

Deloitte Property Index 2015 - Overview of European residential markets

Residential property prices increase

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Deloitte's Property Index, an overview of European residential markets, reveals that the residential market is gaining momentum in Europe. Prices have grown in 12 markets in 2014, compared to only 5 in 2013.

The newly issued publication is the fourth edition of the annual Property Index, a comparative report on residential markets and housing across Europe. It analyzes factors influencing the development of residential markets and compares residential property prices in selected European countries and cities.

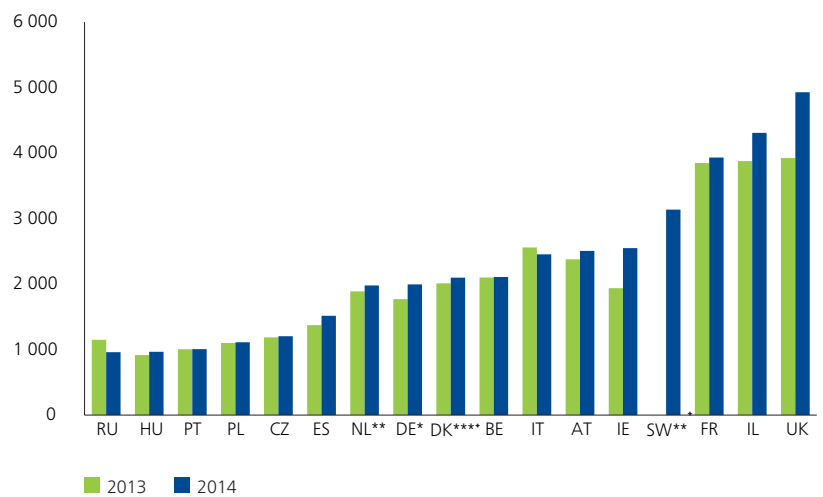
The average transaction price of a new dwelling rose in most countries

The highest prices per square meter can be observed in the United Kingdom, Israel, France, and Sweden. The cluster of post-Soviet economies falls on the other end of the price spectrum. Russia has the lowest dwelling prices among the countries surveyed, with a price slightly below €1,000 per square meter. Despite recent price growth, Hungary is the only country besides Russia with a price mark below €1,000 per square meter. The Czech Republic has the highest prices among post-Soviet states, reaching €1,200 per square meter. However, prices are still significantly below those of Western Europe. Prices in Spain and Portugal are on a similar level to those of the CEE countries due to their slump in recent years.

As usual, the development of real estate prices in individual countries varied significantly in the year-on-year comparison. The highest growth was recorded in Ireland, where new-build prices rose by an astounding 31.7 percent, followed by the United Kingdom (21.6 percent). Prices in Germany and Austria have continued their growth from the last year, rising by 12.7 percent and 5.3 percent respectively. Meanwhile, prices in Italy and Russia continued their downward trend. Belgium saw residential property prices rise by approximately 0.5 percent.

The spread between the offered and final transaction price serves as an important indicator for the balance between dwelling demand and supply. The highest discount was seen in Spain, where buyers receive a 20 percent discount on average when buying an apartment or house. However, the discount is lower than last year, which indicates improving conditions on the housing market. Other markets show a typical discount of under 10 percent.

Average transaction price of a new dwelling (EUR/square meter)



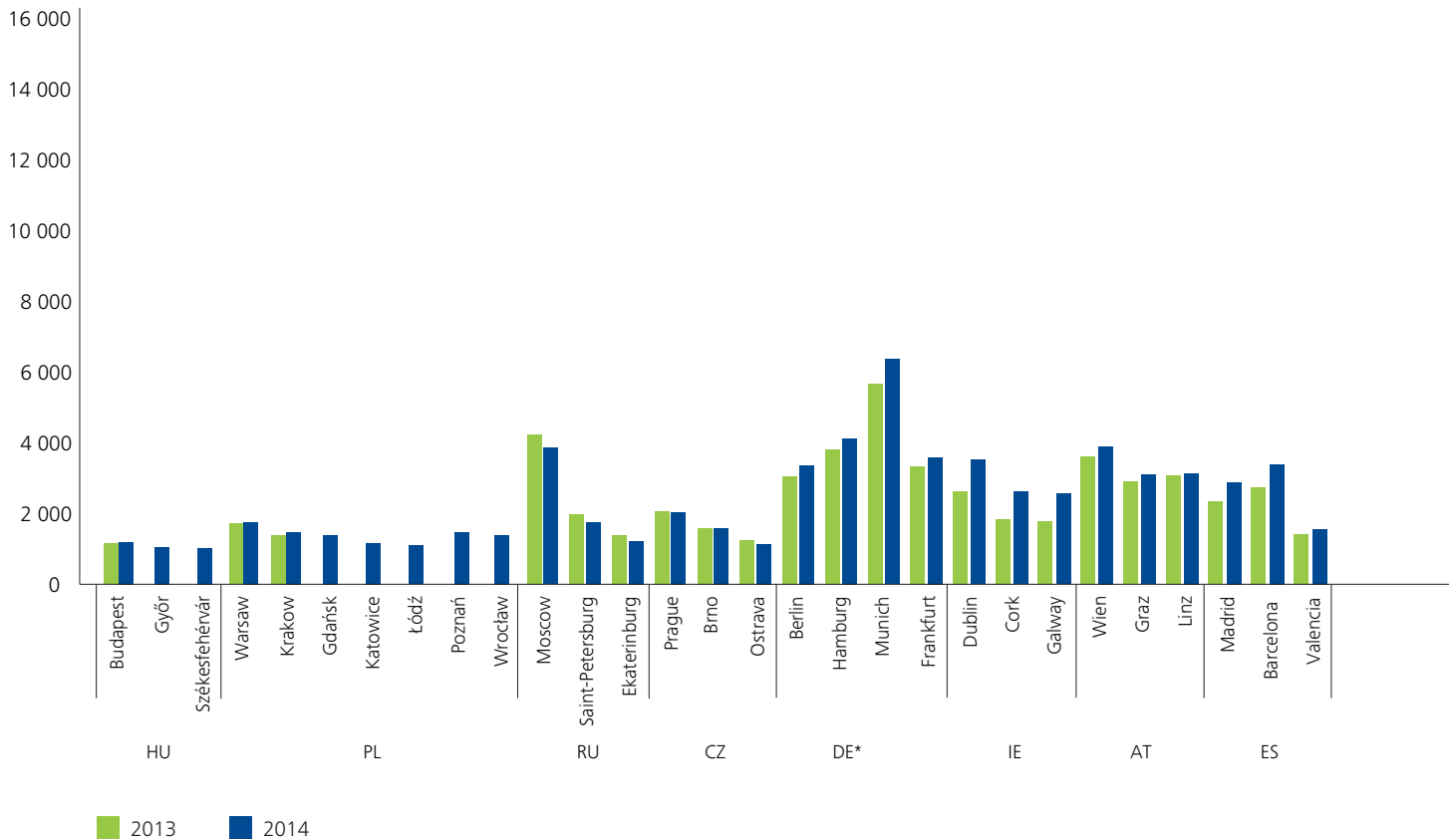
Source: National Statistical Authorities, Deloitte data calculations
 * bid price, ** older dwellings, *** all dwellings (older and new),
 * average of apartments and houses

London and Paris are the most expensive cities in Europe

At a city level, Inner London was the most expensive city with a price tag reaching an astonishing €14,089 per square meter. Living outside Inner London is much cheaper. In comparison, new dwellings in Outer London cost on average €7,879 per square meter. The second most expensive city after London was Inner Paris, with a price of €10,266 per square meter.

It is often the case that the capital is the most expensive city in a country. However, this is not true for some countries. For example, Munich, Milan, and Tel-Aviv are more expensive than Berlin, Rome, and Jerusalem. If you are looking for good value, Porto might be the place for you. With a price tag of only €860 per square meter, it is the least expensive city in the survey. The second cheapest city in 2014 was Székesfehérvár in Hungary. With €1,026 per square meter, it is 20 percent more expensive than Porto.

Average transaction price of a new dwelling (EUR/square meter)

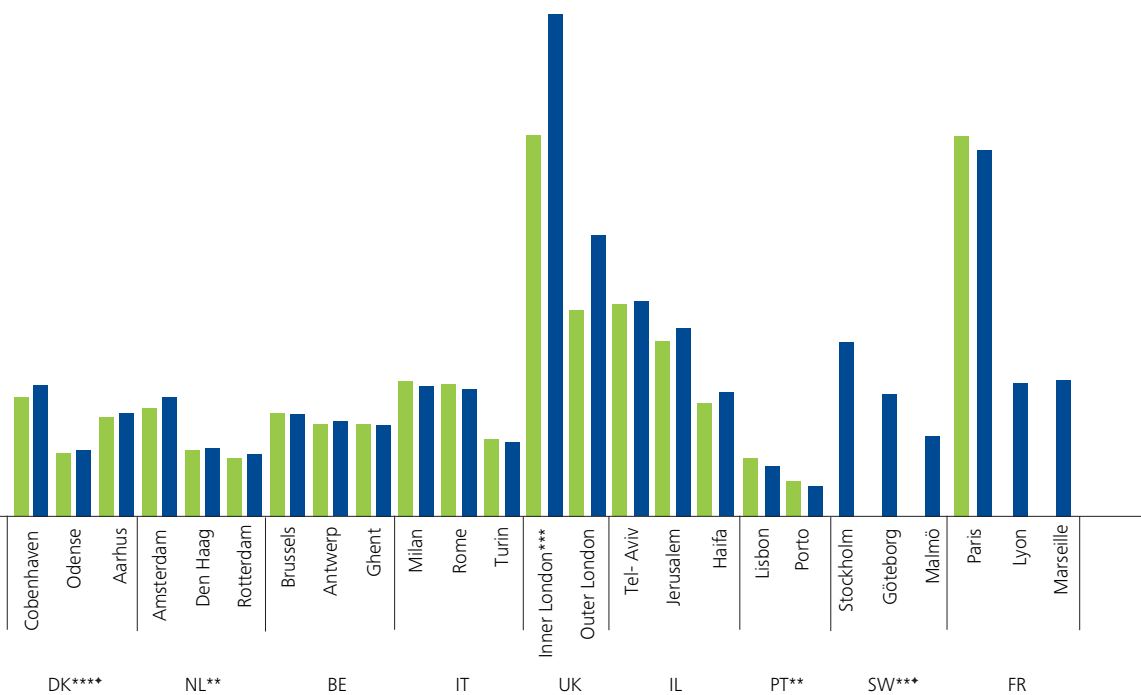


Source: National Statistical Authorities, Deloitte data calculations
 * bid price, ** older dwellings, *** all dwellings (older and new),
 ◆ average of apartments and houses

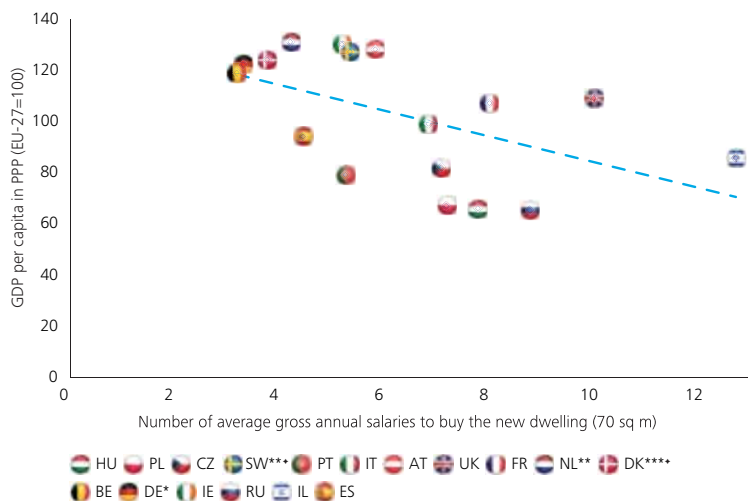


Cities situated in Eastern Europe were generally the least expensive in the survey. An exception to the rule is Moscow, which with €3,840 per square meter is at a similar price level as Vienna or Milan. Property prices grew on most of the markets in 2014. Out of the 15 cities shown, only 5 have seen a decrease in price compared to 2013.

Copenhagen, Berlin, Amsterdam, Jerusalem, Madrid, Inner London, and Dublin saw double-digit growth. The best performing market in 2014 was Dublin with astonishing growth of 34 percent. Inner London came second with 32 percent. However, prices in the UK were influenced by a stronger pound. Madrid was third with 24 percent. Fourth place was taken by Jerusalem with 18 percent. The worst performing market was Lisbon with a price decrease of 14 percent.

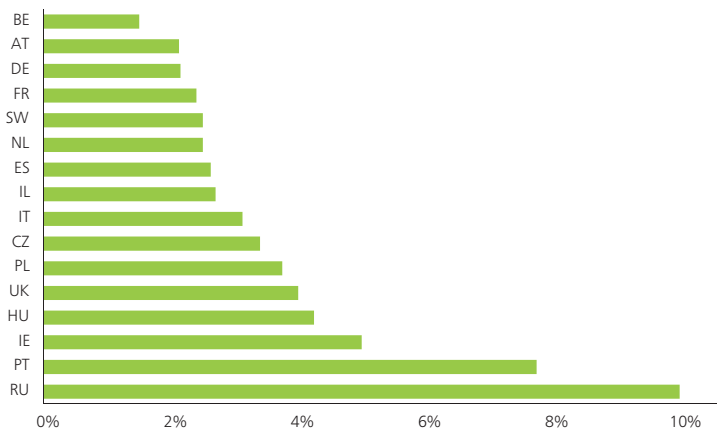


Affordability of own housing and the economic level



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

Typical loan interest premium applied by banks for the financing of residential development projects (margin over 3M Euribor, % p.a.)



Source: Deloitte analysis

Belgium has the most affordable housing

Our study measures the affordability of housing in each country in terms of number of gross annual salaries needed to buy a standard new dwelling (70 square meter).

The most affordable housing can be found in Belgium, where a person needs to save for only 3.2 years on average to buy a new dwelling. Belgium is closely followed by Germany with a ratio of 3.3. Relatively affordable housing can be found in the Netherlands (4.2), Spain (4.4), Ireland (5.2), Sweden (5.3), and Austria (5.8). The least affordable housing is found in France (8.0), Russia (8.8), the United Kingdom (10.0), and Israel (12.7).

Accessibility of dwelling ownership generally depends on the economic advancement of a country. The higher the country's economic level is, the more accessible dwelling ownership becomes. The United Kingdom is the exception that proves the rule. The high real estate prices in the United Kingdom result from the great interest of foreign investors in this market.

Household indebtedness rises

Household indebtedness (i.e., the proportion of residential debt to household disposable income) is one of the determinants of house price growth. The lowest level of household indebtedness can be found in Russia with 6.5 percent 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 percent. Consequently, these countries have the highest potential for house price increases as a result of better overall 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 percent.

Good financing conditions for residential projects are important for the stability and health of the residential real estate market

This year, the Property Index includes a special topic on the financing of residential real estate development projects. The lowest interest premiums advanced by banks for the financing of residential development projects can generally be seen in Belgium, Austria, Germany, France, Sweden, and the Netherlands owing to their low risk profile and well established real estate markets. Pre-sales vary significantly among the surveyed countries, with the lowest figure seen in Portugal (10 percent) and the highest in Italy (60 percent). Debt-service coverage ratio (DSCR) of between 1.1 and 1.4 is typical. The highest DSCR can be found in France and the lowest in Italy.

Average interest rate premiums in the surveyed countries—which cover the majority of Europe—is 3.32 percent, the average loan-to-value is 68 percent, the average pre-sales requirements are 39 percent, and the average DSCR is 1.27.

Residential on the rise

Europe's residential markets have become its strongest performing real estate sectors over the last decade, even though there have been significant differences in return and the drivers of performance between countries and local markets over this period. Each residential market has its own specific market structures and fundamentals as well as historic trends. On the one hand, there are common conditions affecting the whole of Europe, especially in the eurozone, such as European Central Bank (ECB) policy on key interest rates. On the other hand, specific factors drive economic fundamentals in each country and thus its residential markets.

Geopolitical risks are still present and the global outlook is clouded by the possibility of macroeconomic trends diverging further. Financial market volatility is also a threat to European economies. Europe could be facing an era of low growth, low investment, low inflation, and volatile financial markets. The ECB is attempting to combat this scenario and has supported the economy by starting quantitative easing early in 2015. The ECB buys bonds worth €60 billion each month. The latest data seems to indicate that financing institutions have reacted positively with a decrease in credit standards. This should help companies and investors to grow further.

The entire Property Index report is available via the link below:

<http://www2.deloitte.com/cz/en/pages/real-estate/articles/cze-index-nemovitosti.html>

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