



Property Index

Overview of European
Residential Markets

Affordable vs. Luxury Living
7th edition, September 2018

Introduction

Introduction	03
Highlights	05
Economic Development in Europe	06
Trends	08
Focus: Affordable vs. Luxury Living	10
Comparison of Residential Markets – Housing Development Intensity	12
Comparison of Residential Property Prices in Selected Countries and Cities	17
Mortgage Markets in Europe	30
Annex: Comments on Residential Markets	32
Contacts	38
Authors	39

Property Index, Overview of European Residential Markets, with its six-year history, has become one of the most important European real estate publications. In this context, we are pleased to present to you the seventh edition.

Property Index analyses factors influencing the development of residential markets and compares residential property prices in selected European countries and cities.

Our goal is to provide you with European residential market data on a regular basis and answers to questions on how Europeans live and at what costs.

To summarise all important outputs from our research we outlined in the introductory part the key trends we believe resonate on the residential market the most. Two of them are further elaborated in greater detail in the focus chapter in order to be a bigger subject in public discussion.

As in the previous year, we especially focused our attention on:

- Austria (AT);
- Belgium (BE);
- Czech Republic (CZ);
- Denmark (DK);
- France (FR);
- Germany (DE);
- Hungary (HU);
- Italy (IT);
- Latvia (LV);
- Netherlands (NL);
- Poland (PL);
- Portugal (PT);
- Spain (ES); and
- United Kingdom (UK).

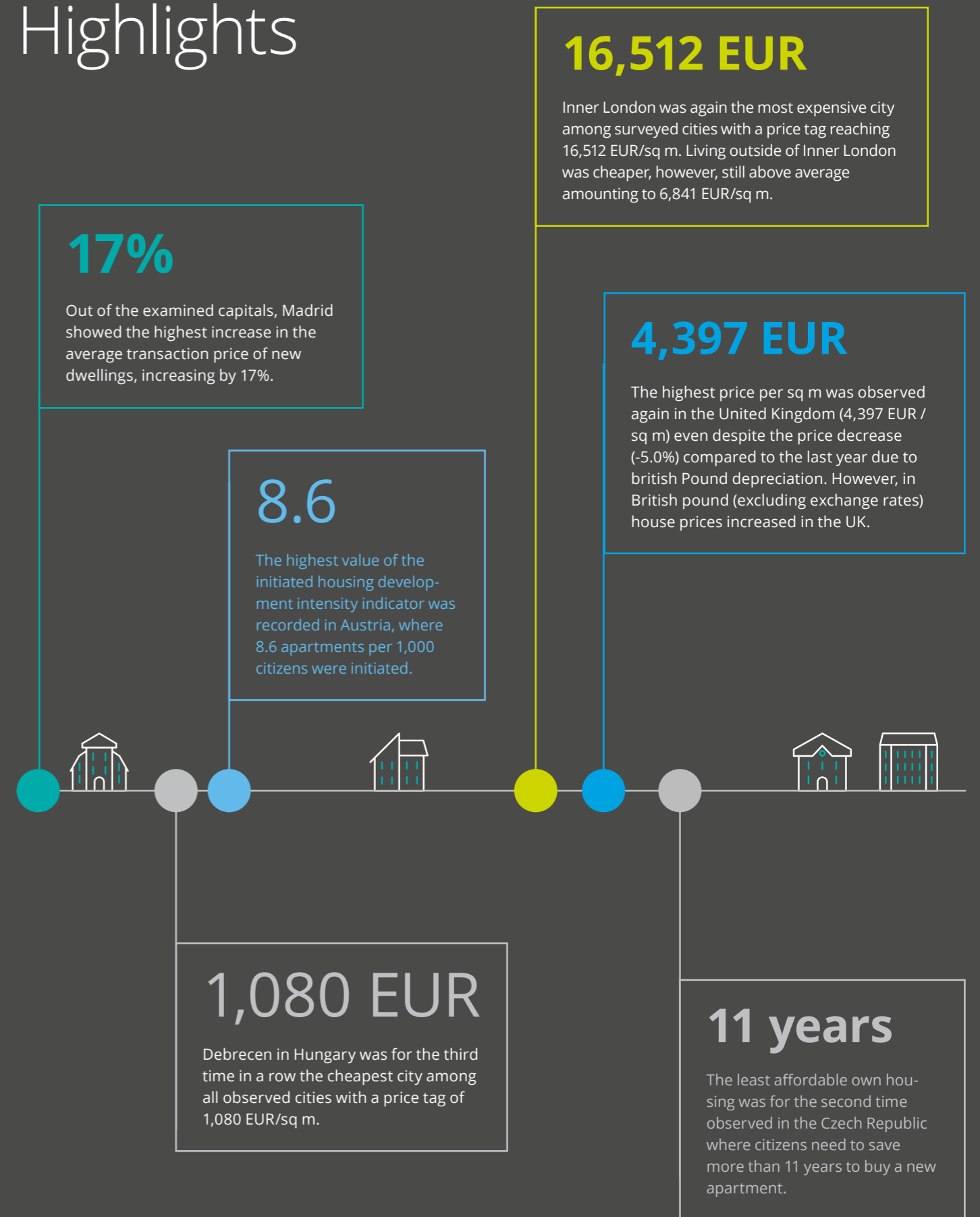
Most presented indicators are on a year-on year basis and are to some extent also influenced by geopolitical situations or various factors affecting the volume of supply and demand.

Property Index was prepared by a proven international and cross-functional team of Deloitte professionals in the development, mortgage and real estate markets. This publication has been prepared using data collected by individual Deloitte offices in selected countries.

Property Index capitalises on Deloitte's extensive knowledge of the real estate and development industry, enabling us to provide you with independent and credible information.

We hope you will find this seventh issue of the publication interesting and inspiring for you and for your business.

Highlights



Economic Development in Europe

The European economy continued to rise in 2017. The growth was slightly faster in comparison to 2016. GDP in the whole EU-28 increased by 2.6%, the Eurozone rose by 2.5%. The growth was supported by the ECB's accommodative policy and low commodity prices, despite commodity prices started gradually rising during 2017.

External conditions also improved a bit in 2017. The US growth accelerated to 2.3% from 1.5% in 2016. The Chinese economy kept growth slightly below 7%. Japan grew by 1.5% (up from 0.9%). Russian and Brazilian economies left recession. This positive external environment contributed to acceleration of EU economy.

In October 2017, the ECB decided to reduce monthly asset purchases from

EUR 60bn to EUR 30bn starting from January 2018. This monthly volume will be valid until the end of September. ECB policy rates remained on their historical lows (deposit rate -0.40%, refinancing rate 0.00%, marginal lending rate 0.25%). Declining interest rates contributed to the growth of consumption expenditures of households by 2.2% and fixed capital investment by 4.1% in the EU in 2017.

The real unit labour costs remained at the level of the year 2016. In 2017, imports grew slightly more than exports and consequently the trade surplus of the EU fell from EUR 32bn to EUR 23bn. The unemployment rate descended from its high of 10.9% in 2013 to 7.1% in March 2018.

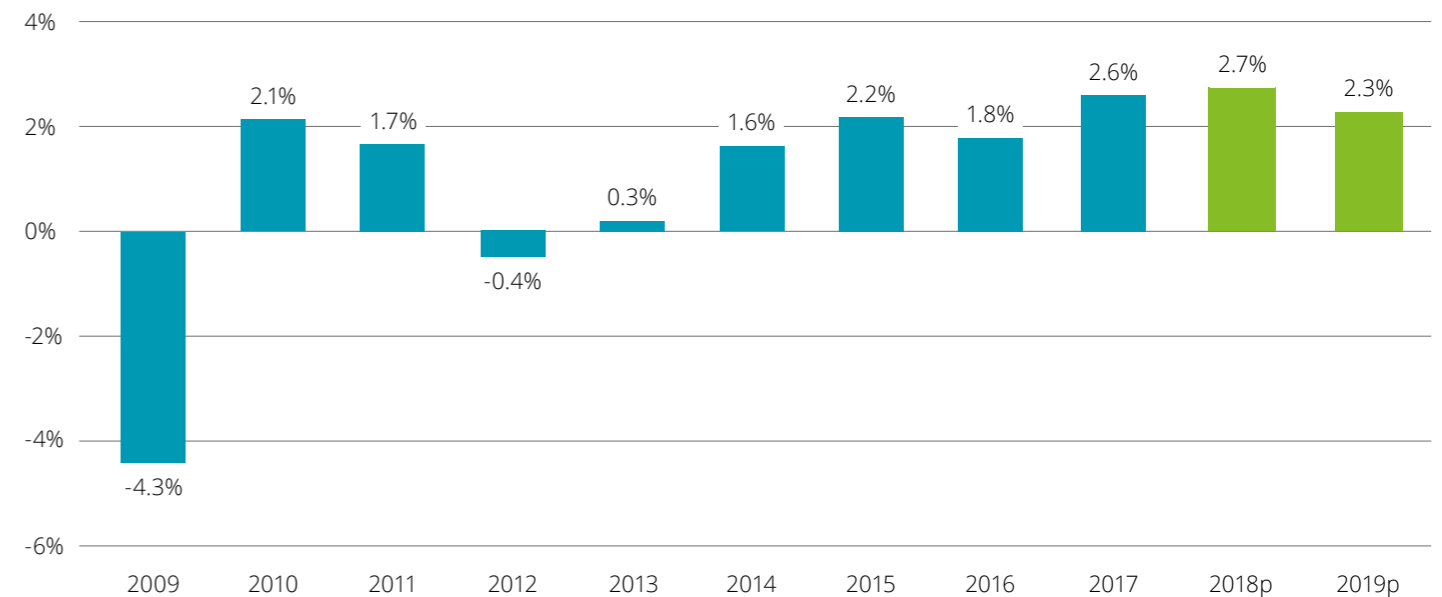
Fiscal policy in most European countries remained neutral or tightened in an effort to get closer to the long-term sustainability of public finances. General government deficit declined (or surpluses increased) in 23 out of 28 EU countries in 2017.

Europe still faces geopolitical risks that could have an impact on its economy. EU faces threat of tariffs on exports of steel and aluminium products to the USA (potentially also on exports of cars). Renewed US sanctions on Iran could also indirectly impact European firms. Sanctions against Russia are still in place. The United Kingdom entered the process of leaving the EU in March 2017. The migration crisis seems to be easing.

The long-term prospects of the EU and the Eurozone are expected to be negatively affected by the slow growth of total factor

productivity. An aging population will add some pressure to the labour markets and could slow down GDP growth as well. While the average growth in the 10 years before the financial crisis (1998–2007) reached 2.6%, expected long-term growth in coming years is likely to oscillate between 1.7–2.0%.

Growth of Real GDP in EU 28



Source: Eurostat. Forecast: Deloitte

The housing market is usually sensitive to economic conditions, especially GDP growth and interest rates. Correlation between lagged GDP growth and house prices in the EU reached 83% during the

last 10 years. Thus, the expected sluggish economic growth is likely to limit inflation in house prices in the coming years. On the other hand, the accommodative monetary policy of the ECB and other central banks

in the EU will keep interest rates at low levels and together with the steadily falling unemployment rate support the housing market.

Trends

1/ Low interest rates

Interest rates are expected to stay low in the short term. The low interest rate environment and the resulting high borrowing capacity will continue to be the main drivers of the residential property activity. Uncertainty regarding the start of significant interest rate movements will remain.

3/ Private vs. institutional investors

As prices have increased over time and returns on properties have become lower in large cities, there is a tendency for institutional investors to search for new and more risky local markets to generate higher returns. The low yield environment has pushed pension funds and other conservative institutions over to alternative investments, where the real estate market is seen as a more "safe heaven" when it comes to stable returns to cover their long-term liabilities. On the other hand, further expected economic growth, increased wages and low unemployment rate caused greater appetite for own housing by private individuals.

6/ Affordable living

Affordable housing has become a new topic publicly often discussed. Because of reduction in the household size, property developers are adapting to this trend by providing smaller units. The government also contributes by increasing the social housing stock and newly tries to cooperate more closely with private investors.

9/ Digitalisation

Digitalisation is a buzzword that overlaps all sectors, including the real estate market. Traditional market actors are facing a wave of innovation, such as big data, the Internet of Things or artificial intelligence. Users can for example independently carry out a cost-efficient initial assessment of a residential property through smartphone, tablet or computer. Established companies should therefore adapt to new challenges and disruptive competitors.

2/ Increasing foreign demand

Increasing influence of foreign demand, especially in large cities, drives the future residential market development. Due to a relatively stable political environment across Europe, simplicity of international financial transaction flows and cheap money, foreign real estate markets are becoming more confident to invest. The foreign inflow of money may have a positive impact on local economies, however, it also affects the increase of residential property prices.

5/ Functional and flexible living space

Ongoing globalisation, urbanisation and demographic changes produce new forms of functional and flexible living space. The young generation, also called "millenials" or "Generation Y", who are less oriented towards ownership, often refuse to commit themselves to repaying mortgage loans and prefer the „sharing economy“, demand more comfortable and attractive living. Developers therefore turn to projects designed for student or temporary housing in desirable locations close to campuses. Similar requirements for tailor-made housing are also expanding among the elderly generation.

7/ Rental housing

Increase in rental housing owing to the attractive offer of jobs in regional capitals, flexibility of the liability, and the high prices of own housing becomes more important recently. Also developers are focusing on rental housing where they construct development projects with the aim to rent the future apartments.

10/ Increasing demand for luxury living

Economic recovery, increasing investment appetite and capital-less cross-border transactions in specific regions help boost the demand for luxury living. Developers therefore tend to build new projects at a very high standard to meet the expectations of even the most demanding clients. To differentiate themselves from the competition, developers also try to offer new types of living, such as apartments with car parking inside the apartments, or skyscrapers with incredible views.

4/ Urbanisation vs. suburbanisation

Population migration within cities varies according to European regions. Increasing demand for affordable living space in more peripheral areas and remote districts can be observed for example in Austria. However, ongoing urbanisation and increased demand for city apartments and fully-furnished houses in the centre is expected in Germany and Latvia.

8/ Increase of construction and labour costs

Extensive workload in the construction industry and a consequently rapid increase of construction costs in the housing sector is one of the key signs recently affecting the residential market. There is also a shortage of skilled labour, which causes the increase in labour costs. Finally, lack of land for construction purposes limits residential construction in major cities.



Focus: Affordable vs. Luxury Living

Last year we covered the introductory part with a focus on the rental market and rental living. This year's focus deals with the housing affordability more deeply than in previous years and tries to answer a question – Is the worsening affordability unsustainable in the long-term?

To better understand the impact of generally increasing house prices in European countries and cities it is important to take into consideration how homeowners perceive the prices they have to pay to buy a home.

As home ownership has become increasingly difficult to access, the term affordable housing appeared. Affordable housing is used to describe dwelling units whose the total housing cost of which is deemed "affordable" to a group of people within a specified income range.

The price level of wages varies according to location and work productivity. Therefore the indicator Affordable housing shows better the disparities in income ranges in relation to house prices between all observed countries.

However, comparing average monthly salaries certifies large differences among selected European countries. For example the average monthly salary in Denmark is 4 times higher than the salary in Hungary.

In order to assess the affordability of one's own housing, we measure how many average gross annual salaries it takes to buy a standardised new dwelling (70 sq m):

- The most affordable housing can be found newly in Belgium, where a household needs to save on average only 3.7 years to buy a new dwelling. However, the difference between gross and net salary in Belgium is bigger than in the other countries. In case of net salaries overview this would cause the living less affordable.
- Belgium is closely followed by Denmark and Germany.
- In the Netherlands the number of gross annual salaries needed to buy a dwelling of 70 sq m grew to almost 6 years.
- Relatively affordable housing, which is up to 6 years of savings, can be found also in Spain or Austria.
- If local citizens are looking for an average new dwelling in Italy, Hungary, Poland or France, they need to save money between 6 – 8 years.
- Second lowest affordability of own housing was recorded in the United Kingdom amounting 9.8 years.
- The least affordable own housing was for the second time observed in the Czech Republic where citizens need to save more than 11 years to buy a new apartment.

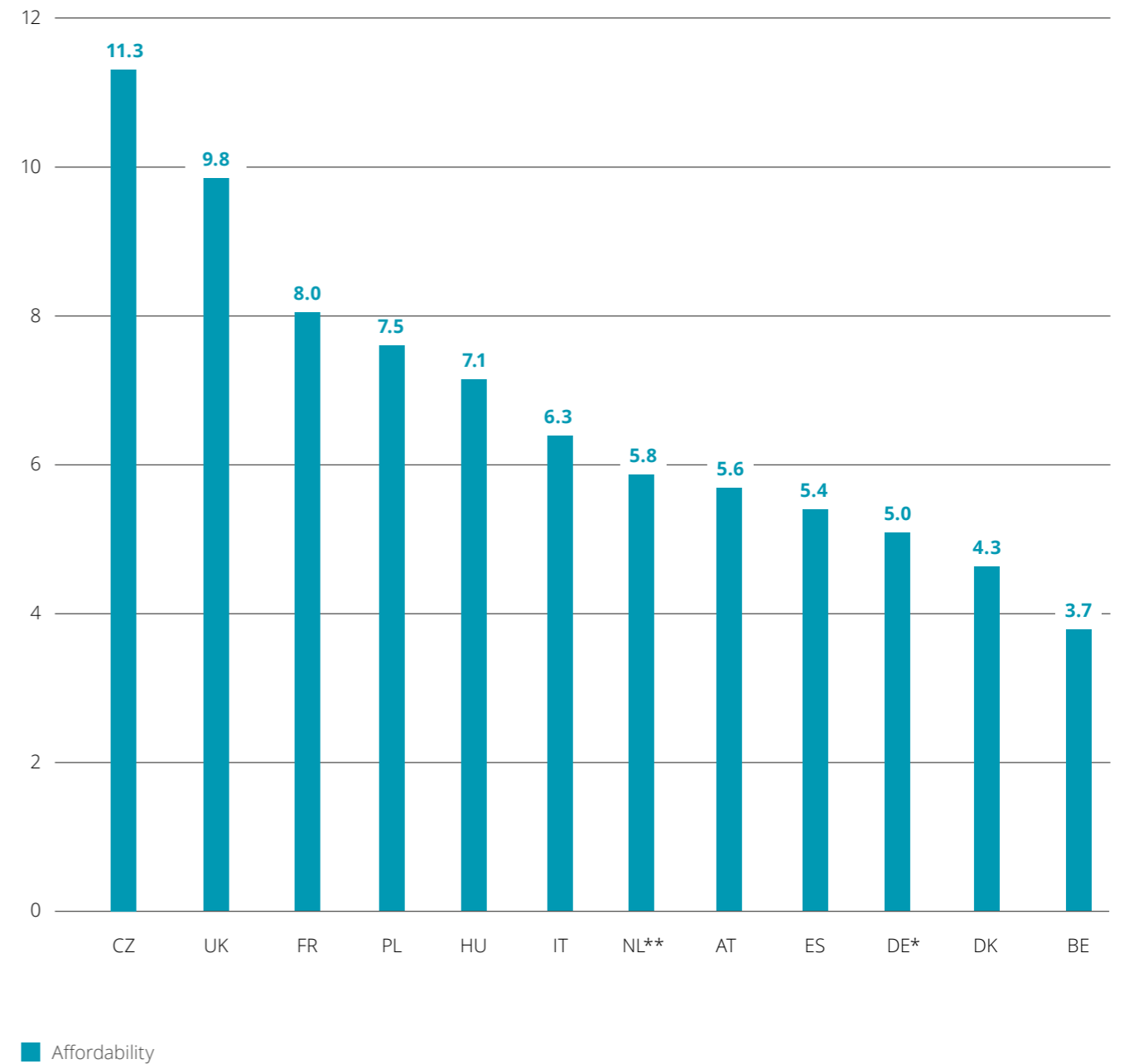
It is clear from the chart on the right that the higher the wage, the more affordable the own housing. Two countries do not meet this rule – the United Kingdom and France. In the UK the highest living costs can be observed undoubtedly in the long run and France has similar characteristics. Although their wages are above average, making their own living is only for the rich.

From the other perspective rise of luxury development projects has emerged recently. People are demanding more and more comfort, flexibility, high-quality services and unconventional concepts of living. Noteworthy are for example luxury residential high tower projects with a great view or projects with car parking inside the apartment or even inside the living room.

All major cities in Europe currently face new challenges in meeting the needs of luxury clientele as well as to resolve signals in the availability situation. The question is to what extent the society is shattering, however, the differences in wealth are a natural part of the urban development in cities.

Affordability of Own Housing

Gross annual salaries for the standardised new dwelling (70 sq m), 2017



* bid price

** older dwellings

Source: National Statistical Authorities, Deloitte data calculations

Comparison of Residential Markets – Housing Development Intensity

Completed Dwellings

The indicator of housing development intensity at the level of the European Union countries has reported similar values for several years, reaching 3.2 completed apartments per 1,000 citizens. In 2017, the same value of the indicator was recorded in respect of the selected countries subject to comparison.

The highest housing development intensity among all countries compared this year was seen in France, where 7.4 apartments

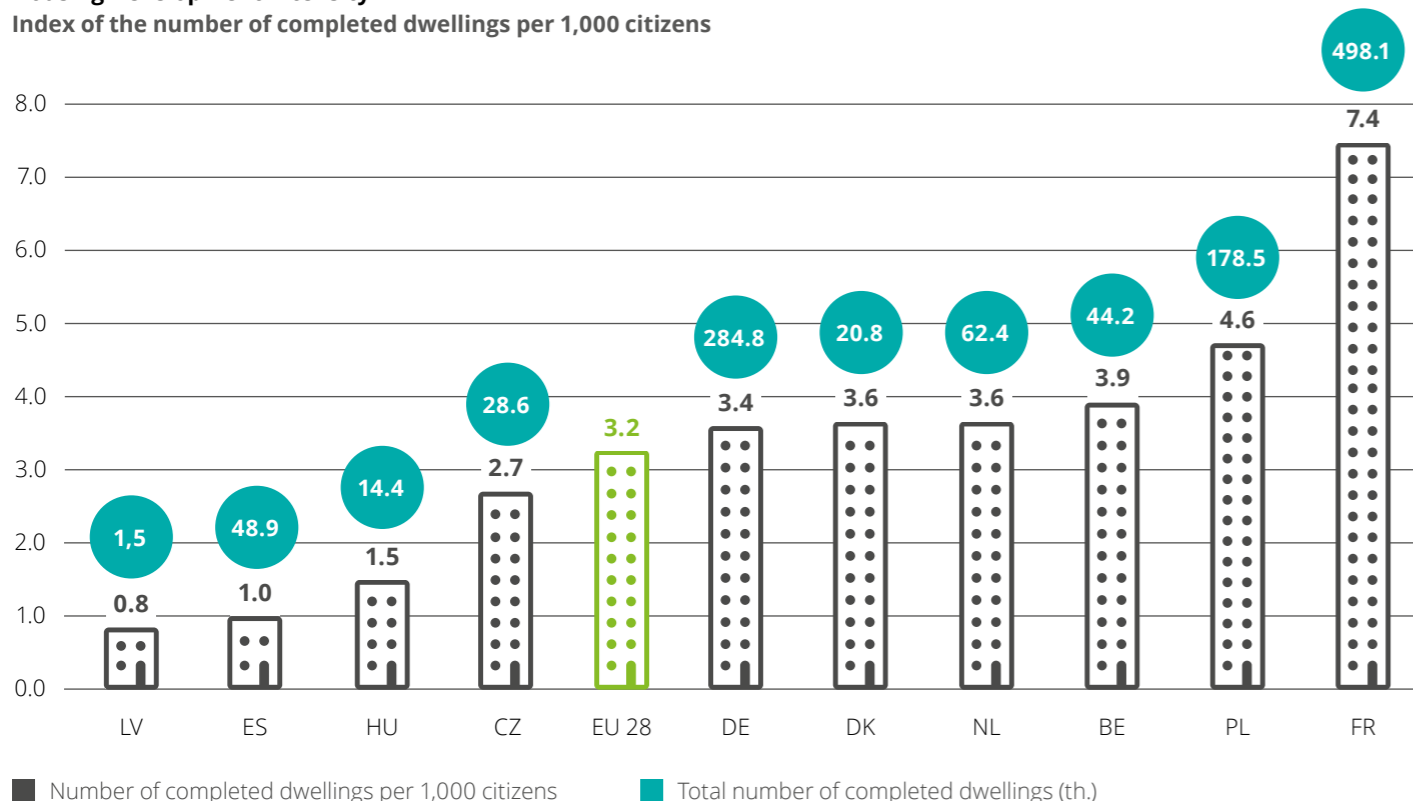
per 1,000 citizens were completed in 2017. France also recorded the highest number of completed apartments in terms of aggregate figures: in excess of 498,000. With 4.6 and 3.9 apartments completed per 1,000 citizens, Poland and Belgium placed second and third, respectively.

In 2017, the lowest housing development intensity was recorded in Latvia, where only 0.8 apartments were completed per 1,000 citizens, which approximately transla-

tes to 1,500 apartments overall. In the long term, low housing development intensity has also been seen in Spain. There, housing development intensity is about one completed apartment per 1,000 citizens.

In the year-on-year comparison, the intensity slightly increased in all monitored countries. The only exception is Belgium, which recorded a slight year-on-year decline.

Housing Development Intensity
Index of the number of completed dwellings per 1,000 citizens



Source: National Statistical Authorities, Euromonitor International, calculated by Deloitte

Initiated Dwellings

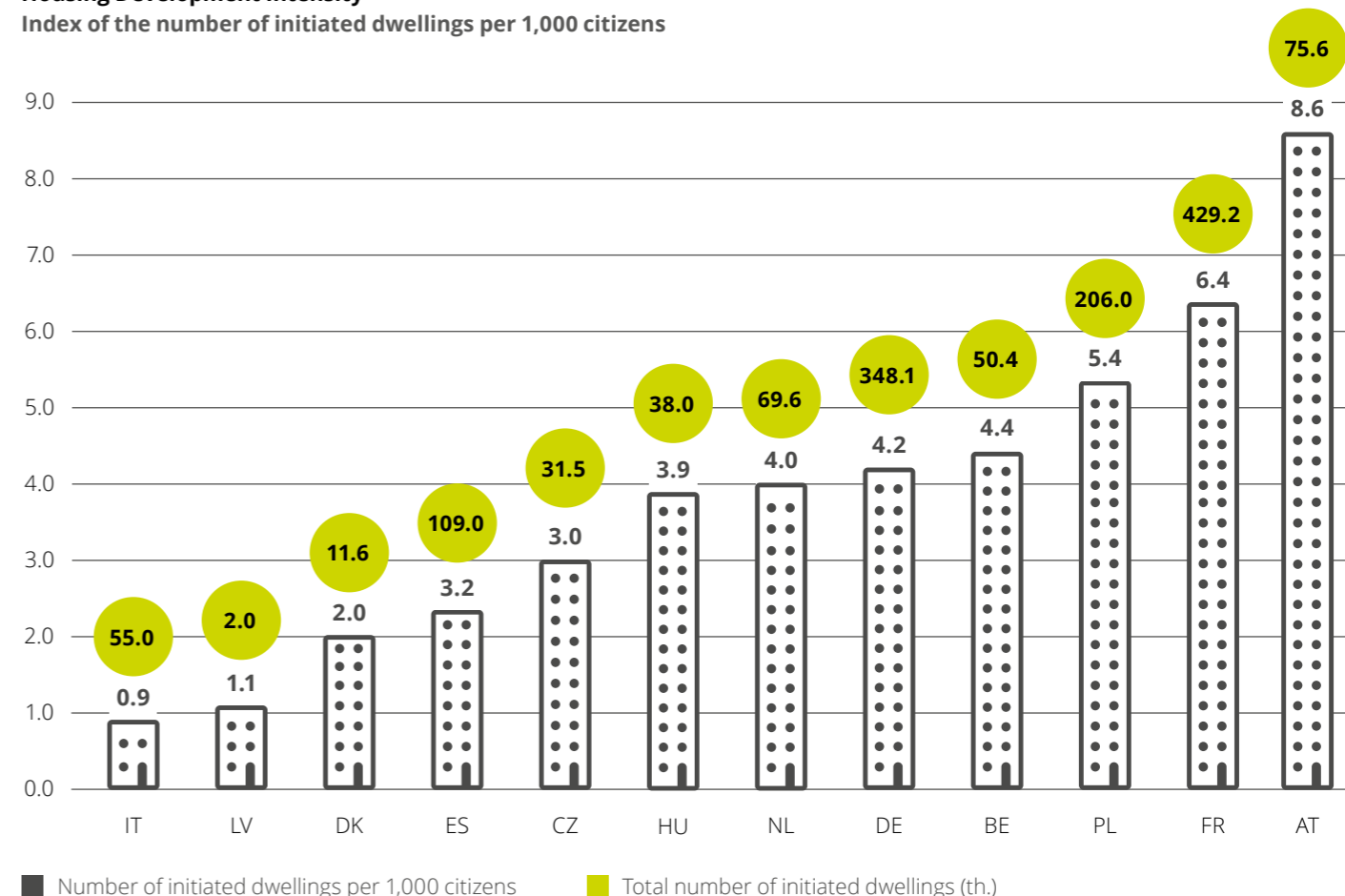
In the countries of interest, the indicator of the intensity of initiated housing development amounted to 3.8 initiated apartments per 1,000 citizens in 2017.

This year, the highest value of the initiated housing development intensity indicator was recorded in Austria, where 8.6 apartments per 1,000 citizens were initiated. In aggregate terms, this translates to more than 75,000 initiated apartments in Austria. With 6.4 and 5.4 initiated apartments per 1,000 citizens, France and Poland placed second and third, respectively. In absolute terms, the greatest number of apartments were initiated in France: in excess of 429,000.

The lowest intensity of initiated housing development was recorded in Italy and Latvia. Although the total number of apartments initiated in Italy in 2017 was almost 55,000 apartments, this only translates to 0.9 initiated apartments per 1,000 citizens. In Latvia, the total number of initiated apartments was the lowest among all the compared countries (2,000); however, when translated to 1,000 citizens, the intensity of initiated housing development was as high as 1.1.

The year-on-year comparison saw the greatest increase in the intensity of initiated housing development. In contrast, the greatest decline in the value of this indicator was recorded in Germany. There, the intensity of initiated housing development recorded a year-on-year decrease of 0.4 initiated apartments per 1,000 citizens.

Housing Development Intensity
Index of the number of initiated dwellings per 1,000 citizens



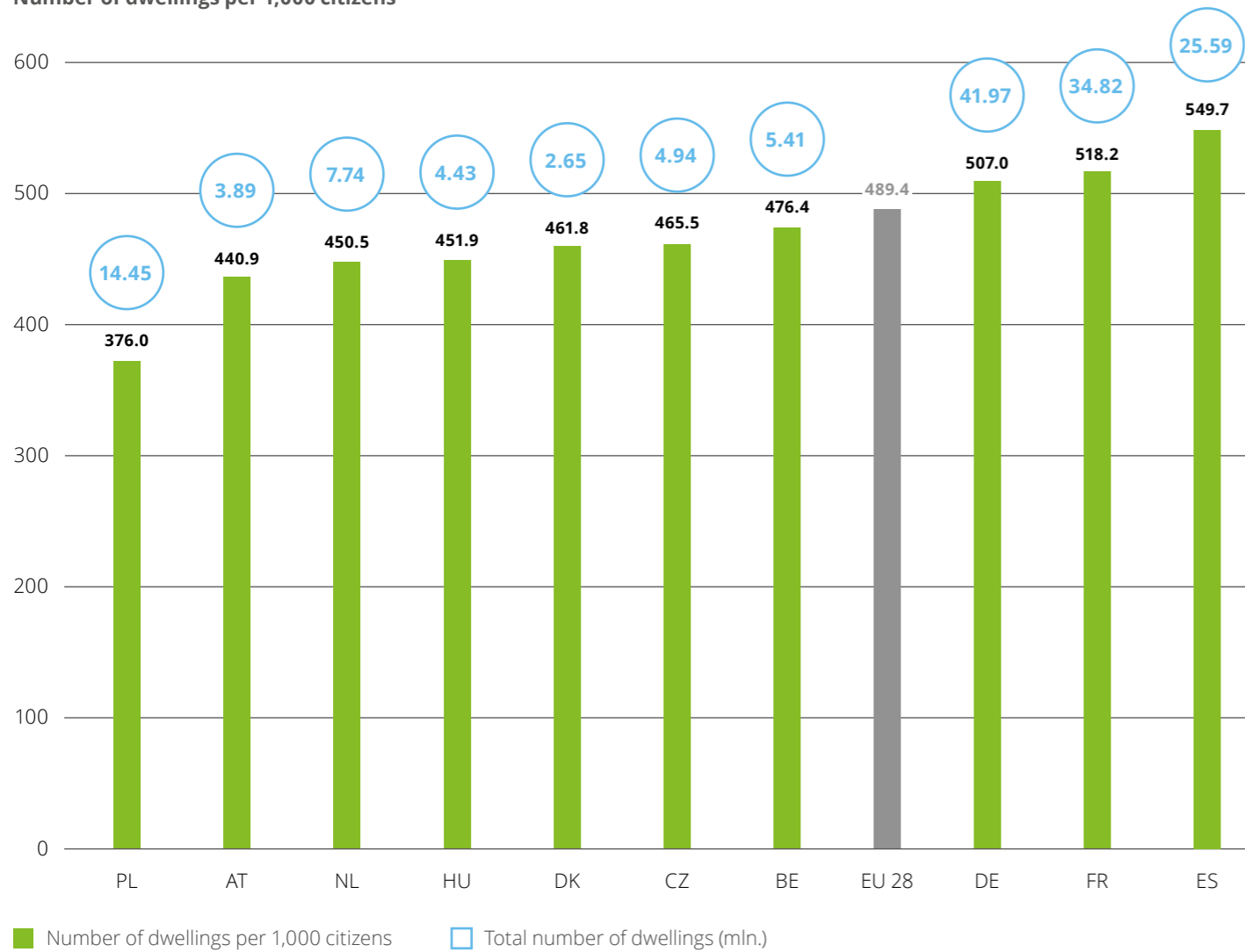
Source: National Statistical Authorities, Euromonitor International, calculated by Deloitte

Housing Stock

In 2017, the value of the housing stock indicator amounted to 489.4 apartments per 1,000 citizens in terms of all European Union countries. In aggregate, the number of apartments in EU countries should be in excess of 249.7 million, with Spain and France having the largest housing stocks in 2017. Spain tops the chart when the housing stock is translated to 1,000 citizens (549.7 apartments), while France is number one in absolute terms (34.8 million apartments).

Translated to 1,000 citizens, Poland still has the least saturated housing stock compared to individual countries, despite having recorded the greatest year-on-year growth. In 2017, Poland's housing stock comprised almost 14.5 million apartments, which translates to 376 apartments per 1,000 citizens.

Housing Stock
Number of dwellings per 1,000 citizens



Source: National Statistical Authorities, Euromonitor International, calculated by Deloitte





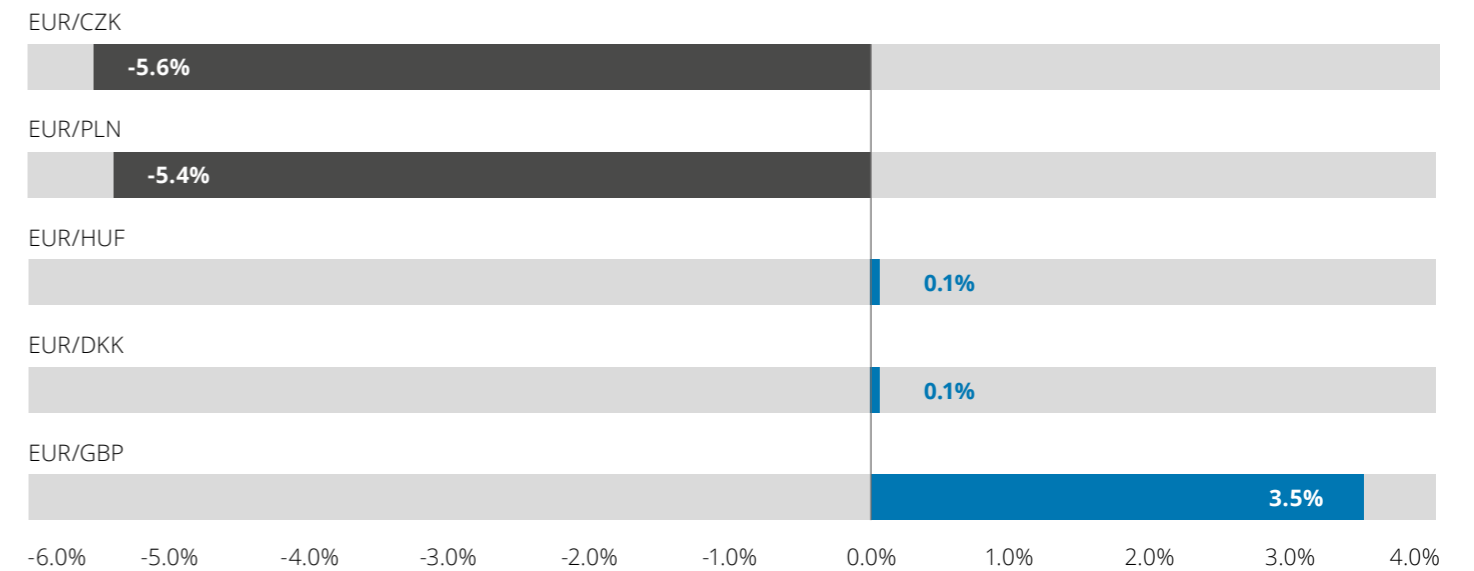
Comparison of Residential Property Prices in Selected Countries and Cities

This edition of Property Index covers data from 14 European countries and 41 cities. To harmonise all outcomes, dwelling prices are calculated in Euros, as such the price growth or fall is influenced by a change in exchange rates.

the chart below. The largest y-o-y difference affecting the property value was recorded in the Czech Republic due to the termination of monetary interventions in April 2017. After this date the Czech crown is appreciating in the long run.

Depreciation or appreciation of national currencies other than euro are shown in

Euro Exchange Rate Changes, 31. 12. 2017 / 31. 12. 2016
 (+%) = euro appreciation, (-%) = euro depreciation against a currency



Source: Yahoo Finance

Average Transaction Price of a New Dwelling in Selected Countries

The year 2017 could be defined as a year with stabilised growth in terms of residential property prices. The highest price per sq m was observed again in the United Kingdom (4,397 EUR/sq m) even despite the price decrease (-5.0%) compared to the last year due to British pound depreciation. However, in British pound (excluding exchange rates) house prices increased in the UK. Such a high price shows a dominant and continuous position within the European residential market.

Conversely Hungary was placed on the tail of the ranking list in terms of the average transaction price (1,164 EUR/sq m).

The highest price growth in 2017 was recorded again as in the last year in Germany, where the bid price of new dwellings rose by +9.6%. The transaction price was in this case not available for Germany. Surprisingly, the second position was occupied by Poland with a price growth of +9.0%. In the Czech Republic the transaction price of new dwellings increased by 8.4%.

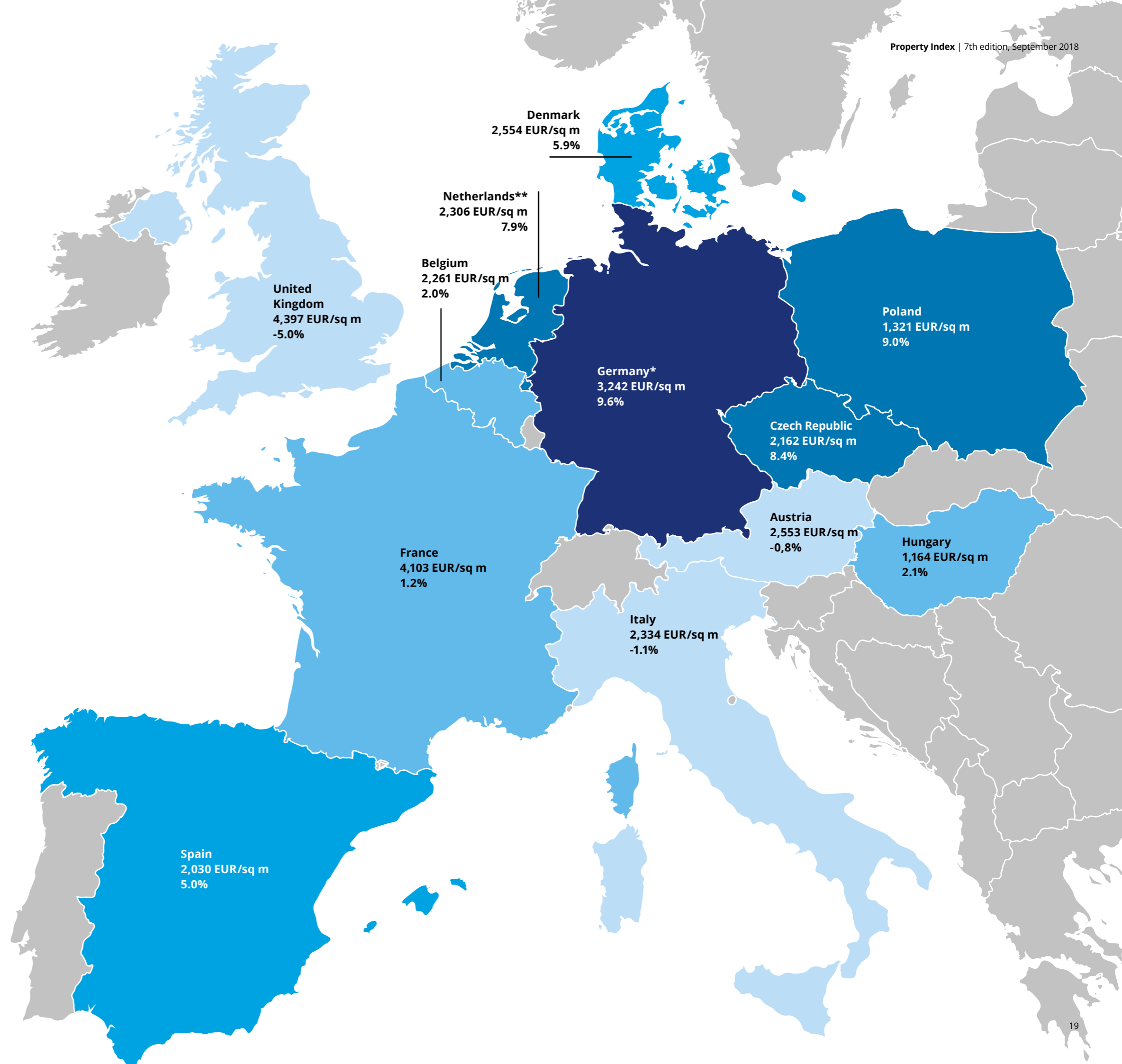
A relatively small y-o-y change was recorded in Austria, France and Italy. 9 surveyed countries showed in 2017 a price increase and 3 countries a price decrease.

Average Transaction Price of the New Dwelling (EUR/sq m), 2017 Annual Change (%)

- < 0.0 %
- 0.0 % – 3 %
- 3.1 % – 6 %
- 6.1 % – 9 % <
- 9.1 % <

* bid price
** older dwellings

Source: National Statistical Authorities,
Deloitte data calculations



Average Transaction Price of a New Dwelling (EUR/ sq m) and 2017/2016 change

Country	City	Annual change (%)	Average Transaction Price (EUR/sq m)
AT	Vienna	3.5%	4,138
	Graz	0.8%	3,089
	Linz	2.1%	2,901
BE	Brussels	2.9%	3,187
	Antwerp	0.9%	2,951
	Ghent	4.9%	2,913
CZ	Prague	9.7%	2,587
	Brno	5.3%	2,052
	Ostrava	8.8%	1,299
DE	Berlin	13.4%	4,935
	Hamburg	2.6%	5,097
	Munich	15.4%	7,500
	Frankfurt	15.2%	5,300
DK	Copenhagen	0.3%	5,409
	Aarhus	1.8%	4,586
	Odense	8.1%	3,285
ES	Madrid	17.0%	3,923
	Barcelona	5.0%	4,208
	Valencia	5.0%	2,081
FR	Paris (inside)	-13.6%	10,697
	Lyon	3.8%	4,175
	Marseille	2.1%	4,010
	Ile de France	0.3%	4,870
HU	Budapest	11.0%	1,643
	Debrecen	22.3%	1,080
	Győr	20.6%	1,142
IT	Milan	-0.1%	3,609
	Rome	-1.2%	3,370
	Turin	-0.4%	1,983
LV	Riga	-10.4%	1,621
NL*	Amsterdam	13.6%	4,634
	The Hague	17.6%	2,457
	Rotterdam	11.1%	2,180
PL	Warsaw	6.8%	1,847
	Krakow	11.1%	1,592
	Łódź	10.7%	1,186
	Wrocław	9.2%	1,515
PT	Lisbon	10.0%	3,004
	Porto	8.7%	1,613
UK	Inner London	-0.2%	16,512
	Outer London	-4.3%	6,841
	Birmingham	N/A	3,600

*older dwellings

Average Transaction Price of a New Dwelling in Selected Cities

As in previous editions, we compiled a comparison of prices among the most important European cities. Below are listed key messages from our research.

- Inner London was again the most expensive city among surveyed cities with a price tag reaching 16,512 EUR/sq m. Living outside of Inner London was cheaper, however, still above average amounting to 6,841 EUR/sq m.
- The second most expensive city after London was, similarly as in the previous year, inner Paris with a price at 10,697 EUR/sq m, however, with a y-o-y price decrease of -13.6%. The costs of buying a dwelling in Marseille and Lyon were in 2017 much more affordable.
- Munich became for the first time in our research the third most expensive city with an average price of 7,500 EUR/sq m, surpassing other large German cities.
- Usually the capital is also the most expensive city in its country. However, this is not the case for some cities. Namely, Milan, Barcelona, Hamburg, Frankfurt and the above-mentioned Munich are more expensive than Rome, Madrid and Berlin.
- Double digit price growth was recorded predominantly in cities located in Germany, Netherlands, Poland and Hungary.

- Except Hamburg all other 3 German cities (Munich, Berlin and Frankfurt) showed significant y-o-y growth (15% on average).
- Hungary occurred as an exception among CEE countries, where prices of all observed cities increased rapidly by 18% in average.
- Debrecen in Hungary was for the third time in a row the cheapest city among all observed cities with a price tag of 1,080 EUR/sq m. The second cheapest city in 2017 was Győr. Average dwelling price amounted in this city 1,142 EUR/sq m. If looking for a cheap living outside of Hungary, Łódź in Poland with a price of 1,186 EUR/sq m is a perfect place.

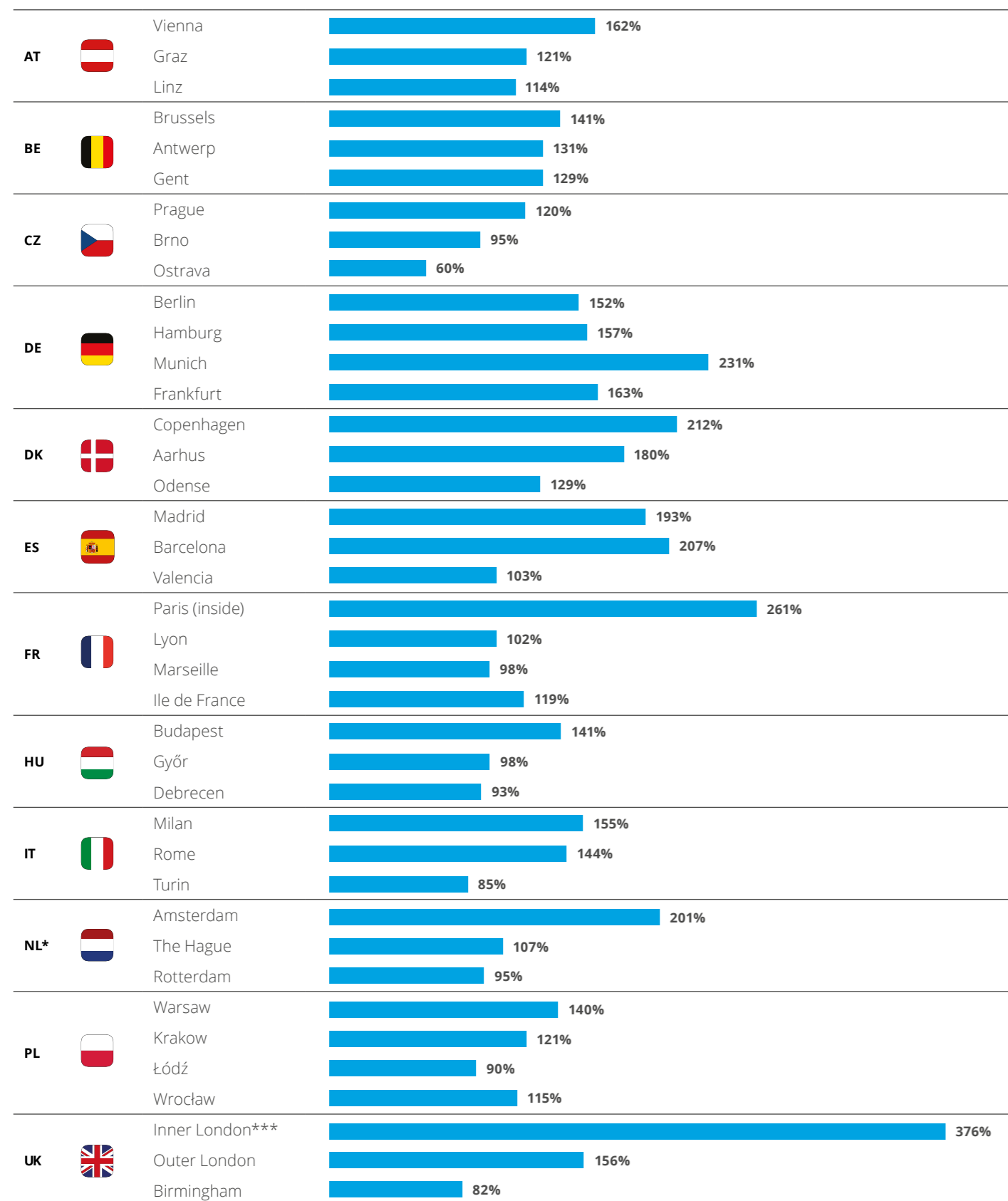
Munich became for the first time in our research the third most expensive city with an average price of 7 500 EUR/sq m, surpassing other large German cities.

% Average Transaction Price of the New Dwelling – Annual change (%)

■ Average Transaction Price of a New Dwelling

Source: Source: National Statistical Authorities, Deloitte data calculations

Comparison of the Main Cities to the Country Average (country average = 100%), 2017



*older dwellings

The next section of Property Index focuses on a comparison of prices of the surveyed cities to their respective national averages:

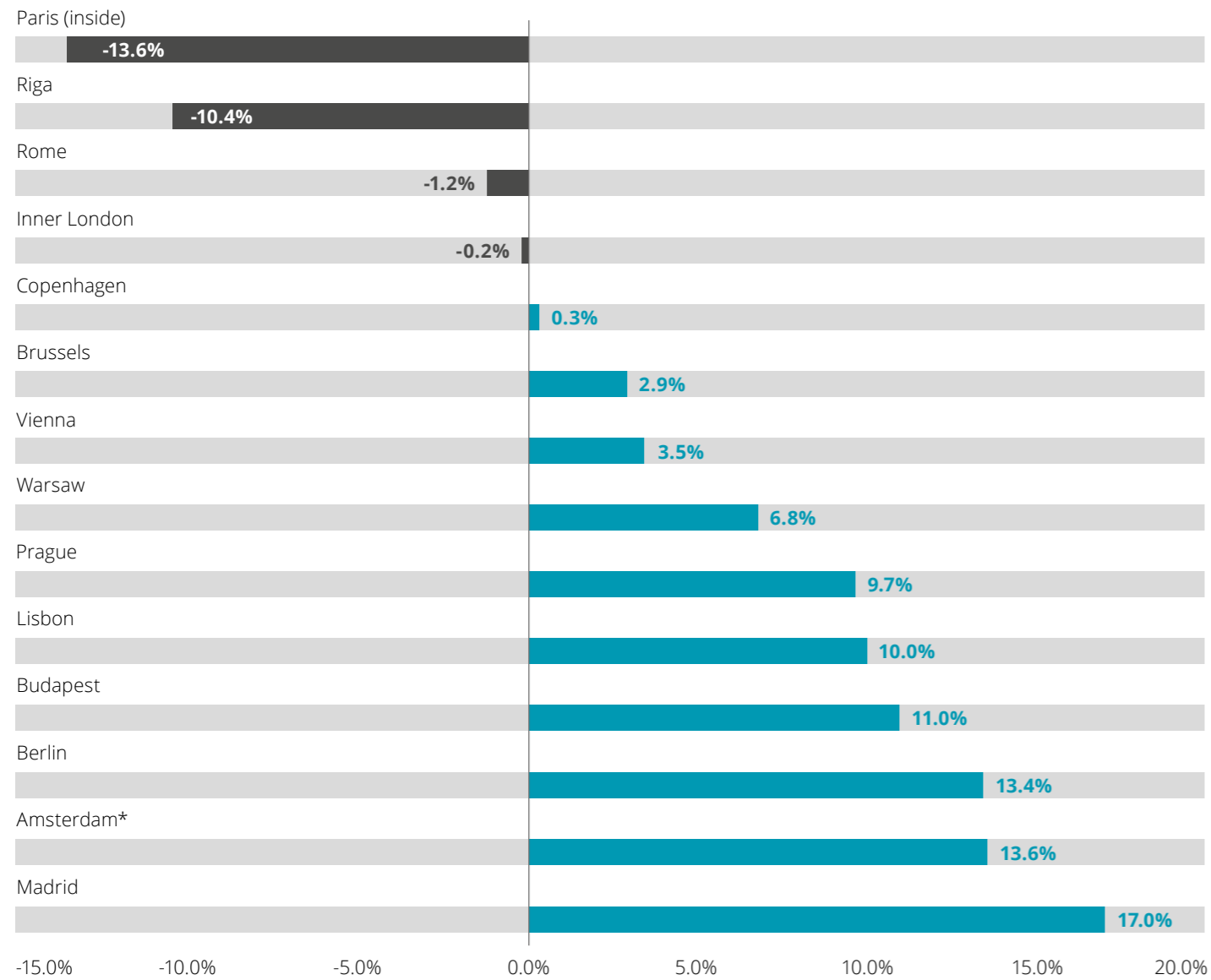
- Properties in Inner London were on average 376% of the national average and recorded therefore the largest difference.
- In inner Paris it would cost more than 2.5 times as much to buy an average apartment than in an average city in France.
- Munich, Barcelona, Amsterdam and Copenhagen exceed the national averages by more than double.
- Some cities from our survey recorded this year lower dwelling price than the national average. Namely: Birmingham, Łódź, Rotterdam, Turin, Debrecen, Győr, Brno, Ostrava and Marseille.

Properties in Inner London were on average 376% of the national average and recorded therefore the largest difference.

■ Comparison of the Main Cities to the Country Average in %, average transaction price of a new dwelling

Source: Source: National Statistical Authorities, Deloitte data calculations

Average Transaction Price of the New Dwelling Capitals 2017/ 2016 change (%)



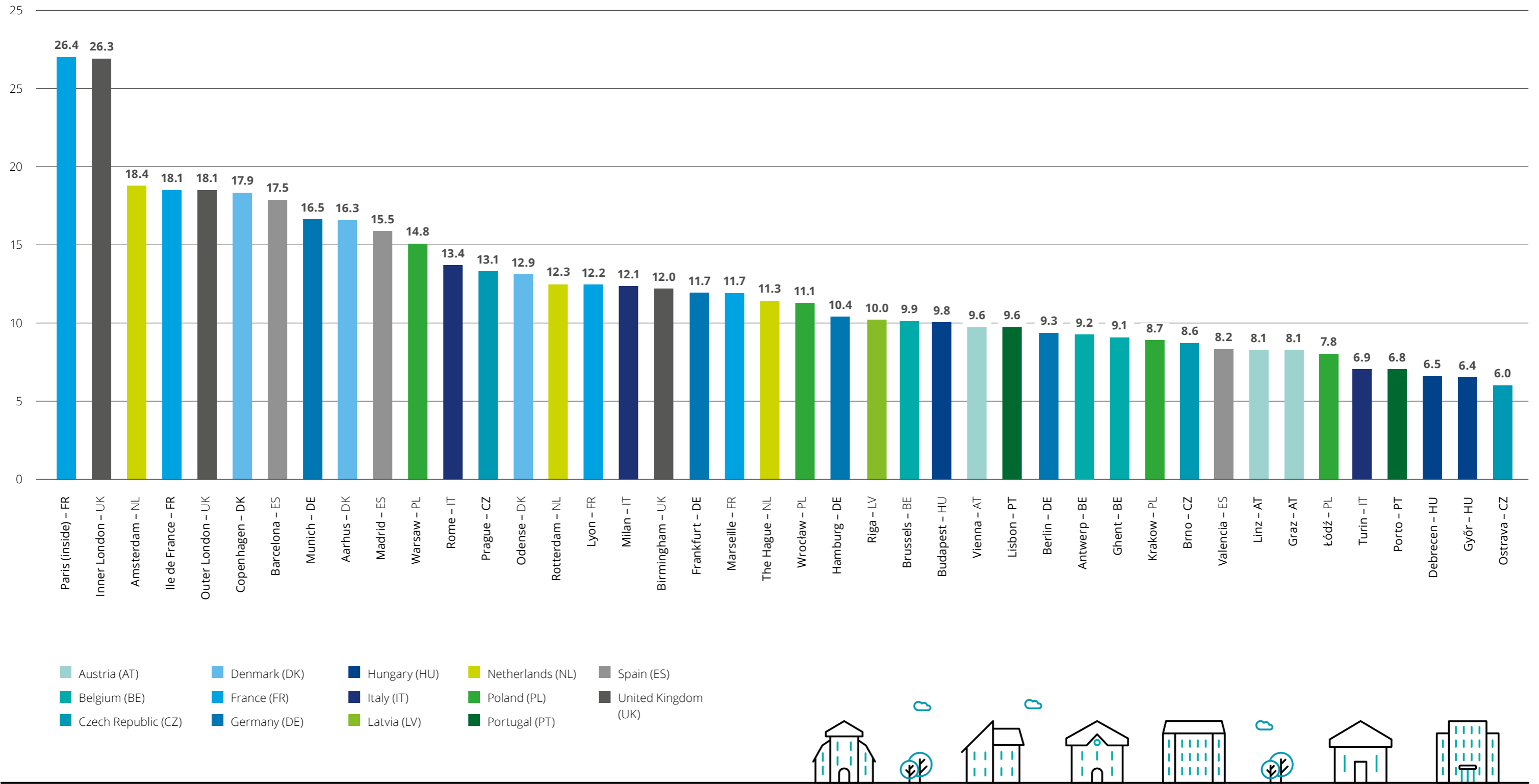
Source: National Statistical Authorities, Deloitte data calculations
* older dwellings

For better illustration we also dealt with a price development of transaction prices of the European capitals. Key results are:

- Property prices were growing again on most of the markets in 2017. Out of the 14 capital cities where data were available, only 4 saw a decrease in the price compared to 2016.
- Dwelling prices increased by 17%, surprisingly, in Madrid which was the largest growth among all examined capitals.
- Double digit growth was also observed in Amsterdam (+13.6%), Berlin (+13.4%), Budapest (+11.0%) and Lisbon (+10.0%). Data for Berlin confirms current dynamic trend in German property market during 2017.
- A moderate y-o-y decline in dwelling prices was recorded in Inner London (-0.2%) and Rome (-1.2%).
- The worst performing market was unexpectedly Paris with a price decrease of (-13.6%), whereby the main reason for the drop is a low number of residential development projects compared to last year characterised by few luxury projects.
- The second largest decline was observed in Riga (-10.4%).



Average Monthly Asking Rent per sq m in EUR, 2017



Last year we newly started to analyse, also data from the rental market. We still believe that rental housing forms a key and very important part of the residential market and therefore we would like to provide you with the general outcomes of our research:

- A dwelling in the centre of Paris was the most expensive for rent in 2017 in our research. The average monthly rent amounted 26.4 EUR/sq m.
- It is not a surprise that the second highest rent could be found in Inner London (26.3 EUR/sq m/month). London, together with Paris, had the same rent level practically.
- If you want to rent a dwelling in Amsterdam, you have to pay 18.4 EUR/sq m/month on average, which is the third highest value from our research.
- The lowest average rent can be found in Ostrava, where you need only 6.0 EUR/sq m/month, followed by Győr (6.4 EUR/sq m/month).

	Average bid price of new dwelling – sqm	Average transaction price of new dwelling – sqm	Average bid price of older dwellings – sqm	Average transaction price of older dwellings – sqm
Czech Republic	2,938	2,162	1,426	1,295
Denmark	2,681	2,554	2,117	2,016
Germany	3,242	N/A	2,258	N/A
Italy	2,547	2,334	2,142	1,871
Spain	2,137	2,030	1,784	1,655
Poland	1,376	1,321	1,286	1,137
Austria	3,691	2,553	2,636	1,724
France	N/A	4,103	3,686	3,764
Belgium	N/A	2,261	N/A	1,675
Netherlands	N/A	N/A	2,400	2,306
Hungary	1,222	1,164	710	676
United Kingdom	N/A	4,397	N/A	3,317



Mortgage Markets in Europe

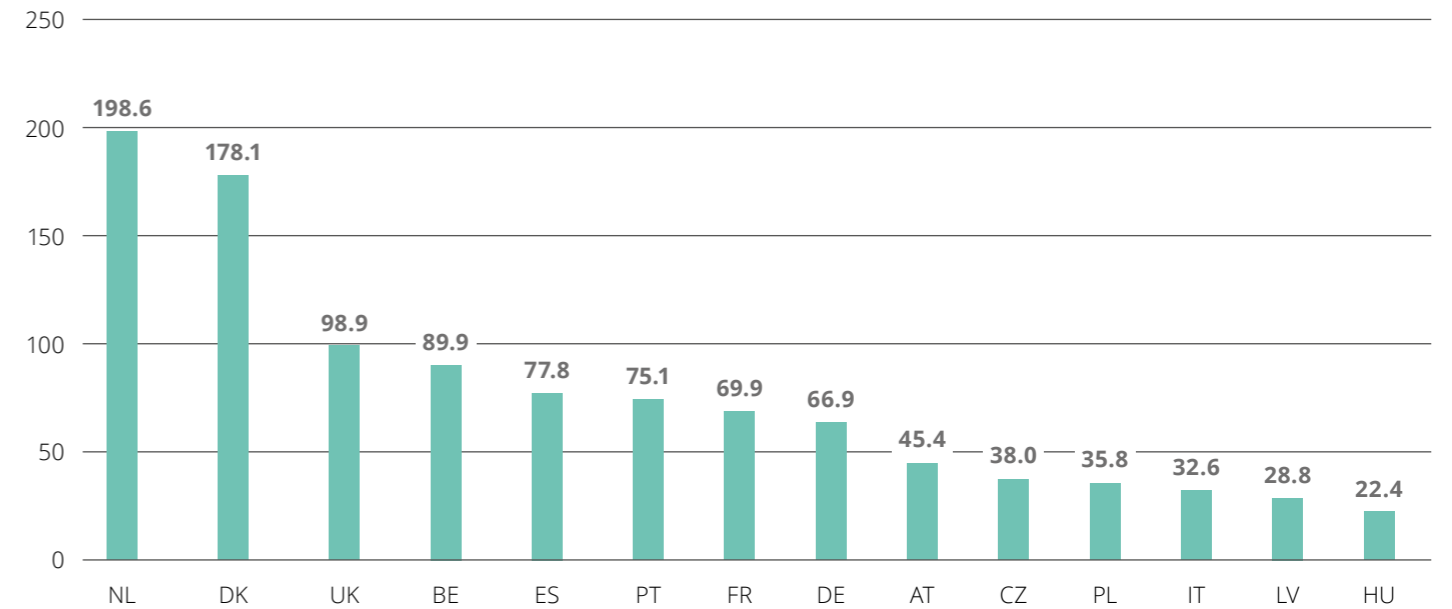
Every year we also focus our attention on the mortgage market. One of the most important indicators on the residential market is the indebtedness of the households, i.e. the proportion of the volume of mortgage loans to household disposable income. Consequently the debt capacity is one of the determinants of house price growth.

- The lowest level of indebtedness among all surveying countries could be found in Hungary with 22.4% of residential debt to households disposable income.
- Countries with a low level of the indebtedness proportion were Latvia, Italy, Poland, the Czech Republic and Austria, with total outstanding residential loans to households disposable income under 50%.
- The highest level of indebtedness could be found in the Netherlands and Denmark with residential debt to household disposable income of above 100%.

In fact all developed countries have been in recent years facing a low interest rate environment globally. National central banks continue with their expansionary monetary policy to keep the interest rates at a low level. Also the residential market is heavily influenced and the mortgage rates are still moving on the lowest levels. However, economies have already hit bottom and we see a slow growth in mortgage rates.

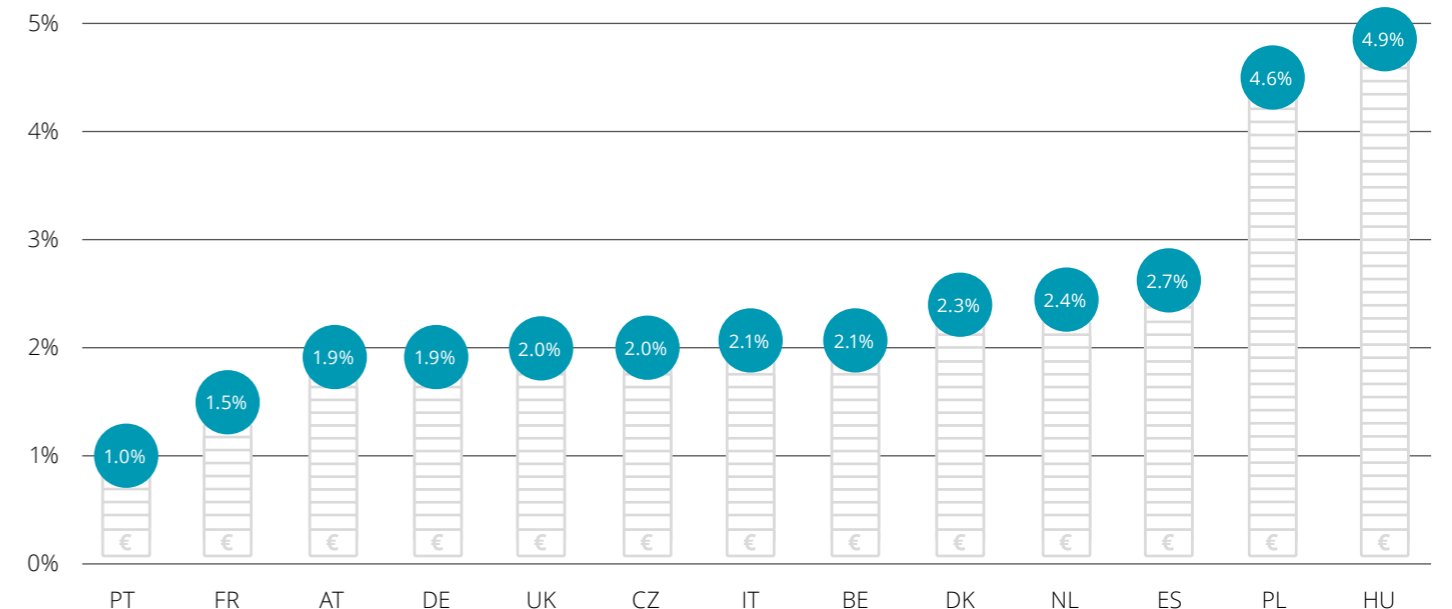
- Portugal was the place where you could get a mortgage with the most favourable conditions of bank financing in 2017. The average mortgage rate fluctuated around 1.0%.
- The second lowest level was observed in France, where it was possible to find mortgage financing with a 1.5% interest rate.
- The least affordable mortgage financing could be found in Hungary with an average interest rate of 4.9%.

Total Outstanding Residential Loans to Disposable Income of Households Ratio (in %, 2016)



Source: Hypostat 2017

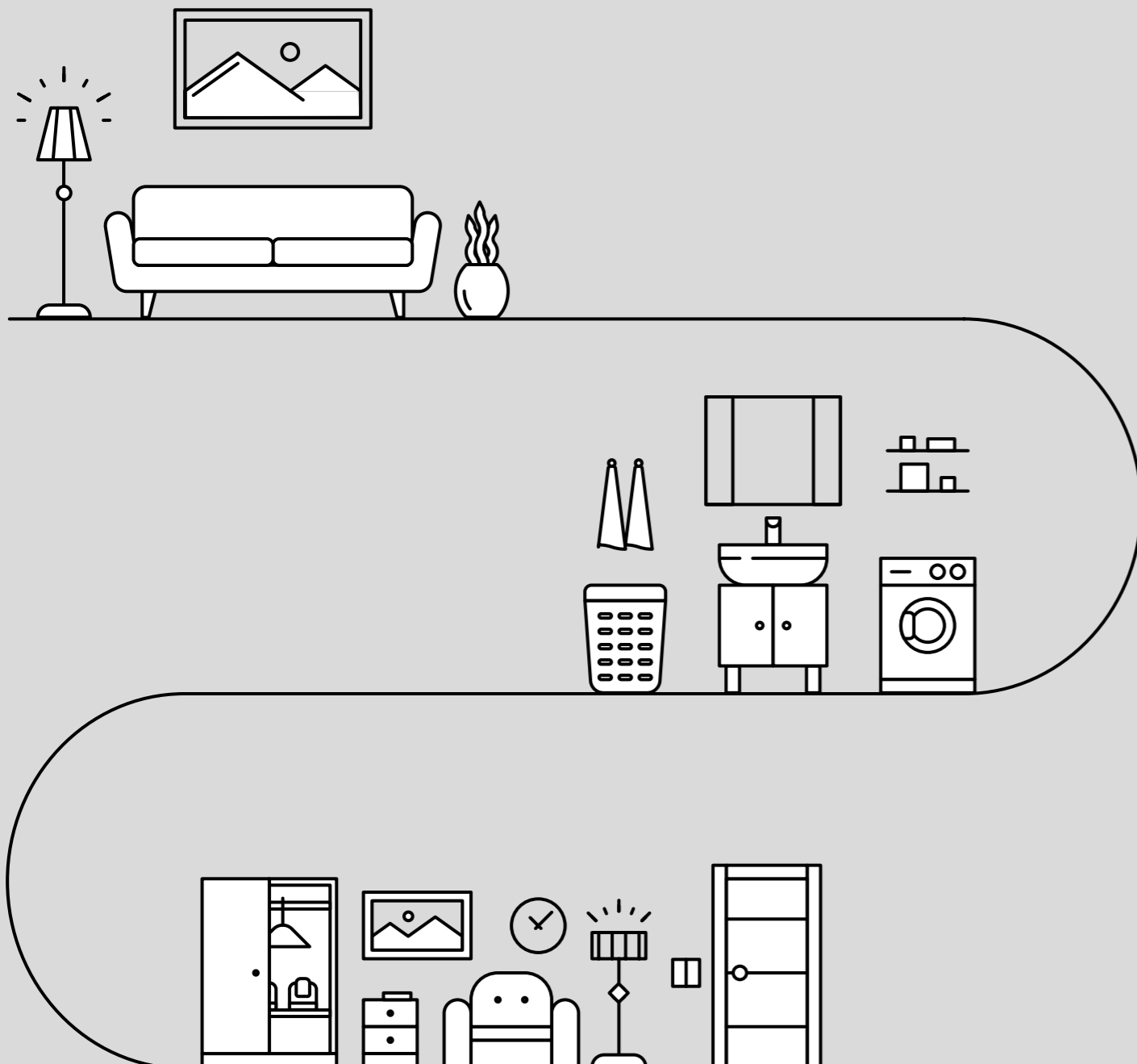
Average Mortgage Rate (in %, 2017)



Source: Deloitte data calculation

Annex:

Comments on Residential Markets



Austria

The Austrian residential market exhibited in 2017 a record high of transaction volume with over 10 bn EUR (approx. 50,000 apartments). The demand for own homes is still on a high level, triggered mainly by an ongoing population growth especially in the urban areas (2014–2018: Vienna 7.0%, Graz 2.0%, Linz 3.4%). Another factor that caused the strong demand for apartments are the heavy investment activities in the residential market mainly driven by the still ongoing ECB's loose monetary policy.

During 2017 the upper market segment, specifically the high-price segment and prime locations stabilised at a historically high price level. The demand for medium and lower priced dwellings, as well as properties in secondary locations increased sharply. This is mainly driven by a shortage of affordable living space in the central areas.

An Austrian particularity is the high share of rentals, which for Vienna is the highest in Europe with 77%. The total Austrian rental apartment stock increased by approximately 40,000 units in 2017. The average rental level exhibited a significant increase of 3.9% p.a. over the last four years.

Due to the large demand in the residential market the construction pipeline is well filled, which actually leads to a substantial increase of development and construction costs.



Belgium

The residential real estate market remained very active in 2017, with the number of transactions increasing 0.8% compared to 2016. Housing prices across Belgium have increased moderately year-on-year (+1.9%). The market is still heavily supported by the historically low interest rates and strong economic growth.

The market keeps showing healthy fundamentals. No oversupply is recorded and the financial position of households remains overall robust with a debt-to-GDP ratio for Belgium that is still below the euro zone average. The main risks to the property market remain increasing interest rates and changes in property taxation. On the short term however, interest rates are expected to increase only slowly and no significant changes in taxation are expected, with elections coming up.



Czech Republic

The Czech residential market has been riding the wave of strong demand and the decreasing offer of new development projects and, thus, also apartments for sale.

Last year was a very dynamic one in terms of the development of prices of residential property. In the last quarter of 2017, the average selling prices of apartments in Prague and regional capitals amounted to CZK 53,700 per sqm. This constitutes a year-on-year increase of 10.4%. During the whole of 2017, more than 27,000 apartments were sold in Prague and the Czech regional capitals, amounting to nearly CZK 87 billion. This is almost 1,500 apartments (5.8%) and CZK 13 billion (17.7%) more than in the previous year. The figures demonstrate the Czech residential market's continuing activity and growing price levels.

The demand and prices on the residential market are strongly stimulated by these factors: continued lack of new apartments supplied to the market, culmination of the impact of the regulatory measures of the Czech National Bank, prolonging legislative process, taxation of residential housing and public sentiment. Especially in major Czech cities a substantial improvement of the supply or a change in trends cannot be expected on the development market in the coming months and years. It is expected that the market will slow down and prices will grow at a more moderate rate than in 2017. Interest rates of mortgage loans will continue to rise and the average mortgage loan value will continuously grow.



Denmark

In 2017, the Danish residential market faced high growth in continuation of the tendencies of previous years. This was fuelled by steady GDP growth of 2%, primarily driven by exports, a consumer confidence level that almost recovered to the pre-crisis level, a decrease in unemployment rates from 4.2% to 4.1% and continuing low interest rates.

Transaction volume in the investment property market reached an all-time high of EUR 12bn where cities like Copenhagen, Aarhus and Odense played the biggest roles followed by other Danish cities. The high increase in volume is approx. EUR 3bn higher than the pre-crisis level of EUR 9bn.

These trends are expected to continue in 2018, although at a slower pace, leading to high transaction volume, slightly decreasing/neutral price changes and slightly increasing/neutral interest rates.



France

2017 was, again, a dynamic year for the residential market. The number of transactions (existing house sales) continued to increase to reach 968,000 units (vs. 843,000 in 2016) at the end of 2017 (+15% compared to 2016). This dynamic is explained by multiple factors: first, the attractiveness of the mortgage interest rates and the support plan for new housing, in particular the buy-to-let scheme (Pinel), and second, the reform of the interest-free loan (PTZ) still running for 4 years.

Following this trend, the number of mortgage credit granted to citizens continued to increase in 2017 to reach EUR 175bn (excl. refinancing). Despite a slight increase in borrowing rates, the increase in mortgage granted is linked to an increased purchasing power and solvency of French households, driven by low mortgage interest rates. Indeed, the average acquisition costs is 15% to 20% lower than in 2011–2012.

Regarding the construction market, the upswing started in 2015 continues with 498,100 building permits authorised in 2017, barely in line with the government's objective of 500,000 units. However, the new dwellings' stock is increasing slightly. This increase is not enough because it represents only 9,4 months of commercialisation (11.4 months in 2016). In a growing market context, we still note a lack of offer. We also note that prices are stable and it shows that the market has reached its limits in terms of prices.

Pricewise, the French markets are historically driven by a major gap between Paris and the regional towns. For instance, Marseille, Lyon and Lille show the average price per sqm circa two times lower than Paris.



Germany

The German real estate market in 2017 was again performing very well. The continued expansion in the German economy and the strong employment market in Germany are only two reasons for the ongoing boom.

In 2017 the residential construction in Germany again lagged behind the sharp rise in the number of inhabitants. Even though there was an increase in new building figures it is not sufficient. As a result the market situation of residential housing at the top locations is still fraught.

The 2017 rent for newly-built flats averages between EUR 12 and 18 per sqm and EUR 16 to 24 is demanded in the prime segment. As in previous years, Munich is by far the most expensive German location. By contrast, Berlin and Cologne are the most reasonable top locations from a German tenant's perspective.

Despite the intensive rent rises in recent years, Germany (not even Munich) is not expensive compared with other large European cities (such as London, Zürich or Dublin).



Hungary

In Hungary, residential price increase slowed down to 13.8% in 2017 from last year's 15.4%. Housing prices in real terms rose by 11.4% in 2017. The housing market is still characterised by strong regional heterogeneity. In 2017, the average square meter prices observed in villages were 25 per cent of the average prices recorded in the capital, however, the attention is tending to shift to an increasing degree from the capital to rural settlements. In Budapest the number of transactions started to decline and while in 2015 house prices rose by 26.8 per cent, in 2016 and 2017 they were up 23.6 and 13.3 per cent, respectively.

The more than 5 per cent growth in households' disposable real income, the almost 40 per cent rise of new housing loans, the continued decline in unemployment and rising savings resulting from the vigorous wage outflow suggest that demand will remain robust.

Supply side of the housing market was marked by further growth in 2017, approximately 38,000 new construction permits were issued and almost 14,400 new homes were completed, which represents a 20% and 44% growth respectively. However, the number of new homes relative to the stock of dwellings is merely 0.3 per cent per annum, which is extremely low in a regional comparison.

Therefore, housing market fundamentals imply a further upturn, but frictions on the supply side are hindering a healthy increase in home construction. With respect to the price level, house prices may continue to rise in 2018.



Italy

In 2017, Italian GDP registered a growth of 1.5% in real terms compared to 0.9% registered in 2016. In 2018 GDP is expected to remain stable with a growth of around 1.4%. The government deficit to GDP ratio decreased from 2.5% in 2016 to 2.3% in 2017 and the government debt was 131.8% at the end of 2017, down by 0.2% with respect to the end of 2016. Household expenditure and purchasing power increased slightly during the autumn months of 2017.

Consumption has continued to expand in line with the previous year's performance. The unemployment rate slightly decreased in 2017, from 11.7% in 2016 to 11.2% in 2017. The Bank of Italy forecasts a favourable economic trend also in 2018, 2019 and 2020 with a decrease of the rate of unemployment by around 0.2% per year.

The real estate market is stable but expected to improve during 2018 especially in the residential sector and not just limited to the main conurbations of Rome and Milan. The number of transactions in residential real estate market in 2017 was around 542,500, increasing by around 3% compared to 2016. This figure is expected to increase further in 2018 as consumer confidence and access to credit increase.



Latvia

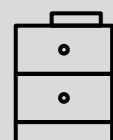
There has been a gradual growth in Riga housing market, with a rise in both prices of dwellings and costs of construction (partly due to wage increases).

As a result of the positive economic growth, more accessible crediting strategy from banks due to low interest rate environment and active implementation of government housing guarantee program ALTUM, customers increasingly choose to obtain more expensive dwelling than they have been to date. This reflects the increased demand for city centre apartments and a 16% greater activity in the new dwellings market, compared to 2016. The number of started and completed dwellings increased in 2017 as well.

Also, customers increasingly choose private houses built within the last five years, which they believe are more cost-efficient than apartments of more than 100 m². Furthermore, the average price of older series type dwellings has grown at 7.21% in 2017.

In the short-term lease market, usually 2–3 bedroom rental apartments were predominantly sought by students in Riga centre. Apartment rental fees in residential district were 10–30% lower than in the city centre.

As to outer Riga dwellings, majority of clients were looking for already completed houses with a modern floor plan, which were scarce.





Netherlands

In 2017 the Dutch residential market was characterised by a large housing shortage, especially in the densely populated areas. During the year more than 62 thousand dwellings were added to the housing market, the highest number since 2009. However, the number of completed dwellings is still 20% below the pre-crisis period and not sufficient to solve the shortage on the housing market. Due to the lack of sufficient developments, both property and rental prices have increased significantly over the year. The average transaction price of residential properties increased with almost 10%, while the average monthly rent increased at 3%. Especially densely populated areas such as Almere, Rotterdam and Amsterdam showed major increases.

The shortage on the Dutch residential market is also visible in the transaction volume of residential properties. In the last quarter of 2017, the market saw a 6% decline in the number of transactions compared to last year, which is the first decline since the start of the crisis. In addition, there was a decrease in the number of houses for sale. In Q4 2017, there were 36% fewer residential properties for sale compared to a year before. The decrease was strongest in the market for relatively small houses, which affected first time home owners.



Poland

As expected, 2017 turned out to be another record-breaking year in terms of transaction volume on the residential market as well as in development of new dwellings. We observe continuously strong demand and increase in prices on residential market on the six largest markets in Poland (Warsaw, Kraków, Wrocław, Poznań, Łódź and Gdańsk). There were approximately 72.8k new residential units sold in comparison to app. 61,600 sold in 2016 (increase by over 15%). Highest demand could be observed in Q1 and Q4 2017 at levels of 18,800 and 18,900, respectively. Last year high demand for dwellings was a result of continuous growth of Poland's economy including a very low unemployment rate, rising average salary, stable and low interest rates.

Notably high increase of transaction prices in comparison with 2016 (9.0% for new dwellings, 11.6% for older ones) partially resulted from the rise of material and labour costs but also indicates a considerable supply shortage in the recent year.

In addition, demand was boosted in the recent years by two governmental programmes: "MdM" ("Flat for young people") which financially supported people under 35 purchasing new dwellings and "Rodzina 500+" ("Family 500+") which increased purchasing power of low income families. "MdM" programme was closed in Q1 2018 and replaced with new initiative "Mieszkanie Plus" ("Apartment Plus"). The latter one was

launched to enable low income families to rent flats in buildings developed and owned by governmental entities with fixed, low rent rates and an option to buy ownership of the flats. The first months of the programme provide ambiguous picture due to lower than planned number of new developed flats, however, the long-term impact of the programme on residential market remains unclear and could potentially lower the demand for cheaper dwellings.

The remarkably low interest rates existing on the market for a long time (meaning cheap mortgages and unprofitable bank deposits) favours demand for dwellings financed both by cash as well as mortgage. In fact, despite a negative impact of new regulations introduced at the beginning of 2016 (amended Recommendation S introducing a minimum of 20% own contribution), the value of the newly granted mortgages increased in 2017 by 5.62% in comparison to 2016.

2017 was another exceptional year on the Polish real estate market including residential sector but there is still some uncertainty due to possible legislation changes, although no major issues in the residential market are anticipated in 2018.



Portugal

Throughout 2017, the residential market remained highly dynamic. Similar to the previous year, this dynamic was most felt in the city centre of Lisbon and Cascais Coastal zone.

Tourism and, more specifically local accommodation establishments, have now an unprecedented impact on residential market, since their levels represent the quality of life and value of real estate in Portugal.

Additionally, the establishment of foreign communities whether investors or citizens, who have decided to live and invest in Portugal, are factors that have positively impacted the level of external demand. Residential assets registered an increase of almost 60,000 transactions between 2011 and 2017 in Portugal, according to the National Statistics Institute.

To answer to this massive international flow, luxury residential developments emerge in these areas and prices tend to be increasingly high (median transaction price, old and new apartments, of 2,438 EUR/sq m in Q4 2017 in Lisbon city, an increase of 18% when compared to Q4 2016. In Q1 2018, luxury areas such as Avenida da Liberdade, reached an average transaction price of 6,532 EUR/sq m), forcing the relocation of the Portuguese people to the surrounding areas of the city.

In order to re-establish the balance in the different areas of the cities, where gap prices are huge, a rethinking of the public and private policies to accommodate this new demand to the needs of the Portuguese population is required.



Spain

Spain was one of Europe's locomotives for economic growth during 2017 and forecasts place Spain as one of the leading economies within the EU during at least the next three years. Despite the still high unemployment rate (16.4%) the country is generating employments steadily. This recovery still shows weaknesses since salaries have decreased by 0.6% (2017 vs 2016) mostly due to the creation of temporary and low-quality employment.

The residential market continues to evolve at two different rates. The main Spanish cities (Madrid, Barcelona, Valencia, Bilbao, Seville, Malaga or Alicante) as well as the main coastal destinations are witnessing a strong demand, significant price increases and a strong development activity. On the other hand, the inland areas of the country still show flat or even negative activity rates. In this regard, foreigners demand has been key; Purchases made by foreigners have grown steadily and represent about 20% of all transactions made during 2017. Transactions made by foreigners are mostly focused on the Mediterranean coastline and the islands (Balearic and Canary Islands).

During 2017, 48,900 new homes were delivered to the market, notably above the 34,400 homes delivered in 2016, but far from the record (and unsustainable) figures of 2007 (about 600,000). 2017 is therefore the first year of recovery in terms of the number of completed dwellings since the start of the crisis in 2008. On the other hand, Construction Permits issued for new dwellings have grown constantly since 2014 at a yearly 30% (CAGR 14-17). Transaction prices grew during 2017 along the country but especially in Spain's main cities and the coast. This has been the result of a lack of new product within the cities, coupled with a significant increase in rental prices leading to higher returns, together with a proliferation of touristic apartments in the city centres.



United Kingdom

In 2017, the UK experienced another year of rising residential prices, continuing the upward trend. The continuation in house price growth has largely been attributed to the availability of finance and the low interest rate level equating to low borrowing costs. Fundamentally the market has experienced a structural change where London's house price growth has fallen behind that of the rest of the UK, where the prime central London stock has been hit the hardest. Demand for housing across the country persists to outstrip supply further increasing pressure on prices.



Contacts

United Kingdom
Chris Baldwin
+44 7771 804772
chbaldwin@deloitte.co.uk

Denmark
Tinus Bang Christensen
+45 30 93 44 63
tchristensen@deloitte.dk

Baltics states
Valters Tucs
+37 167 074 143
vtucs@deloittece.com

Netherlands
Paul Meulenberg
+31 882 881 982
pmeulenberg@deloitte.nl

Belgium
Frédéric Sohet
+32 263 949 51
fsohet@deloitte.com

Poland
Maciej Krason
+48 225 110 360
mkrason@deloittece.com

France
Laure Silvestre-Siaz
+33 155 612 171
lsilvestresiaz@deloitte.fr

Czech Republic
Miroslav Linhart
+420 737 235 553
mlihart@deloittece.com

Portugal
Jorge Sousa Marrão
+351 210 422 500
jmarrao@deloitte.pt

Hungary
Gabor Kohari
+361 428 620 4
gkohari@deloittece.com

Spain
Javier Parada
+34 915 145 000
japarada@deloitte.es

Italy
Elena Vistarini
+39 028 332 512 2
evistarini@deloitte.it

Germany
Michael Mueller
+49 892 903 684 28
mmueller@deloitte.de

Austria
Alexander Hohendanner
+43 153 700 270 0
ahohendanner@deloitte.at

Authors

Residential Market



Miroslav Linhart
Partner
Real Estate & Construction
+420 737 235 553
mlihart@deloittece.com



Petr Hána
Senior Manager
Real Estate & Construction
+420 731 638 268
phana@deloittece.com



Vojtěch Petřík
Senior Consultant
Real Estate & Construction
+420 739 071 649
vpetrík@deloittece.com

Economic development in Europe



David Marek
Director
Financial Advisory
+420 606 656 599
dmarek@deloittece.com

Deloitte.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee (“DTTL”), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as “Deloitte Global”) does not provide services to clients. Please see www.deloitte.com/cz/about to learn more about our global network of member firms.

Deloitte provides audit, consulting, legal, financial advisory, risk advisory, tax and related services to public and private clients spanning multiple industries. Deloitte serves four out of five Fortune Global 500® companies through a globally connected network of member firms in more than 150 countries and territories bringing world-class capabilities, insights, and high-quality service to address clients' most complex business challenges. To learn more about how Deloitte's approximately 245,000 professionals make an impact that matters, please connect with us on Facebook, LinkedIn, or Twitter.

In the Czech Republic, the services are provided by Deloitte Advisory s.r.o., Deloitte Audit s.r.o., Deloitte BPS a.s., Ambruz & Dark Deloitte Legal s.r.o., advokátní kancelář and Deloitte Security s.r.o., Deloitte CZ Services s.r.o. (jointly referred to as “Deloitte Czech Republic”) which are affiliates of Deloitte Central Europe Holdings Limited. Deloitte Czech Republic is one of the leading professional services organizations in the country providing services in audit, consulting, legal, financial advisory, risk advisory, tax and related services through over 1000 national and specialized expatriate professionals.