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## Trends in the European Residential Property Market 2009

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## INTRODUCTION

### *How 2008 Began and Ended*

2008 was the year that fortunes changed in the European residential property market. The evolution of the financial crisis originating from the sub-prime crisis which emerged in the US in 2007 resulted in difficult economic and financial conditions with prices falling in most European countries. Rising oil prices, a strong euro and increases in the cost of credit combined with rises in retail interest rates and more stringent lending criteria in making investors nervous. 2008 was to see those initial nerves further tested as storm clouds gathered over the market.

The news for the market in 2008 was not all bad but as the year progressed it became increasingly difficult to identify any bright spots. In general those countries which had developed house price bubbles after strong price rises were the first and most seriously affected. However the scale of the problems in the financial system and the impact of globalization meant that difficulties in the financial sector spread very quickly, even to those parts of Europe not directly touched by the fundamental financial problems. Other countries which had survived most of 2008 relatively unscathed were hit hard at the end of the year by the maelstrom of financial difficulties translating into threats to European economies.

### *A Patchy Recovery for Some in 2009*

At the beginning of 2009 these financial difficulties and related problems were still evident, and the interesting question is to what extent they continued to weigh on the market in different countries. European countries had not been affected by the crisis equally. The road to recovery proved to be longer for some countries than for others, at the end of 2009 some countries continued to face serious problems whilst others had seen their markets recover. However in those countries where prices continued to fall, those falls were in some cases substantial. This was in spite of low, sometimes historically record low, interest rates in most countries.

In effect the recovery in 2009 from the problems experienced in the previous year was very patchy, resulting in a patchwork effect of countries, some experiencing serious difficulties which can be identified as resulting from certain common problems. There were some large patches, for example the Baltic States which suffered similar problems. Although Ireland and Spain differ in many ways they suffered some common problems. In other countries problems were less evident, and there were signs of recovery albeit uneven. In some countries in Northern Europe prices even rose by significant amounts.

These differences make it difficult to talk about the European housing market as a unified whole in spite of some distinctive features which are evident for example when comparing Europe with the US. We will consider some of these differences with reference to the figures reported for 2009 and look at some of the possible reasons for those differences. It should also be noted that there are many different ways of recording price changes and that the reliability of the statistics quoted varies greatly from country to country. That is why we conclude that we continue to need better information about the market.

## **PART ONE: HOUSING AND THE ECONOMIC CRISIS**

To start with some comments of general application, it is not possible to look at the developments in the European residential property market in 2009 without first considering the importance of the impact of the economic crisis. This has been the subject of much discussion and research. Eurostat published recently its annual report on "The Social Situation in the European Union 2009", including commentary on housing and social exclusion. A number of factors which emerge from its investigation in the context of housing and the impact of the economic crisis help to explain the recent development of the market in Europe.

The housing sector has been at the heart of the economic crisis (not just in Europe). Its importance is demonstrated by the fact that home ownership is a major component of wealth in Europe. Almost 70% of Europeans own their homes with a wide variation amongst countries, from around 54% in Germany and just under 60% in Austria to nearly 90% in Hungary, Slovakia and Lithuania, with the value of the primary residence representing more than 60% of household wealth in countries such as Finland, Germany, Italy Sweden and the UK.

### ***A legacy of rising prices... in most countries***

In the years 1997 to 2007 prices more than doubled in 11 of the EU 15 member states, and in Finland increased by 86%. For prices in eight of these countries the rate of increase was greater in the second half of the period whilst in Greece and France prices almost trebled. However in Germany prices declined slightly, in Austria they rose by 4% between 2002 and 2007, and in Portugal 9%.

House prices rose much faster than wages over the past ten years in most member states, with the exception of Germany and Portugal. In France house prices more than doubled relative to average wages between 1997 and 2007, in Spain and the UK they rose by 85-86%, in Italy and Sweden by 70% and in Belgium, Denmark and the Netherlands by 60-62%. However in Germany prices fell by -13% relative to wages and in Portugal by -2% over the same period, and -7% in Austria over the last five years of the period.

2008 was the year when prices stabilized and falls were recorded. In Ireland prices began to fall in 2007 and in the year up to the middle of 2009 prices fell in 10 of the 15 original member states and were stable in the Netherlands, falling -10-12% in Denmark, Ireland, the UK and Malta and by -7-8% in Spain and France.

A number of the new member states had also seen marked increases in house prices before the financial crisis. In Slovenia prices rose 1-14% between 2004 and 2006, in Poland prices rose by nearly 20% in 2007 and by 24% in Slovakia. However the vulnerability of these markets was demonstrated by the fact that some countries then saw large falls. In the year up to the middle of 2009 prices fell by -20% in Bulgaria, -31% in Estonia and -60% in Latvia.

### ***An explosion in mortgage debt***

The years leading up to the financial crisis saw a parallel rise in mortgage debt relative to annual household income, in some cases a very sharp rise, more than 200% in Denmark and the Netherlands. This increase is also particularly marked in the new member states, although mortgage levels there remain generally well below those in the EU 15.

In fact outstanding mortgage debt increased in all countries in the ten year period leading up to the financial crisis, except for Germany. Between 1998 and 2007 mortgage debt more than tripled in Ireland relative to household income, doubling in the last five years of this period from 80% of household income to 175%. There was an increase in debt of over 2.5 times in Spain over a nine year period, rising to over 100% of household income in the second part of the period. In the Netherlands and the United Kingdom there was an increase in mortgage debt of about 80%, rising to twice household income in the Netherlands and nearly 1.4 times in the UK.

Again Germany proved to be an exception with the amount of outstanding mortgage debt being slightly smaller in relation to household income in 2007 than in 1998, and 7% smaller than in 2002.

In the new member states there was an even larger increase in borrowing. The growth in mortgage debt was at least three times as great as the rise in household income in all countries between 2002 and 2007. In Estonia the increase was more than five times the growth of household income over this period, reaching a level of more than 80% of household income, and in Latvia the ratio increased by a factor of nearly 8 to more than 60% of household income. Whilst these increases were from a lower base than in other parts of Europe the levels of mortgage debt reached were significant, to over 30% of household income in the Czech Republic and Lithuania, and over 20% in Hungary and Slovakia..

These factors boosted consumer demand and economic growth in some member states, but proved to be unsustainable. When the bubble in the housing market burst, it had an immediate effect on the construction industry. For example in Spain employment fell by 21% in the year ending with the last quarter of 2008, representing a loss of over half a million jobs.

The recession caused by the economic crisis and rising unemployment put pressure on the ability of households to repay mortgages. Falling house prices and difficulties in obtaining loans also made it harder to obtain borrowing to cover the cost of these loans. Some Eastern European countries faced a particular problem in that much of the increase in lending was denominated in foreign currencies, mainly euros and Swiss francs. In Poland, foreign currency loans comprised two thirds of the outstanding borrowing for housing purposes in October 2008, in Hungary 60% of household borrowing in 2008 and in Romania nearly 90% at the end of 2007. This exposes borrowers to the risk of currency fluctuations as certain currencies weakened with the economy. Also the extent to which borrowers were able to benefit from falling interest rates varied due to reluctance on the part of lenders to pass on the full reduction and the fact that a number of mortgages are fixed rate.

### *The strength of the rental sector*

The extent of home ownership in the European Union also reflects the relative strength of the rental sector in different countries. In Germany nearly half of all housing is rented, whilst in Austria, France and the Netherlands the rental sector represents approximately 40% of the total. Spain and most of the new member states have very small rental sectors. Within this sector there are also differences in the importance of social housing, nearly 75% of all rented accommodation in the Netherlands as opposed to just under 40% in France. The Nordic countries also have a relatively important social housing sector<sup>1</sup>.

### *Differences between the markets in Europe and the US*

There has been much discussion of the origins of the financial crisis in the sub-prime crisis in the US and the impact on the housing market in the US. Whilst there are similarities between housing markets in Europe and the US, there are a number of differences which go some way to explaining the different performances of the respective markets. Supply is more constrained in Europe, due to the greater availability of land in the US, the mortgage market in the US is more developed leading to a more immediate response to access to borrowing, and the situation regarding interest rates in Europe is more diverse, with countries including Spain and Italy having variable rates as opposed to the long-term rates normally applied in the US.

The cyclical correlation between house prices and mortgage debt is much higher in the US than in Europe, with a particularly low correlation in Germany. Notably housing wealth in Europe forms a larger share of GDP than in the US, with housing being the main form of wealth for many European households and land values being generally higher<sup>2</sup>. Therefore the market in Europe has a number of distinctive features as well as important regional differences.

<sup>1</sup> Eurostat February 2010 "The Social Situation in the European Union 2009".

<sup>2</sup> ECB Working Paper Series No1161/February 2010 "Housing Consumption and Monetary Policy How Different Are the US and the Euro Area".

## PART TWO: THE RESIDENTIAL MARKET IN 2009 - A MARKET OF FOUR GROUPS

Looking at the development of the residential housing market in Europe in 2009 we can say that the market can be divided loosely into four groups of different sizes, all with certain sub groups except for the first group. The first group is the smallest and is made up of a few countries in which prices rose in 2009. These countries had not experienced an earlier bubble in prices and were smaller economies which were quick to recover.

The second group is larger and very different in that it is made up of a number of countries which suffered large falls in prices. In general these are countries which had seen an earlier expansion in their market and considerable increases in household borrowing creating bubbles which proved to be unsustainable. Some, like Spain had also seen a massive expansion in construction so that when the crisis hit there was an overhang of unsold properties which created an excess of supply.

The third group consists of countries in Eastern Europe. They did not perform evenly, it is apparent that there is a big difference for example between the performance of the market in Bulgaria and that in Poland. However these markets were characterized by the economic boost and increased foreign investment that followed their accession to the European Union. This, together with a tendency to have loans denominated in foreign currencies which caused problems for borrowers as those currencies strengthened against domestic currencies, tended to expose weaknesses in the structure of the markets. More positively for these countries, there were signs of improvement at the end of the year.

The fourth group is even more diverse. Generally speaking this includes those countries in Western Europe which did not fall within the first group of countries which suffered large losses. As such this group is not homogeneous but represents, largely speaking those countries which saw relatively small losses or indeed experienced a degree of stability. Some of these markets were relatively quick to recover, not being affected by the particular problems which beset those countries in the second group.

### I. FIRST GROUP OF COUNTRIES - PRICES RISE IN 2009

#### *Finland, Sweden, Norway*

To start with the (smaller) group of countries where prices increased, there were several countries which saw prices rise in 2009. In particular the Nordic countries experienced strong growth (with the notable exception of Denmark), with prices rising in Finland, Sweden and Norway.

According to CEPI member association KVKL the housing market in **Finland** came to a standstill when the economic crisis hit in autumn 2008 with very few transactions taking place. Low apartment prices attracted particularly first-time buyers and investors to the market in spring 2009 leading to a shortage of supply by the autumn fuelled by lack of new construction and historically low interest rates. In the last quarter of the year (compared to the same period in the previous year) prices rose by 7.9% for existing apartments and houses, with stronger price rises for existing apartments in metropolitan areas (10+%) and an increase of 11.6% in Helsinki whilst prices for new apartments grew by 3.5% in the country as a whole and 9% in metropolitan areas.

By the end of 2009 many of KVKL's member agencies were reporting some of the best sales results in their history. However CEO and Managing Director of KVKL Jukka Malila does not expect the steep increases to continue, saying that "if circumstances remain as they are now, price increases will slow especially in the growth centres. In other parts of the country the development will probably be steadier". Recovery in the rate of construction and interest rates will be important factors in the market.

On an annual basis KVKL reported a small decrease of -1.5% for the sale price of houses and -0.3% for apartments, probably due to the slow start to the market at the beginning of the year. According to Statistics Finland, rents increased on average by 4.09% in 2009 on an annual basis. Rents of non-subsidized rental dwellings increased on a national basis by an average of 3.1% and government-subsidized rental dwellings by 5.1%. The average rent per square metre of non-subsidized rental dwellings was €10.07 on a national basis, and of government-subsidized rental dwellings €8.93.

In **Sweden**, Statistics Sweden reported an increase in prices for one or two-dwelling buildings of 7% on an annual basis as of January 2010. Whilst some parts of Sweden (not metropolitan areas) did see some price falls over this period this was not the case on an annual basis. The average price for a one or two-dwelling building in Sweden was SEK 1954 000 (approximately €200.200) during the period November 2009 to January 2010.

In **Norway**, Statistics Norway reported that house prices remained unaltered from the third to the fourth quarter of 2009, having risen on an annual basis at the end of the fourth quarter of 2009 by 11.6%. In 2009 house prices were 29% higher than the 2005 average, with the strongest increase in Stavanger (53%). There were small increases in rents, with the most rises in large cities from the first quarter of 2009 to the fourth quarter of 2009, of 1.3% in Oslo, and 1.1% in Bergen, Trondheim, Stavanger and Tromsø. The average monthly rent for all tenants was NOK 5 444 (approximately €694.239) in the fourth quarter of 2009.

CEPI member association NEF reported a modest increase for the year 2009 on an annual basis of 1% for houses and 3% for apartments. Rents also increased slightly, 1% for houses and 1.6% for apartments.

## II. SECOND GROUP OF COUNTRIES - LARGE FALLS IN PRICES IN 2009

The picture was very different in some other countries (forming a second and larger group). The economic and financial crisis was not only the first global financial crisis since the Great Depression but was also unprecedented in its spillovers. Imbalances which had been masked by low interest rates and narrow risk spreads alongside housing booms in several countries were exposed by the crisis together with housing market vulnerabilities. These imbalances were most pronounced in Iceland, Hungary and the Baltic States. Overextended households were a major factor in the origins of the current crisis with implications for the transmission of the crisis from the financial to the property sector.

The countries which saw the largest increases in household borrowing from 1997 to 2007 also in general saw the fastest rise in house prices over this period, demonstrating a link between easy mortgage credit and rising house prices. The countries which saw the largest increases in household borrowing before the crisis also tended to experience the most serious subsequent recessions suggesting that the severity of recession was in part a reflection of the degree to which the unsustainable level of borrowing was a factor in growth. Other factors, including policy measures in different countries, could of course also affect the impact of the crisis<sup>3</sup>.

Some countries saw dramatic falls in prices, most notably the Baltic States, Ireland and Spain.

### *Steep falls in prices: The Baltic States - Lithuania, Estonia, Latvia*

The Baltic States all saw prices fall steeply in 2009. **Lithuania** suffered a bad year in 2009 with activity in the market the lowest that it had been for the last 6 years. Apartment prices in the major cities fell -27% (nearly double the rate of -15% in 2008). There were some signs of increased activity by the end of the year. Prices also dropped for houses in the major cities and their suburbs by an average of -30 -45% with significant drops in the price of land and building costs. Rental prices also decreased by about -35 -40%. There are still large numbers of unsold new apartments available<sup>4</sup>.

**Estonia** saw a fall in the sales volume of apartments in Tallinn of -54%. However there were signs at the end of the year that the number of transactions was beginning to increase. In Harju County and Tallinn in the fourth quarter of 2009 the average price decrease was -20%. For the rental market, prices decreased on an annual basis by -35%, with the largest reductions being for expensive apartments<sup>5</sup>.

<sup>3</sup> FRBSF Economic Letter 2010-01 January 11 2010.

<sup>4</sup> Ober Haus Real Estate advisors Lithuanian Residential Real Estate Q4 2009.

<sup>5</sup> Ober Haus *ibid.* Estonian Residential Real Estate Q4 2009.

**Latvia** suffered a catastrophic year with CEPI member association Lanida reporting a fall in prices on an annual basis of -30% for houses and -40% for apartments. Rents for houses fell by -30-40% and for apartments by -50-60%. The number of building permits issued (by comparison with 2008) fell by 40% and the turnover of estate agents fell by 50%. 20% of estate agents in Latvia ceased operation in 2009. The Latvian economy was badly hit by the economic and financial crisis.

According to the International Monetary Fund Latvia has suffered one of the deepest recessions in the world, with a decline in its GDP of about 18% in 2009 and unemployment above 20%. At the beginning of 2009 the country was provided with a €7.5 billion support package from the international community to keep its economy afloat. Between 2000 and 2007 Latvia was one of the fastest growing economies in the world, growing at an annual rate of 9%. Much of the demand caused by the growth in the economy was channeled into property with a great deal of foreign investment, so that by the end of 2007 foreign debt had increased above 125% of GDP. When the crisis hit, foreign loans to Latvia stopped and the result was a deep recession which combined with the world economic crisis turned into a severe economic crisis<sup>6</sup>. Consequently the correction was severe and the economic situation remains difficult.

### *Some common problems: Ireland, Spain*

Whilst being different both geographically and economically from the Baltic States, Ireland and Spain were also similarly badly affected. Both Ireland and Spain had enjoyed housing booms following entry to the euro zone and corresponding low interest rates. In both countries these booms were accompanied by a massive rise in the number of new constructions so that when the recession hit both countries were affected by an oversupply made worse by the number of unsold newly constructed properties and high rates of unemployment in the previously booming construction sector and associated services.

In **Ireland** the market was abysmal in 2009. According to a report<sup>7</sup> commissioned by CEPI member association IAVI, 2009 for property in Ireland "represented perhaps one of the bleakest and dismal years the market has experienced in this country. Activity levels stagnated across virtually all sectors, while capital values continued to fall. For those whose livelihood depends directly on the property sector, survival was the name of the game". At the beginning of 2010 property prices were about 40% off their 2006 peak, with wide variations across property types and locations. Very few sales took place in 2009 resulting in a large supply of unsold stock, although the rental market did see reasonable levels of activity with falls of rents of between -15% and 23% over a two year period depending on location.

Ireland has seen a fall in the number of lending institutions active in the market, resulting in a lack of availability of finance on which low interest rates have had little impact. Information from IAVI indicates large falls in prices of one and two bedroom apartments with slightly larger falls in second-hand than new (-22.2% and -21.6% in Dublin) and larger four/five bedroom detached houses (-21.2% for new and -23.0% for second-hand in Dublin). Houses in urban areas in Dublin and the rest of Leinster appear to have experienced larger falls in value in 2009 in comparison to those in Munster and Connaught (-20.0% for new 4/5 bed detached properties).

Figures published in the Permanent tsb/ESRI House Price Index for Ireland show that on average national house prices fell by -18.5% in 2009, average national prices are now at the levels that they were at in April 2003, and that there has been a decrease of 31.5% since the peak of the market in February 2007. The figures published also show a continuing fall, with a reduction of -8.5% in average prices in the fourth quarter. However, these falls follow a period of spectacular growth when national house prices had been rising by an average of 14.9% during the ten year period leading up to 2006<sup>8</sup>.

<sup>6</sup> IMF Survey Magazine February 18, 2010 "After Severe Recession Stabilization in Latvia".

<sup>7</sup> The Property Valuer published by Irish Auctioneers and Valuers Institute Volume 29-NO.1-January 2010.

<sup>8</sup> Permanent tsb/Economic and Social Research Institute House Price Index-end of year figures 22/02/10.

Much has been written about the problems of the property market in [Spain](#). Official statistics issued at the end of the year by the Instituto Nacional de Estadística for the third quarter of 2009 registered a fall on an annual basis of -7% for the country as a whole. The largest falls were recorded in the communities of Madrid (-11.0%) and País Vasco (-10.4%). Figures issued in February 2010 by TINSA<sup>9</sup> indicated a fall on an annual basis of -10% for the end of 2009, although for January 2010 the rate of decline recorded decreased to -5.5%.

Whilst there are a number of sources for information about property prices in Spain they tend to be lagging indicators and there is anecdotal evidence of greater falls in particular regions and sectors as well as some differences in figures. CEPI member association CGCAFE reported a fall in rental prices of -4.8% for houses and apartments. Loans to households for the purchase of property fell by -22% and the number of building permits by -42%, again on an annual basis. CEPI member association CGCOAPI saw falls of -30% for the price of houses and -20% for apartments.

The International Monetary Fund looked at developments in the Spanish housing sector in 2009 and noted some particular features of the market which explain the downturn in its housing market. Spain had experienced a decade-long housing boom having experienced changes due to democratization in the late 1970s and membership of the EU in the mid 1980s. Greater access to global liquidity and low interest rates due to membership of the EU brought increased investment and employment which in turn increased housing affordability. Immigrants were attracted by jobs in construction and services and the number of households increased.

Whilst the increase in house prices was comparable to that of other countries experiencing housing booms, a notable difference was the increase in construction in Spain. In 2006 more housing units were under construction in Spain than in Germany, France, Italy and the UK combined. When funding became difficult construction stopped. Housing affordability had been eroded and households were highly indebted at variable interest rates.

The size of the construction sector had become unsustainable at 13% of employment and 9% of GDP in residential investment. Consequently jobs in construction were lost causing unemployment in that and other sectors and a fall in immigration. The number of households formed fell from its peak in 2006. The supply had also been increased by the large number of holiday homes which made up one fourth of all units built. Housing construction in 2006-2007 greatly exceeded sustainable levels, resulting in a large inventory of unsold stock, although it is hard to estimate the actual amount because of the large number of second and empty homes. Housing investment and construction employment is expected to more than halve from its 2007 peak, and it is estimated that since 2001 house completions have exceeded household formation by one million units.

Real house prices in Spain started to decline at the end of 2007 and have fallen steadily since. Another important factor in the market in Spain is the weakness of the rental market. Housing policy in Spain promotes ownership, and Spain has the highest rate of home ownership (85% and rising) in the industrialized world. The weakness of the rental market has made it difficult for it to absorb the excess supply of properties. All these factors indicate a lag in the recovery of the market in Spain<sup>10</sup>

### III. THIRD GROUP OF COUNTRIES - EASTERN EUROPE

There were particular developments relevant to a third group of countries in Eastern Europe. As demonstrated earlier, some countries in Eastern Europe had seen dramatic price rises and expansion of their mortgage markets. In 2009 some also saw steep falls in prices. However this picture was not the same all over Eastern Europe. Bulgaria, Hungary and Romania were hard hit, but other countries including Poland and the Czech Republic less so.

<sup>9</sup> TINSA *Tasciones Inmobiliarias*

<sup>10</sup> IMF *Country Report No.09/12 April 2009 Spain: Selected Issues*.

### *Some large falls in prices: Bulgaria, Hungary, Romania*

**Bulgaria** had benefited from foreign investment and prices had risen sharply, but according to figures from the National Statistics Institute, 28 of the largest cities and towns in Bulgaria saw values decline by around -28% in the third quarter of 2009 on an annual basis. At the end of the year prices had fallen by -26.36% and were continuing to fall<sup>11</sup>.

In **Hungary** there was a decrease in the sales market with a lot of apartments remaining unsold in spite of a fall in the number of new constructions. Hungary had also experienced severe economic problems. According to CEPI member association HREA, prices of houses fell on an annual basis by -10%, apartments by between -9.5-13% according to their construction. Rental prices also fell by -10% for houses and by 10% to 15% for apartments. The number of building permits issued in 2009 compared with 2008 fell by -41%. Interest rates charged on mortgages in Hungary were high, 9.16% for forint-denominated home loans, 7.65% for euro-denominated home loans.

Measures were taken by the Hungarian government to support the market by providing assistance to borrowers and revision of the housing support system in a package of solidarity measures, enabling for example borrowers in difficulty to obtain bridging loans supported by a state guarantee. Buyers of new residential projects have seen the introduction of incentives offered by developers, such as the right to rent a home for one or two years with the option to apply for a loan to purchase it and offset the rent paid. In spite of such measures there was still a fall in demand which was predicted to result in a 50% reduction in the turnover of the residential market by the end of the year. However there was an increase in both demand and supply of rental properties<sup>12</sup>.

In **Romania** the situation in the residential market did not improve in 2009 with a limited number of projects and increased stock of completed and unsold units. The market had seen spectacular growth in 2007 with stabilization in 2008. In January 2010 asking prices for residential properties in Bucharest were on average -15% compared to the third quarter of 2008. Part of the price correction can be accounted for by the appreciation of the euro (in which prices are denominated) against the RON which was estimated at 18.5% in October 2009.<sup>13</sup>

### *Countries where prices fell but to a lesser extent: Poland, Czech Republic*

In **Poland**, according to a survey conducted by CEPI Polish member association PREF, almost 70% of estate agents reported a smaller number of transactions in 2009, with the largest fall being reported in Warsaw: some agents there reported a fall in the volume of transactions of 50-90%. Houses and larger apartments were most affected. There was some growth in the volume of transactions in some seaside locations or in smaller towns. The fall in the value of the zloty made prices attractive for foreign investors. PREF fear that high land prices and decreases in the affordability of credit will cause stagnation in the market and that legislation protecting tenants discourages investment in rental housing.

According to Aleksander Scheller, President of PREF, there remain few transactions in spite of high demand. Although banks have started again to offer mortgages of 100%, only those with high incomes can benefit so that "only the most affluent 10% of Polish households meet the underwriting criteria, which effectively holds back demand. Sellers are aware that buyers have literally disappeared from the market, but price levels are very similar to those of six months ago. There is common confidence that finally the market will recover and that gold times will be back, perhaps with a little less gold, but certainly it will improve. However, the transaction volume on the Polish residential market will increase only if lenders start making loans to low income households".

It is expected that 2010 will be similar to 2009 with an increase in the supply of housing unlikely and recovery dependent on the extent of the economic slowdown in Poland. Figures reported by PREF for 2009 show a fall in

<sup>11</sup> *Global Property Guide February 26 2010 "World's housing markets are mostly recovering, but the situation is patchy".*

<sup>12</sup> *Othon Centrum Residential Market Monitor 2009/1*

<sup>13</sup> *REAS Bucharest Residential Market January 2010.*

the price of houses of -3.5% and -8% for apartments. Rents increased by 10% for houses and 13.5% for apartments.

The **Czech Republic** was one of the stronger performing countries in Eastern Europe. CEPI member association ARK Cr reported a fall in the prices of houses of -2%, and -6.1% for apartments. Rental prices for houses fell by -5%, with rental prices for apartments remaining unchanged.

#### IV. FOURTH GROUP OF COUNTRIES - WESTERN EUROPE

Western Europe did not form a homogeneous group either in 2009. As well as those countries already mentioned which saw serious problems there were other countries within a fourth group which saw falls in prices to a varying extent, although those differences within that group were quite large.

##### *Countries reporting continued falls: Denmark, Italy*

**Denmark** proved to be an exception to the gains seen in other Nordic countries. CEPI member associations DE and ED reported a fall in the price of houses of -7.5% and apartments -5.7%. Rental prices increased by 3.6% for both houses and apartments. Denmark had been badly affected by the financial crisis and an earlier housing bubble and was one of the first countries to experience problems in both its banking sector and housing market in 2008.

**Italy** had been relatively stable in 2008 with small falls in the number of transactions. For 2009 CEPI member association FIMAA reported a fall in the price of houses of -8% and -2% of apartments. Rental prices for houses remained static whilst rental prices for apartments increased by 2%.

##### *Those moderately affected: The Netherlands, France*

**The Netherlands** experienced a weak market. According to CEPI member association NVM, prices of houses fell by -2% on an annual basis, and prices of apartments by -0.5%. Rental prices for houses and apartments saw a small increase of 2.75%. The volume of transactions fell by about 30% to 40% from that of 2008. Reasons for this included difficulties in access to finance and uncertainty about the economy. There was a marked reduction in the number of transactions at the higher end of the market, with the lower part of the market performing relatively well. This had an effect on the income of estate agents, with falls in revenue of around 50%. There was more activity in the rental market, with a marginal effect on prices as demonstrated, with evidence that people were renting rather than buying.

In **France**, CEPI member association FNAIM reported a fall in prices for 2009 of -5.6% for houses and -4.2% for apartments. Over a period of two years the prices of houses depreciated twice as fast as those of apartments, with the price of houses at the end of 2009 being comparable to those of the second quarter of 2005 and that of apartments reaching levels seen at the beginning of 2006. After a low point in autumn 2008 (at -10% per year) the fall in prices gave way gradually to stabilization in 2009<sup>14</sup>.

CEPI member association SNPI noted a limited increase in the activity of property professionals in France. During the last quarter of 2009 the number of transactions completed by estate agents and property managers increased by 3.5% from the same period in 2008, following a fall of 119% on the total of the 12 previous months. It was during autumn 2009 that the number of transactions began to increase, 3% for sales and 1% for rentals during the last four months of the year. At the end of 2009 most property professionals anticipated an increase in activity in the first quarter of 2010<sup>15</sup>.

##### *More stable markets: Germany, Austria, United Kingdom*

<sup>14</sup> FNAIM Lettre de conjoncture n.59-Janvier 2010.

<sup>15</sup> SNPI Observatoire de Conjoncture Note n.35.

In some countries the movements seen in the market were more moderate. In **Germany** movements in the market remained limited and once again its market was a case apart. As mentioned previously Germany has a history of long and gradual declines in prices, a low level of mortgage debt and also the continued existence of a large rental sector.

Unlike some other European countries Germany had not experienced a property boom and prices remained relatively stable. CEPI German member association IVD reported a small fall in prices for 2009, -1.3% for houses and -1.4% for apartments. Rental prices saw a small increase, of 0.5% for houses and 0.8% for apartments. There is little information readily available about the German market as a whole, particularly for the residential market which is little researched by comparison to the commercial market.

For 2010 however IVD expects rents across Germany to increase whilst the development of purchase prices of residential property will be uneven. The prices of single family homes and new build flats are likely to rise in the larger German towns and cities. Otherwise it is unlikely that prices for existing residential property will see much change. There is concern over the limited number of new flats available to rent, with a need for an increase in construction, particularly in urban areas.

**Austria** experienced a stable year with little movement in prices. According to CEPI Austrian member association FIV, the market for houses was very different according to the area, but the Vienna area saw a fall of around -2% to -5%. For apartments, again the market varied according to location but in some areas, including the city of Vienna, prices rose between 5-10%. The rental prices of apartments also increased by about 2- 3%.

After a difficult start to the year, the **United Kingdom** saw prices rise during the fourth quarter of 2009. For the UK as a whole prices rose by 1.6% in the fourth quarter leading to an increase in the annual rate of change from -3.0% in the third quarter to +3.4%, with houses in the Greater London area seeing the highest annual rate of change at 7% and weaker growth in the northern and midland regions<sup>16</sup>. The market in the UK was characterized by lack of supply and historically low interest rates together with an increase in inward investment due to the fall in the value of sterling. There remains speculation about the strength of the market and how it will perform in 2010, particularly with all the uncertainties caused by the results of this year's general election.

## CONCLUSION

Common factors can be identified to explain some of the differences in price developments in 2009, including the extent to which different countries had experienced a housing boom, levels of mortgage debt in relation to household income, exposure to currency exchange rates and declines in foreign investment in the case of some Eastern European countries. However it is notable that there remain structural differences between the markets in Europe relating to the extent of home ownership and the relative importance of the rental sector. Europe remains a continent with strong regional variations and differences within national borders.

It also remains difficult to obtain accurate and up to date information about the housing markets in different countries. The methods used to gather and report information differ in many ways. It is even more difficult to obtain figures for the rental market. However these figures must have an importance for the development of the internal market as they directly affect the mobility of European citizens. It is also clear that housing is an important component of wealth in Europe and must weigh on the economy of the EU as a whole. This makes it vital that information about the market and its importance to the European economy is improved.

In some European countries, the housing market will take longer to recover than others. The figures at the end of 2009 in most cases indicate gradual signs of improvement. However for 2010 predictions are cautious, even for those countries which did not see large falls in prices in 2009. A large number of factors will affect recovery.

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<sup>16</sup> *Nationwide House Prices 31 December 2009.*

One aspect which remains clear is the importance of professionalism in a difficult market. 2009 was a challenging year for property professionals. Not only did they have to deal with a weak and volatile market, they have increasingly to deal with matters of ever greater complexity such as changes in financial regulation, consumer legislation and energy efficiency in buildings. These challenges call for well qualified and educated professionals able to deal with challenging times.

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**CEPI (Conseil européen des Professions Immobilières)** is the main European professional association for estate agents and property managers representing 42 member associations in 25 countries. Thanks are given to all CEPI member associations who collaborated in the compilation of this report. Details of all CEPI member associations are available at [www.cepi.eu](http://www.cepi.eu).

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