

**Box 4**

**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.

The annual growth rate of residential property prices for the euro area as a whole was 5.0% in the first half of 2007, down from 6.1% in the second half of 2006. In general, the available

estimates suggest that house prices continue to be on a gradual path of normalisation following the acceleration observed between the mid-1990s and 2005 (see Chart A).

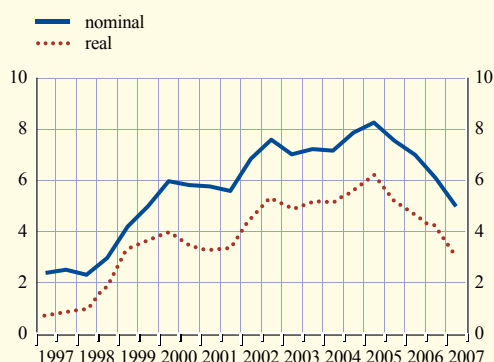
Country data suggest that the moderation in euro area house price inflation was particularly marked in those countries that recorded relatively high residential property price rises in recent years, such as Belgium, Ireland, Spain, France and Malta. By contrast, in the case of Italy, the Netherlands and Austria, available data suggest that house price increases in 2007 were roughly unchanged compared with those recorded in 2006.

In general, recent developments in euro area residential property prices primarily reflect a slowdown in the demand for housing.<sup>1</sup>

Although household income showed sustained growth, a “crude” index of housing affordability – i.e. the ratio of households’ nominal disposable income to the residential property price index – remained relatively low, stabilising in the first half of 2007 after declining continuously since

**Chart A Residential property prices in the euro area**

(annual percentage changes; biannual data)



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

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

### Residential property prices in the euro area

(annual percentage changes)

	1997-2000	2001	2002	2003	2004	2005	2006	2007	2006		2007	
									H1	H2	H1	H2
Belgium <sup>1)</sup>	6.3	6.2	7.8	7.1	12.0	16.7	11.1	..	12.4	9.9	7.8	..
Germany <sup>2)</sup>	-0.5	0.2	-1.3	-1.3	-1.6	-1.6	0.3	..	..	..	..	..
Ireland <sup>2)</sup>	21.0	8.1	10.1	15.2	11.4	11.5	12.8	..	13.6	12.1	6.1	..
Greece <sup>2)</sup>	10.5	14.4	13.9	5.4	2.3	10.9	12.2	..	13.0	11.4	..	..
Spain <sup>2)</sup>	6.2	9.9	15.7	17.6	17.4	13.9	10.4	5.8	11.4	9.5	6.5	5.1
France <sup>1)</sup>	4.4	7.9	8.3	11.7	15.2	15.3	12.1	..	13.9	10.5	7.5	..
Italy <sup>2)</sup>	1.5	7.4	13.7	10.6	9.2	9.7	6.7	..	6.4	7.0	6.6	..
Cyprus	..	..	..	..	..	..	..	..	..	..	..	..
Luxembourg <sup>2)</sup>	5.2	11.4	10.8	11.5	14.0	11.7	..	..	..	..	..	..
Malta <sup>2)</sup>	..	..	8.7	13.3	20.3	9.8	3.5	..	5.8	1.4	1.6	..
Netherlands <sup>1)</sup>	14.1	11.2	8.4	4.8	4.1	4.7	4.5	4.6	4.8	4.3	4.5	4.8
Austria <sup>2),3)</sup>	-1.8	2.2	0.2	0.3	-2.2	5.1	4.0	..	4.1	4.0	3.9	..
Portugal <sup>2)</sup>	5.8	5.4	0.6	1.1	0.6	2.3	2.1	1.3	3.4	0.8	1.2	1.5
Slovenia	..	..	..	..	..	..	..	..	..	..	..	..
Finland <sup>1)</sup>	..	-0.5	7.4	6.3	7.3	6.1	7.4	6.0	8.3	6.6	6.4	5.6
Euro area	3.9	5.7	7.2	7.1	7.5	7.9	6.5	..	7.0	6.1	5.0	..

Sources: National sources and ECB calculations.

Notes: Weights are based on 2006 nominal GDP. The estimate of the euro area aggregate for the first half of 2007 includes a confidential estimate for Germany.

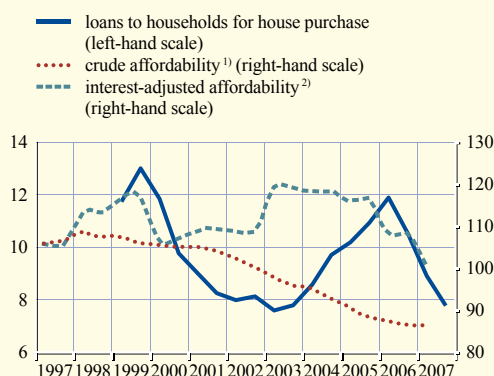
1) Existing dwellings (houses and flats); whole country.

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

3) Data up to 2000 for Vienna only.

**Chart B Selected housing demand indicators in the euro area**

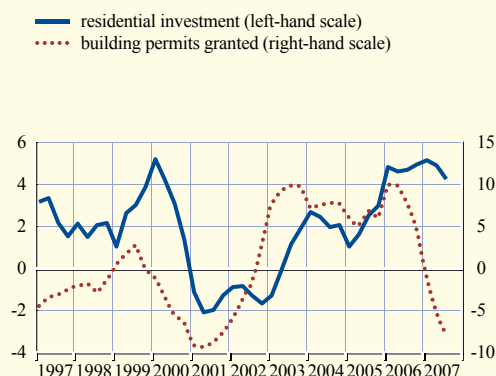
(annual percentage changes; index 100 = average)



Sources: Eurostat and ECB calculations.  
 1) Ratio of households' nominal disposable income to residential property prices.  
 2) Ratio of households' nominal disposable income to the income that households would require in order to buy a house under the prevailing borrowing conditions.

**Chart C Selected housing supply indicators in the euro area**

(annual percentage changes)



Sources: Eurostat and ECB calculations.  
 Note: Four-quarter moving averages of year-on-year growth rates.

2002 (see Chart B). This decline reflects the strong rise in house prices witnessed over the past few years. At the same time, measures of interest-adjusted affordability<sup>2</sup> suggest that housing affordability declined even further in 2007 compared with 2006, reflecting to a large extent the increases in both nominal and real bank lending rates for house purchase observed during 2007. A moderation in housing demand can also be seen in the development of mortgage loans, the annual growth rates of which started to decline in early 2006. These indications of a softening in the demand for housing coincided with a fall in the growth of building permits granted over the same period.

Available demand and supply indicators suggest that a further moderation in residential property prices may have taken place in the second half of 2007. On the demand side, the annual growth rate of MFI loans to households for house purchase declined further over this period, to stand at 7.1% in December. The results of the January 2008 bank lending survey suggest that households' net demand for loans for house purchase fell sharply in the fourth quarter of 2007. At the same time, there appears to be a moderation in the expansion of housing supply following the strong growth of recent years (see Chart C). Developments in 2007 may have also partly reflected the fact that some investment plans were frontloaded in 2006 on account of fiscal measures in some countries (such as changes to homeowner subsidisation and statutory rates for indirect taxation). Short-term indicators, such as Eurostat's building construction index, suggest that a continued moderation in residential investment growth can be expected for the fourth quarter of 2007. This is corroborated by other indicators of housing supply, such as building permits, which also suggest that the expansion of housing supply could moderate further in 2008.

<sup>2</sup> Interest-adjusted affordability is measured as 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 referred to in footnote 1.

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, real house price growth (deflated by the HICP) still remains, on average, relatively buoyant in the euro area when seen from a historical perspective.