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# **Stabilising and destabilising factors of 14 EU housing markets**

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# Research Focus and Questions

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- Intention: to cast some light on a more broader set of factors which impacted on the recent housing market cycles in Europe, including factors beyond macroeconomic fundamentals
- Questions:
  - How did the core variables of house prices and housing investment develop in 14 EU-countries between 1995 and 2011? What stands out compared to former housing market cycles?
  - Which were important common factors, which were important country-specific factors?
  - Which factors made for differences, which for parallelism in developments?

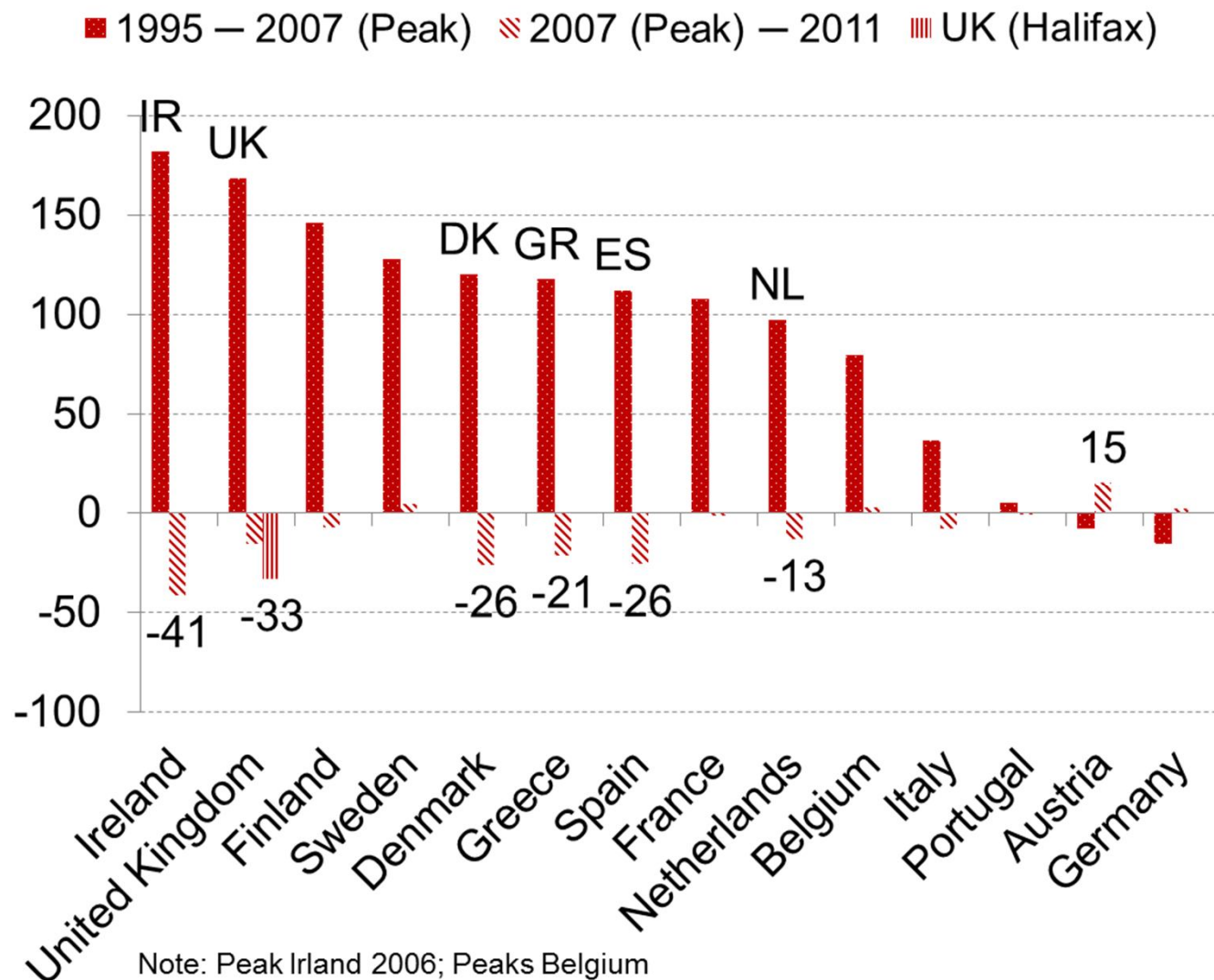
A Note: As all of the booming housing markets had their house price peaks in or around 2007, this year acts a natural divide in two research periods

- pre-crisis: 1995–2007
- downswing: 2007–2011–??

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# The recent housing market cycle(s) in the EU-14

## Real House Prices Change (in %)



A broad trend of soaring house prices betw. 1995 and 2007:

- 10 markets booming
- Real HP more than doubled in 8 markets
- Bust in 5 markets after 2007

4 countries were bucking the trend

⇒ A classification acc. to HP-developments:

Boom — Bust:

IR, UK, DK, GR, ES, (NL)

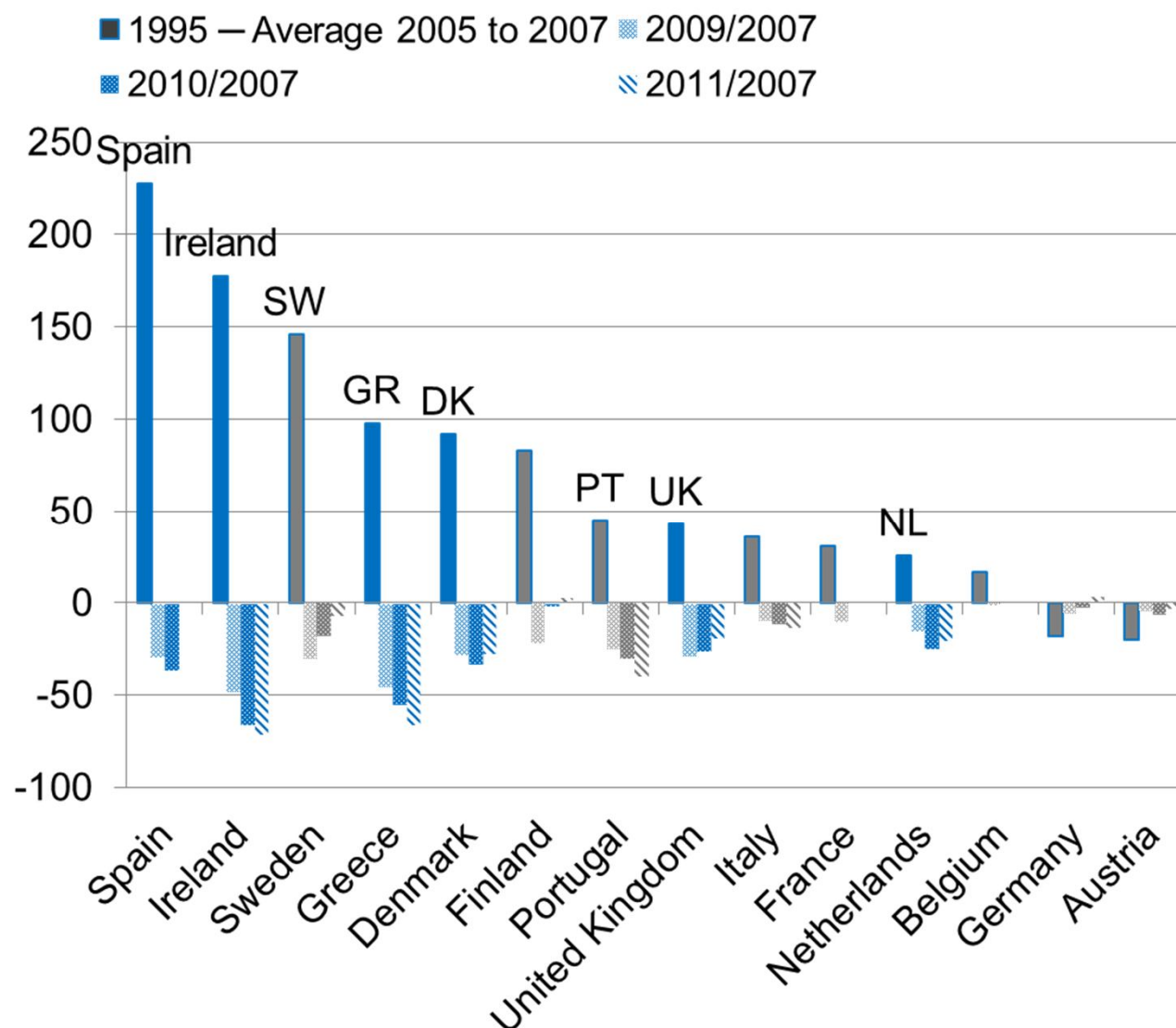
Boom — NonBust:

FI, SW, FR, BE

NonBoom:

IT, PT, AT, GE

## Change in Real Residential Investment (in %)



➤ *Double Bubble*  
ES, IR, GR, DK

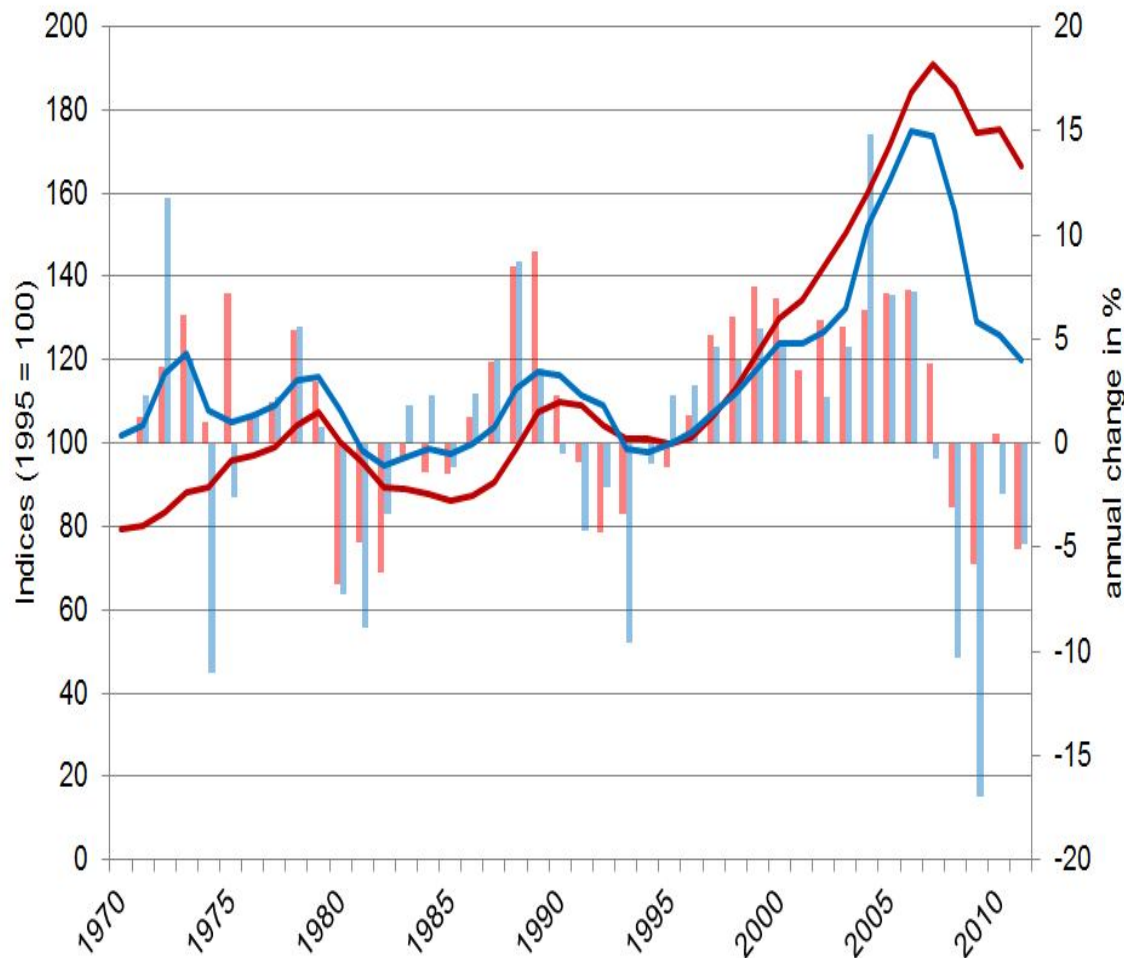
➤ UK: rather low level of house building even during house price boom (HI/GDP betw. 1995 and 2009: 3.1% on average; EU-14: 5.4%)

➤ Sharp drop in output even in countries with no supply overhangs  
SW, NL, PT

— > Lower levels of house building are helping to keep up prices of existing homes !!

# The ongoing EU-14 housing market cycle in hist. perspective

Real House Prices (—) and Real Housing Investments (—) unweighted average of EU-14



(1) Historically (1970—1994):

- real HP trend with an av. growth rate of 1% p.a.
- Corr. (HP/HI): + 0.64

(2) Ongoing Cycle (1995—2011—?):

- very long (12 years up; 5 years down to date)
- av. gr. rate HP: 3.3% p.a.
- Corr. (HP/HI): + 0.84

=> House Prices now more representative for overall housing market performance!  
- > Home ownership rate up from 57% (1980) to 64% (2009)

(3) Downswing (2007 — 2011):

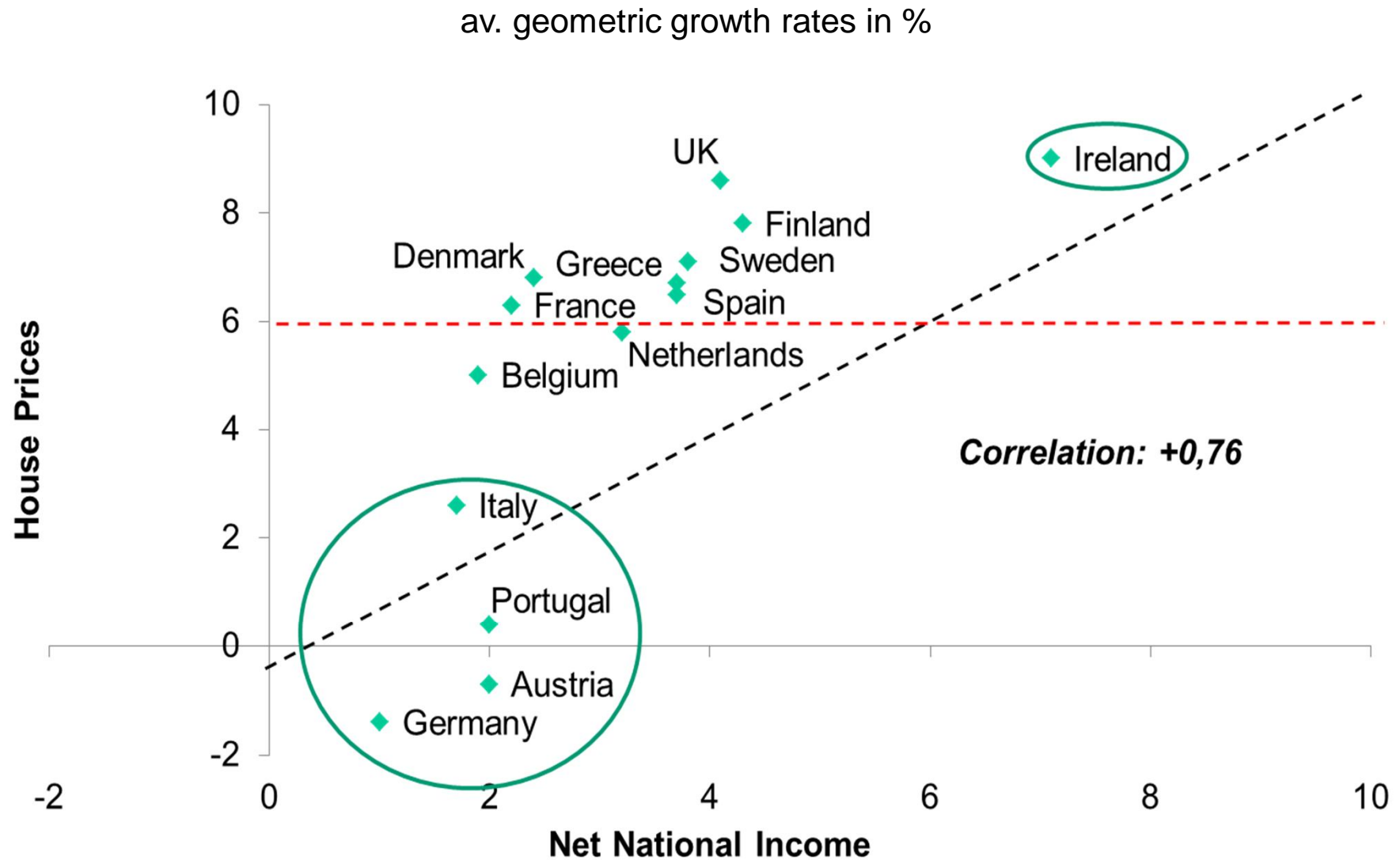
- much stronger drop in real HI compared to real HP

=> Macroeconomic policies more successful in stabilising HP than HI !!

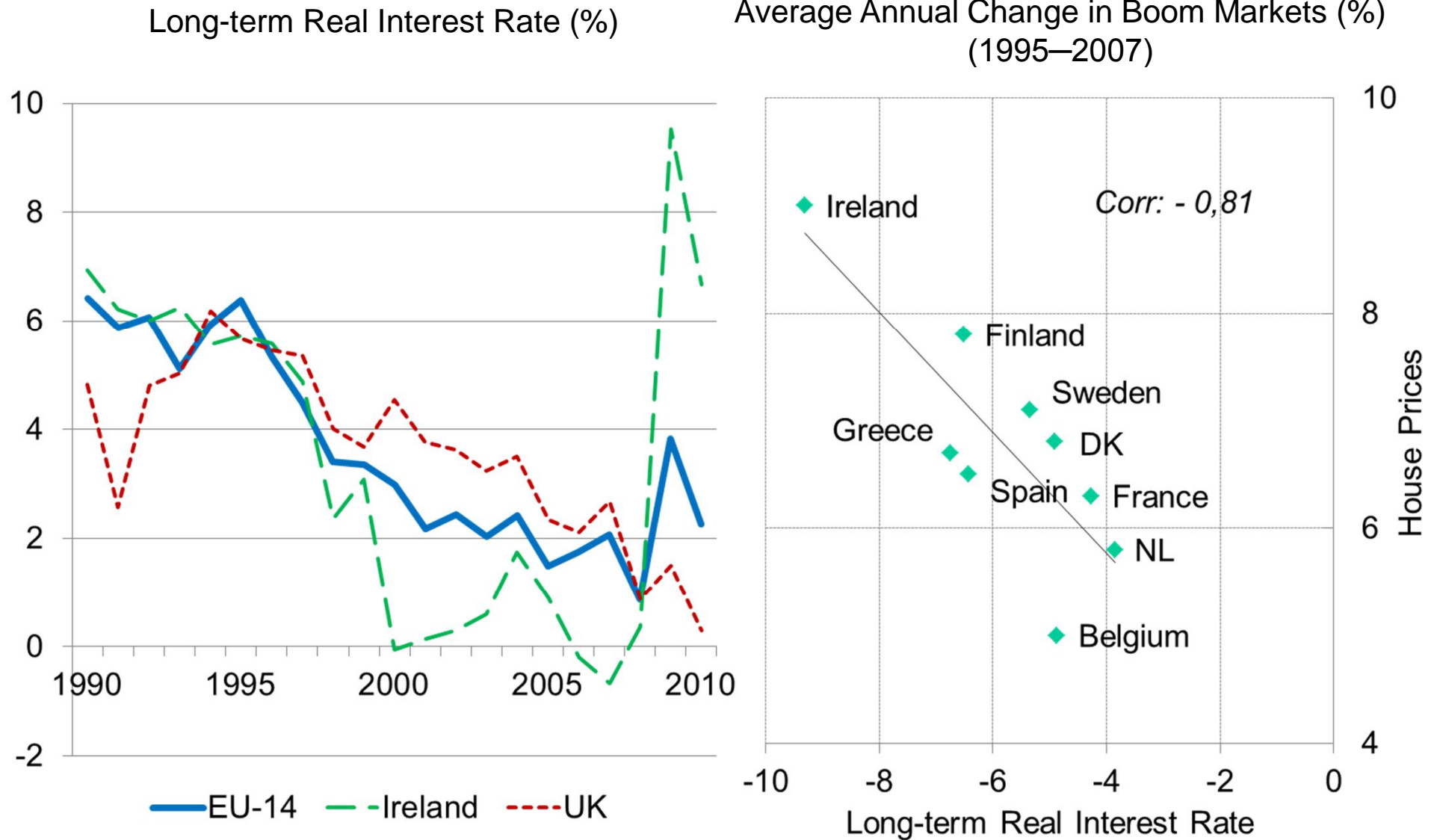
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# Macroeconomic Fundamentals

## Real House Prices vs. Real Income Growth (1995 – 2007)



# Real House Prices vs. Real Interest Rates



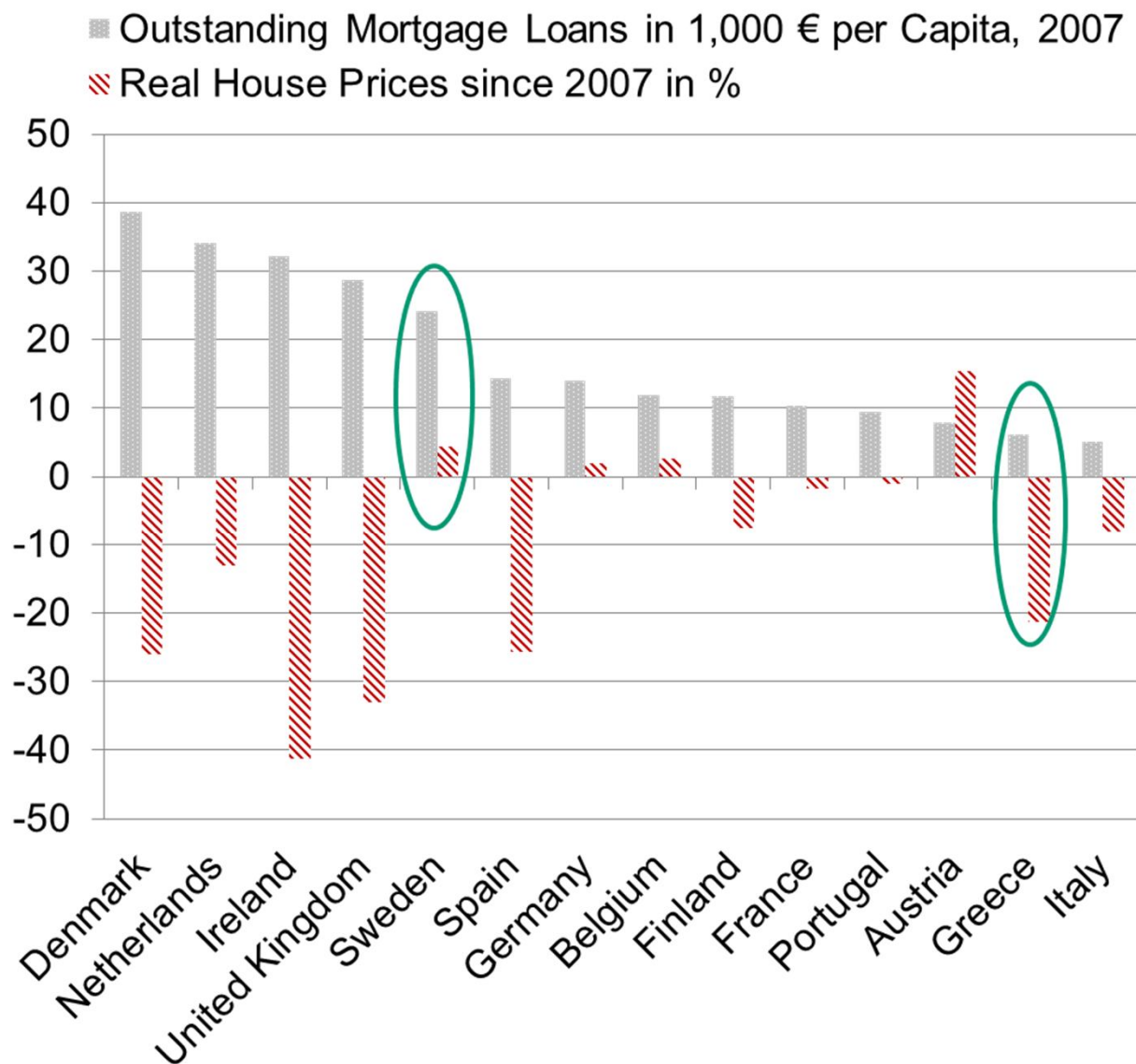
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# Country-specific Institutions

# A Characterisation based on Financial Market Indicators

	Financial Reform Index 1995 (Abiad et al. 2008)	Mortgage Market 'Completeness' 2008 (IMF, 2008)	Mortgage Backed Securities / Outstanding Mortgage Loans – Av. 2003 to 2006 (EMF-Hypostat, 2004, 2005, 2006, 2007)	Share of variable rate loans (ECB, 2003)	Typical Loan-to-Value (LTV) Ratio (ECB, 2003 a. o.)	Level of Household Debt (Eurostat)	Growth of new loans for house purchase (ECB, 2009)	Typical loan maturity (ECB, 2003 a. 2009; a.o.)
<b>Boom-Bust markets</b>								
Denmark	+++	+++	--	-	++	+++	-	30
Greece	n.	o	++	+++	o	--	+++	15-20
Ireland	+++	+++	+++	+	--	+++	++	31-35
Spain	+++	++	++	++	--	+	+	30
United Kingdom	+++	+++	+++	++	o	++	o	25
As a group	+++	+++	+++	++	-	++	++	27
Netherlands	+++	++	++	+	+++	+++	+	30
<b>Boom-NonBust markets</b>								
Belgium	o	o	o	---	++	-	o	20
Finland	-	++	o	+++	o	o	o	20-25
France	+++	---	-	--	o	o	o	19
Sweden	+++	+++	--	o	++	+	+++	25
As a group	+	+	-	-	+	o	+	22
<b>NonBoom markets</b>								
Austria	--	-	---	o	---	-	o	25
Germany	o	--	--	---	--	-	---	25
Italy	-	--	+	+	---	--	+	15
As a group	-	--	--	-	---	-	-	22
Portugal	n.	n.	+++	+++	n.	++	o	n.

# House Price Change vs. Private Household Debt



## Theory:

- Not *Gross Debt*, but *Net Wealth* counts
- However, *Net Wealth* developm. depends on HP developm. and leverage
- HP and Debt interactive !  
 => *Gross Debt* important when HP are declining

## Empirics:

- Strong relationship betw. scale of household debt in 2007 and real HP developm. after 2007 (exc.: SW, GR)
- Macroeconomic policies can help:
  - monetary easing; fiscal transfers to households; tax relief, etc...
  - However, limits to rate cuts and limits to government debt

# A Characterisation based on Housing Policy Indicators

	<b>Capital Gains Taxes</b> (own calc. based on nat. information)	<b>Value of Mortgage Interest Tax Relief</b> (OECD, 2011)	<b>Transaction Costs of Purchasing Property</b> (EMF, 2010)	<b>Rent Regulation Index</b> (own calc. based on nat. information; broadly in line with OECD, 2011)	<b>State Subsidies for Housing</b> (Eurostat)	<b>Share of Social Housing in total stock</b> (Housing in Europe, 2011)	<b>Home owners Quote</b> (Housing in Europe, 2011)
<b>Boom-Bust markets</b>							
Denmark	+++	+++	---	0	0	++	---
Greece	0	+++	+++	---	n.	---	++
Ireland	0	0	--	---	+++	0	+++
Spain	-	+	++	-	+++	---	+++
United Kingdom	---	---	---	---	0	++	+
As a group	0	++	-	--	++	-	++
Netherlands	---	+++	-	-	++	+++	0
<b>Boom-NonBust markets</b>							
Belgium	--	+	0	---	--	0	+
Finland	+	++	0	-	--	+	0
France	--	0	+++	-	+++	+	-
Sweden	++	++	--	+++	+	+++	--
As a group	-	+	+	-	0	++	-
<b>NonBoom markets</b>							
Austria	+++	--	0	-	0	+++	--
Germany	+++	---	-	-	++	-	---
Italy	++	--	++	+++	+	--	++
As a group	+++	--	+	+	+	0	-
Portugal	+	-	+	+++	n.	--	+++

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# Conclusions

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## (1) Broadly common factors in boom countries:

- historically low (real) interest rates
- strong growth in real disposable income and good income expectations
- a mutually reinforcing relationship between house prices and mortgage lending

These factors led to:

- a strong demand for housing services and mortgages
- a stronger synchronisation of house prices during the period 1999 – 2007
- a higher trend growth of house prices
- an investment boom in some countries

# Conclusions

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(2) A combination of factors contributed to house price busts after 2007:

- high owner-occupation rate (IR, ES, UK, GR)
- high level of personal debt (IR, ES, UK, NL)
- dominance of variable interest rate mortgages (IR, ES, DK)
- intensive use of *Securitisation* and new capital-market based refinancing instruments (ES, UK, NL, IR)
- problems of overall competitiveness and the over-representation of construction in the economy → supply overhangs (IR, ES)

## Conclusions

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(3) Some factors helped to avoid a large (or even larger) decline in house prices:

- predominantly fixed rate mortgage lending (BE, FR, NL, GE)
- reasonable loan-to-value ratios (FR, FI, IT, GE, AT)
- more weight on traditional refinancing instruments (BE, FR, GE, AT)
  
- a reasonable mixture of housing tenure (SW, NL, GE, AT)
- a high share of social housing (FI, FR, SW, AT)
- strong housing-related fiscal stimulus (FR) or tax policy changes boosting demand for housing (SW, FR, NL)
- a high share of outright ownership (PT, IT)
  
- local housing supply problems due to land shortages and/or high building costs (UK, SW, FR, NL)

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THANK YOU