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LÖGMENN · REYKJAVÍK

LEGAL BRIEFING FOR INTERNATIONAL CLIENTS

Acquiring Real Estate in Iceland as a Foreign Entity

Who may buy, how the process works, and what it costs — a practical guide for foreign companies and investors.

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2026 Edition

INTRODUCTION

Icelandic Real Estate at a Glance

Icelandic real estate — from Reykjavík commercial property and hotels to industrial sites, land for energy projects and rural estates — is regularly acquired by foreign investors. The market is transparent and title is reliable: ownership and encumbrances are recorded in a public registry, transactions follow a well-established two-step process, and transaction costs are modest by European standards. The critical threshold question for a foreign buyer is eligibility: Icelandic law restricts who may own real property, with a broad exemption for EEA parties.

EEA	0.8% / 1.6%	2 steps	Public
parties broadly exempt from ownership restrictions	stamp duty for individuals / legal entities	purchase agreement, then deed of transfer (afsal)	registry of title and encumbrances (þinglýsing)

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PART I — ELIGIBILITY

Who May Acquire Icelandic Real Estate

The starting point is Act No. 19/1966 on the Right of Ownership and Use of Real Property: only Icelandic citizens, Icelandic-domiciled individuals and Icelandic legal entities meeting statutory conditions may acquire ownership or long-term use rights over real property in Iceland — unless an exemption applies.

The EEA exemption

- Individuals and legal entities from **EEA/EFTA states** that acquire property in connection with the exercise of EEA freedoms — establishment, services, work or capital movements — are **exempt** from the citizenship and domicile requirements. In practice this covers essentially all commercial acquisitions by EEA-incorporated companies.
- An **EEA subsidiary** is therefore the standard acquisition vehicle for investors headquartered outside the EEA: a properly established Icelandic ehf. or other EEA entity generally acquires on the same footing as a domestic buyer.

Buyers from outside the EEA

- A non-EEA individual or entity acquiring directly must apply for a **permission from the Minister of Justice**; permissions are discretionary and granted case by case.
- Short-term **leases (up to three years)** and use rights terminable with no more than a year's notice do not require permission.
- Structures involving non-EEA ultimate ownership of Icelandic land-holding vehicles should be reviewed carefully: eligibility conditions apply at the entity level, and disclosure of ownership may be required on registration.

> **Farmland and large landholdings — special rules**
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> Under the Land Act No. 81/2004, as amended in 2020, acquisitions of agricultural land and large landholdings are subject to additional conditions. Ministerial approval is required in defined cases — including where the buyer (with related parties) would hold land above statutory size thresholds — and registration of beneficial ownership of land-holding entities is mandatory. Early structuring advice is essential for rural land, estates and resource-rich properties.

Resource rights — water, geothermal, fishing and hunting rights — as a rule follow ownership of the land, which makes eligibility and structuring questions particularly important for energy and tourism projects.

PART II — PROCESS

The Acquisition Process and Due Diligence

Transaction steps

- **1. Offer and acceptance.** Transactions are commonly brokered by licensed real-estate agents (Act No. 70/2015), who owe statutory duties to both parties and prepare a sales summary of the property; direct negotiated deals are equally valid.
- **2. Purchase agreement (kaupsamningur).** The binding contract setting out price, payments, conditions, delivery and remedies. It is registered (þinglýst) to protect the buyer's rights against third parties from signing.
- **3. Completion and deed (afsal).** Upon payment of the purchase price the seller issues the deed of transfer, which is registered and completes the transfer of title.
- **4. Registration.** Documents are registered with the district commissioner (sýslumaður); the registry is public and determines priority. Property information — official valuation, boundaries, buildings — is held by the Housing and Construction Authority (HMS).

Due diligence for a foreign buyer

- **Title and encumbrances** — registered ownership, mortgages, easements, pre-emption rights (municipalities hold statutory pre-emption rights over certain properties), and any restrictive covenants.
- **Planning and permits** — municipal zoning plans, building permits and certificates of completion under the Planning Act No. 123/2010 and the Buildings Act No. 160/2010; intended use must fit the zoning.
- **Physical condition** — condition reports and defect rules; Icelandic sale-of-property law (Act No. 40/2002) allocates risk for defects between seller and buyer, and disclosure duties apply.
- **Commercial matters** — leases and tenant rights, operational permits (e.g. hotels and restaurants), service agreements, and for development sites: infrastructure charges and connection agreements.
- **Eligibility and structuring** — confirmation that the acquiring entity satisfies Act No. 19/1966 and, where relevant, the Land Act, before signing.

> **Practical note on payments**
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> Purchase funds flow through Icelandic bank accounts, and banks apply full AML onboarding to foreign buyers and their beneficial owners. Allow time for this — it is routinely the slowest part of the timetable for first-time foreign investors.

PART III — COSTS

Taxes, Costs and Financing

Transaction and holding costs

- **Stamp duty (stimpilgjald)** — payable on registration of the transfer: 0.8% of the official property value for individuals and 1.6% for legal entities, plus modest fixed registration fees.
- **Property tax (fasteignaskattur)** — an annual municipal tax on the official valuation; rates vary by municipality and are materially higher for commercial property (up to approximately 1.65%) than for residential.
- **Income and capital gains** — rental income and gains of a company are taxed as ordinary business income; individuals are taxed under separate capital-income rules. Non-resident owners are taxable in Iceland on Icelandic real-estate income and gains, subject to treaty relief.
- **VAT** — the sale of real property is outside the scope of VAT; letting of commercial premises can be brought within VAT by voluntary registration, allowing recovery of input VAT on construction and refurbishment — often decisive for development economics.

Financing and security

- Acquisitions are financed by Icelandic banks and pension funds, by foreign lenders, or intra-group. Security is taken by **registered mortgage instruments** (veðskuldabréf / tryggingarbréf) over the property; registration determines priority.
- Loans may be in ISK (fixed, floating or indexed) or in foreign currency for qualifying borrowers; currency mismatch between rental income and debt should be assessed.
- Enforcement is creditor-friendly by international standards: forced-sale proceedings through the district commissioner are well established.

> **Indicative deal costs**
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> For a corporate buyer, budget for: stamp duty 1.6% of official value, registration fees, agent's commission (typically borne by the seller in residential deals; negotiable in commercial transactions), legal and technical due diligence, and bank fees. There is no separate transfer tax or notarial fee regime.

PART IV — SPECIAL TOPICS

Land, Development and Leases

Land and resource properties

- **Resource rights follow the land.** Water rights, geothermal rights and hunting/fishing rights are as a rule appurtenant to land ownership — a key value driver for energy, aquaculture and tourism projects, and a key reason eligibility rules are policed.
- **Summer houses and rural estates** are subject to the same eligibility regime; the Land Act's size thresholds and approval requirements apply to larger aggregations.
- **National land and protected areas** — public lands (þjóðlendur) are state-owned; use rights are granted by permit, and nature-conservation designations can restrict development.

Development projects

- Development requires conformity with the **municipal master plan** and a **local plan**, followed by building permits; plan amendments involve public consultation and take time.
- Larger projects may trigger **environmental impact assessment** (Act No. 111/2021); infrastructure and connection charges are levied by municipalities and utilities.
- Construction contracting commonly follows the **ÍST 30** standard terms; MAGNA's construction team advises on contract structures, claims and disputes.

Leases

- **Residential leases** are governed by the Rent Act No. 36/1994, which contains significant mandatory tenant protections.
- **Commercial leases** are largely governed by freedom of contract; market practice includes indexation to the consumer price index, triple-net structures and renewal options — careful drafting substitutes for statutory protection.
- **Ground leases (lóðarleiga)** from municipalities are common, particularly in Reykjavík: buildings are owned outright while the site is held under a long-term registered lease.

PART V — SELECTED EXPERIENCE

A Track Record in Icelandic Property Law

MAGNA's lawyers litigate real-property, construction and land-rights disputes at all court levels, including the Supreme Court of Iceland. The publicly reported matters and credentials below illustrate the depth of the practice.*

Recent appellate proceedings

- **Supreme Court of Iceland, Case No. 16/2025** — acted as counsel in recent Supreme Court proceedings in the field of real property law.
- **Landsréttur Court of Appeal, Case No. 909/2023** — acted as counsel in appellate proceedings concerning rights over real property.

Land rights, expropriation and construction

- **Land rights and expropriation** — landmark water-rights and expropriation proceedings for major energy and infrastructure projects, including recent Supreme Court judgments upholding the expropriation of rights for the Suðurnesjalína 2 transmission line (Cases No. 41/2025 and No. 66–68/2025) and the Kárahnjúkar water-rights valuation — see our companion briefing on energy law.
- **Construction and defect disputes** — extensive litigation and advisory work for contractors and clients in construction, tendering and defect disputes, including under the ÍST 30 standard terms; the firm's construction practice is among the most experienced in Iceland.
- **In-house real-estate expertise** — the firm's team includes a licensed real-estate broker, and a partner chairs the supervisory committee for licensed real-estate agents — first-hand insight into how Icelandic property transactions are conducted and policed.

References available

Detailed case references and CVs of the responsible partners are available on request; client-specific matters are disclosed only with the client's consent.

* Certain matters were handled by MAGNA's partners at the firm's predecessor offices (Lögmenn Höfðabakka and Málflutningsstofa Reykjavíkur), which merged to form MAGNA Lögmenn in 2019.

PART VI — HOW WE CAN ASSIST

Your Icelandic Legal Partner

MAGNA Legal (MAGNA Lögmenn) advises international clients across the full life cycle of an Icelandic investment — from first market analysis to operations, expansion and exit. We work in English and Icelandic and coordinate seamlessly with foreign counsel, tax advisers and technical consultants.

Real Estate Transactions

Structuring and eligibility analysis; purchase agreements and deeds; due diligence; registration; municipal pre-emption and Land Act approvals.

Development & Construction

Planning and building permits; environmental assessment; construction contracts (including ÍST 30 and FIDIC-based); claims and dispute resolution.

Financing & Security

Acquisition financing; mortgage and security packages; intercreditor arrangements; enforcement and forced-sale proceedings.

Corporate & Tax Coordination

EEA acquisition vehicles; shareholder arrangements; coordination with tax advisers on stamp duty, VAT registration of leases and holding structures.

Contact

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Disclaimer. This publication provides a general overview of Icelandic law as at mid-2026 and is intended for information purposes only. It does not constitute legal advice and should not be relied upon as such. Legislation, tax rates, fees and administrative practice change; specific advice should always be obtained before acting.