 per cent, as actual construction previously corresponded to about 85 per cent of the estimated need.[13] Household preferences for household composition may influence how the housing stock is used. To ensure the analysis is based on a balanced current situation, where people live how they prefer, the National Board of Housing, Building and Planning's assessment of the current surplus or deficit of housing is used to adjust the household composition, expressed as the number of dwellings per 1,000 inhabitants. For the remainder of the analysis, household composition is assumed to be constant.

The results should not be interpreted as forecasts. Rather, they should illustrate possible developments and indicate where the risk of imbalances may be greatest. Several factors are not included, such as changes in housing preferences, local market conditions or changes in construction rates due to economic conditions.

[9] For more information on the National Board of Housing, Building and Planning's construction need calculations, see Behov av bostadsbyggande - Boverket (Need for housing construction)

[10] According to SEB's Home Price Indicator, the majority of households say they want to own their home. In 2023, 80 per cent said they would prefer to own their home (SEB, 2023).

[11] There are studies showing that demographical changes can lead to lower housing prices through different channels, see for instance Breidenbach et al. (2024) and Xie et al. (2024).

[12] The composition of future housing construction between rented and owned housing is assumed to be the same as the current distribution of housing types in the stock in each municipality.

[13] This refers to the years 2015 and 2020–2024. The adjustment described here is not included in Chart 5 (left), which shows the actual demand forecast of the National Board of Housing, Building and Planning.

Small municipalities most at risk of imbalances

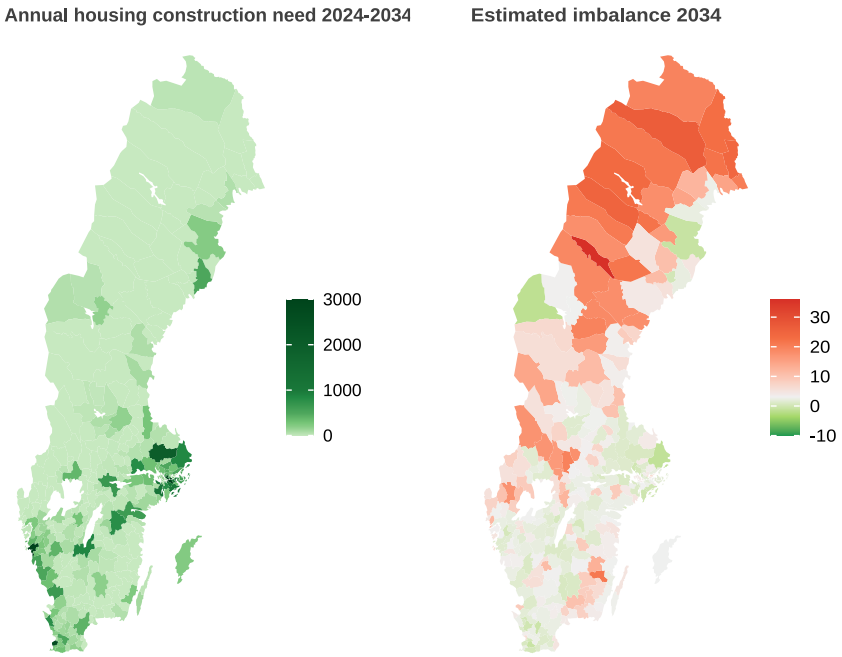
In Chart 5 (right), we can see that the housing stock may exceed expected demand by a relatively large amount in some municipalities over the next ten years. The map provides an overview of how risks vary across municipalities. To further clarify how municipalities are distributed across different risk levels, they are classified into risk categories. The classification is carried out in two different ways and illustrates which municipalities face higher or lower risks of imbalances. The aim is to capture both absolute and relative differences in developments between municipalities. The first way is to study absolute thresholds when imbalances increase, based on expert judgement. Municipalities are then considered to be at low risk when imbalances increase by less than 5 percentage points, moderate risk when the increase is 5-10 percentage points, and elevated risk when it exceeds 10 percentage points. The second approach is instead based on relative differences between municipalities by dividing them into percentiles. Municipalities are then considered to be at low risk below the 50th percentile, moderate risk between the 50th and 75th percentile, and elevated risk above the 75th percentile.

The distributions show that 198 and 145 municipalities, respectively, are at low risk of increased imbalances (see Chart 6). Smaller municipalities in particular are at elevated risk of increased imbalances. Measured by absolute thresholds, 47 municipalities are at elevated risk, all but one of which have fewer than 25,000 inhabitants. Measured by relative thresholds, 73 municipalities are at elevated risk, and they too are mainly municipalities with less than 25,000 inhabitants.[14] This suggests that smaller municipalities will generally face greater challenges in balancing their future housing stock.

[14] Refers to the municipal grouping used by the National Board of Housing, Building and Planning, see Bostadsmarknaden i regioner och kommuner - Boverket(Housing market in regions and municipalities).

Chart 5. Estimated annual housing need 2024–2034 and estimated imbalance 2034

Number of dwellings, per cent of stock exceeding expected demand

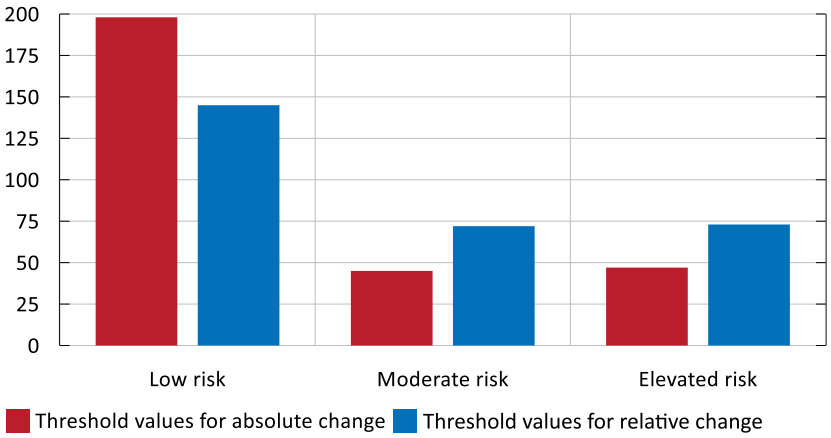


Note. The left-hand figure shows the National Board of Housing, Building and Planning's estimated annual housing construction need 2024–2034. The figure on the right shows own calculations of the share of the housing stock that is estimated to exceed the expected demand in 2034. Refers to all types of housing.

Sources: Statistics Sweden, the National Board of Housing, Building and Planning and own calculations.

Chart 6. Distribution of municipalities' estimated risk of imbalances

Number of municipalities



Note. The thresholds are based on an estimate of how each municipality's imbalance increases from 2024 to 2034. The imbalance is defined as the percentage of the stock that exceeds the expected demand in 2034.

Sources: Statistics Sweden, the National Board of Housing, Building and Planning and own calculations.

Higher vacancy rates can lead to increased credit risk

The overall net effect of the factors affecting housing demand and supply is uncertain. In this analysis, it is assumed that increased imbalances will primarily lead to higher vacancy rates in the rental stock, which accounts for 40 per cent of the total housing stock. Owner-occupied dwellings are expected to adapt to a greater extent through falling prices.[15] An important explanation for this is that leaving a rented home is associated with lower transaction costs than leaving owned housing. By making this assumption, the increase in imbalances can be analysed and more clearly highlighting its consequences.

Higher vacancy rates primarily affect the income of property owners, as there is no rental income from unlet apartments. The impact of vacancies on rent levels for apartments that continue to be let is more uncertain given the current rent regulation. However, persistent and increasing vacancies, especially in higher risk municipalities, are expected to put pressure on both current and future rental income in the long run. This in turn can affect assumptions about long-term vacancy rates, future rent levels and required rates of return, which are key factors in assessing the long-term earning power and market values of properties.

A deterioration in the earning capacity of real estate companies can increase lenders' credit risk, as it increases the likelihood that loans cannot be repaid. At the same time, bank loans to real estate companies are usually secured with property as collateral. If property values fall as a result of rising vacancies and lower rental income, the collateral value also falls. Lower collateral values increase the likelihood that a smaller portion of the loan can be recovered in the event of default, which would further increase lenders' credit risk. Taken together, this can mean that lenders need to make larger loan loss provisions, which affects their earnings.

Given this, the ownership structure of rental housing properties is key, as it determines how risks are distributed, and which lenders are affected when market conditions change. Private real estate companies often finance themselves through regular commercial banks. Municipal housing companies, by contrast, finance themselves through a large extent via Kommuninvest. Municipalities with small municipal housing portfolios have a particularly high share of such financing, with these loans accounting for between 84 and 91 per cent of their total loan portfolio.[16] Through its lending to municipal housing companies, Kommuninvest is exposed to credit risk, but its members, which consists of municipalities and regions, have a joint and several guarantee.

Lenders' credit risk is not affected solely by the value of collateral, but also by the stability of the real estate companies' profitability. Small and locally concentrated businesses are dependent on local market developments. If demand falls and vacancies rise, cash flows are quickly affected, while opportunities to sell or restructure the stock are often limited. Larger municipal housing companies and larger private companies often have more diversified funding. Moreover, large private companies often

[15] Assessments of future price developments for owner-occupied housing are not included in this Economic Commentary.

[16] According to data from Kommuninvest.

have a wider geographical spread and access to capital markets, making them more resilient to local variations in demand. At the same time, the risk remains that high vacancy rates will put pressure on cash flows, valuations and refinancing opportunities.

Limited exposure for lenders

To get an understanding of the extent to which lenders are exposed to municipalities with an elevated risk of future imbalances, a geographical mapping of the rental properties that constitute collateral for banks and other lenders. Since data on geographical distribution of loans is lacking, the collateral volumes for these loans are used to approximate actual exposures. The analysis aims to provide a picture of where credit risk may increase as a result of changes in demand, vacancy levels and property values.[17]

The analysis shows that lenders have relatively limited exposures to municipalities with a moderate or elevated risk of future imbalances (see Chart 7). In terms of absolute changes in imbalance, 3 per cent of lenders collateral values are in municipalities with moderate of elevated risk of increased imbalances. Looking at relative changes instead, the share is 10 per cent.[18] Exposures are mainly concentrated in two institutions but are small relative to their total capital base and collateral arrangements.

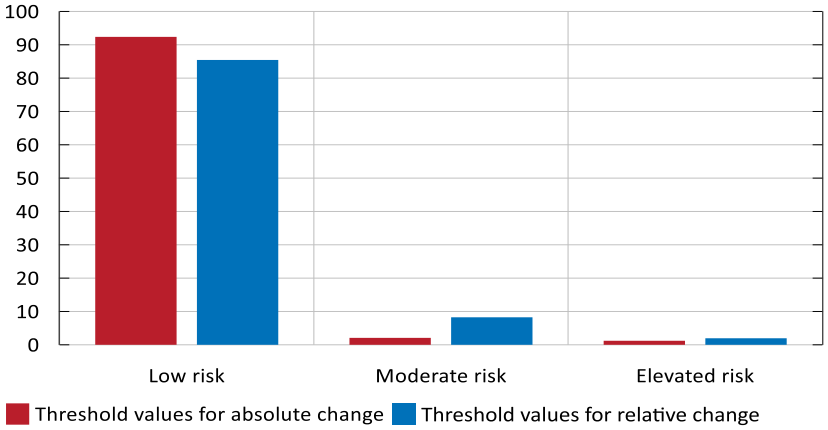
Furthermore, the risk of vacancies develops and materialises gradually over time. This means that banks and other lenders have good opportunities to adjust as credit risk increases. For example, they can raise the cost of loans to compensate for the increased risk. Since loan maturities are usually relatively short, they can also partially of completely refrain from granting new loans in areas where the risks are deemed to be highest. The first option provides better coverage to manage ongoing credit losses, while the second limits credit risk by reducing or phasing out exposures. Such a development may, however, lead to other problems in the affected municipality. For instance, it could result in capital destruction if properties cannot be financed, causing property values to fall significantly more than would otherwise have been the case.

[17] The dataset is based on data on secured rental housing properties, where it is indicated in which municipality the collateral is geographically located, in the form of postal codes. The full geographical distribution is presented in Chart 2 in the Appendix. Where the postal code of the collateral belongs to more than one municipality, the first of these has been chosen to avoid double counting the value of the collateral. Some collateral lacks a precise location. Therefore, there are seven municipalities that have no data at all on the geographical location of the collateral.

[18] This corresponds to 27 and 85 billion SEK out of 837 billion SEK, which represents the total collateral value of rental housing properties in this analysis. Since banks typically apply a loan-to-value ratio below 70 per cent, the actual loans are lower.

Chart 7. Distribution of lenders' collateral values for rental residential property in 2025

Share of collateral volume



Note. The chart refers to data on banks and other lenders' collateral values from 2025 and refers to the share of collateral volume for rental residential property that geographically belongs to each group of municipalities. The percentage of municipalities does not add up to 100 because there is no exact geographical location for collateral in a couple of municipalities.

Sources: The Riksbank (KRITA), the National Board of Housing, Building and Planning and own calculations.

The results should be interpreted with some caution. Firstly, this analysis should be seen as a possible scenario. The analysis is based on Statistics Sweden's population forecast and that construction develops in line with the National Board of Housing, Building and Planning's demand forecast, which need not be the case. Depending on the behaviour of real estate companies, municipalities and households, developments may be different. For example, in areas where demand is already declining, the risk of further vacancies and falls in value can be reduced by converting or demolishing properties. Moreover, larger real estate companies do not always secure their entire portfolios within the Swedish banking system and can therefore strengthen their collateral with unencumbered properties in other municipalities. Second, the dataset does not cover all banks and lenders, which means that not all secured rental residential properties are captured in the analysis. This may imply some underestimation of the exposure to municipalities with a higher risk of future imbalances, as smaller banks often have a stronger local presence in rural municipalities.

Overall, the risk to the financial system appears limited. The main risk, instead, seems to be concentrated outside the financial system, primarily among individual property owners who may be negatively affected by lower rental income and declining property values. Among these, it is more often small municipal housing companies that are largely operating in smaller and rural municipalities, which makes them particularly vulnerable given that the risk of imbalances is assessed to be higher in these smaller municipalities. Incipient imbalances may intensify over time and lead to other socio-economic costs if property values fall, willingness to invest declines and local challenges increase. Such developments could exacerbate the economic challenges of the most vulnerable municipalities, even if the lenders' direct credit risks from their commercial housing exposures remain moderate.

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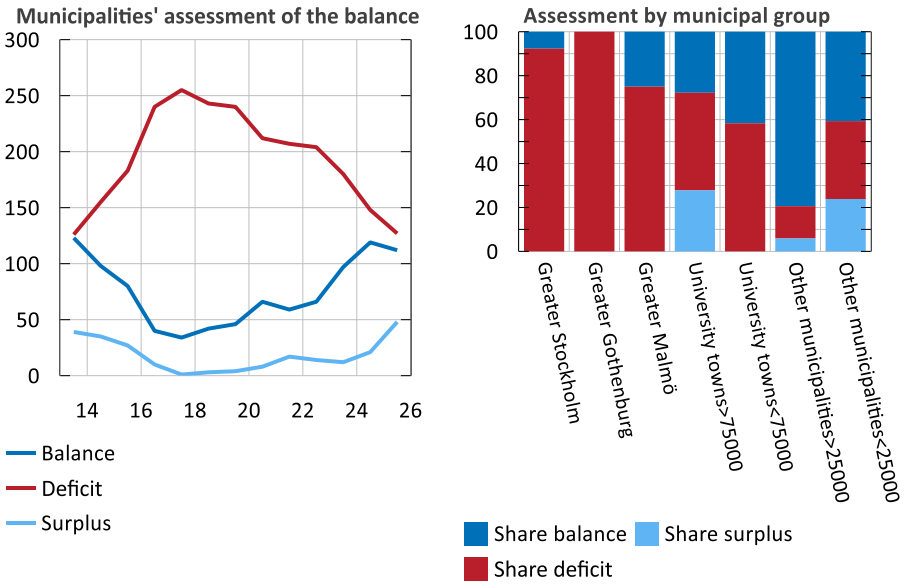
Appendix

Chart 1. Surpluses, balances and deficits in Sweden and by type of municipality

Number of municipalities, share of municipalities

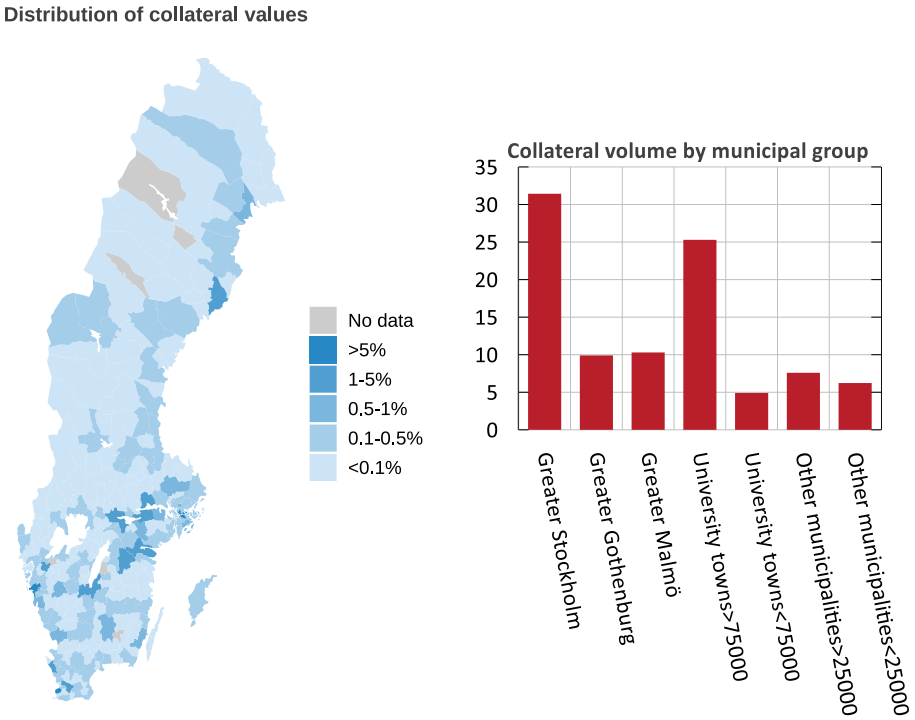


Note. Refers to municipalities' responses to the question "How do you currently assess the housing market situation in your municipality?" in the Housing Market Survey between the years 2013 and 2025. The right-hand chart refers only to responses from the 2025 Housing Market Survey.

Source: Housing market survey (National Board of Housing, Building and Planning).

Chart 2. Geographical breakdown of rental residential properties pledged as collateral with banks and other lenders

Share of collateral volume, share of collateral volume per municipality group



Note. The figure on the left shows each municipality's share of the volume of collateral held by banks and other lenders in the form of rental housing properties as of November 2025. The chart on the right shows the share of each municipal group.

Sources: The Riksbank (KRITA), Statistics Sweden and own calculations.

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