



## Property Index

### Overview of European Residential Markets

What size of dwelling can people  
buy for EUR 200,000  
5<sup>th</sup> edition, July 2016

<b>Introduction</b>	<b>3</b>
<b>Economic Development in Europe</b>	<b>6</b>
<b>Focus: What size of dwelling can people buy for EUR 200,000?</b>	<b>8</b>
Country comparison	8
Cities comparison	8
<b>Comparison of Residential Markets</b>	<b>12</b>
Housing Development Intensity	12
Housing Stock	15
<b>Comparison of Residential Property Prices in Selected Countries and Cities</b>	<b>17</b>
Average Transaction Price of a New Dwelling in Selected Countries	18
Average Transaction Price of a New Dwelling in Selected Cities	22
Affordability of One's Own Housing	25
<b>Mortgage Markets in Europe</b>	<b>26</b>
<b>Annex: Comments on Residential Markets</b>	<b>28</b>
<b>Highlights</b>	<b>33</b>
<b>Contacts</b>	<b>34</b>
<b>Authors</b>	<b>35</b>

# Introduction

We are pleased to present to you the fifth edition of the Property Index, Overview of European Residential Markets.

Property Index is a comparative report regarding residential markets and housing across Europe. It analyses factors influencing the development of residential markets and compares residential property prices in selected (not only) European countries and cities.

This year we are answering the question: “What size of dwelling can you buy for EUR 200,000?” This allows for observation and comparison of residential markets with a new perspective.

Our goal is to provide you with European residential market data. How do Europeans live, and how much does it cost them?

As in the previous year, we especially focused our attention on:

- Austria (AT);
- Belgium (BE);
- Czech Republic (CZ);
- France (FR);
- Germany (DE);
- Hungary (HU);
- Ireland (IE);
- Israel (IL);
- Italy (IT);
- Netherlands (NL);
- Poland (PL);
- Portugal (PT);
- Russia (RU);
- Spain (ES); and
- United Kingdom (UK).

In addition, this year we added data regarding:

- Estonia (EE);
- Latvia (LV);
- Lithuania (LT); and
- Slovenia (SI).

The prices in the selected countries and their major cities differ significantly as a result of historical development and various factors affecting the volume of supply and demand.

The Property Index was prepared by a proven international and cross-functional team of Deloitte professionals in the development, mortgage and real estate markets. This publication has been prepared using data collected by individual Deloitte offices in selected countries.

The Property Index capitalises on Deloitte's extensive knowledge of the real estate and development industry, enabling us to provide you with independent and credible information.

We hope you will find this fifth issue of the publication of interest for your business.

# Economic Development in Europe

The European economy continued to rise in 2015; nevertheless, the pace of GDP growth remains feeble. GDP in the whole EU-28 increased by 1.8%, the Eurozone rose by 1.7%. The growth was supported by the ECB's accommodative policy, a weaker exchange rate of the euro against other major currencies and low commodity prices.

External conditions were less favourable in 2015 than a year before. While the US economy kept growing at 2.4%, the situation of other important markets worsened. The Chinese economy decelerated its growth below 7%, Japan grew by meagre 0.5%, Russia and Brazil fell into outright recession. However, European countries weathered challenging external condition relatively well.

Monetary policy relaxed further in the course of 2015. The ECB started buying government bonds in March 2015. Together with other parts of its quantitative easing programme, the total monthly purchases amounted to EUR 60bn and were supposed to last until September 2016. In December, the ECB decided to cut its deposit rate by 10 basis points to minus 0.30%, and pledged to extend its asset purchase programme by six months to at least the end of March 2017. That will add another EUR 360bn of asset purchases to the programme. Declining interest rates contributed to the growth of consumption expenditures by 1.9% and fixed capital investment by 3.2% in the EU in 2015.

A weaker euro exchange rate also provided an important boost for GDP growth in Eurozone countries. The average EUR-USD rate was 16.5% lower in 2015 compared to 2014. Against the Japanese yen the euro dropped by 4.3%, against the British pound by 10.0%. Another part of the rising competitiveness was an improvement in the labour productivity accompanied by slow wage inflation. Unit labour costs have continued to decline since 2013. Thanks to increasing competitiveness exports from both the EU and the Eurozone rose by 4.9% in real terms last year.

Fiscal policy in most European countries remained neutral or tightened in an effort to get closer to the long-term sustainability of public finances. General government deficit declined in 25 out of 28 EU countries in 2015.

Europe still faces geopolitical risks that could have an impact on its economy. The situation in the Middle East did not stabilise. Sanctions against Russia are still in place. The United Kingdom has recently voted to leave the EU. However, the migration crisis seems to be easing. More importantly, the situation within the Eurozone gradually stabilised as countries most stricken by the crisis adopted structural measures to improve their fiscal record and competitiveness.

The long-term prospects of the EU and the Eurozone are expected to be negatively affected by the slow growth of total factor productivity and increased burden of financial regulation. An aging population will add some pressure to the labour markets and could slowdown GDP growth as well. While the average growth in the 10 years before the financial crisis (1998-2007) reached 2.6%, expected long-term growth in coming years is likely to oscillate between 1.5-2.0%.

The housing market is usually sensitive to economic conditions, especially GDP growth and interest rates. Correlation between lagged GDP growth and house prices in the EU reached 81% during the last 10 years. Thus, the expected sluggish economic growth is likely to limit inflation in house prices in the coming years. On the other hand, the accommodative monetary policy of the ECB and other central banks in the EU will keep interest rates at low levels and support the housing market.

## Real GDP Growth Rate

Country	2011	2012	2013	2014	2015
AT	2.8	0.8	0.3	0.4	0.9
BE	1.8	0.2	0.0	1.3	1.4
CZ	2.0	-0.9	-0.5	2.0	4.2
DE	3.7	0.4	0.3	1.6	1.7
EE	7.6	5.2	1.6	2.9	1.1
ES	-1.0	-2.6	-1.7	1.4	3.2
FR	2.1	0.2	0.7	0.2	1.1
HU	1.8	-1.7	1.9	3.7	2.9
IE	2.6	0.2	1.4	5.2	7.8
IL	5.0	2.9	3.4	2.8	2.6
IT	0.6	-2.8	-1.7	-0.3	0.8
LT	6.0	3.8	3.5	3.0	1.6
LV	6.2	4.0	3.0	2.4	2.7
NL	1.7	-1.1	-0.5	1.0	2.0
PL	5.0	1.6	1.3	3.3	3.6
PT	-1.8	-4.0	-1.1	0.9	1.5
RU	4.3	3.4	1.3	0.6	-3.7
SI	0,6	-2,7	-1,1	3,0	2,9
UK	2.0	1.2	2.2	2.9	2.3
EU (28 countries)	1.8	-0.4	0.3	1.4	2.0

Source: Euromonitor

# Focus

What size of dwelling  
can people buy  
for EUR 200,000?

Last year we added to the Property Index a special section focusing on selected issues. With the fifth edition publishing this year we would like to proceed with a topic that will bring a new view of residential market comparison. This year's focus covers what size of property people can afford for EUR 200,000 (excluding taxes and duties). Because size is what matters.

The year 2015 was very positive for residential properties. Due to the cheap financing of residential housing, property prices rose rapidly in selected markets and large differences in transaction prices among cities and states were made. That was a factor in why we have decided to present a new statistic showing the average size of a dwelling for a fixed price.

We asked Deloitte's real estate professionals what the average transaction price of a new dwelling in the largest cities and their countries is. After that we calculated the average size of a property that can be bought for EUR 200,000. The reason for choosing this amount was because of the actual price situation on the residential market in Europe. The average size of a new dwelling in the largest European cities was 90 sq m, whereas among European countries it was 114 sq m.

## Country comparison

From our research it is obvious that the farther east a country's location is, the more affordable the dwellings are. The only exceptions are countries situated more to the south like Spain or Portugal. The following summaries our research:

- The largest average size of a new dwelling can be generally bought in Russia of almost 280 sq m, even if the capital Moscow belongs to cities with the most expensive residential properties.
- In Hungary, Portugal and Poland people can afford to buy a more than 5-room dwelling for EUR 200,000.
- The Czech Republic, the Netherlands, Germany and Belgium have dwellings whose size is slightly below the European average. Normally a 4-room apartment is available for this price in these countries.

- In Italy, Austria and Ireland the average size of a new dwelling is smaller than in states in CEE and Eastern Europe.
- In the United Kingdom people can only buy a one-room apartment with an area of 39 sq m for EUR 200,000.

## Cities comparison

By comparing cities within Europe large distinctions were observed. The average area of a new dwelling fluctuated between 11 and 201 sq m. The results show that in selected cities people can only buy a dwelling the size of a "bathroom", whereas in other cities luxury houses are affordable for this amount. For better illustration we have selected the 3 largest cities from each country.

- The highest average sizes of new dwellings were recorded in cities from the CEE and Eastern Europe. The winner of this comparison was Debrecen with 201 sq m.
- Ekaterinburg located in Russia occupied second place with an average size of a new dwelling of almost 200 sq m.
- Only non-capitals were situated at the end of the ranking list. Large apartments are affordable in Győr (188 sq m), Łódź (183 sq m) or Ostrava (168 sq m).
- Kranj, Riga, Prague, Turin, The Hague and Lisbon were in terms of the average area slightly above the European average.
- Less affordable living was observed mainly in the capitals of Western and Central Europe, for example Brussels (69 sq m), Madrid (67 sq m), Berlin (63 sq m), Rome (58 sq m) or Amsterdam (55 sq m).
- In Dublin (47 sq m), Jerusalem (39 sq m) or Munich (33 sq m) EUR 200,000 is only enough to buy a one room apartment for.
- The lowest average size of a new dwelling for EUR 200,000 is in Central London (11 sq m), followed by Paris (19 sq m). To buy an apartment of 201 sq m in Central London (as in Debrecen for same amount) people would need EUR 3,655,000.

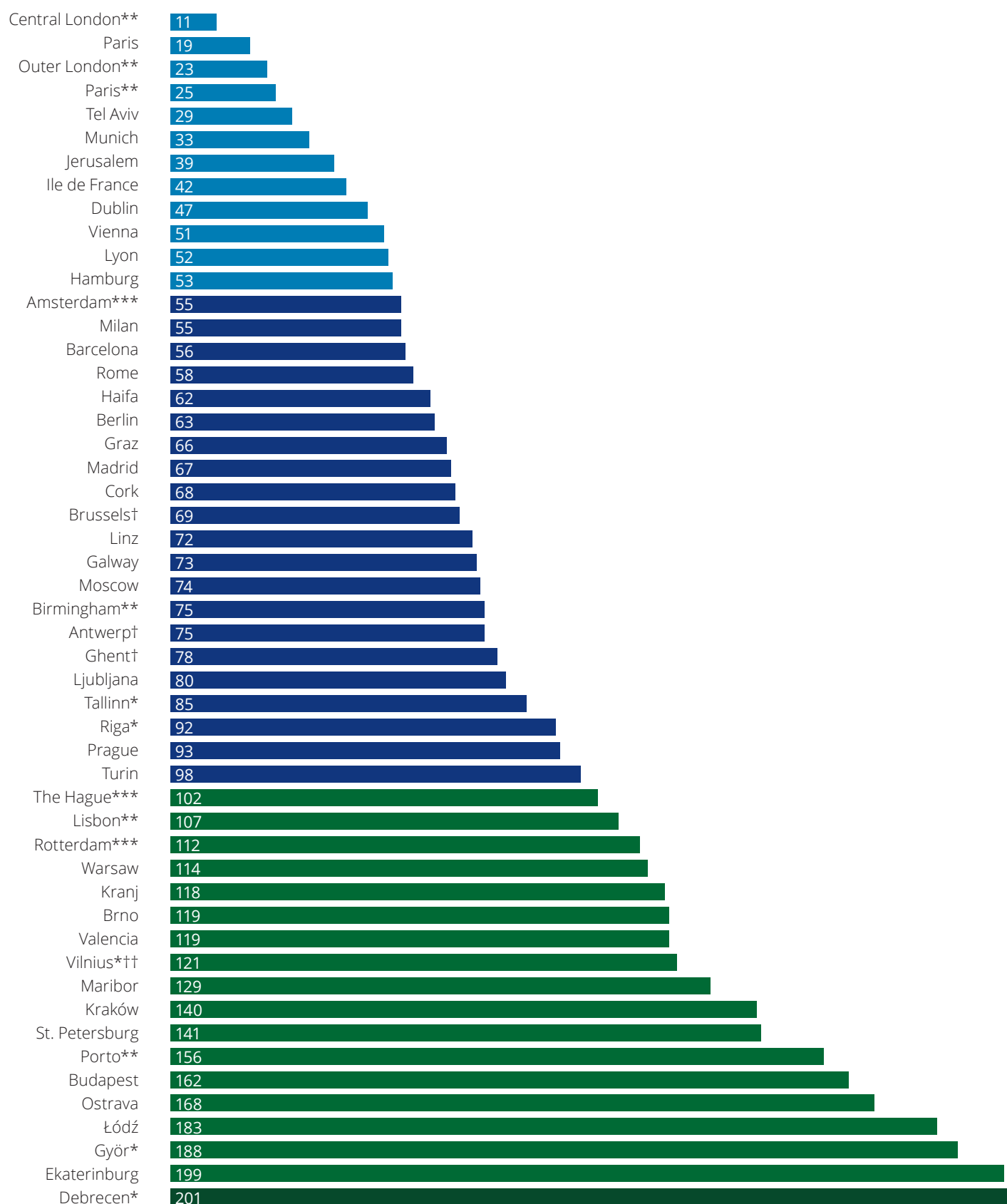


## Average size of new dwelling for EUR 200,000



\*bid price, \*\*older dwelling



**Average size of new dwelling for EUR 200,000**

\*bid price, \*\*older dwellings, \*\*\*all dwellings (old and new)

†data for 2014, ††white box condition

# Comparison of Residential Markets

## **Housing Development Intensity** **Completed apartments**

The indicator of housing development intensity on the residential market of the European Union reported a similar value in 2014 and 2015, reaching 2.8 completed apartments per 1,000 citizens. On average, 3.2 dwellings per 1,000 citizens were completed in all selected countries in 2014 (including Russia and Israel).

Similarly to 2014, in 2015 the highest housing development intensity in all selected countries was seen in Russia (7.6 completed dwellings per 1,000 citizens). This country also recorded the highest total number of completed dwellings reaching 1.1 million.

The highest housing development intensity from the European countries in 2015 was seen in Austria (6.2 completed apartments per 1,000 citizens) and France (5.5 completed apartments per 1,000 citizens). Residential development in Austria and France in 2015 exceeded the European Union average by 55% and 50% respectively. However, this result does not reflect the insufficient supply of housing in France, especially in the densely populated areas. Other countries with above average data of the selected European countries include Poland, Belgium and the Netherlands.

A significantly higher value of the indicator than in European countries was also found in Israel (5.1).

Housing development intensity in Germany, Slovenia, Ireland, the United Kingdom and the Czech Republic in 2015 was again near the European average.

The lowest intensity of housing development in 2015 was found in Portugal (0.7 completed apartments per 1,000 citizens) and Hungary (0.8). The number of completed dwellings is decreasing in these countries in the long term and will lead to a significant supply shortage.

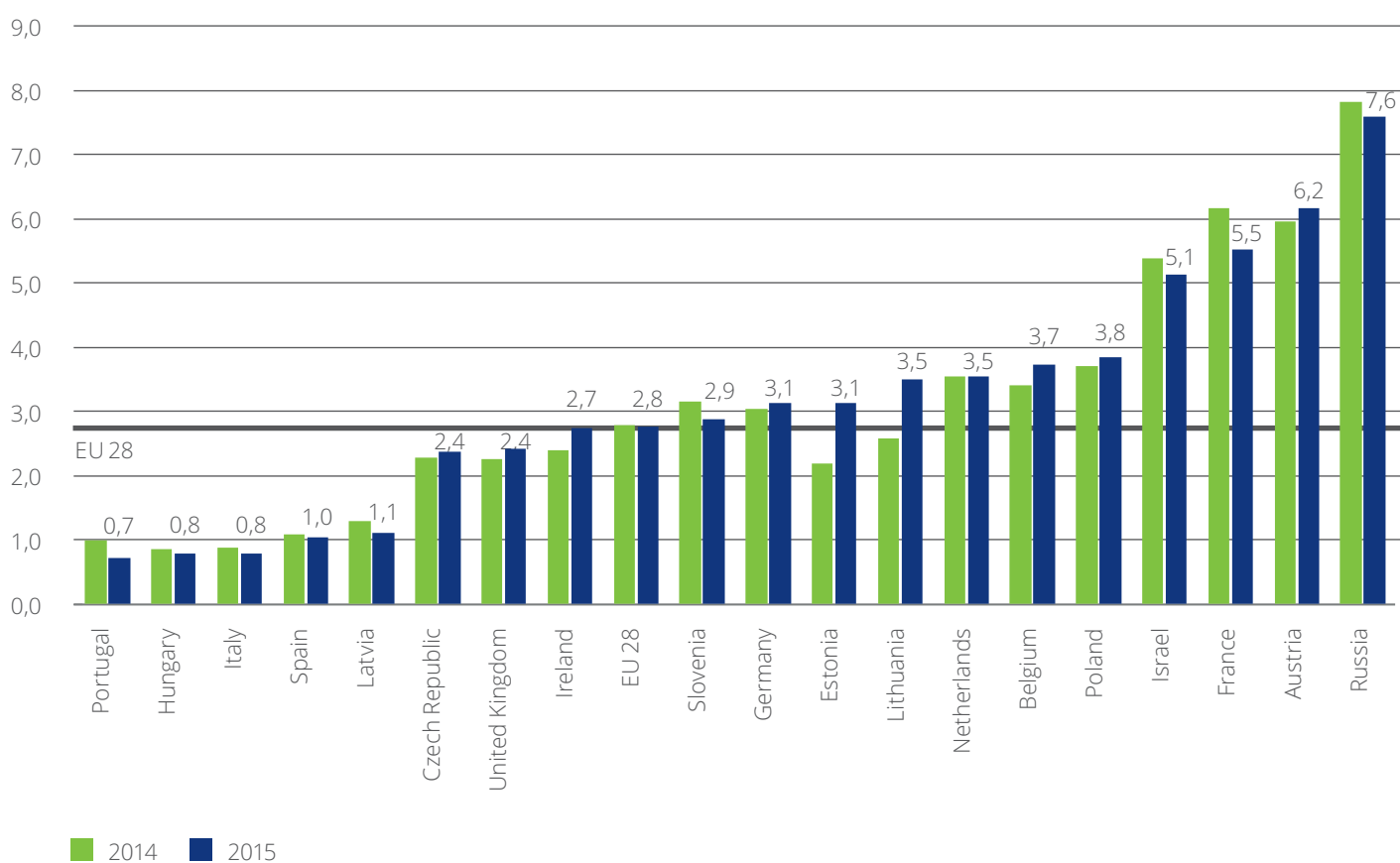
Newly-added Estonia, Latvia and Lithuania reached 3.1, 1.1 and 3.5 completed dwellings per 1,000 citizens.

In the year-on-year comparison:

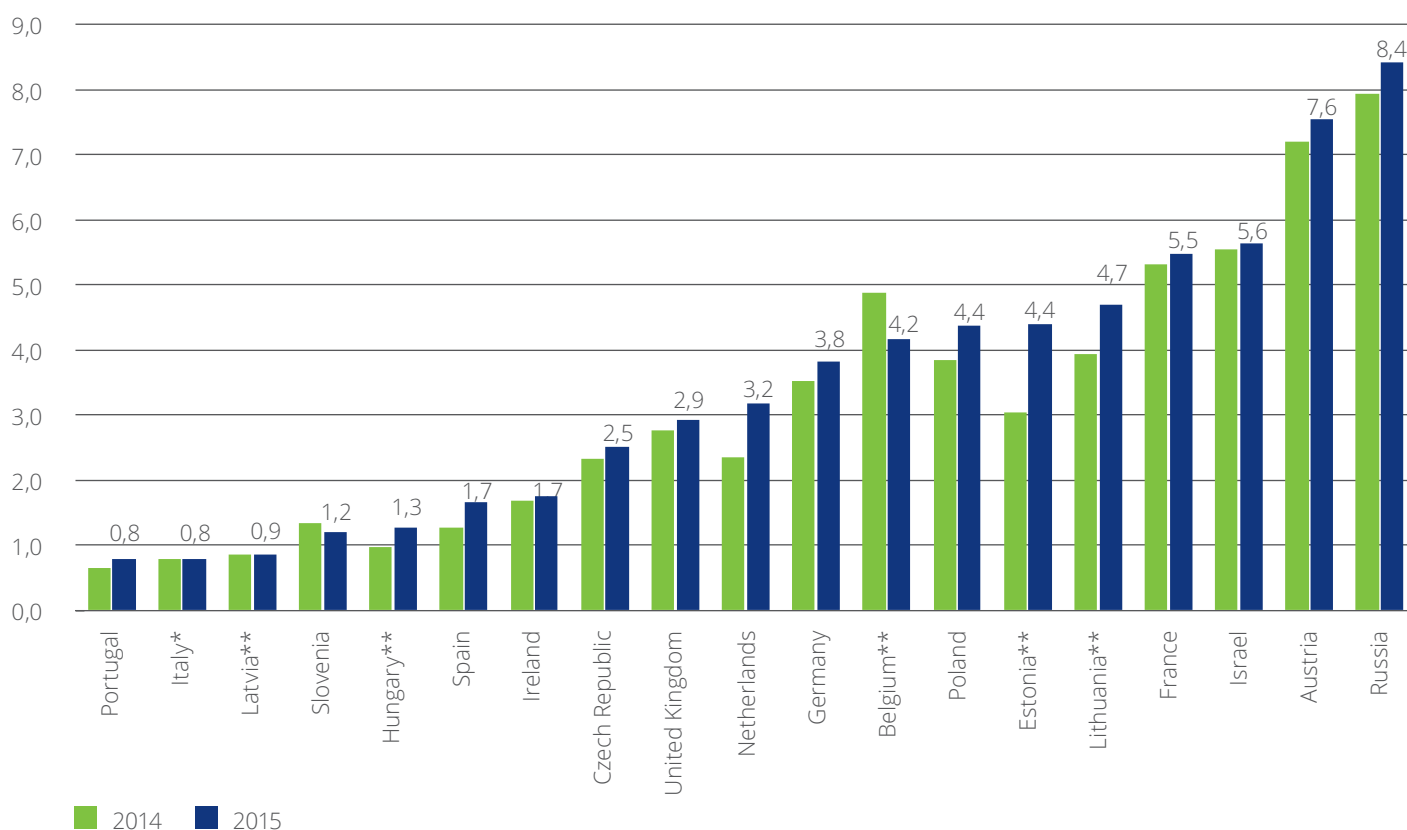
- Estonia recorded the highest increase, while 2015 exceeded 2014 by 1 dwelling per 1,000 citizens;
- France noted the biggest drop – decrease by 0.6 dwelling.

**Housing development intensity**

Index of the number of completed dwellings per 1,000 citizens



Source: National Statistical Authorities, Euromonitor International, calculated by Deloitte

**Housing development intensity****Index of the number of initiated dwellings per 1,000 citizens**

Source: National Statistical Authorities, Euromonitor International, calculated by Deloitte

\* estimate \*\* building permits

**Initiated apartments**

The average value of the indicator of the intensity of initiated construction in 2015 amounts, in the countries of interest, to almost 3.6 initiated apartments per 1,000 citizens, which represents a year-on-year increase in this indicator of more than 1 dwelling. Data regarding the European average is not available.

From a regional viewpoint, the highest intensity of initiated residential development in 2015 was found in Russia (8.4 started dwellings per 1,000 citizens) and again in Austria (7.5), Israel (5.6) and France (5.5).

The highest year-on-year change could be seen in the Netherlands reaching to 0.8 dwelling per 1,000 citizens. It is the second year of dynamic growth.

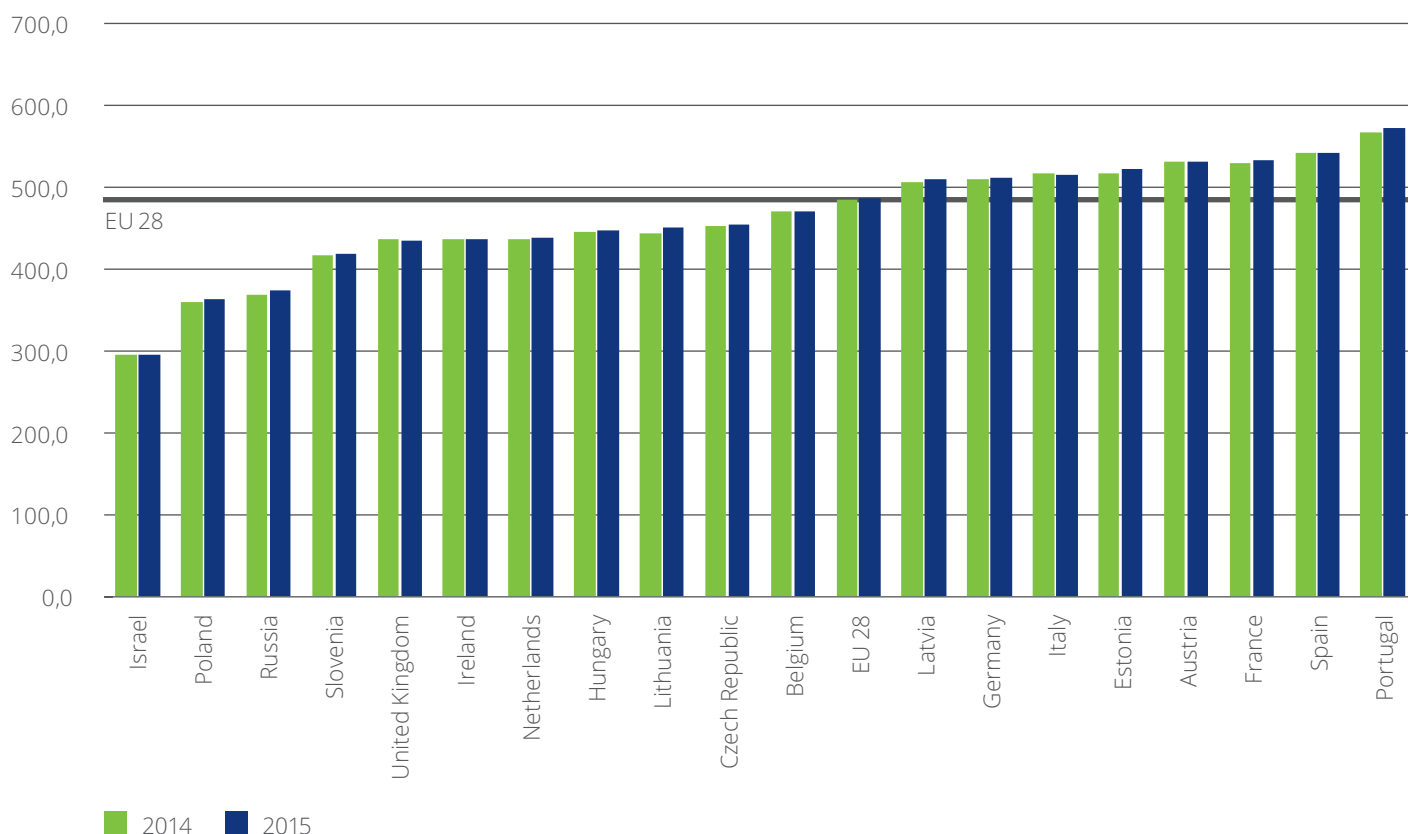
On the other hand, the lowest number of apartments was initiated in Portugal (0.8 initiated dwellings per 1,000 citizens), Italy (0.8), Latvia (0.9) and Slovenia (1.2).

The biggest year-on-year fall was recorded in Belgium despite the fact that the residential market is growing slightly (4.9 in 2014, 4.2 in 2015).

Newly-added Baltic countries reached above average values considering the number of issued building permits. The exception is Latvia with only 0.9 started dwellings per 1,000 citizens.

## Housing stock

### Number of dwellings per 1,000 citizens



Source: National Statistical Authorities, Euromonitor International, calculated by Deloitte

### Housing Stock

The structure and quality of the housing stock can be generally considered as one of the indicators of quality of life and regional development.

The average housing stock in the European Union in 2015 increased to 486.5 apartments per 1,000 citizens. In total numbers this represents a value of 244.3 million dwellings. In 2014, the average housing stock reached 485.1 apartments per 1,000 citizens. This symbolises a year-on-year positive change of this indicator by 0.3%.

The average value of the housing stock in the countries of interest in 2015 reached 467 dwellings per 1,000 citizens.

In a comparison of selected countries, Portugal reported the greatest housing stock recalculated per 1,000 citizens, exceeding the European average by more than 15%. The second-greatest housing stock was found in Spain, where the percentage value exceeded the country average by more than 10%.

The residential markets in Spain and Portugal appear to be rather saturated as evidenced by the relatively low housing development intensity.

As in previous years 2011 - 2013, one of the lowest housing stocks in 2015 per 1,000 citizen was found in Poland (363 dwellings per 1,000 citizens which is almost 25% below the European average) and Russia (22% below the European average).

The lowest housing stock in 2015 could be found in Israel, almost 40% below the European average .







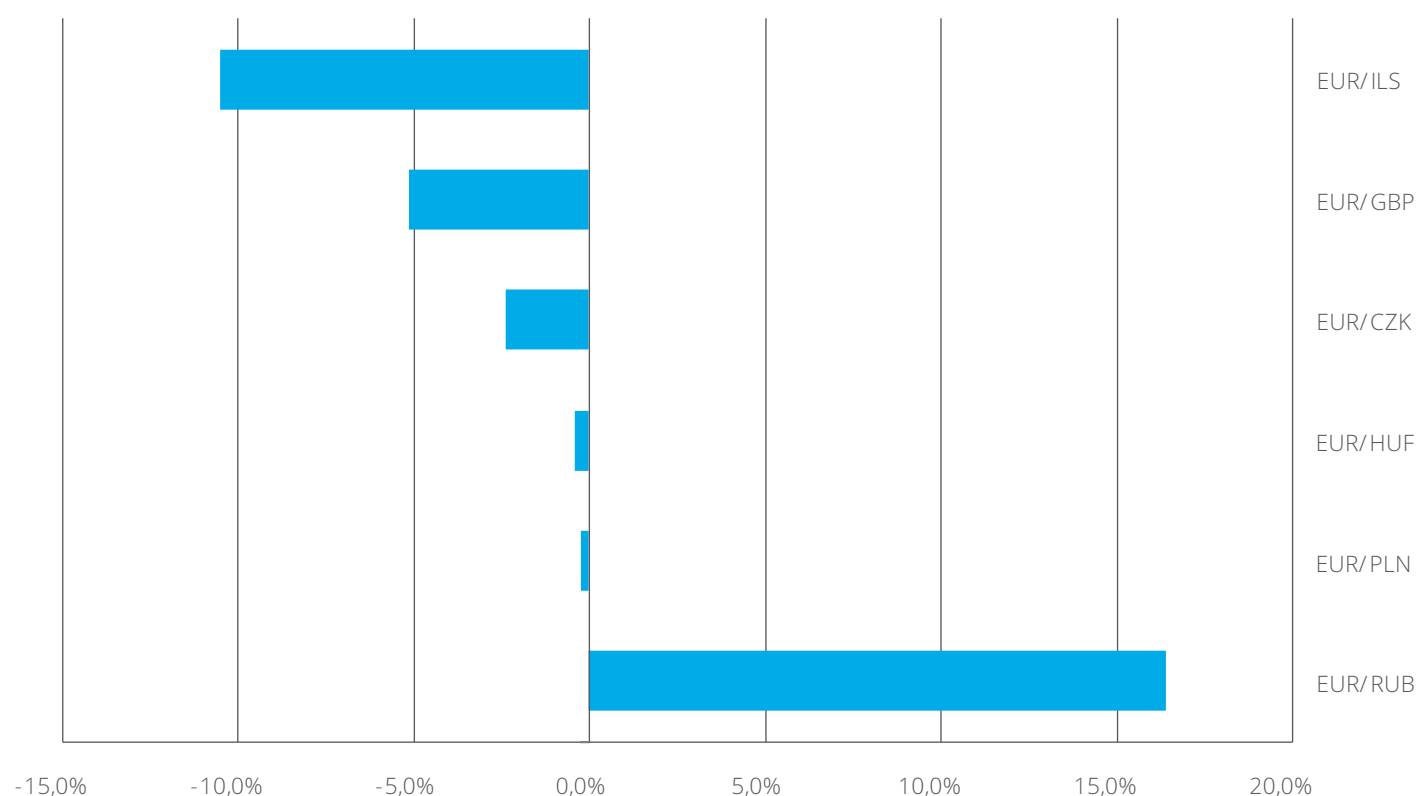
# Comparison of Residential Property Prices in Selected Countries and Cities

In this edition of the Property Index, we have newly added data for Slovenia and Baltic countries, which means Lithuania, Latvia and Estonia. Compared to the previous edition Denmark and Sweden are no longer included. Prices and price

growth are calculated from the point of a euro investor, i.e. the price growth is also influenced by a change in the exchange rate. Changes in exchange rates of countries with a national currency other than the euro are shown in the chart.

## Euro exchange rates changes, 31. 12. 2015/ 31. 12. 2014

(+%) = euro appreciation, (-%) = euro depreciation against a currency



Source: Yahoo Finance

Prices in Italy and Russia have continued their downward trend in 2015. While the Italian property prices have decreased only slightly, the Russian properties followed the general economic contraction and declined in euro terms by (-27%). However, this result is mainly influenced by ruble depreciation.

#### Average Transaction Price of a New Dwelling in Selected Countries

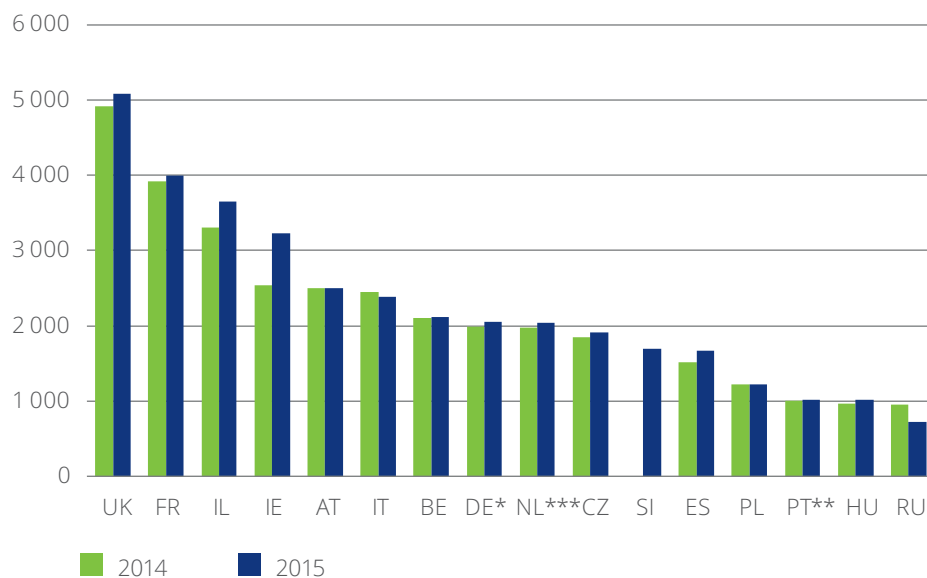
The comparison of average transaction prices in the surveyed countries indicates the following:

- The highest prices per sq m can be observed in the United Kingdom, France, Israel and Ireland. Out of these Israel and Ireland have experienced significant price growth in 2015.
- The economies of Central and Eastern Europe fall on the other side of the price spectrum. Russia has the lowest average dwelling prices among the surveyed countries with a price significantly below EUR 1,000 /sq m.
- Even despite the recent price growth, Hungary, Portugal and Poland are the only countries, besides Russia, with a price mark around the level of EUR 1,000 /sq m.
- The Czech Republic has the highest prices among the Visegrad states reaching EUR 1,920 /sq m. Compared to previous years price marks are slowly approaching levels of states in Western Europe.
- Prices in Spain and Portugal are due to their slump in recent years still on a similar level as in the CEE countries.

Prices grew in 12 markets in 2015, which is the same quantity as in 2014. This development shows that the European property market is currently stable without any significant fluctuations.

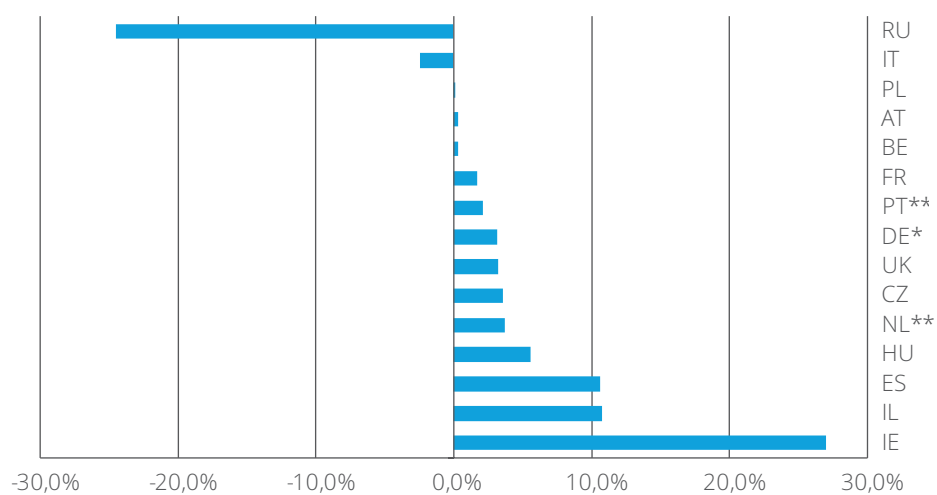
- The highest price growth was recorded in Ireland, as in the previous year, where new building prices rose by an outstanding (+27%). The second highest price growth was in Israel (+10.8%), followed by Spain (+10.6%).
- After a large price drop during the financial crisis, Spain's property market started recovering with constantly increasing prices of more than 10% in the last two years.
- Prices in Hungary and the Netherlands have continued their growth, since last year, with (+5.6%) and (+3.7%), respectively.
- Germany and Austria have shown a modest price increase of (+3.2%) and (+0.3%), respectively, compared to price changes last year.
- Prices in Italy and Russia have continued their downward trend in 2015. While the Italian property prices have decreased only slightly, the Russian properties followed the general economic contraction and declined in euro terms by (-27%). However, this result is mainly influenced by ruble depreciation.

### Average Transaction Price of the New Dwelling EUR/ m<sup>2</sup>



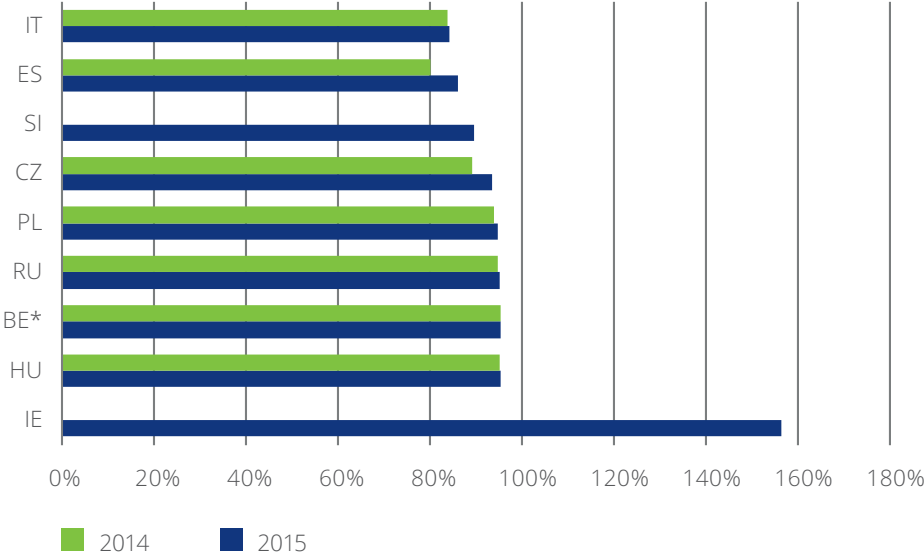
Source: National Statistical Authorities, Deloitte data calculations  
 \* bid price, \*\* older dwellings, \*\*\* all dwellings (older and new)

### Average Transaction Price of a New Dwelling 2015/ 2014 change (%)



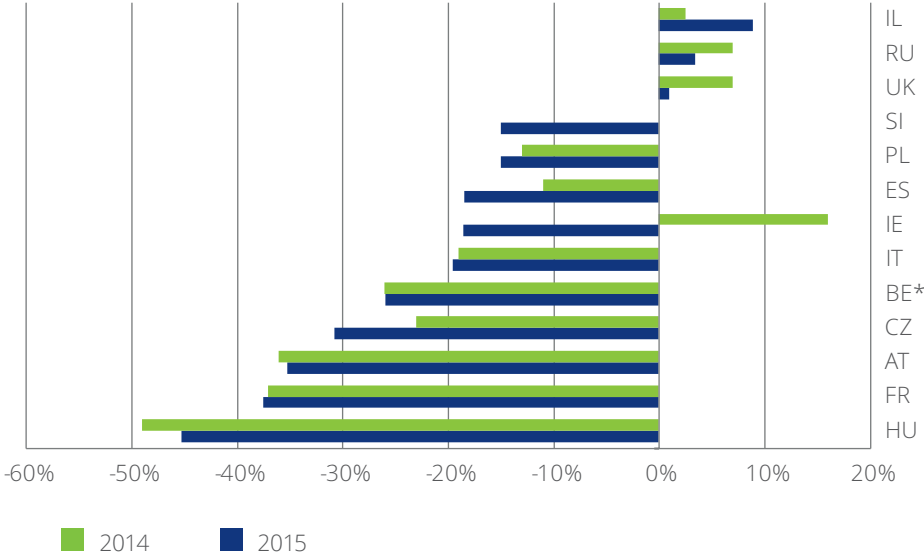
Source: National Statistical Authorities, Deloitte data calculations  
 \* bid price, \*\* older dwellings, \*\*\* all dwellings (older and new),

Transaction Price as the Percentage of the Offered Price of the New Dwelling (%)



Source: National Statistical Authorities, Deloitte data calculations  
\*estimate

Transaction Price Difference Between New and Older Dwellings  
Discount (%) of the older dwellings with respect to new dwelling



Source: National Statistical Authorities, Deloitte data calculations  
\*estimate

The spread between the offered and final transaction price serves as an important indicator showing the equilibrium between dwelling demand and supply.

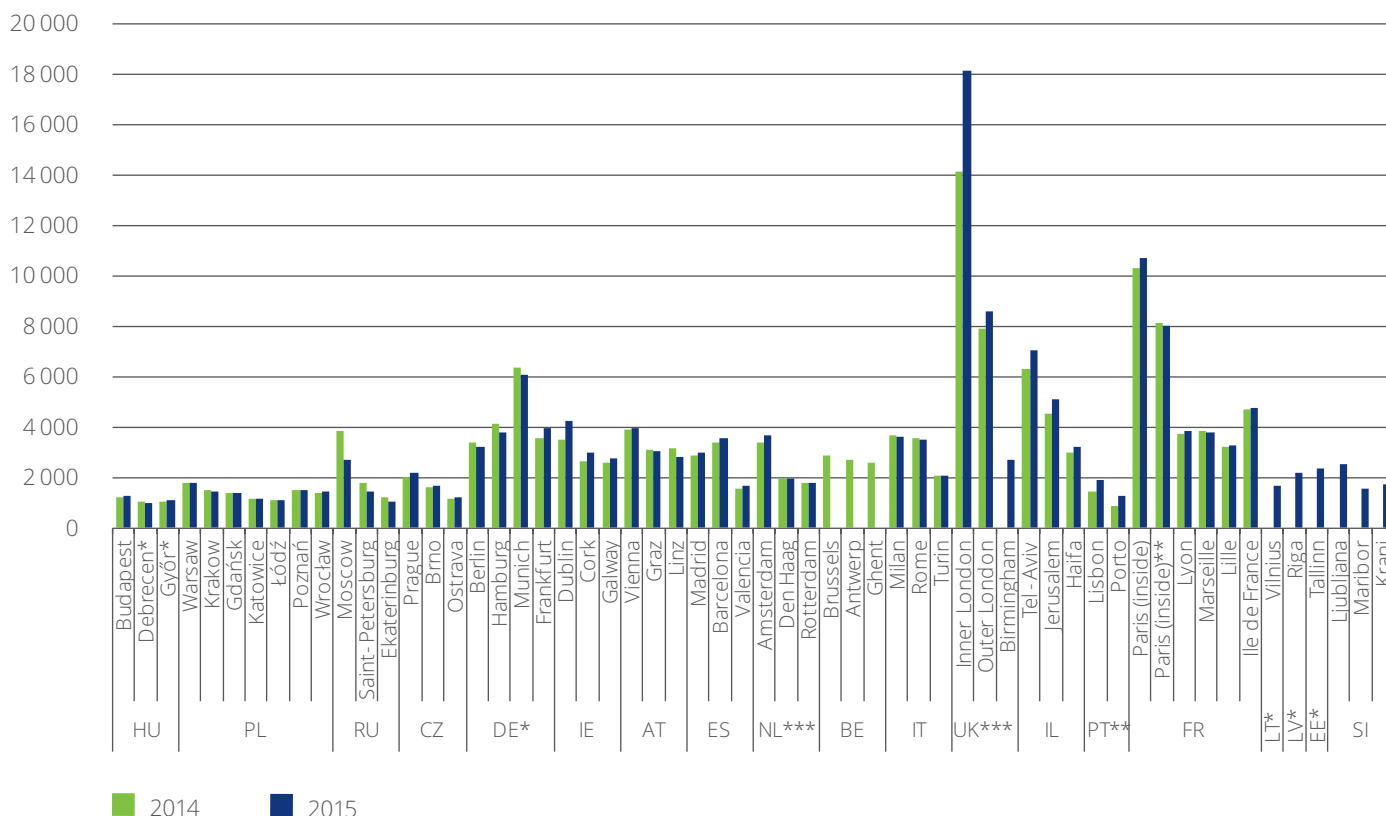
- The highest discount was detected in Italy where buyers receive on average, when buying an apartment or house, a (-16%) discount. It remained unchanged compared to last year.
- The second highest discount was observed in Spain (-14%), following by Slovenia (-9%).
- Other markets show a typical discount of under (-5%).
- The opposite trend was recognised on property markets in Ireland, where bid prices were below transaction prices by (+56%). This unusual situation was caused mainly by a lack of supply of new residential properties.

The price of new and older dwellings often varies. In most of the surveyed countries, prices of older dwellings are below the price of newly developed apartments. However, this does not have to necessarily be true in some markets for several reasons – particularly due to the often better location of older dwellings, or their historical value.

- The highest price difference between new and older dwelling was in Hungary (-45%).
- A difference of above (-30%) was seen in France, Austria and newly in the Czech Republic.
- The difference between new and older dwelling was growing most in Spain (by 7 pp) and Czech Republic (by 7 pp) compared to last year.
- In Ireland, the difference changed to negative from (+16%) to (-19%). This development was determined by a significant under-supply of new residential properties.
- Property prices of new and older dwellings in the United Kingdom were almost on the same level as in 2014 (+1%).
- Prices of older dwellings were higher compared to newer dwellings in Russia and Israel.

In Ireland, the difference changed to negative from (+16%) to (-19%). This development was determined by a significant under-supply of new residential properties.

### Average Transaction Price of a New Dwelling EUR/ m<sup>2</sup>



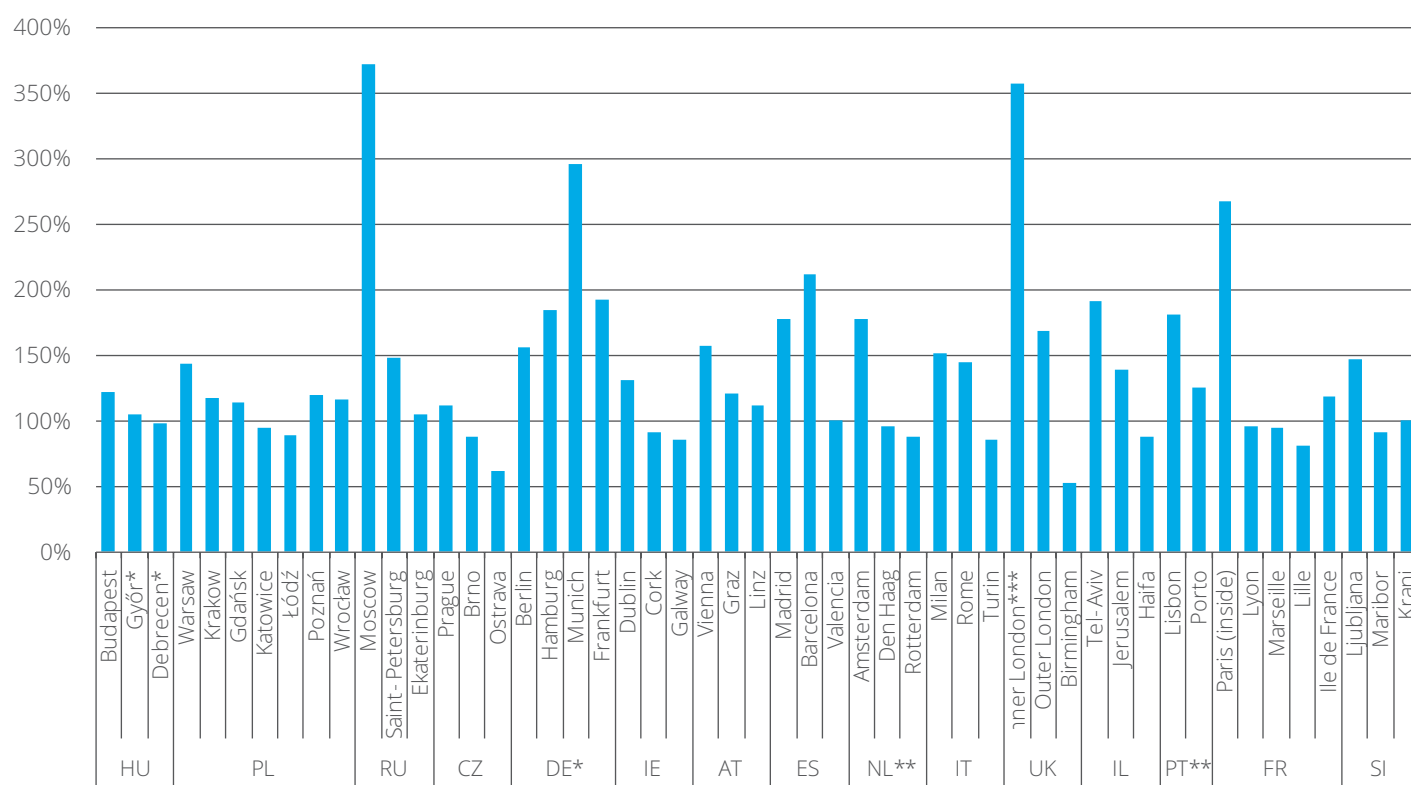
Source: National Statistical Authorities, Deloitte data calculations  
 \* bid price, \*\* older dwellings, \*\*\* all dwellings (older and new)

### Average Transaction Price of a New Dwelling in Selected Cities

As in previous editions, we again present a comparison of prices among 57 major European cities. Below it is possible to see key messages from our research.

- Inner London was the most expensive city among surveyed cities with a price tag reaching an astonishing 18,126 EUR/ sq m. Living outside of Inner London is much cheaper. In comparison, new dwellings in Outer London cost on average 8,575 EUR/ sq m.
- The second most expensive city after London was inner Paris with a price at 10,700 EUR/ sq m (8,000 EUR/ sq m for older dwellings). Again, the cost of buying a dwelling in Marseille, Lille and Lyon is much more affordable.
- The third most expensive city was Tel-Aviv, with a price over 7,000 EUR/ sq m, surpassing the Israel capital Jerusalem.
- It is often the case that the capital is the most expensive city in a country. However, this is not correct for some countries. Namely, Munich, Milan, Barcelona and the above-mentioned Tel-Aviv are more expensive than Berlin, Rome, Madrid and Jerusalem.
- Compared to last year Lisbon and Porto average property prices increased by 33% and 49%, respectively.
- If you are looking for cheap living, Debrecen might be exactly the place for you. With a price tag of only 997 EUR/ sq m, it is the least expensive city in our survey. The second least expensive city in 2015 was Ekaterinburg in Russia. At 1,004 EUR/ sq m, it is cheaper by 62% than Moscow.

### Comparison of the Main Cities to the Country Average (country average = 100%), 2015



Source: National Statistical Authorities, Deloitte data calculations

\* bid price, \*\* older dwellings, \*\*\* all dwellings (older and new)

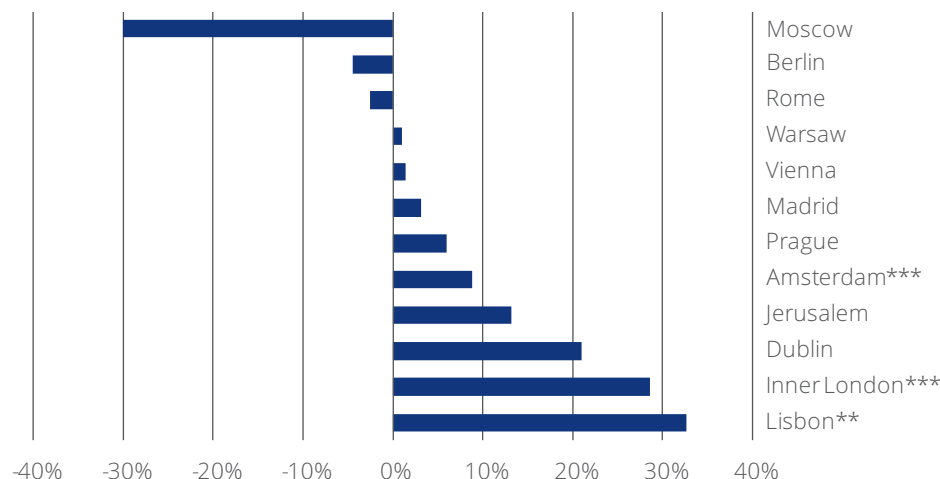
- Our survey found that cities in CEE and Eastern Europe were generally among the least expensive. An exception to the rule is Moscow with 2,688 EUR/ sq m, however, local property prices are decreasing rapidly y-o-y (by 30% between 2014 and 2015).

Next section of the Property index focuses on a comparison of prices of the surveyed cities to their respective national averages:

- Property in Moscow is on average 370% of the national average and remained number one in the y-o-y comparison.
- In Inner London it would cost 3.5 times as much to buy an average apartment than in an average city in the United Kingdom.

- Munich exceeds the national average of Germany three times.
- Barcelona and Paris exceed the national averages by more than double.
- There are some cases where the surveyed major cities have prices below the national average. Namely: Győr, Debrecen, Łódź, Brno, Ostrava, Cork, Galway, Den Haag, Rotterdam, Turin, Birmingham, Haifa, Lyon, Marseille, Lille and Maribor.

### Average Transaction Price of the New Dwelling - Capitals 2015/ 2014 change (%)



Source: National Statistical Authorities, Deloitte data calculations  
 \*\* older dwellings, \*\*\* all dwellings (older and new)

For better illustration we also analyzed a price development of transaction prices of the European capitals. Key results are:

- Property prices were growing on most of the markets in 2015. Out of the 12 shown cities, only 3 saw a decrease in price compared to 2014.
- Double digit growth was observed in Lisbon, Inner London, Dublin and Jerusalem.
- The best performing market in 2015 was Lisbon with astonishing growth of (+33%), although there was a significantly decrease of (-14%) last year.
- Inner London came in second with (+29%). However, the prices in the UK were influenced by the strengthening pound. Dublin was third with (+21%). Fourth place was taken by Jerusalem with (+13%), which was also caused by the strengthening of their currency against the euro.
- The worst performing market was Moscow with a price decrease of (-30%), whereby the main reason of this trend was the depreciation of the Russian ruble.

The most affordable housing can be found in Germany, where a person needs to on average save only 3.3 years to buy a new dwelling. Germany is closely followed by its neighbours – Belgium and Netherland.



### Affordability of One's Own Housing

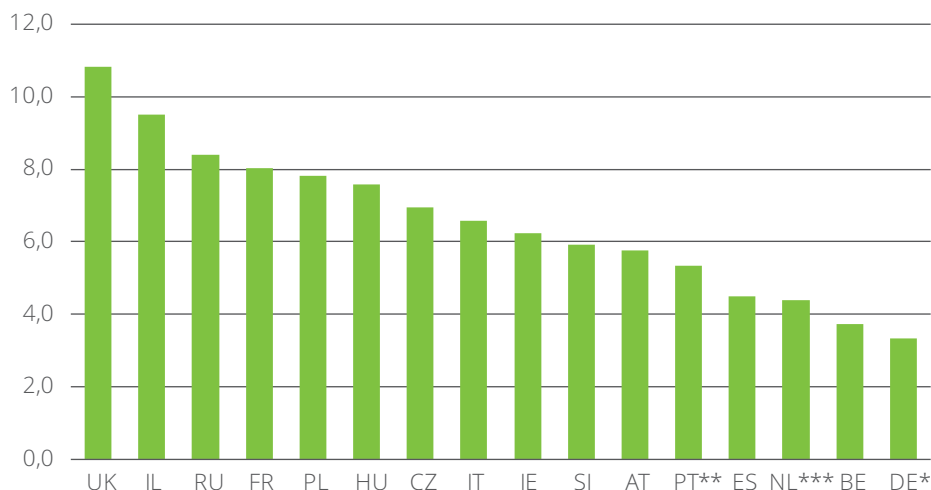
In order to assess the affordability of one's own housing, we measure how many average gross annual salaries it takes to buy a standardised new dwelling (70 sq m):

- The most affordable housing can be found in Germany, where a person needs to on average save only 3.3 years to buy a new dwelling. Germany is closely followed by its neighbours – Belgium and Netherland.
- Relatively affordable housing can be found in Spain, Portugal and Austria.
- One's own housing in Slovenia, Ireland, Italy, Czech Republic, Hungary, Poland and France falls into a less affordable category. Citizens of the respective countries need to on average save for 6-8 years to buy a new dwelling.
- The least affordable own housing is in the United Kingdom where citizens need to save almost 11 years to buy a new apartment.

The affordability of one's own housing seems to be correlated with the economic level of a country. Generally, the higher the GDP per capita of a country, the more affordable housing is.

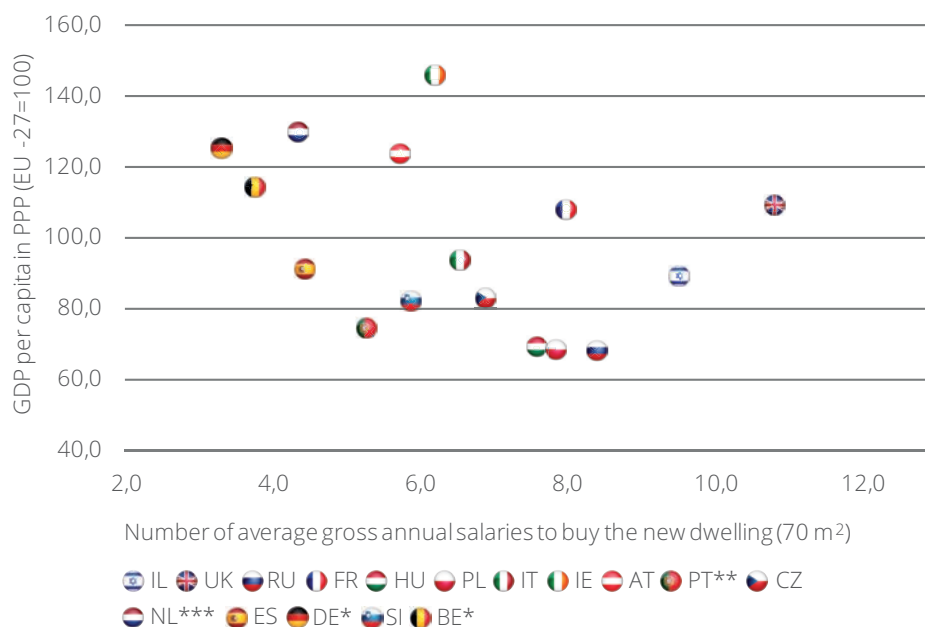
### Affordability of Own Housing

#### Gross annual salaries for the standardized new dwelling (70 m<sup>2</sup>), 2015



Source: National Statistical Authorities, Deloitte data calculations  
\* bid price, \*\* older dwellings, \*\*\* all dwellings (older and new)

### Affordability of Own Housing and the Economic Level



Source: National Statistical Authorities, Eurostat, Deloitte data calculations  
\* bid price, \*\* older dwellings, \*\*\* all dwellings (older and new)  
GDP per capita: data for 2015



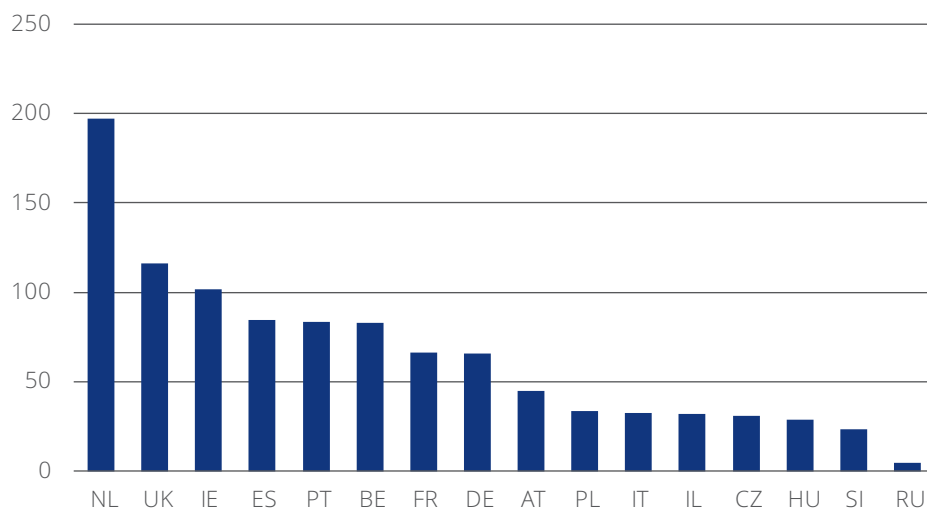
# Mortgage Markets in Europe

Residential lending is correlated with house prices. An increase in residential lending generally supports an increase in dwelling prices.

As a result, indebtedness of households (i.e. the proportion of residential debt to household disposable income) and consequently their debt capacity is one of the determinants of house price growth.

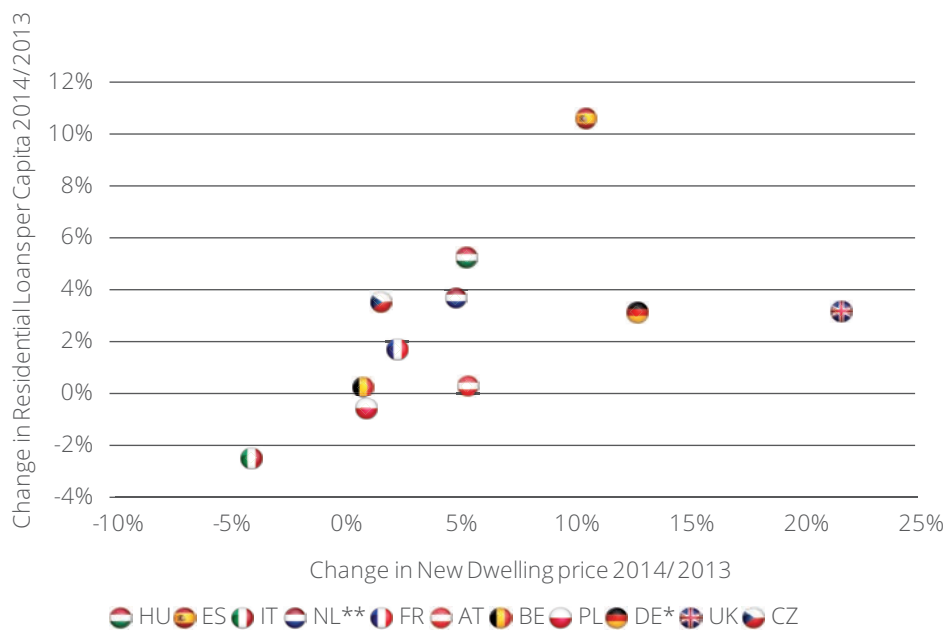
- The lowest level of indebtedness of households can be found in Russia with 4.9% of residential debt to household disposable income.
- Countries with a low level of indebtedness are Slovenia, Hungary, Czech Republic, Israel, Italy, Poland and Austria, with residential debt to household disposable income of under 50%.
- The highest level of indebtedness can be found in the Netherlands, United Kingdom and Ireland with residential debt to household disposable income of above 100%.
- Undoubtedly the highest y-o-y change of residential loans among all observed countries had Spain (+11%).

### Residential Debt to Household Disposable Income %, 2014



Source: National Statistical Authorities, Deloitte data calculations

### Relationship between Changes in Transaction Price of New Dwellings and Changes in Residential Loans per Capita



Source: European Mortgage Federation, Deloitte data calculations  
\*bid price, \*\* older dwellings

# Annex: Comments on Residential Markets

## Austria

The total volume of property transactions increased by 20.4% during 2015 (2014: +21.6%). This increase came partly as a result of the anticipated tax reform that came into full effect as of 2016, which is bringing tax increases for property owners.

Residential property prices in Austria exhibited a 4.1% growth during 2015. This came after the strong price pressure that gained momentum during the second half of 2015, with the housing property prices showing an increase of 4.0% and 7.6% in the 3rd and 4th quarter of 2015 compared to the 2014 figures, respectively.

On the supply side, residential construction activity, as captured by real housing investment, recorded an annual decrease of 1.8% in 2015. Despite that, the building permits regarding dwelling units in new residential buildings exhibited a 5.2% increase during the same period.

On the demand side, the real disposable household income experienced a slight decrease of 0.6% in 2015. Nevertheless, there was a growth in demand, as illustrated by the 4.5% year-on-year increase of the housing loans volume to households in 2015, mainly due to favourable financing conditions currently available in the market.

## Belgium

It was not possible to apply the methodology used in previous publications, as Statistics Belgium did not yet publish the data on residential property prices in 2015. There was no access to any data at city level, but according to the House Price Index published by Statistics Belgium, residential property prices in Belgium increased by 1,54% in 2015. While the purchase price of new dwellings increased by 4,24%, the price of existing dwellings increased by 0,63%. It is expected that the price gap between new and existing dwellings might continue to increase on the back of stricter housing energy performance requirements.

The prior year reduction in the fiscal advantage of the so called “house bonus” thus did not lead to a decline in property prices. Driven by low interest rates, the number of transactions (+6,4%) and the total value of mortgages loan issued (+23,5%) even significantly increased as compared to 2014. The expectation of possible unfavourable fiscal changes in the future also favourably impacted the 2015 transaction volume. We also note that under the current financial market conditions, residential real estate is becoming increasingly popular with investors.

Compared to other European countries, the Belgian real estate market did not suffer too much during the financial crisis and has been showing a steady growth over the last years, with a cumulative nominal price growth of 9,3% since 2010. The risk of a major price correction seems limited, with the Belgian residential property market showing healthy fundamentals with neither oversupply nor excessive debt accumulation by households. The main mid-term risks for the property market remain a raise of interest rates and changes in property taxation. While an increase in interest rates seems unlikely in the short term, changes in property taxation are more unpredictable. In the three regions - Brussels Capital Region, Flanders and Wallonia - fiscal changes have been introduced or announced in 2014 and 2015, so disrupting the trend of the regional authorities trying to make housing more affordable.

## Czech Republic

The Czech residential market had an upward growth trend throughout 2015.

The volume of housing development in 2015 increased by almost 5% compared to 2014. The increased demand in 2015 was driven mainly by positive factors such as favourable economic development, low interest rates, improving civic sentiment and overall optimism.

The mortgage market experienced a record year. Almost 102,000 clients gained a mortgage in the total amount of EUR 6.75 billion in 2015. This situation was caused mainly by low interest rates (under 2%), decreasing supply of new dwellings and increased demand for home ownership.

Dwellings of more than EUR2.57 billion were sold in Prague and other regional cities last year, representing a year-on-year increase of 15%.

Aside from the total volume of sales, the average prices of flats also grew in 2015, with a year-on-year increase of 6%. The average price of a flat sold in 2015 in all regional cities including Prague was EUR 1,668sq m.

Almost 40% of flats were sold in development projects in 2015, flats in prefabricated apartment houses represent a quarter of sales and brick buildings a third.

It is expected that the year 2016 could see accelerated housing prices thanks to increased housing demand.

## Estonia

Tallinn's residential market has been active in recent years with a general price level increasing by 5-10% since 2014. The main drivers behind the price increase were growing nominal wages (6% in 2015) and a declining Euribor, which is the base interest rate for almost all mortgage loans in Estonia. All these factors resulted in the higher affordability of real estate for local people.

Developers responded to increased demand with an accelerating pace of new developments, which resulted in a stabilising price level of new apartments in H2 2015. Crowdfinancing is becoming a more important source of financing new development projects, which may result in the overheating of some development segments in the near future. Overall the market may be somewhat overheated currently, especially in the segment of expensive apartments (2500+ EUR/m<sup>2</sup>), where demand is limited, while upcoming supply is substantial.

We expect prices to remain relatively stable in the nearest future, as supply has caught up with increased demand; any substantial market shocks are not expected in the near term. Still, the market condition is highly dependent on the lending practices of local branches of Nordic banks, which may rapidly change due to currently unexpected developments in global financial markets.

## France

2015 was a good year for the French residential market. The volume of transactions of older dwellings has increased from 694,000 units in 2014 to 800,000 in 2015 (+15%). In Q4 2015, this rise in volume has conducted to an upward trend in prices, although annual average prices remain stable due to the decline during the first two quarters.

The number of started dwellings and building permits obtained has increased in 2015. However the goal of 500,000 units built in one year, as desired by the government, is still far. The business potential remains compromised by the caution of developers and construction firms and by pre-sales requirements before the start of construction.

The market's recovery in 2015 was driven by the record low mortgage interest rates and the support plan for new housing, in particular the buy-to-let scheme (Pinel), and the reform of the interest-free loan (PTZ).

Due to very high prices, the market is still fragile and dependent on interest rates. Moreover, the ECB and the Basel Committee on Banking Supervision are concerned about the decrease of the interest rates and the possible implementation of variable rates for French mortgages. In France, variable rates represent less than 5% of residential property financing for customers. The accession to property loans would suddenly become more complex.

## Germany

The 2015 investment year was very strong. More than EUR 20bn was invested in residential property, compared with a transaction volume of EUR 12.8bn in 2014. As in previous years, the large deals are decisive for the height of the transaction volume. In early 2015, the acquisition of GAGFAH by Deutsche Annington for around EUR 8 billion influenced sales significantly.

In general, the German investment market for residential properties is characterised by falling yields, not only in big cities. Increasingly falling yields can also be observed in secondary locations, to which investors have recently directed stronger interest. As long as there is no fundamental change in interest rates, capital will continue to flow into the housing market in order to achieve higher returns than in the bond market, while benefiting from the good economic situation and the stability of this asset class in Germany.

There are good prospects for the German residential real estate market. The overall demand for residential property is still rising, though more and more unevenly at the regional level. The construction activity increased; however, not at the same high growth rates of the last two years. Due to the limited availability of building space and partly also due to new government regulations, which affect market uncertainty, the demand for new houses in the cities will not be met. On the other side, vacancy rates continue to increase in demographically weak regions.



### Hungary

The positive trends of the previous year continued in 2015. Beside the market drivers the government also supported the residential sector by the announcement of family housing allowance (named "CSOK"), and decreased VAT in case of certain newly built residential real estates from 27% to 5%. These provisions enhanced the activity of real estate developers, frozen projects started again, and numerous new developments have been detected. As a consequence of these factors both in the investment and in the private sector growing demand is observable. Although the number of completed dwellings was 9% less than in 2014, the number of building permits increased by 30% compared to 2014 which, including the previously mentioned favourable measures, indicates further accession in 2016.

### Ireland

A significant under-supply of new residential property has been a feature of the Irish property market for a number of years as developers struggled to raise the necessary funds to finance new developments. In 2015, only c.12,600 new residential developments were completed, against an estimated need for c.21,000. This ongoing lack of supply into the housing stock coupled with significant

recent economic growth has resulted in considerable inflation in house prices and has put huge pressure on the private rental sector. (Residential property prices rose by 6.6% in the year to December 2015, representing a cooling off in the market, as residential property price inflation had been above 15% between mid-2014 and early 2015).

To assist, Ireland's National Asset Management Agency (NAMA) has initiated a 5-year plan (ending December 2020) to deliver 20,000 residential properties over that period. This, coupled with an increase in private sector developments, should result in the Irish residential property market displaying more normalised inflation over the coming years.

### Israel

In the last few years, Israel's residential market has experienced a significant price increase. Since the beginning of 2007, prices have risen by approximately 100% and this positive trend held strong during the whole period. It seems that the main reason for this trend is the supply side shortage.

In 2015, the Ministry of Construction and Housing was trying to stop the positive trend through the MechirLamishtaken

programme, designed to facilitate the buying of a first apartment with preferential terms. In MechirLamishtaken, the tenders' developers compete for the lowest price per square meter, which guarantees housing below current market prices. This project is responsible for the increase in the number of started dwellings and might result a decrease in the market prices.

### Italy

The Italian economy was in recovery in 2015. Italian GDP grew by 0.8% in contrast to the contraction of 0.4% in 2014 (International Monetary Fund, IMF). For 2016 the IMF is forecasting growth of 1.3% which is similar to the European Commission forecast which is slightly higher at around 1.4% in 2016 and 1.3% in 2017.

The centre-left government continues to support the Property market through various initiatives including: the abolishment of municipality and refuse tax (IMU and TASI) on the principal residence (excluding defined luxury properties) and a discount of 25% on the municipality tax (TASI) for properties that are rented as affordable housing with certain conditions on renewal. Since Q2 2015 the Italian real estate market has consistently reported growth in the number of units sold on a year-on-year basis. In particular, during



the last three months of 2015 the volume sold has shown an increase of 6.2% compared to the same period of the previous year.

Focusing on the residential sector the market reported a growth of 6.5% in the volume of transaction during 2015. This trend has been stronger in the main cities and the north of Italy. Despite the recovery in the number of transactions, the average prices of residential property decreased in 2015. House prices are expected to start increasing from 2017 with an expected growth rate of 1.1% in the main cities and of 0.3% in the smaller towns, as the demand for housing returns. The number of house purchases financed through a mortgage increased by 19.5% to around 193,000 during 2015. This has been assisted by general interest rates for mortgage lending which were reduced during 2015, going from 2.8% in January to 2.5% in December 2015. In 2015 the total value of mortgages issued amounted to over €49.8bn compared to €25.3 in 2014.

### Latvia

The trend on the residential real estate market in Riga was declining in 2015. According to the State Land Registry, the annual number of apartments' transactions decreased by 9.1%, from 9,440 to 8,582, relative to 2014. Latvian building construction declined by 7% over 2014.

The decline in residential real estate supply and demand can be due to the high level of uncertainty that surrounded the Latvian market in 2015. At the beginning of 2015, there were heated debates related to amendments to insolvency law, which allowed mortgage borrowers in an insolvency process to sell the property and have no further mortgage obligations to the bank. The amendment was heavily criticised by banks.

Another potential reason for declining transactions' numbers in the residential real estate segment is a sharp decrease in foreign demand, especially from Russian citizens, who constituted a large share in the acquisition of new apartments. According to some estimates, the non-resident proportion in new projects has

decreased from 60% to 20-25% since mid-2014. Recent changes in law on receiving a residence permit also contributed to decreasing demand for new apartments from non-resident segment.

### Lithuania

The total value of completed residential transactions in Lithuania amounted to EUR 1.27 bn for FY15, 49% of which were completed in Vilnius. Vilnius' housing market experienced increasing prices for both apartments and private houses, especially for new ones - the average price of new apartments in Vilnius increased by 3.7% for FY15 compared to FY14 and amounted to EUR 1,453 per square meter, while the price of new houses increased by 7% to EUR 780 per square meter.

Buyers enjoy a wide choice of new residential property, low mortgage rates and increasing wages, which helps to maintain high activity in housing market despite increasing prices. The supply of luxury housing with prices of around of EUR 2,000 per square meter is noticeably growing in Vilnius, while the typical floor area of new apartments is around 50-55 square meters.

### Netherlands

The Netherlands is recovering from the financial crisis and shows stable economic growth, decreasing unemployment, and higher consumer confidence than during the crisis years. This economic recovery has caused a spike in demand for housing in the Netherlands, which was accelerated by the historically low interest mortgage rate. This had a positive effect on the development of new residential buildings, increasing by 6% over 2015, and on the average transaction prices. Especially in regions such as Amsterdam, with limited supply and high popularity, prices surged to pre-crisis levels.

Forecasting to 2016 we expect this trend to continue. The continued low mortgage interest rate and the forecasted stable growth of the economy will continue to create demand for residential properties.

### Poland

The new dwellings sale results for 2015 have been the best since 2008. The reasons behind this are: stable prices, low interest rates and the introduction of good quality products on the markets by developers as well as mobilisation of buyers (who wanted to take a loan for an amount exceeding 85% of the purchase price before the requirements changed as of January 2016). The governmental programme "MDM" ("Flat for young people") supporting the purchase of own apartments (the rules of which were to change in 2016) also had a positive impact on the sales volume in 2015. Additionally buyers wanted to avoid higher premiums on mortgages, which have been expected to increase due to the announced introduction of a bank tax.

The total 2015 mortgages sale number was almost 6% higher than in 2014 and analysts expect this trend to shrink due to, among others, more expensive and less available mortgages, lower limits of support in governmental programme and another increase in the required level of own financial contribution in apartment financing in the total loan value from 1 January 2016. The minimal 20% own contribution will impede some customers taking mortgages. As a result, the mortgages sales in 2016 are predicted to be at a slightly lower level than in 2015.

In general, the 2016 outlook for the market in residential dwellings is uncertain due to lack of information on the announced changes in legislative regulations, e.g: regarding amendments to be introduced in buyers' protection regulations, changes to be introduced in the "MDM" governmental programme and further strategy of the "Flat for rent" governmental programme introduced in 2015, intending to increase supply of flats for rent at the affordable rates. There are no available details on the governmental housing policy and planned regulations to be introduced on Swiss frank mortgages and building societies. Additionally, it is not yet clear how the market will react to the regulations limiting the availability of land for development. It is possible from a short term perspective that some of the potential buyers will refrain from purchasing new dwellings.

### Portugal

The Portuguese residential market prices and volume continued to increase slightly during 2015, in line with the economic performance. An increase in demand and mortgage loan granting contributed to the consolidation of the recovery, which has been visible since 2013.

Most of the deals made were on rehabilitation projects; there is still a lack of offer in new developed residential projects.

In 2015, the urban rehabilitation programmes, along with the favourable tax regime for non-habitual residents and the Golden Visa Programme were the main boosters of the residential real estate sector. Local accommodation units played a major role on the Lisbon and Porto tourism markets, becoming a strong competitor on the residential market.

### Russia

In 2015, Russian residential market suffered continuing pressure from international sanctions, low oil prices and recession in the economy. Although delivery of total residential stock remained at the 2014 level (84 mln sq. m), the number of registered transactions dropped more than 15% to 3.8 mln following a decline in average household income thus creating a mid-term risk of slowdown in the construction industry.

It was the first time since 2011 when the upward price trend showed negative dynamics, while prices denominated in euros lost a substantial 30% triggered by another devaluation surge. The current state of the market can be characterised by a fragile stability; however the outlook remains highly volatile to various internal and external threats.

### Slovenia

Since 2014, the real estate market has started to pick up and its second year of growth was steady. Last year, 28,000 transactions were made, counting all the various types of dwellings; 44% were apartments, 23% were houses, 8% houses and others such as parcels, garages, wood parts, etc. The whole range of sold dwellings has increased by 2% since 2014. In the last few years since the crisis, there has been a significant rise in the buying of foreclosed apartments and houses. Last year there were 1,400 transactions of this kind (in 2009 there were 200 transactions made).

Regionally, the biggest market is in Ljubljana and its surroundings, where prices are almost twice as high as in the north-eastern part of the country. Even though there has been a slight increase in demand, prices have stayed at the same level. Because there are no new real estate projects and there are still a lot of foreclosed dwellings waiting to be sold, it is expected that prices will not rise for at least the next year or two. Combined with the expansion in the banks' lending process, the real estate market is going to grow in the future in terms of activity. Moreover, a more emphasised segmentation of the property market is expected based on location and quality.

### Spain

2015 was a positive year for the Spanish residential market, especially when compared to recent years. Three main indicators of the property market - transaction numbers, mortgage approvals and prices - moved in the right direction during 2015 for the first time since the bubble burst. After many years in deep crisis, macroeconomic data started showing positive results, with exports rising gradually, the tourism sector beating records and the GDP growing at 3.2% in 2015, putting Spain well ahead of the Eurozone average of 1.6% (Spain's best performance since 2007).

As a result, housing prices are rising the most in prime zones of the main cities, where there is a shortage of goods supply. Nevertheless the great majority of properties sold in 2015 were second-hand resales. The ratio of second-hand sales in comparison to new property sales was running at about 4:1 in favour of second-hand product at the end of the past year.

### United Kingdom

The housing market continued to benefit from a historically low Bank of England base rate in 2015, with mortgages rates remaining low. The general election and fears of a 'mansion tax' led to sales volumes falling sharply at the beginning of 2015, but these quickly recovered as the political landscape settled. Mortgage criteria were tightened, but this has had little effect on demand for homes.

The rental market remains strong, and buy-to-let mortgages accounted for 19% of the market in 2015, the highest level since records began in 2007, although new taxes on second-home ownership introduced in April 2016 could impact future demand. In construction, the beginning of 2015 saw reasonable growth in housing starts but this slowed as the year progressed, partly due to high material costs and shortages of labour.



# Highlights

- The lowest average size of a new dwelling for EUR 200,000 is in Central London (11 sq m), followed by Paris (19 sq m). The highest average sizes of new dwelling were recorded in cities from the CEE region. The biggest dwelling can be bought in Debrecen with 201 sq m.
- The highest housing development intensity from the European countries in 2015 was seen in Austria (6.2 completed apartments per 1,000 citizens) and France (5.5). Similarly to 2014, in 2015 the highest housing development intensity in all selected countries was seen in Russia (7.6).
- The average housing stock in the European Union in 2015 increased to 486.5 apartments per 1,000 citizens. In a comparison of selected countries, Portugal reported the greatest housing stock.
- The highest prices per sq m can be observed in the United Kingdom, France, Israel and Ireland. Out of these, Israel, Ireland and Spain experienced a significant price growth in 2015.
- The highest price growth was again recorded in Ireland, where new building prices rose by an astounding (+27.0%). The second highest price growth was in Israel (+10.8%), followed by Spain with (+10.6 %). The highest price decrease was observed in Russia (-24.6%).
- Inner London was the most expensive city among surveyed cities with a price tag reaching an astonishing 18,126 EUR/ sq m. Living outside Inner London is much cheaper. In comparison, new dwellings in Outer London cost on average 8,575 EUR/ sq m. The second most expensive city after London was inner Paris, with a price at 10,700 EUR/ sq m (8,000 EUR/ sq m for older dwellings).
- If you are looking for cheap living, Debrecen might be exactly the place for you. With a price tag of only 997 EUR/ sq m, it is the least expensive city in our survey.



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