

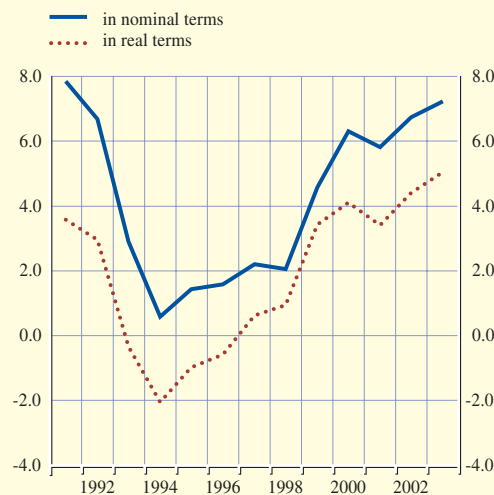
RECENT TRENDS IN RESIDENTIAL PROPERTY PRICES IN THE EURO AREA AND ACROSS EURO AREA COUNTRIES

Developments in residential property prices are an important factor to be taken into account in the assessment underlying monetary policy decisions aimed at maintaining price stability over the medium term. Although residential property prices are not included in the HICP, they can have an indirect impact on some of its constituents, notably the rent sub-component.¹ In addition, residential property prices may have some effect on households' consumption behaviour, notably through wealth effects, and on residential investment. Furthermore, residential property price developments can be related to credit developments. This Box reviews recent residential property price developments in the euro area and across euro area countries.

Growth rates in euro area residential property prices are currently close to their highest point since the early 1990s. In 2003, residential property prices are estimated to have increased by 7.2% in the euro area (see Chart A). This is the fourth consecutive year with residential

Chart A Euro area residential property prices in nominal and real terms

(annual percentage changes; annual data)



Source: ECB calculations based on non-harmonised national data.

Note: Residential property prices in real terms are obtained by using the HICP as a deflator.

property price increases of around 6-7%. Residential property prices grew at a rate 4 to 5 percentage points higher than the HICP between 1999 and 2003. This period of sustained robust residential property price increases follows a period of relatively modest increases in prices (of less than 3%) between 1993 and 1998. It should be noted that, due to the heterogeneity of underlying national data, euro area aggregate figures are of low quality and only provide a broad indicator of price developments.²

Aggregate euro area residential property price developments mask substantial disparities between euro area countries, as shown in Chart B.³ Spain, Ireland, Luxembourg, the Netherlands and Greece experienced substantial and above euro area average residential property price increases between 1999 and 2003. Regarding more recent developments in these countries, data for 2003 show that residential property price increases slowed down in the Netherlands, Greece and

Ireland. However, in Spain, residential property prices accelerated further in 2003. In Austria, Germany and Portugal residential property price changes were subdued and below the euro area average between 1999 and 2003. Data for 2003 indicate that residential property prices fell in

1 Until now, there has been no component for owner-occupied housing costs in the HICP.

2 For more details on data limitations, see the Box entitled "Residential property price developments in the euro area" in the December 2003 issue of the Monthly Bulletin.

3 For Luxembourg and Austria the latest available information relates to 2002.

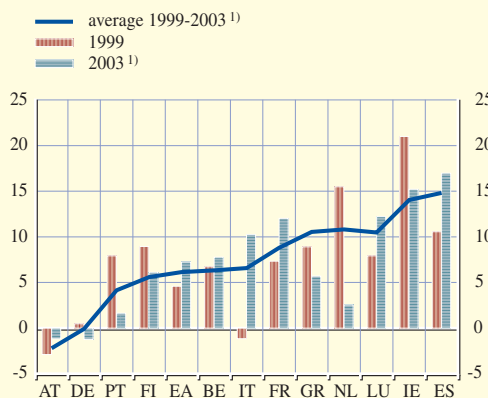
Germany, while they decelerated strongly in Portugal. A recent noteworthy feature is a steep pick-up in residential property prices in France in 2003.

The latest available quarterly data for 2004 confirm the strong increases in residential property prices in Spain and suggest a further acceleration in France and in Finland. The quarterly data also show a further deceleration in Greek residential prices and suggest that the picture for the Netherlands and Portugal remains broadly unchanged, namely subdued house price increases compared with the euro area average.

The rapid pace of residential price increases in some euro area countries warrants a close monitoring of housing market developments in these countries, given the potential implications for these economies and for the euro area as a whole.

Chart B Residential property price changes in the euro area and across euro area countries

(annual percentage changes)



Sources: National sources and ECB calculations.

Note: EA denotes euro area.

1) For Austria and Luxembourg data available up to 2002.