

## Box 4

## RECENT HOUSING MARKET DEVELOPMENTS IN THE EURO AREA

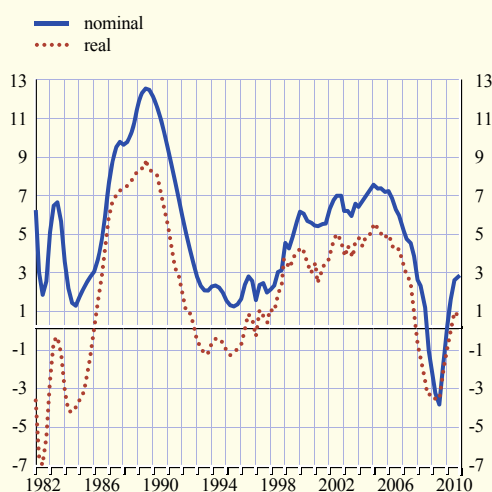
Euro area residential property prices increased by an average of 5.6% per year between 1999 and 2008. These strong year-on-year price rises were then followed by a contraction in 2009 and a slight rebound in 2010. Euro area house prices increased by an average of 1.8% year on year in 2010, compared with the year-on-year contraction of 2.8% recorded in 2009. According to the latest data, euro area house prices increased by 2.6% and 2.8% year on year in the third and fourth quarters<sup>1</sup> of 2010 respectively (see Chart A).

The above-mentioned aggregated euro area figures for 2010 mask divergent developments across euro area countries (see the table), with some countries – Ireland, Greece, Spain, the Netherlands and Slovakia – continuing to record declining house prices year on year in the third and fourth quarters. The largest year-on-year house price increases in the fourth quarter were seen in France and Finland. Looking at quarter-on-quarter developments in 2010, growth in residential property prices gained momentum in the second and third quarters, when house prices increased by 1.3% and 1.0% respectively. In the fourth quarter, however, prices increased more moderately, rising by 0.4%.

An asset-pricing approach to the assessment of housing market developments suggests that house prices are still relatively high compared with rents, both for the euro area as a whole and for some individual euro area countries, with the ratio of the euro area house price index to the

Chart A Euro area residential property prices

(quarterly data; year-on-year percentage changes)



Sources: National data and ECB calculations.

Notes: Real residential property price growth is obtained by subtracting annual HICP inflation from nominal residential property price growth. See footnote 1 in the text for details of the compilation of the nominal index.

<sup>1</sup> Starting with data for early 2010, the ECB has begun compiling its residential property price indicator for the euro area with a quarterly frequency. For Germany, quarterly figures are derived from annual price data (using, inter alia, early available information from big cities), while for Italy, quarterly figures are derived from biannual observations (using, inter alia, quarterly indicators). The publication in early 2011 of the corresponding annual German and biannual Italian data for 2010 did not entail significant revisions to the earlier estimated quarterly data, thereby providing evidence that the assumptions underlying the quarterly estimates for Germany and Italy were reasonable. For further details, see the box entitled "Recent housing market developments in the euro area", *Monthly Bulletin*, ECB, December 2010.

## Residential property prices (nominal) in the euro area

(annual percentage changes)

	Weight (%)	2009	2010	2009		2010		2009				2010				2011
				H1	H2	H1	H2	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Belgium <sup>1)</sup>	3.8	-0.4	.	-0.6	-0.1	4.9	.	0.9	-2.2	-1.4	1.2	3.8	6.0	5.6	.	.
Germany <sup>2)</sup>	26.7	0.6	2.3	.	.	.	.	.	.	.	.	.	.	.	.	.
Estonia <sup>3)</sup>	0.2	-35.9	0.1	-37.6	-34.0	-4.5	5.1	-34.9	-40.3	-37.4	-30.5	-8.1	-0.6	6.2	4.0	.
Ireland <sup>2)</sup>	1.8	-13.7	-15.5	-11.3	-16.1	-17.9	-12.9	-11.0	-11.6	-13.8	-18.5	-18.9	-17.0	-14.8	-10.8	.
Greece <sup>3)</sup>	2.6	-3.7	-4.0	-2.9	-4.6	-3.2	-4.9	-3.3	-2.5	-5.1	-4.0	-1.8	-4.7	-4.1	-5.7	.
Spain <sup>2)</sup>	11.7	-6.7	-2.0	-7.6	-5.7	-1.9	-2.0	-7.6	-7.7	-7.0	-4.4	-2.9	-0.9	-2.2	-1.9	.
France <sup>1)</sup>	21.3	-7.1	6.3	-8.1	-6.2	3.7	9.0	-6.9	-9.3	-7.9	-4.4	1.4	6.1	8.4	9.5	.
Italy <sup>2)</sup>	17.0	-0.4	0.1	-0.2	-0.6	-0.2	0.4	.	.	.	.	.	.	.	.	.
Cyprus <sup>2)</sup>	0.2	-3.9	.	-4.6	-3.3	-0.8	.	-3.0	-6.1	-4.9	-1.7	0.0	-1.8	-3.7	.	.
Luxembourg <sup>2)</sup>	0.4	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.
Malta <sup>2)</sup>	0.1	-5.0	1.1	-7.9	-2.0	2.4	-0.2	-9.9	-6.0	-2.5	-1.4	4.5	0.5	1.5	-2.0	.
Netherlands <sup>1)</sup>	6.4	-3.3	-2.0	-1.5	-5.1	-3.2	-0.8	-0.3	-2.8	-5.1	-5.0	-4.3	-2.0	-0.6	-1.0	.
Austria <sup>2)</sup>	3.1	3.6	5.7	4.6	2.6	5.5	5.9	4.3	4.9	3.4	1.9	5.7	5.3	5.0	6.8	3.9
Portugal <sup>2)</sup>	1.9	0.4	1.8	1.5	-0.7	1.4	2.2	2.7	0.3	-0.8	-0.6	1.3	1.6	2.9	1.6	.
Slovenia <sup>1)</sup>	0.4	-8.2	2.8	-8.4	-8.0	2.6	3.1	-7.1	-9.8	-10.9	-5.0	1.1	4.1	4.6	1.5	.
Slovakia <sup>1)</sup>	0.7	-11.1	-3.9	-8.9	-13.3	-6.0	-1.7	-4.3	-13.4	-14.3	-12.3	-8.3	-3.7	-1.3	-2.1	.
Finland <sup>1)</sup>	1.9	-0.3	8.7	-4.5	4.1	10.9	6.6	-5.5	-3.6	0.4	7.9	11.4	10.3	8.0	5.3	.
Euro area	100.0	-2.8	1.8	-2.9	-2.7	0.9	2.7	-2.4	-3.4	-3.8	-1.6	0.1	1.6	2.6	2.8	.

Sources: National data and ECB calculations.

Notes: Weights based on 2009 nominal GDP. The quarterly data for the euro area include estimated quarterly data for Germany and Italy obtained using supplementary quarterly information and indicators.

1) Existing residential property.

2) All residential property (i.e. new and existing residential property).

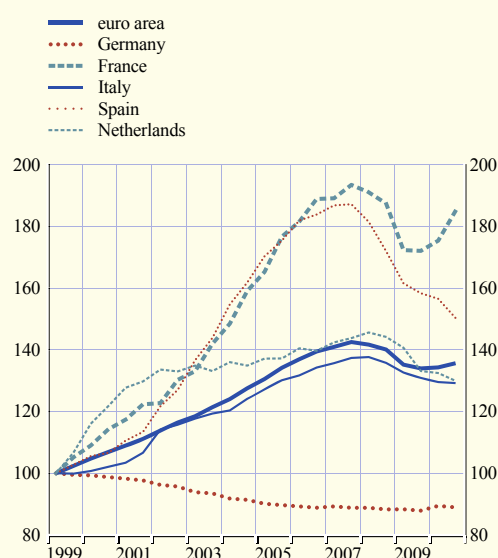
3) All flats.

rent component of the HICP index remaining somewhat elevated compared with its level a decade ago (see Chart B). At the euro area level, this ratio, after falling in 2009, showed signs of stabilisation in the first two quarters of 2010, before increasing slightly in the second half of the year.

Recent developments in euro area house prices have to be assessed against the background of subdued developments in housing supply and muted demand.<sup>2</sup> In the second half of 2010 housing demand conditions generally stabilised, with impediments to credit dissipating following their highs of two years ago. More specifically, an oft-cited basic measure of housing affordability, the ratio of households' nominal disposable income to the nominal house price index ("crude" affordability), albeit declining in the second half of 2010 (owing to more pronounced house price inflation), has increased overall since the end of 2007

Chart B House price/rental yield ratio in the euro area and selected euro area countries

(index: 1999 = 100; percentages; biannual data)



Sources: Eurostat and ECB calculations.

2 For a detailed analysis of indicators of housing supply and demand, see the article entitled "Assessing house price developments in the euro area", *Monthly Bulletin*, ECB, February 2006.

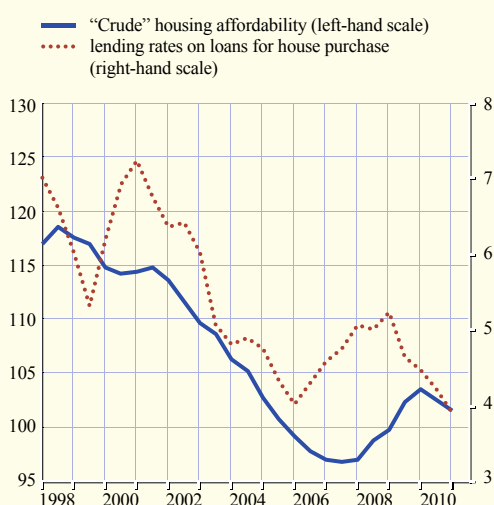
(see Chart C). However, crude housing affordability still remains around 10% below its level in 1999. Improvements in borrowing conditions continued in the second half of 2010, with a decline observed in nominal interest rates on loans to households for house purchase, helping to improve demand conditions. In addition, the latest information from the ECB's bank lending survey suggests that the net tightening of credit standards on loans to households for house purchase has declined. Reflecting these developments, the annual growth rate of euro area loans to households for house purchase has continued to steadily increase, rising from negative figures in 2009 to positive growth (of close to 4% year on year) in January 2011. While this is indicative of improving housing market prospects, the growth rate of these loans remains low compared with the peak observed in the latest house price cycle, when it stood at more than 12% in mid-2006.

On the supply side of the housing market, real housing investment declined by 0.3% year on year in the fourth quarter of 2010 (see Chart D). Looking ahead, available indicators of construction production in the euro area for the first quarter of 2011 point to moderately positive prospects for residential building activity. However, building permits, which are often used as a leading indicator of housing investment a few months ahead, indicate a slowdown in the last quarter of 2010.

All in all, developments in housing supply and demand suggest that house prices are expected to continue growing at a more moderate pace relative to the developments observed in the earlier part of the last decade, not least since residential property prices are still adjusting following earlier overvaluation in some countries.

Chart C "Crude" housing affordability and borrowing conditions

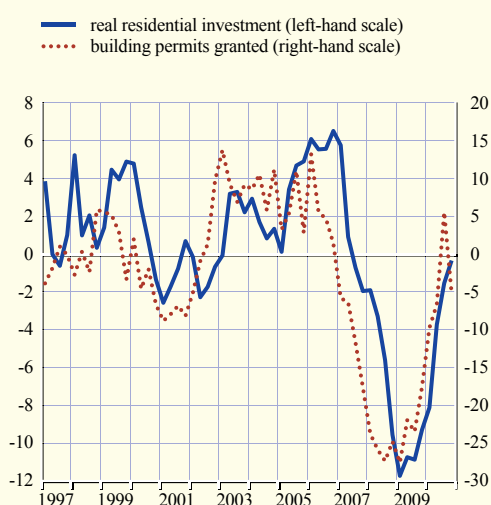
(index: 2005 = 100; percentages)



Sources: Eurostat and ECB calculations.  
 Notes: Euro area lending rates on loans for house purchase refer to a maturity of over five and up to ten years. "Crude" housing affordability is defined as the ratio of households' nominal disposable income to the nominal house price index.

Chart D Euro area residential investment and building permits granted

(year-on-year growth; percentages)



Sources: Eurostat and ECB calculations.