

## Box 2

### Preliminary evidence on developments in euro area residential property prices

Residential property price developments in the euro area are an important input into the analysis of risks to price stability made within the ECB's two-pillar monetary policy strategy. Movements in house prices may influence consumer behaviour through confidence and wealth effects, and thus impact on consumption and saving patterns. In addition, an investigation of house price movements can contribute to the first-pillar analysis, which gives a prominent role to monetary aggregates and credit, as lending for house purchases represents a sizeable portion of overall loans to households. Finally, as loans for house purchases constitute a significant share of the lending of monetary financial institutions, extreme developments in house prices may have important implications for macroeconomic and financial stability.

Due to differences in legal frameworks, financial systems, historical factors and societal preferences, housing markets vary across the euro area. For example, the percentage of housing which is owner-occupied may vary according to, inter alia, tax regimes, legal protection offered to tenants, relative prices and cultural preferences. The proportion of houses to apartments may be different according to planning legislation, preferences and physical space constraints. These differences may have implications for aggregate house price measures as price trends for different house categories may vary over time, and the composition of additions to the housing stock (i.e. new housing) may differ significantly from the existing housing stock. Available national data sources vary according to whether they (a) include existing houses only, new houses only, or a combination of both, (b) include houses inside or outside the capital city only, or throughout the country, or (c) adjust for changes in the composition of housing. The last factor is used as a substitute for a proper adjustment for changes in the quality of housing transacted. Differences in market structure in terms of financing and broker intermediation in the property market also affect data availability, as frequently only mortgage-financed or agent-brokered transactions are reported.

A harmonised framework for EU residential property price statistics does not currently exist and is not envisaged in the near future. National estimates sometimes originate from non-official or commercial sources. This box can therefore only present a rough measure of house prices in the euro area constructed from national sources, subject to important caveats. In particular, as it is currently not possible to guarantee the comparability of data due to the differences in available data sources in terms of coverage and methodology, caution must be exercised when interpreting these data. These data provide information on the general direction of house price movements, but not a precise indication of short-term price changes or price levels.

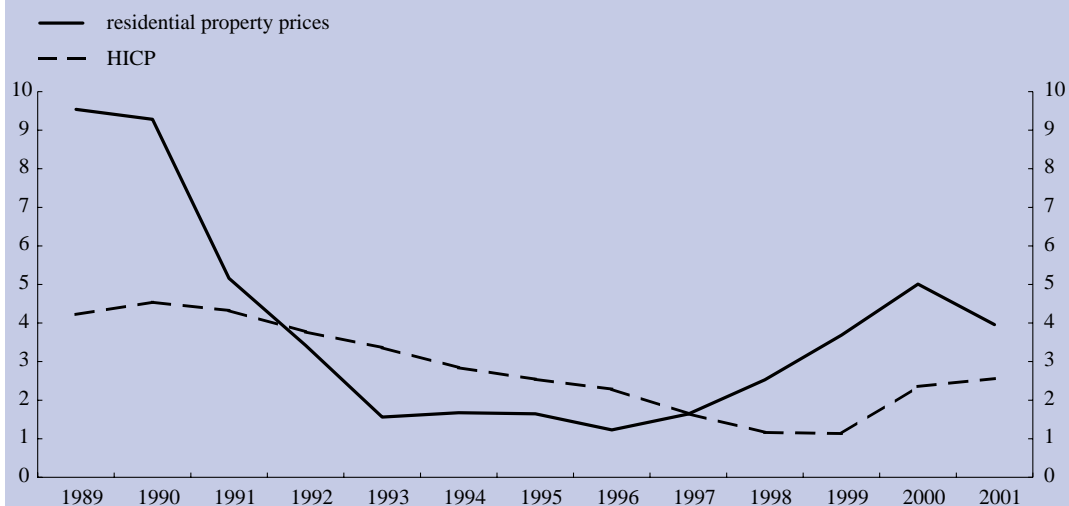
The chart below presents the available evidence on residential property price changes in the euro area between 1989 and early 2001. The declining annual rates of change observed between 1989 and 1993 reflect both an

unwinding of strong increases during the latter half of the 1980s and weak output growth in the euro area during the early part of the 1990s. Between 1993 and 1997 the measured rate of change in house prices was relatively stable, in the range of 1% to 2%. Between 1998 and 2000 the rate of increase picked up, reflecting developments in economic activity in the euro area and lower interest rates. In particular, with the advent of Economic and Monetary Union (EMU), asset prices in some countries may have adjusted to reflect the expectation of sustained lower inflation and consequently lower interest rates associated with EMU.

The chart presents the evolution of house price trends in the euro area alongside the development of consumer prices. There is little evidence that house prices in the euro area have moved significantly out of line with general price developments in the euro area as a whole over the period under review.

### Euro area residential property prices and HICP

(annual percentage changes; annual data)



Sources: ECB calculations and Eurostat (HICP from 1995).

Note: Data for 2001 refer to the first quarter. Residential property price data are not harmonised; the euro area aggregate is calculated from estimates for 11 euro area countries; no data are available for Italy.