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Introduction

We are pleased to present to you the fourth edition of Property Index, Overview of European Residential Markets.

Property Index is a comparative report regarding residential markets and housing across Europe. It analyses factors influencing the development of residential markets and compares residential property prices in selected (not only) European countries and cities.

Starting this year, we have slightly changed the structure of the report. Each year we will choose a specialised topic to focus on. This year’s issue covers residential real estate financing – residential development projects.

Our goal is to provide you with European residential market data. How do Europeans live, and how much does it cost them?

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);
- Ireland (IE);
- Israel (IL);
- Italy (IT);
- Netherlands (NL);
- Poland (PL);
- Portugal (PT);
- Russia (RU);
- Spain (ES); and
- United Kingdom (UK).

In addition, this year we added data regarding:

- Sweden (SW).

The prices in the selected countries and their major cities differ significantly as a result of historical development and 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 fourth issue of the publication of interest for your business.
Economic Development in Europe

GDP growth in Europe remained relatively slow in 2014. Low investment stands against a pick-up in demand and growth acceleration. The fall in crude oil prices could, however, provide a boost to economic growth.

Decreasing commodity and oil prices are shifting wealth from commodity-exporting countries to commodity-importing ones. The falling energy prices have had a particularly adverse effect on Russia. In 2014, the Russian GDP rose by 0.6%, which was the lowest since 2009 financial crisis. The ruble fell 46% against the dollar and inflation accelerated to 11.4% in December.

Strong growth in the US in 2014 has resulted in large changes in bilateral exchange rates. Euro fell 12% against the dollar in 2014. However, the situation has changed since the beginning of 2015, when the EU grew, for the first time since 2011, faster than the UK and the US. Industrial production in the EU exceeded analysts’ expectation more than twice in February. This has had a direct effect on the euro which has started to gain value against the dollar for the first time since May 2014.

Geopolitical risks are still present and the global outlook is clouded by the possibility of macro-economic trends diverging further. Financial market volatility is also a threat to the smooth recovery.

The recent EU economic recovery has been driven mainly by expanding private consumption. Conversely, investment has weakened in 2014 and remains low. The shifting of the fiscal policy stance of countries to neutral has not significantly improved the growth prospects. Inflation has dropped year-on-year in 2014, mainly due to decreasing energy prices.

Against this backdrop, financial asset prices have continued to rise substantially due to cheap money on the market. The yield on 10-year German Bund decreased from 1.9% to 0.55% in 2014. Proving an increased financial market volatility, there has been a bond sell-off recently resulting in an increase of bond yields. Investors account this to the fear of an increase in inflation resulting from growth signs in European economies including Spain, Portugal and Ireland. Inflation is one of the main worries of bond investors. However, what is bad for the bond markets could be good for the economy. Inflation is characteristic of a healthy economy.

Europe could be facing an era of low growth, low investment, low inflation and volatile financial markets. The European Central Bank (ECB) is attempting to battle this scenario and has supported the economy by starting quantitative easing early in 2015. The ECB buys EUR 60 billion worth of bonds each month. As of the latest data, it seems that the financing institutions have reacted positively with a decrease in credit standards. This should help enterprises in growth. In this edition of property index, we react to this development by focusing on the financing of residential development projects in Europe.

<table>
<thead>
<tr>
<th>Real GDP Growth Rate - Volume</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EU (28 countries)</strong></td>
<td>2.1</td>
<td>1.7</td>
<td>-0.5</td>
<td>0</td>
<td>1.3</td>
</tr>
<tr>
<td><strong>BE</strong></td>
<td>2.5</td>
<td>1.6</td>
<td>0.1</td>
<td>0.3</td>
<td>1.1</td>
</tr>
<tr>
<td><strong>CZ</strong></td>
<td>2.3</td>
<td>2</td>
<td>-0.8</td>
<td>-0.7</td>
<td>2</td>
</tr>
<tr>
<td><strong>DK</strong></td>
<td>1.6</td>
<td>1.2</td>
<td>-0.7</td>
<td>-0.5</td>
<td>1.1</td>
</tr>
<tr>
<td><strong>GE</strong></td>
<td>4.1</td>
<td>3.6</td>
<td>0.4</td>
<td>0.1</td>
<td>1.6</td>
</tr>
<tr>
<td><strong>IE</strong></td>
<td>-0.3</td>
<td>2.8</td>
<td>-0.3</td>
<td>0.2</td>
<td>4.8</td>
</tr>
<tr>
<td><strong>ES</strong></td>
<td>0</td>
<td>-0.6</td>
<td>-2.1</td>
<td>-1.2</td>
<td>1.4</td>
</tr>
<tr>
<td><strong>FR</strong></td>
<td>2</td>
<td>2.1</td>
<td>0.3</td>
<td>0.3</td>
<td>0.4</td>
</tr>
<tr>
<td><strong>IT</strong></td>
<td>1.7</td>
<td>0.6</td>
<td>-2.8</td>
<td>-1.7</td>
<td>-0.4</td>
</tr>
<tr>
<td><strong>HU</strong></td>
<td>0.8</td>
<td>1.8</td>
<td>-1.5</td>
<td>1.5</td>
<td>3.6</td>
</tr>
<tr>
<td><strong>AT</strong></td>
<td>1.1</td>
<td>1.7</td>
<td>-1.6</td>
<td>-0.7</td>
<td>0.9</td>
</tr>
<tr>
<td><strong>PL</strong></td>
<td>1.9</td>
<td>3.1</td>
<td>0.9</td>
<td>0.2</td>
<td>0.3</td>
</tr>
<tr>
<td><strong>PT</strong></td>
<td>3.7</td>
<td>4.8</td>
<td>1.8</td>
<td>1.7</td>
<td>3.4</td>
</tr>
<tr>
<td><strong>SW</strong></td>
<td>1.9</td>
<td>-1.8</td>
<td>-4</td>
<td>-1.6</td>
<td>0.9</td>
</tr>
<tr>
<td><strong>UK</strong></td>
<td>6</td>
<td>2.7</td>
<td>-0.3</td>
<td>1.3</td>
<td>2.1</td>
</tr>
<tr>
<td><strong>RU</strong></td>
<td>1.9</td>
<td>1.6</td>
<td>0.7</td>
<td>1.7</td>
<td>2.8</td>
</tr>
<tr>
<td><strong>IL</strong></td>
<td>4.5</td>
<td>4.3</td>
<td>3.4</td>
<td>1.3</td>
<td>0.6</td>
</tr>
</tbody>
</table>

Source: World bank, Federal Statistics Office in Moscow

*OECD Forecast
Focus: Financing of Residential Real Estate Projects

The year 2014 was a milestone for the Property Index. Not only that we are already publishing the fourth edition but we have newly decided to add a special focus to each issue. This year’s focus is financing of residential real estate projects.

Generally, finance for property development operates as an interest-only, draw-down facility to finance the development as required. Interest on a development loan is often capitalised during the development period. The capitalised interest is added to owed amount and is repaid after the development finishes. Finally, the entire loan inclusive of interest being charged is repaid upon the sale of the developed units or the refinancing of any residual debt.

When determining the financing terms, the lender usually weighs many criteria:

• Experience of the property developer;
• Past payment history with the bank;
• Financial strength of the property developer;
• The quality of collateral;
• Equity brought to the project by the developer;
• The location of the proposed development;
• The profit potential of the development;
• Builder experience and capacity;
• Project management team experience;
• Type of development;
• Level of pre-sales/pre-leases;
• Ability to cover cost over runs;
• Exit strategy.

As a result, the agreed terms often significantly vary from borrower to borrower.

Lending to Enterprises in Europe

According to the ECB’s data, the European banks’ credit standards have started to ease resulting in a higher supply of loans. Still, despite significant improvements since 2014, the overall level of credit standard is tight in historical comparison. The most recent data from Q1 2015 indicate that credit standards have fallen across the board, from large corporations to small and medium-sized enterprises. The rejection rate for loan applications fell as well in the first quarter. The main contributors to credit easing was decreasing cost of funds and smaller competitive pressures. The easing of credit conditions has since the beginning of 2014 consistently resulted in overall better terms and conditions of new loans to enterprises.
**Interest Premiums**

We asked Deloitte real estate professionals what the typical interest premium over 3M Euribor is in their country for the financing of a residential development project with a solid business plan advanced to a company with a sound reputation. The following summarises our research:

- The lowest interest premiums can be generally seen in Belgium, Austria, Germany, France, Sweden and the Netherlands due to their low risk profile and well established real estate markets.
- Spain, Israel, Italy, Czech Republic, Poland and Hungary typically have larger premiums in the range of 250 – 400 bps. We notice loosening credit standards across some of the above-mentioned markets. A case in point is Spain where banks have, in 2014, started financing real estate projects for the first time since the housing crisis.
- A premium of 400 – 500 bps is demanded in the UK, Hungary and Ireland.
- Banks in Portugal and Russia demand the highest premiums for residential developments. This is tied to the poor situation on the housing market in both countries.

**Loan-to-Value**

Loan-to-value (“LTV”) is a financial term used by lenders to express the ratio of a loan to the value of an asset purchased. LTV determines the borrowing capacity. For example, LTV of 65% reflects a capital structure of maximum 65% debt and 35% equity of the end value of the development. The real estate developer is generally required to invest his equity in the project first, after which he is allowed to start drawing the loan.

Generally, there seems to be no significant relationship between the perceived riskiness of a country (as measured, for example, by its CDS-implied probability of default) and its LTV. An example is Russia, where high levels of LTV can typically be observed, despite the probability of default being the highest of the surveyed markets. As a result, it can be concluded that LTV in a country is more or less dependent on conventions and market pressures.

- Typical LTV is 60%-80%.
- The lowest LTV can be observed in Hungary and the Netherlands.
- Banks in Russia, Ireland and Denmark usually advance loans with a high LTV of 80%.

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**Typical Loan Interest Premium Applied by Banks for the Financing of Residential Development Projects**

<table>
<thead>
<tr>
<th>Country</th>
<th>Premium (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>BE</td>
<td>3</td>
</tr>
<tr>
<td>AT</td>
<td>2</td>
</tr>
<tr>
<td>DE</td>
<td>4</td>
</tr>
<tr>
<td>FR</td>
<td>6</td>
</tr>
<tr>
<td>SW</td>
<td>8</td>
</tr>
<tr>
<td>NL</td>
<td>10</td>
</tr>
<tr>
<td>ES</td>
<td>12</td>
</tr>
<tr>
<td>IL</td>
<td>12</td>
</tr>
<tr>
<td>IT</td>
<td>12</td>
</tr>
<tr>
<td>CZ</td>
<td>12</td>
</tr>
<tr>
<td>RU</td>
<td>12</td>
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<tr>
<td>HU</td>
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<tr>
<td>IE</td>
<td>12</td>
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<td>PT</td>
<td>12</td>
</tr>
<tr>
<td>UK</td>
<td>12</td>
</tr>
<tr>
<td>HU</td>
<td>12</td>
</tr>
<tr>
<td>IE</td>
<td>12</td>
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<tr>
<td>RU</td>
<td>12</td>
</tr>
<tr>
<td>DK</td>
<td>12</td>
</tr>
</tbody>
</table>

Source: Deloitte analysis

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**Typical Loan-to-Value in the Financing of Residential Development Projects**

<table>
<thead>
<tr>
<th>Country</th>
<th>LTV (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>HU</td>
<td>40</td>
</tr>
<tr>
<td>NL</td>
<td>40</td>
</tr>
<tr>
<td>UK</td>
<td>40</td>
</tr>
<tr>
<td>FR</td>
<td>40</td>
</tr>
<tr>
<td>CZ</td>
<td>40</td>
</tr>
<tr>
<td>AT</td>
<td>40</td>
</tr>
<tr>
<td>BE</td>
<td>40</td>
</tr>
<tr>
<td>IT</td>
<td>40</td>
</tr>
<tr>
<td>PL</td>
<td>40</td>
</tr>
<tr>
<td>PT</td>
<td>40</td>
</tr>
<tr>
<td>DE</td>
<td>40</td>
</tr>
<tr>
<td>ES</td>
<td>40</td>
</tr>
<tr>
<td>RU</td>
<td>40</td>
</tr>
<tr>
<td>IE</td>
<td>40</td>
</tr>
<tr>
<td>DK</td>
<td>40</td>
</tr>
</tbody>
</table>

Source: Deloitte analysis
Pre-sales Requirements
Pre-sales are in most cases required by the lender to reduce risk for a property development. Being certain that the developed units will be sold is essential to many lenders as they know that the borrower will have enough cash flow for the repayment of the construction loan.

Pre-sales vary significantly among the surveyed countries being the lowest in Portugal (10%) and the highest in Italy (60%).

Consequently, it seems that banks in the surveyed countries assign different level of importance of pre-sales requirements in development financing.

Debt-Service Coverage Ratio
Debt-Service Coverage Ratio ("DSCR") is a ratio of the total net operating income of a project divided by total debt payment per period. DSCR is an important indicator for a bank in build-to-rent projects, which need sufficient cash flow to cover the debt payments.

DSCR in the range of 1.1 – 1.4 is typical. The highest DSCR can be found in France and Ireland. The lowest in Italy.

<table>
<thead>
<tr>
<th>Europe average*</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Rates (premium over 3M Euribor)</td>
<td>3.32%</td>
</tr>
<tr>
<td>LTV</td>
<td>68%</td>
</tr>
<tr>
<td>Pre-sales Requirements</td>
<td>39%</td>
</tr>
<tr>
<td>DSCR</td>
<td>1.26</td>
</tr>
</tbody>
</table>

*Includes data as shown in charts above. Excludes Israel and Russia.

Typical Pre-sales Requirements in the Financing of Residential Development Projects

Typical DSCR in the Financing of Residential Development Projects

Source: Deloitte analysis
Comparison of Residential Markets

Housing Development Intensity
Completed apartments

The indicator of housing development intensity on the European residential market has declined since 2011. On average, 2.4 dwellings per 1,000 citizens were completed in selected European countries and almost 3 dwellings per 1,000 citizens were completed in all selected countries in 2014 (including Russia and Israel).

The highest housing development intensity in all selected countries in 2014 was seen in Russia (7.6 completed dwellings per 1,000 citizens). This country also recorded the highest year-on-year change, while 2014 exceeded 2013 by 1.2 dwelling. Significantly higher value of the indicator than in European countries was also found in Israel (5.3).

Similarly to 2013, in 2014 the highest housing development intensity from the European countries was recorded in France (6.2) due to insufficient supply of housing especially in the densely populated areas. Other countries with above average data of selected European countries include Poland, Belgium, Germany and the Netherlands.

Housing development intensity in Ireland, the United Kingdom and the Czech Republic in 2014 was near the European average.

The lowest intensity of housing development in 2014 was found again in Hungary (0.8 completed apartments per 1,000 citizens) and Portugal (0.9). Portugal also recorded the biggest year-on-year drop (decrease by 0.9 completed dwelling).

Newly-added Sweden reached 1.9 completed dwellings per 1,000 citizens.
**Initiated apartments**

The average value of the indicator of the intensity of initiated construction in 2014 amounts, in the countries of interest, to almost 2.5 initiated apartments per 1,000 citizens, which represents a year-on-year decrease in this indicator by almost 9%. Data regarding the European average is not available.

From a regional viewpoint, the highest intensity of initiated residential development in 2014 was found again in Austria (5.4 started dwellings per 1,000 citizens as of the end of Q3 2014), France (4.5) and Israel (4.3). The largest year-on-year fall of initiated construction was recorded in Israel.

Intensity of initiated construction in the United Kingdom, the Netherlands and the Czech Republic in 2014 was near the European average. The Netherlands also recorded the highest year-on-year growth (increase by 0.8 initiated dwelling).

On the other hand, the lowest number of apartments was initiated in Portugal (0.7 initiated dwellings per 1,000 citizens), Hungary (1) and Ireland (1.1).

Newly-added Sweden reached to 2.2 initiated dwellings per 1,000 citizens.
**Housing Stock**

The average value of the housing stock in the countries of interest in 2014 reached 452 dwellings per 1,000 citizens.

In a comparison of selected countries, Italy reported the greatest housing stock recalculated per 1,000 citizens, exceeding the average of selected countries by more than 28%. The second-greatest housing stock was found in Portugal, where the percentage value exceeded the country average by almost 25%. Spain, which exceeded the average by more than 97 dwelling per 1,000 citizens, ranked third in 2014.

One of the lowest housing stocks per 1,000 citizens was found in Poland (360), Russia (441) and the United Kingdom (442).

The lowest housing stock in 2014 could be found in Ireland (342).
Comparison of Residential Property Prices in Selected Countries and Cities

In this edition of Property Index, we have newly added data for Sweden. The prices and price growth are calculated from the point of euro investor, i.e. the price growth is also influenced by a change in the exchange rate. Changes in exchange rates of countries with a national currency other than the euro are shown in the chart on the right hand side.

**Average Transaction Price of a New Dwelling in Selected Countries**

The comparison of average transaction prices in the surveyed countries indicates the following:

- The highest prices per sq m can be observed in the United Kingdom, Israel, France and Sweden. Out of these, Israel, Ireland and the United Kingdom have experienced a significant price growth in 2014.
- The cluster of post-Soviet economies falls on the other side of the price spectrum. Russia has the lowest dwelling prices among the surveyed countries with a price slightly below EUR 1,000 / sq m.
- Even despite the recent price growth, Hungary is the only country, besides Russia, with a price mark below EUR 1,000 / sq m.
- The Czech Republic has the highest prices among the Post-Soviet states reaching EUR 1,200 / sq m. However, the prices are still significantly below Western Europe.
- Prices in Spain and Portugal are due to their slump in the recent years on a similar level as in the CEE countries.


(+%) = euro appreciation, (-%) = euro depreciation against a currency

**Average Transaction Price of the New Dwelling**

EUR / sq m

Source: Yahoo Finance

Source: National Statistical Authorities, Deloitte data calculations
* bid price, ** older dwellings, *** all dwellings (older and new),
* average of apartments and houses
Prices have grown in 12 markets in 2014, compared to only 5 in 2013. This development shows that the property market is gaining momentum in Europe.

- The highest price growth was recorded in Ireland, where new building prices rose by an astounding (+31.7%). The second highest price growth was in Israel (+25.6%), followed by the United Kingdom with (+21.6%).
- Prices in Germany and Austria have continued their growth, from the last year, with (+12.7%) and (+5.3%), respectively.
- After a large price drop last year, Spain’s property market started recovering with an increase in prices of (+10.5%).
- Hungary and the Netherlands have shown a modest recovery with a price increase of (+5.3%) and (+4.8%), respectively.
- Prices in Italy and Russia have continued their downward trend in 2014. While the Italian property prices have decreased only slightly, the Russian properties followed the general economic contraction and declined in euro terms by (-16.6%). However, this result is mainly influenced by ruble depreciation.

The spread between the offered and final transaction price serves as an important indicator indicating the equilibrium between dwelling demand and supply.

- The highest discount was detected in Spain where buyers receive on average, when buying an apartment or house, a (-20%) discount. However, the discount is lower than the last year, which indicates improving conditions on the housing market.
- The second highest discount was in Italy (-16%) up from (-10%) last year.
- Other markets show a typical discount of under (-10%).
The price of new and older dwellings often varies. In most of the surveyed countries, prices of older dwellings are below the price of newly developed apartments. However, this does not have to necessarily be true in some markets for several reasons – particularly due to the often better location of older dwellings, or their historical value.

- The highest price difference between new and older dwellings was in Hungary (-49%), with no significant change from last year.
- A difference of above (-30%) was seen in France and Austria.
- In Israel, the difference has widened from (-15%) to (-28%). The development was determined by a significant increase in the prices of newly developed dwelling compared with only modest increase in prices of older apartments.
- Prices of older dwellings were higher compared to newer dwellings in Ireland, Russia and the United Kingdom.

**Average Transaction Price of a New Dwelling in Selected Cities**

In this edition of the property index, we present a comparison of prices among 56 major European cities.

- Inner London was the most expensive city among surveyed cities with a price tag reaching an astonishing 14,089 EUR / sq m. Living outside Inner London is much cheaper. In comparison, new dwellings in Outer London cost on average 7,879 EUR / sq m.
- The second most expensive city after London was inner Paris with a price at 10,266 EUR / sq m. Again, the cost of buying a dwelling in Marseille and Lyon is much more affordable.
- The third most expensive city was Tel-Aviv, with a price over 6,500 EUR / sq m, surpassing the Israeli capital Jerusalem.
- It is often the case that the capital is the most expensive city in a country. However, this is not correct for some countries. Namely, Munich, Milan and the above-mentioned Tel-Aviv are more expensive than Berlin, Rome, and Jerusalem.
- If you are looking for a good value, Porto might be exactly the place for you. With a price tag of only 860 EUR / sq m, it is the least expensive city in our survey. The second least expensive city in 2014 was Székesfehérvár in Hungary. With 1,026 EUR / sq m, it is (+20%) more expensive than Porto.
- Cities in Post-Soviet countries were generally the least expensive from the survey. An exception to the rule is Moscow, which with 3,840 EUR / sq m is at a similar price level as Vienna or Milan.
In the next chart, we compare the prices of the surveyed cities to their respective national averages:

- Property in Moscow is on average 400% of the national average. This means that it would cost four times as much to buy an average apartment in Moscow than in an average Russian city.
- Munich exceeds the national average of Germany three times.
- Hamburg, Barcelona, and Paris exceed the national averages by more than two times.
- There are some cases where the surveyed major cities have prices below the national average. Namely: Ostrava, Odense, Den Haag, Rotterdam, Turin, Haifa, Malmö, Lyon, Marseille, and Lille.

The price development was recorded for the capitals of the countries in our dataset:

- Property prices were growing on most of the markets in 2014. Out of the 15 shown cities, only 5 have seen a decrease in price compared to 2013.
- Double digit growth was in Copenhagen, Berlin, Amsterdam, Jerusalem, Madrid, Inner London and Dublin.
- The best performing market in 2014 was Dublin with astonishing growth of (+34%). Inner London came second with (+32%). However, the prices in the UK were influenced by the strengthening pound. Madrid was third with (+24%). Fourth place was taken by Jerusalem with (+18%).
- The worst performing market was Lisbon with a price decrease of (-14%).

Source: National Statistical Authorities, Deloitte data calculations
* bid price, ** older dwellings, *** all dwellings (older and new), * average of apartments and houses

Source: National Statistical Authorities, Deloitte data calculations
*** all dwellings (older and new)
Affordability of One’s Own Housing
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 in Belgium, where a person needs to on average save only 3.2 years to buy a new dwelling. Belgium is closely followed by its neighbour – Germany, and also Denmark.

• Relatively affordable housing can be found in the Netherlands, Spain, Ireland, Sweden, and Austria.

• One’s own housing in Italy, the Czech Republic, Poland, Hungary and France falls into a less affordable category. Citizens of the respective countries need to on average save for 6-8 years to buy a new dwelling.

• The least affordable own housing is in Russia, the United Kingdom, and Israel.

The affordability of one’s own housing seems to be correlated with the economic level of a country. Generally, the higher the GDP per capita of a country, the more affordable housing is.

Affordability of Own Housing
Gross annual salaries for the standardized new dwelling (70 sq m), 2014

Affordability of Own Housing and the Economic Level

Source: National Statistical Authorities, Eurostat, Deloitte data calculations
* bid price, ** older dwellings, *** all dwellings (older and new),
* average of apartments and houses
Residential lending is correlated with house prices. Increase in residential lending generally supports an increase in dwelling prices.

As a result, indebtedness of households (i.e. the proportion of residential debt to household disposable income) and consequently their debt capacity is one of the determinants of house price growth.

- The lowest level of indebtedness of households can be found in Russia with 6.5% of residential debt to household disposable income.
- Countries with a low level of indebtedness are the Czech Republic, Hungary, Poland, Italy, Israel and Austria, with residential debt to household disposable income of under 50%. Consequently, these countries have the highest potential of house price increase as a result of overall better financing conditions and following increases in mortgage lending.
- The highest level of indebtedness can be found in Sweden, Denmark and the Netherlands with residential debt to household disposable income of above 150%.

**Relationship between Changes in Dwelling prices and Changes in Residential Loans per Capita**

Source: European Mortgage Federation, Deloitte data calculations

**Residential Debt to Household Disposable Income %, 2013**

Source: European Mortgage Federation, Bank of Israel, Euromonitor International

*Data for 2014 is not yet available*
Annex: Comments on Residential Markets

**Austria**
Residential property prices have increased in 2014. Further increase of housing prices can be expected in the short-run. Contributing factors behind the price increases since the end of 2007 have been the continuing immigration, investors’ flight into real assets (as they are perceived as “safe haven”), expected low or even negative return of alternative investments, low credit interest rates and expectations of further price increases. In 2014 there has been an increase in transactions compared to the 2013 figures, which is attributable to the cutback of the price increase as well as the upcoming tax reform. Diminishing loan growth and declining household indebtedness suggest that a high percentage of equity financing is being used in property investments.

**Belgium**
The Belgian housing market has an excellent track record over the last years, as demonstrated by the nominal price growth of 15% between 2008 and 2014, despite the financial crisis. Residential property prices rose by approximately 0.5% in 2014, and we expect this moderate increase - in line with inflation - to continue in the near future.

Prices developed differently in Belgium’s three largest cities. While new dwelling prices in Antwerp rose by 2.9%, prices in Brussels (-0.4%) and Ghent (-1.50%) declined in 2014.

The risk of a major price correction seems limited, with the Belgian residential property market showing healthy fundamentals. No oversupply or excessive debt accumulation by households have been observed. The main risks for the property market are increasing interest rates and changes in property taxation. While an increase in interest rates seems unlikely in the short term, changes in property taxation are more unpredictable. The Flemish Government decided to reduce the fiscal advantage of the house bonus as from 2015, which caused a rush on real estate in Flanders by the end of 2014.

Stricter regulation regarding sustainability and the minimum requirements for dwellings could increase the price gap between older dwellings and new developments.

**Czech Republic**
Volume of housing development has increased by 10% compared to last year. Construction demand overall has picked-up. This is a positive factor for construction companies, some of which now have turned into black numbers after a long period of weak demand in the post-crisis period.

The increasing housing supply has been met by increased demand. The growth in demand was mainly influenced by decreasing costs of mortgage financing thanks to high competition between finance providers and improvement in economic sentiment.

Prices on the Czech property market have continued in their gradual recovery in 2014. The house prices in Prague have finally reached their pre-crisis levels. Prices in the rest of the country are still ca. 16% below their peaks.

It is expected that year 2015 could see accelerating house prices thanks increasing housing demand. A threat to this scenario is an increase of mortgage rates by banks that have, due to their competition, started offering mortgage products at the edge of profitability.

**Denmark**
During 2014 both prices and turnover of residential property in Denmark increased.

As in 2013, there are significant regional differences in the price development of residential property. Especially the residential property market in Copenhagen has experienced increasing prices and turnover, while the rural areas of Denmark experienced stagnant or slightly increasing property prices. However, there are indications of increasing prices and turnover in the rural areas of Denmark as well.
France
In 2014, the trends for the French residential market are quite different between new and older dwellings. The number of sales of older dwellings is still fairly high (around 700,000) and prices have fallen a little. But the sector of new dwellings is characterised by a marked fall-off in sales and started dwellings. However, prices remain high. In 2014, the total started dwellings have dropped by 11%, reaching 298,000 units. This represents a sharp decline of -36% in started dwellings since the 2007 peak of 466,000.

A rising unemployment rate, increasing housing costs and tax uncertainties have weakened demand in 2014, as in 2013. These negative factors are partially offset by low mortgage interest rates and healthy market fundamentals – favorable demographic, households tending to split, a strong desire to become owners.

In Paris, the number of transactions in older dwellings had slightly increased (+ 2%) from 2013 to 2014. However, with 28 660 sales registered in 2014, the level of activity remains low. In Q4 2014, the prices ranged from EUR 5,690 (19th arrondissement) per sq m to EUR 13,970 (6th) and the average transaction price of older dwellings dropped below EUR 8,000 / sq m with EUR 7,960 for this last quarter.

Germany
In 2014, the German residential real estate market once again featured strong dynamics in terms of transaction volume. The transaction volume for residential/portfolio deals reached EUR 12.8 bn at the end of the year. Although, it was around 16% lower than last year, it was still the second-best result in the last seven years. The high transaction activity was fuelled by historically low interest rates, healthy fundamental data, and very low vacancy rates in major and university cities, which led to further strengthening of property investors’ interest in the German Housing market. Housing companies were using the favourable conditions to strategically adapt their housing stocks.

In general, the residential market showed stabilising prices for dwellings. In major cities, however, prices for dwellings rose significantly due to increasing numbers of people moving into the cities, due to the fact that the number of new developments could not keep up with increased demand, and due to the favourable climate for buying homes. Rents generally increased at a slower rate compared to last year.

Hungary
After the last few years of struggling, the housing market has all the ingredients that can boost the housing market – low housing prices, cheap credit and improved economic outlook. The enhanced activity of the residential developers is perceivable. Frozen projects have been started again, and new development activities are detectable. The completed number of dwelling units was 8,358 in 2014, which was 13% higher than the 2013 data; however this amount is still around the historical minimums. As the key factors indicate, 2014 was the turning point in the residential prices and development volumes.

Israel
Property prices in Israel are currently about 25% above their equilibrium value, owing largely to low mortgage interest rates and supply shortage.

Italy
During the first three quarters of 2014 the Italian Real Estate market reversed the negative trend of residential transactions by achieving an increase of 2.2%. The growth in residential transactions has been particularly strong in the main metropolitan areas and the expectations that this will have a positive influence for the residential markets in the peripheral areas. In the first semester of 2014, the percentage of acquisitions made with the use of mortgage financing reached around 63% with a loan to value ratio (LTV) reaching 62%, an increase of 11% with respect to the same period in 2013.

Despite the relatively slow recovery in GDP, continued difficulties with reductions in disposable income of around 1.2% and a stubbornly high unemployment rate of nearly 13%, the general level of consumer confidence that returned in 2014 is expected to stabilise if not increase through 2015.

The resistance to the re-pricing of real estate assets is likely to continue in 2015 as the increase in transaction volumes recorded are likely to reinforce the expectations in the minds of sellers that a sustained recovery is underway.
Ireland
A number of recent surveys have indicated that there was a marked improvement in the Irish residential property transactions in 2014, when compared to 2013. Increased consumer sentiment and increased levels of mortgage lending have led to this improvement. Published data on the sector have suggested that there was an average price increase of all dwellings nationally by 14% and 19% in the Dublin region. Whilst these increases are significant, property prices are still well below the averages at the height of the property boom in 2007. In the wake of the global financial crisis, the sector continues to face a number of challenges and the lack of supply in the market is becoming a big issue. This is attributable to a number of reasons such as limited finance, a low number of still active developers, price levels in some areas still being at a level that will not generate a return and the National Asset Management Agency (NAMA) effectively controlling the development of large land banks.

Netherlands
The Dutch housing market showed some signs of recovery. In 2014, real house prices were bottoming out after a sharp decrease of 8% in 2013. At the end of 2014, house prices were 27% below their pre-crisis (2008) levels. The number of sales in the Dutch housing market significantly increased by 30% where the average time of sale shortened by 20%, compared to 2013.

In 2014, the number of new developments decreased by 10% compared to previous year. As a result, the transaction volume of new dwellings covers only 0.5% of the total housing stock. However, the addition of housing supply is likely to increase as a result of a growing number of building permits in 2014.

Due to economic growth, an improving market sentiment and the historically low mortgage interest rates, the outlook for the Dutch residential real estate market is positive.

Poland
Housing sales results in 2014 were at record highs since 2008, mainly due to stable prices, low interest rates, moderate optimism of buyers and introducing good quality products on the markets by the developers. Also the mobilisation of buyers (who wanted to take a loan for an amount exceeding 90% of the purchase price before the requirements changed in January 2015) and the governmental programme supporting the purchase of private apartments had an impact on sales volume in 2014.

The total 2014 mortgages sale number was 1% lower than in 2013, and analysts expect this trend to continue (due to, among other things, an increase in the required level of personal financial contributions in total loan value from 1 January 2015). The minimal 10% down-payment, will impede some customers from taking out mortgages. On the other hand, low interest rates will encourage them. As a result, mortgage sales in 2015 should remain at a similar or slightly lower level than in 2014. Slight fluctuations in residential properties prices may occur at the beginning of the year.

Additionally, government introduces a new initiative - “Flat for rent” (from 2015). The “Flat for rent” programme intends to increase the supply of flats for rent at affordable rates. It is expected that the programme will last for the next several years. The first tenants have already moved to a building participating in the programme (located in Poznan).

There is an observable trend among developers of the new scheme constructions such as apartments for rent, flats in condo system and private student dormitories.

Portugal
After a tough period (about six years) in the real estate sector, houses are starting to be sold for higher prices, after a steep decline in prices since 2007, which reached 20.3%.
Russia
Despite political tensions with the West, economic sanctions and drop in oil prices, 2014 was a record high year in terms of housing development intensity, volume of mortgages issued and number of transactions. Demand was at its peak in second half of the year, when buyers were seeking to get rid of the depreciating rouble. However, the outlook for 2015 is much more pessimistic. A further decline of euro-denominated prices and a slowdown in housing market activity is expected as the Russian economy slides into recession.

Spain
The Spanish residential market has started to show signs of recovery. The recovery of the sector will be very gradual, still conditioned by the high rates of unemployment, the decrease of the resident population and the oversized housing stock. However, signs of stabilisation are beginning to be tangible: the demand for housing is growing with respect to 2013, the price decrease has slowed significantly and the economic environment will continue to improve over the next years.

United Kingdom
A lack of available stock combined with tighter restrictions on mortgage lending contributed to a slowdown in activity in the UK housing market 2014. The market received a boost towards the end of the year, when a change to Stamp Duty tax rates had the effect of providing the majority of buyers with more purchasing power, however this is only predicted to provide a short-term stimulus to the market. Tightened lending criteria have hampered growth in mortgage approvals over the course of the year, but buyers who can provide an adequate deposit are benefitting from historically low interest rates, as a result of the low Bank of England base rate.

Construction of new stock continues to lag and has not been helped by high construction cost inflation and shortages of both labour and materials. The level of residential construction is a key point of debate in the upcoming general election, which in itself is generating uncertainty in the housing market and is noted in surveys as a key concern amongst buyers.

Sweden
The prices at the national level for all types of housing has increased during 2014. Condos and houses have increased by 9%, while holiday cottages have increased by 5%. At the end of the year, the price increase slowed down a bit.
The lowest interest premiums advanced by banks for the financing of residential development projects can be generally seen in Belgium, Austria, Germany, France, Sweden and Netherlands due to their low risk profile and well established real estate markets.

Pre-sales vary significantly among the surveyed countries being the lowest in Portugal (10%) and the highest in Italy (60%).

Debt-service coverage ratio (DSCR) in the range of 1.1 – 1.4 is typical. The highest DSCR can be found in France and the lowest in Italy.

Average interest rate premium of the surveyed countries, which represent the majority of Europe, is 3.32%; average loan-to-value is 68%, average pre-sales requirements are 39%, and average DSCR is 1.27.

Similarly to 2013, in 2014 the highest housing development intensity from the European countries was recorded in France (6.2). Other countries above the average of selected European countries include Poland, Belgium, Germany and the Netherlands.

From a regional viewpoint, the highest intensity of initiated residential development in 2014 was found again in Austria (5.4 started dwellings per 1,000 citizens as of the end of Q3 2014), France (4.5) and Israel (4.3).

The highest prices per sq m can be observed in the United Kingdom, Israel, France and Sweden. Out of these, Israel, Ireland and the United Kingdom have experienced a significant price growth in 2014.

The highest price growth was recorded in Ireland, where new building prices rose by an astounding (+31.7%). The second highest price growth was in Israel (+25.6%), followed by the United Kingdom with (+21.6%).

Inner London was the most expensive city among surveyed cities with a price tag reaching an astonishing 14,089 EUR / sq m. Living outside Inner London is much cheaper. In comparison, new dwellings in Outer London cost on average 7,879 EUR / sq m. The second most expensive city after London was inner Paris, with a price at 10,266 EUR / sq m.

If you are looking for good value, Porto might be exactly the place for you. With a price tag of only 860 EUR / sq m, it is the least expensive city in our survey.
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