

Box 5

RECENT DEVELOPMENTS IN EURO AREA RESIDENTIAL PROPERTY PRICES

This box provides an overview of recent developments in residential property markets in the euro area, focusing on price changes against the background of trends in housing demand and supply.

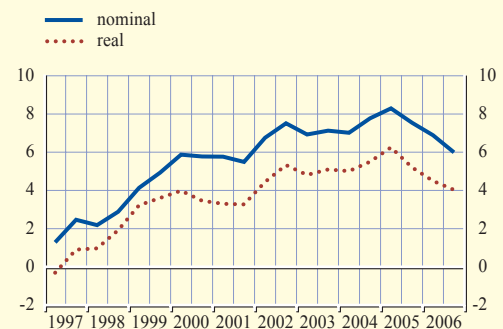
Recent property price developments

The deceleration in euro area residential property prices already observed in the second half of 2005 has continued in 2006. According to the latest estimates, the annual growth rate of residential property prices for the euro area as a whole was 6.0% in the second half of 2006, down from 6.9% in the first half of 2006 (see Chart A). This brought the annual growth rate of residential property prices in the euro area for 2006 to 6.4%, compared with a growth rate of 7.9% in 2005. The country data available, while revealing some degree of heterogeneity within the euro area, confirm that a gradual slowing in the annual growth rate of house prices is taking place in a number of countries (see table).

Data available for 2006 show that most countries that have witnessed strong increases in house prices in 2005, with rates close to or above 10%, experienced moderation in the course of 2006. For Belgium, France and Italy, 2006 represented the first year of moderation, while for Spain, 2006 constituted a continuation of the moderation that started in 2005. In Ireland, data available for the first half of 2006 showed continued strong growth, but more up-to-date information suggests that a gradual deceleration has taken place since mid-2006. Recent data also show for the first time a pick-up in house prices in Germany, following a period of subdued developments.

Chart A Residential property prices in the euro area

(annual percentage changes; semi-annual data)



Source: ECB calculations based on national data.
Note: Real residential property price series calculated using the euro area HICP as a deflator. Euro area residential property price aggregate built from national series covering more than 90% of euro area GDP for the whole period.

Residential property prices in the euro area countries

(annual percentage changes)

	1997-2000	2001	2002	2003	2004	2005	2006	2005		2006	
								H1	H2	H1	H2
Belgium ¹⁾	6.7	6.7	7.7	6.1	10.7	18.5	11.2	18.7	18.2	12.3	10.2
Germany ²⁾	-0.5	0.2	-1.3	-1.3	-1.6	-1.6	0.3	-	-	-	-
Ireland ²⁾	21.0	8.1	10.1	15.2	11.4	11.5	-	10.8	12.1	13.6	-
Greece ²⁾	10.5	14.4	13.9	5.4	2.2	11.0	-	9.2	12.7	-	-
Spain ²⁾	6.2	9.9	15.7	17.6	17.4	13.9	10.4	14.8	13.1	11.4	9.5
France ³⁾	4.4	7.9	8.3	11.7	15.2	15.3	12.0	15.5	15.1	13.9	10.4
Italy ²⁾	1.5	7.4	13.7	10.6	9.2	9.6	6.7	11.6	7.8	6.4	7.0
Luxembourg ¹⁾	5.5	13.8	11.7	12.9	10.0	-	-	-	-	-	-
Netherlands ³⁾	14.1	11.2	8.5	4.9	4.1	4.8	4.5	4.8	4.9	4.9	4.2
Austria ^{2), 4)}	-1.8	2.2	0.2	0.3	-2.2	5.1	4.0	6.8	3.4	4.1	4.0
Portugal ²⁾	5.8	3.6	1.1	1.6	0.4	-	-	1.9	-	-	-
Slovenia	-	-	-	-	-	-	-	-	-	-	-
Finland ³⁾	10.6	0.7	6.1	6.3	7.3	6.1	-	4.6	7.6	8.3	-
Euro area	3.7	5.6	7.1	7.0	7.4	7.9	6.4	8.3	7.5	6.9	6.0

Sources: National sources and ECB calculations.

Note: Weights based on 2005 nominal GDP.

1) New and existing houses; whole country.

2) All dwellings (new and existing houses and flats); whole country.

3) Existing dwellings (houses and flats); whole country.

4) Up to 2000, data for Vienna only.

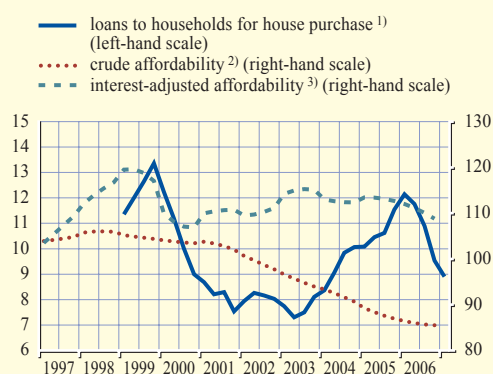
Developments in demand-side indicators

Developments in euro area house prices reflect the interaction of supply and demand for housing.¹ As regards housing demand, the most recent signals from indicators such as measures of housing affordability and financial indicators point to a gradual cooling of demand for residential properties in 2006 and early 2007.

Measures of housing affordability combine various indicators of household income and financing conditions. Even though household nominal disposable income growth has increased during 2006 compared with 2005, it has remained clearly below the growth rate in residential property prices. As a result, “crude” affordability – as measured by the ratio of households’ nominal disposable income to residential property prices – continued to decline in 2006 in line with the declining path observed since about 2001 (see Chart B). In 2006 measures of interest-adjusted affordability² have also moved in the same direction. This reflects to a large extent the turning point in

Chart B Selected housing demand indicators in the euro area

(annual percentage changes; index 100 = average)



Sources: Eurostat and ECB calculations.

1) Data for loans to households for house purchase available up to March 2007.

2) Ratio of households’ nominal disposable income to residential property prices.

3) Ratio of households’ nominal disposable income to the income that households would require in order to buy a house under the prevailing borrowing conditions.

1 For a detailed analysis of available indicators of demand and supply of housing, see the article entitled “Assessing house price developments in the euro area” in the February 2006 issue of the Monthly Bulletin.

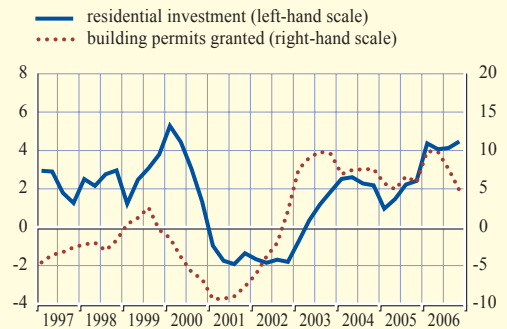
2 Interest-adjusted affordability measures consist of the ratio of households’ nominal disposable income to the income that households would require in order to buy a house under the prevailing borrowing conditions. For more detailed information, see the article entitled “Assessing house price developments in the euro area” in the February 2006 issue of the Monthly Bulletin.

financing conditions in late 2005 as both nominal and real bank lending rates for house purchase, after having reached historical record low levels in 2005, increased during 2006.

Some normalisation of housing demand can also be seen in the development of mortgage loans. The annual growth rate of MFI loans to households for house purchase, after having reached a peak in March 2006 (at levels around 12.1%), started to gradually decline, reaching levels of about 8.9% in March 2007 (see Chart B). This decline most likely reflects the increase in borrowing costs, together with the slight deceleration in house price growth. Overall, available indicators and survey data suggest that housing demand continued to moderate in early 2007.

Chart C Selected housing supply indicators in the euro area

(annual percentage changes)



Sources: Eurostat and ECB calculations.
Note: Both indicators are reported as four-quarters moving average of quarter-on-quarter growth.

Developments in housing supply

Turning to housing supply, the available indicators give a mixed picture. For example, residential investment growth in the euro area, which can be associated with the flow into housing stock, increased significantly in 2006 compared with 2005. The annual growth rate recorded in 2006, at 4.7%, was the highest since 1994 (see Chart C). However, as regards the growth in building permits granted, some signs of deceleration can be detected towards the second half of 2006. Unfortunately, the picture of housing supply in the euro area remains partial, given the lack of homogeneous and timely data on important indicators such as land prices and housing completions.

Overall, recent information appears to be in line with a cooling down of housing market developments after a prolonged period of unusually high growth rates in house prices. However, in real terms, deflated by the HICP, house price growth still remains relatively buoyant in the euro area on average when seen in historical perspective (see Chart A). Moreover, the real growth rate of mortgage credit remains high from a long-term point of view. Housing market developments therefore need to continue to be monitored closely.