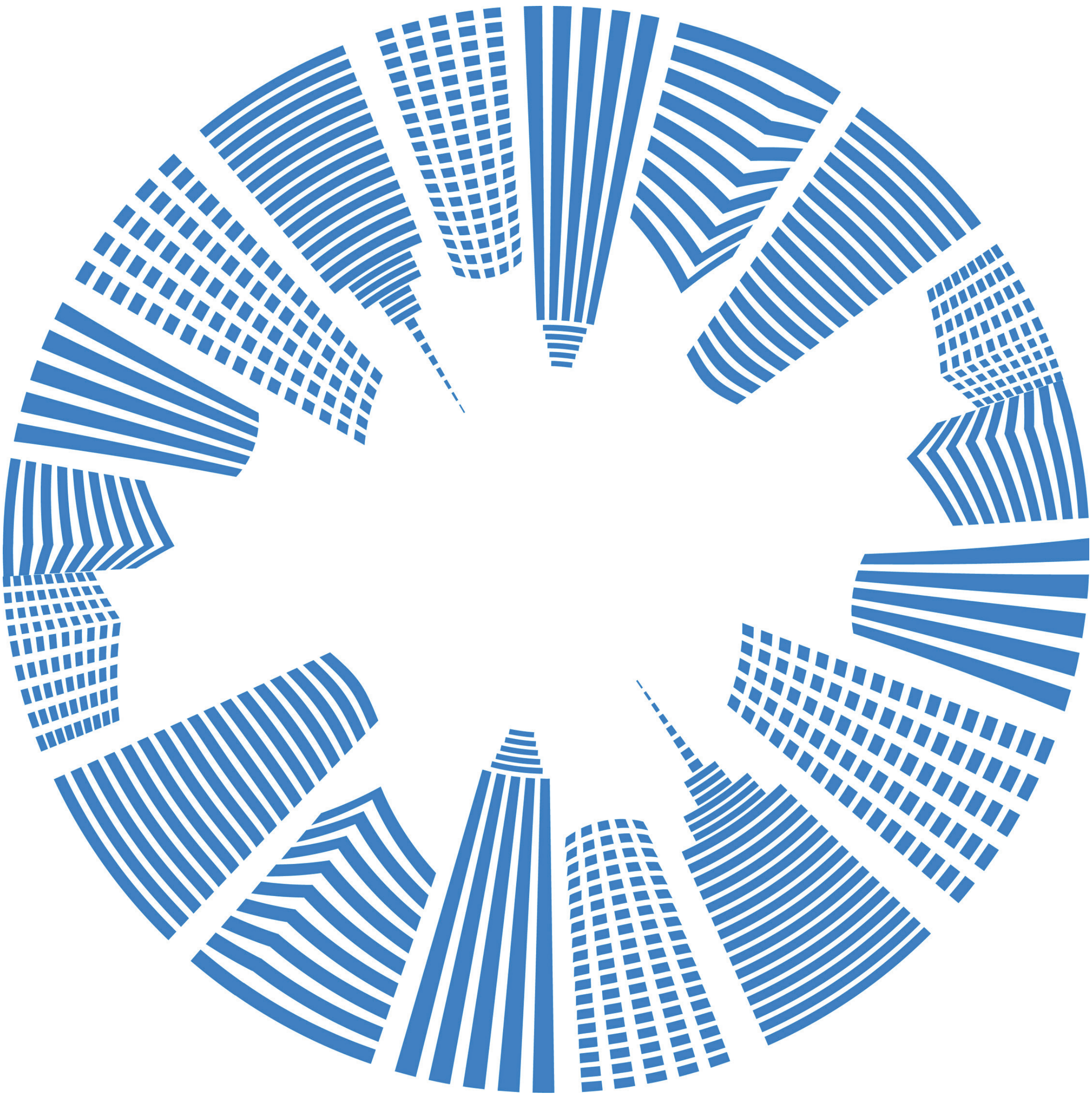
Deloitte.



Property Index
Overview of European Residential Markets

Rental market – Is renting a dwelling a profitable investment?
6th edition, July 2017

Introduction

We are pleased to present to you the sixth edition of the **Property Index, Overview of European Residential Markets**. During its long history Property Index has become one of the most important European real estate publications.

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 also cover the residential rental market area whereby we tried to deal with yield issues from the landlord point of view. This brings a completely different perspective on the residential market, because the method of investing in the form of 'buy to let' is recently very favoured.

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

- Austria (AT);
- Belgium (BE);
- Czech Republic (CZ);
- Denmark (DK);
- Estonia (EE);
- France (FR);
- Germany (DE);
- Hungary (HU);
- Ireland (IE);
- Israel (IL);
- Italy (IT);
- Latvia (LV);
- Lithuania (LT)
- Netherlands (NL);
- Poland (PL);
- Portugal (PT);
- Slovenia (SI);
- Spain (ES); and
- United Kingdom (UK).

Most of the indicators featured are on a year-on-year basis and are to some extent also influenced by geopolitical situations or 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 sixth issue of the publication interesting and inspiring for you and for your business.

Highlights

8.9%

The most profitable investment among surveyed cities were observed in Odense in Denmark (+8.9%), followed by Budapest, the Capital of Hungary (+7.9%).

2.0%

The lowest yield in absolute terms was recorded in Inner London (+2.0%) due to remarkably high monthly rent level.

26.5%

The highest price growth in 2016 was surprisingly recorded in Slovenia, where transaction price of new dwellings rose by an outstanding +26.5%.

11 years

The least affordable own housing was for the first time observed in the Czech Republic where citizens need to save almost 11 years to buy a new apartment.

16,538 EUR

Inner London was again the most expensive city among surveyed cities with a price tag reaching 16,538 EUR/sq m. Due to exchange rate movements the dwelling price in Euros decreased in Inner London by 9 %. Living outside of Inner London was cheaper, however, still above average amounting 7,145 EUR/sq m.

1.068 EUR

The cheapest new dwelling was scored in Portugal, where the transaction price oscillated closely above the level of 1,000 EUR.

453 000

The highest volume of housing development in all selected countries was seen in France (6.8 completed dwellings per 1,000 citizens). This country also recorded the highest total number of completed dwellings reaching 453 000.

1.77%

Czech Republic was the place where you could get a mortgage with most favourable conditions of bank financing in 2016. The average mortgage rate fluctuated around 1.77%.

Economic development in Europe

The last three years have seen slow growth. The European economy continued to rise in 2016.

Nevertheless, the growth rate of GDP slightly decreased in comparison to 2015 and 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 and low commodity prices.

External conditions were less favourable in 2016 than the year before. The US growth rate slowed down to 1.6%. The Chinese economy decelerated its growth further below 7%. Japan grew by a modest 1%. Russia did not make it out of the recession in 2016 and Brazil remained in a deep recession. These negative external conditions partially determined the slowdown of the European economy.

Monetary policy relaxed further over the course of 2016. In March, the ECB extended its asset purchase programme from EUR 60bn to EUR 80bn monthly and included investment grade bonds issued by non-bank corporations in the list of assets that are eligible for regular purchases. The total monthly purchases amounting to EUR 80bn lasted until March 2017. This volume was cut down to EUR 60bn in April and is intended to run until the end of December. Furthermore, the ECB decided to cut its deposit rate by 10 basis points to minus 0.40%. Declining interest rates contributed to the growth of consumption expenditures by 2.1% and fixed capital investment by 2.5% in the EU in 2016.

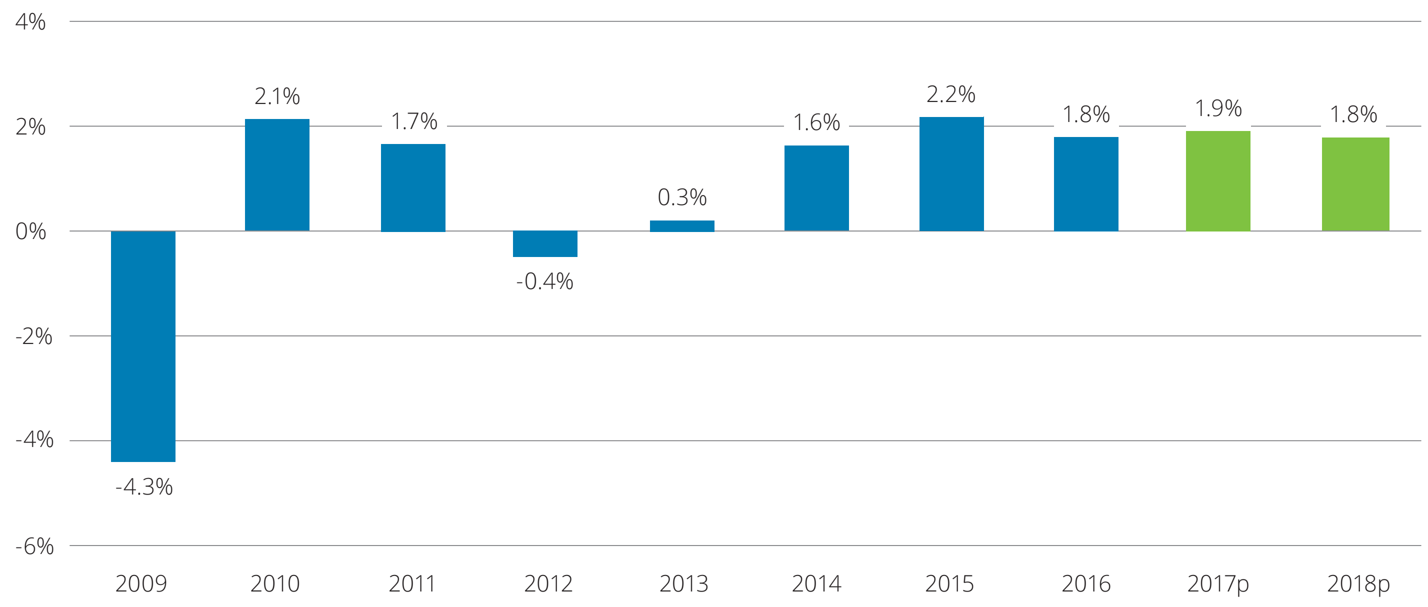
Part of the growth deceleration between 2015 and 2016 was a decline in competitiveness due to a lower labour productivity accompanied by faster wage inflation. Because of decreased competitiveness exports from both the EU and the Eurozone rose by 3.1% in real terms last year, which is half the pace observed in 2015. Despite this, the unemployment rate descended from its high of 10.9% in 2013 to 8% in March 2017.

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 21 out of 28 EU countries in 2016.

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 entered the process of leaving the EU in March 2017, which implies a latest date in March 2019 for agreeing the terms and conditions of the subsequent Brexit. The migration crisis seems to be easing.

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

Graph: Growth of real GDP in EU 28



Source: Eurostat. Forecast: Deloitte

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 83% 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 together with the steadily falling unemployment rate support the housing market.

Focus: Rental Market – Is renting a dwelling a profitable investment?

In the last two editions we covered the introductory part with a focus on specific themes about residential property market. With the sixth edition publishing this year we would like to proceed with a completely new topic that will bring a different view on residential market perspective. This year´s focus on the rental market, prompting the question – Is renting a dwelling a profitable investment?

Emerging trends are becoming influential in the development of the rental market. The rise of online providers such as Airbnb and a generation of young people who are looking for more non-binding and flexible accomodation are driving factors of the market.

The proportion of households using a lease can be seen in the map nearby. It documents that moving from the east to the west and from the south to the north highlights a greater share of rental living. Germany is by far a clear leader in renting with a share of 50.8% households. The lowest share of rental living according to the official database Euromonitor International shows Slovenia (3.0%).

Proportion of households living in a rent dwelling in % (2016)

- 0% – 10%
- 10% – 20%
- 20% – 30%
- 30% – 40%
- 40% <

Source: Euromonitor International

Property Index | 6th edition, July 2017

Focus: Rental Market –
Is renting a dwelling a profitable investment?

* older dwellings
** bid price
*** new and older dwelling
† net yield

Source: National Statistical Authorities, Deloitte data calculations

Anyone considering buying an investment property will be interested in what return the property will give them – in other words, its yield. This figure is defined as a measurement of future income on an investment. It is generally calculated annually as a percentage, based on the asset's (or investment's) cost or market value of a property.

We asked Deloitte's real estate professionals what the average monthly rent of a dwelling in the largest cities is. We then calculated the rental yield, using the average transaction price of a new dwelling as a market value and an average monthly rent per sq m. The above mentioned yield is interpreted by majority of cities as a gross yield, meaning that no operational or other costs are included in the rent.

By comparing cities within Europe large distinctions were recorded:

- The most profitable investment among surveyed cities were observed in Odense in Denmark (+8.9%), followed by Budapest, the capital of Hungary (+7.9%).
- All cities from Denmark showed relative higher yield levels compared to other cities due to the remarkable rent amount per sq m.
- Favourable conditions for investing were recorded in the majority of cities in Poland, Hungary and Czech Republic fluctuating between 6 % – 8 %.
- The lowest yield in absolute terms was recorded in Inner London (+2.0%) due to significantly high monthly rent level.

There are a lot of different ways to invest your money – stocks, bonds, funds or commodities belong to the most favorite one. However, real estate investments has generated consistent wealth and longterm appreciation for many decades which shows that the investment may pay off. On the other hand it should not be forgotten that the most important factor in the real estate sector is location.

Comparison of Residential Markets – Housing Development Intensity

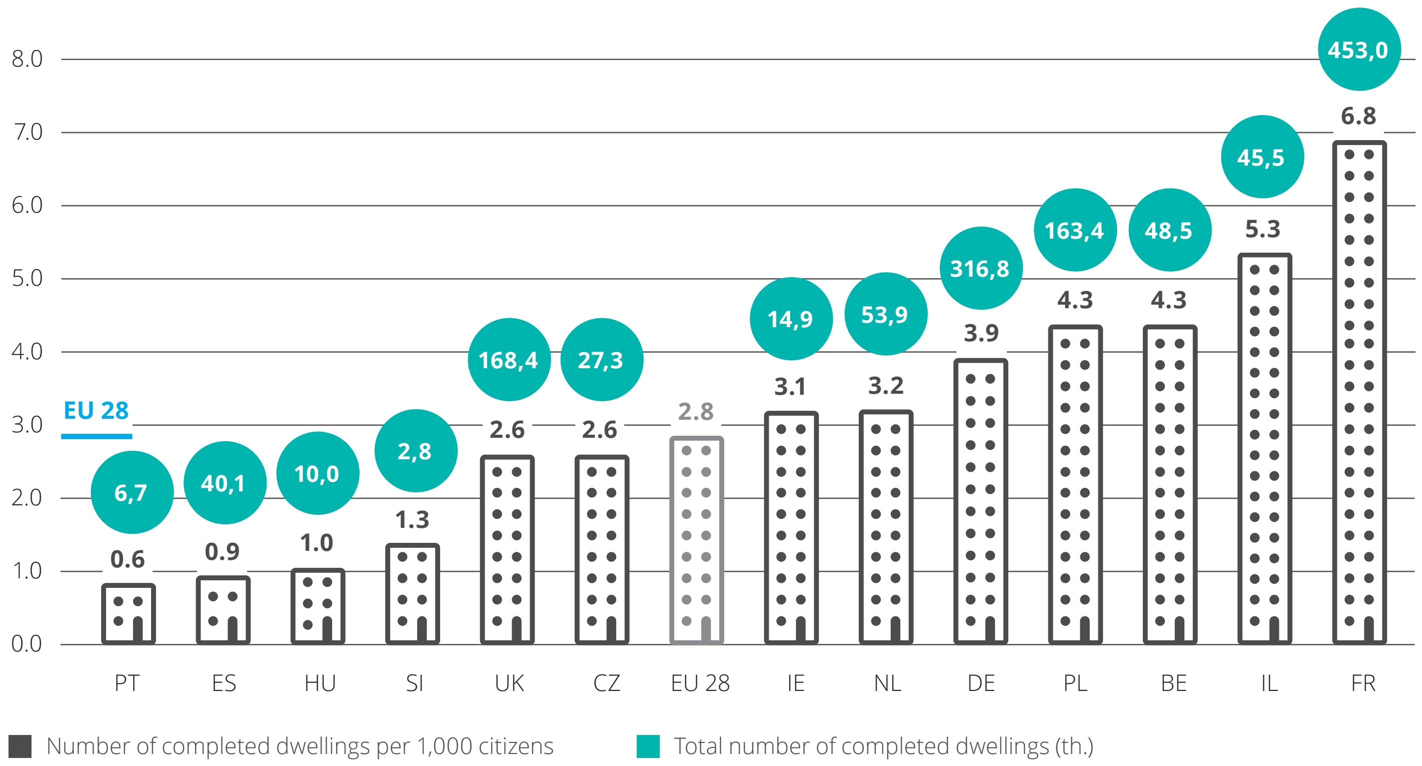
Completed apartments
The volume of housing development across the European Union remained stable, reaching 2.8 completed apartments per 1,000 citizens. On average, 3 dwellings per 1,000 citizens were completed in all selected countries in 2016 (including Israel).

The greatest development intensity of all selected countries was seen in France (6.8 completed dwellings per 1,000 citizens). This country also recorded the highest total number of completed dwellings reaching 453 thousand.

A significantly higher value of the indicator than in European countries was found in Israel (5.3).

Similarly to 2014 and 2015 the lowest intensity of housing development in 2016 was found in Portugal (0.6 completed apartments per 1,000 citizens) – only 6 700 dwellings were completed.

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



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

Initiated apartments
The average v alue of newly initiated construction in 2016, in the countries of interest, amounted to 3.7 initiated apartments per 1,000 citizens. This represents a moderate year-on-years increase of 0.1 dwellin. Data regarding the European average is not available.

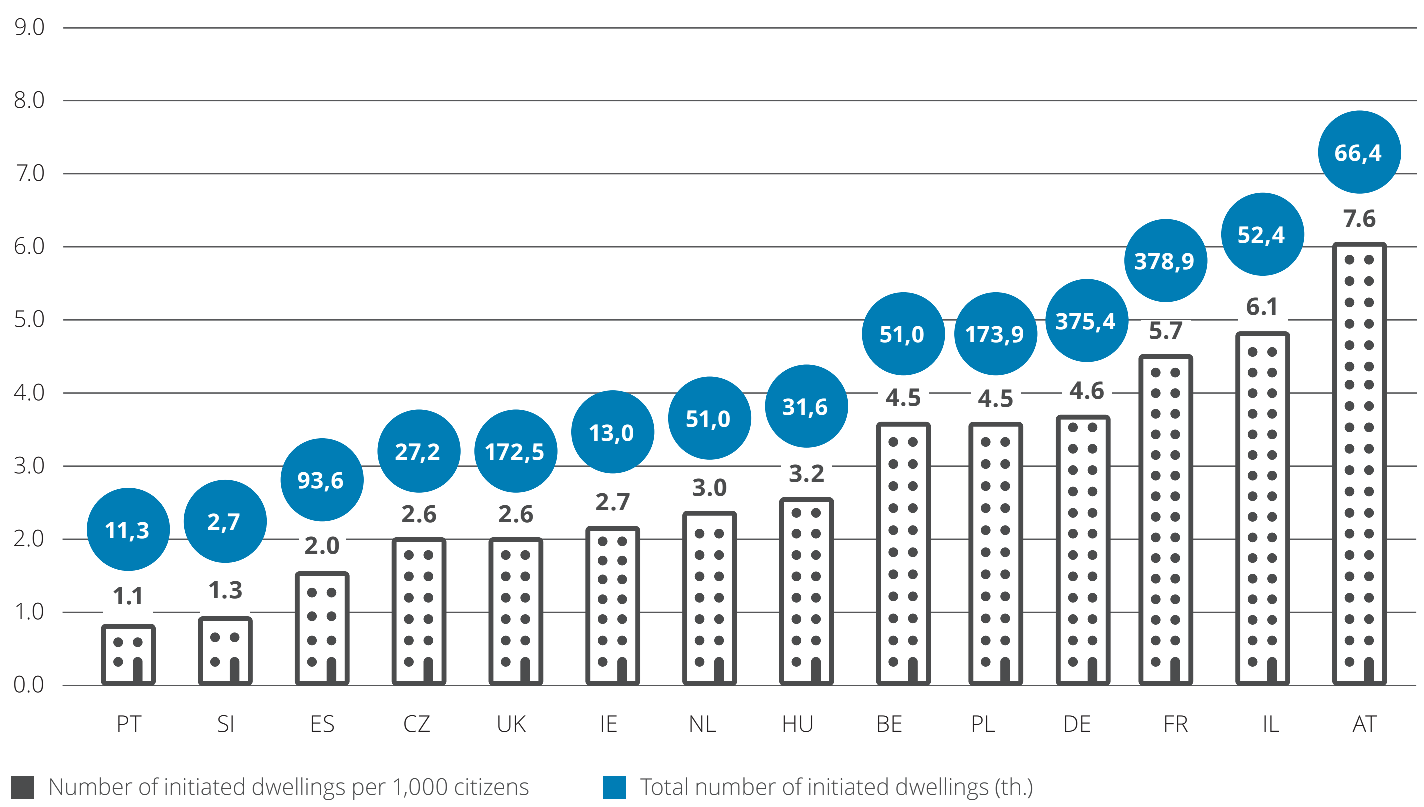
From a regional viewpoint, the highest intensity of initiated residential development in 2016 was found in Austria (7.6 started dwellings per 1,000 citizens), Israel (6.1) and France (5.7).

On the other hand, the lowest number of apartments was initiated again in Portugal (1.1 initiated dwellings per 1,000 citizens), Slovenia (1.3), Spain (2.0) and Czech Republic (2.6).

In total numbers, most dwellings were in 2016 started in France i.e. 378 thousand. The lowest number of apartments was started in Slovenia, only 2.7 thousand.

From a regional viewpoint, the highest intensity of initiated residential development in 2016 was found in Austria (7.6 started dwellings per 1,000 citizens), Israel (6.1) and France (5.7).

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



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

Property Index | 6th edition, July 2017

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.

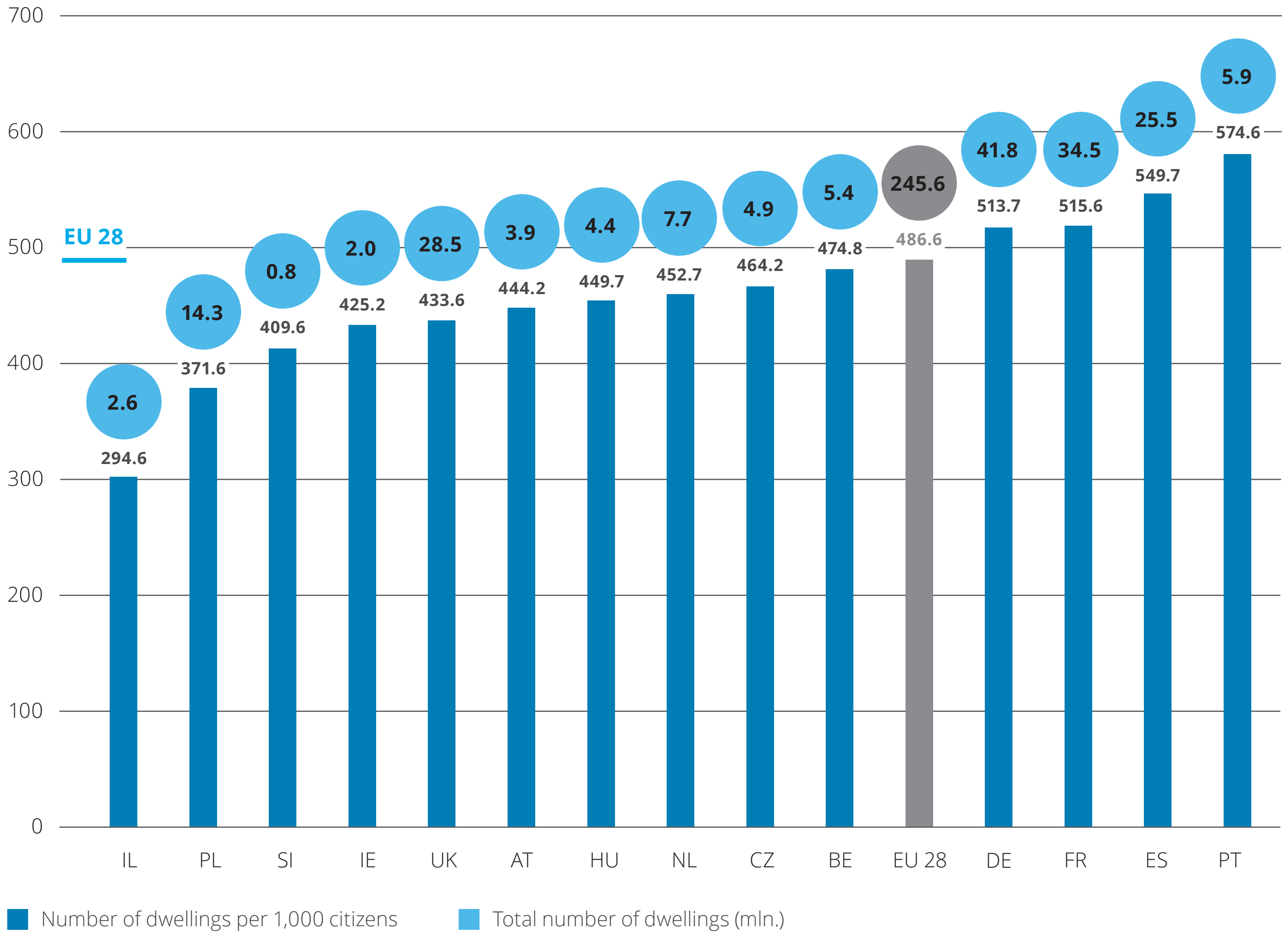
The average housing stock in the European Union in 2016 remained at 486.6 apartments per 1,000 citizens. In total numbers this represents 245.6 million dwellings. More than 1.2 million dwellings have been added based on year-on-year comparison.

The average value of the housing stock in the countries of interest in 2016 reached 465 dwellings per 1,000 citizens.

Similarly to 2014 and 2015 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 11%.

The lowest housing stocks in 2016 per 1,000 citizen was found again in Israel (295 dwellings per 1,000 citizens) and Poland (372 dwellings per 1,000 citizens).

Housing stock
Number of dwellings per 1,000 citizens



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

The average housing stock in the European Union in 2016 remained on value 486.6 apartments per 1,000 citizens. In total numbers this represents 245.6 million dwellings. More than 1.2 million dwellings have been added based on year-on-year comparison.

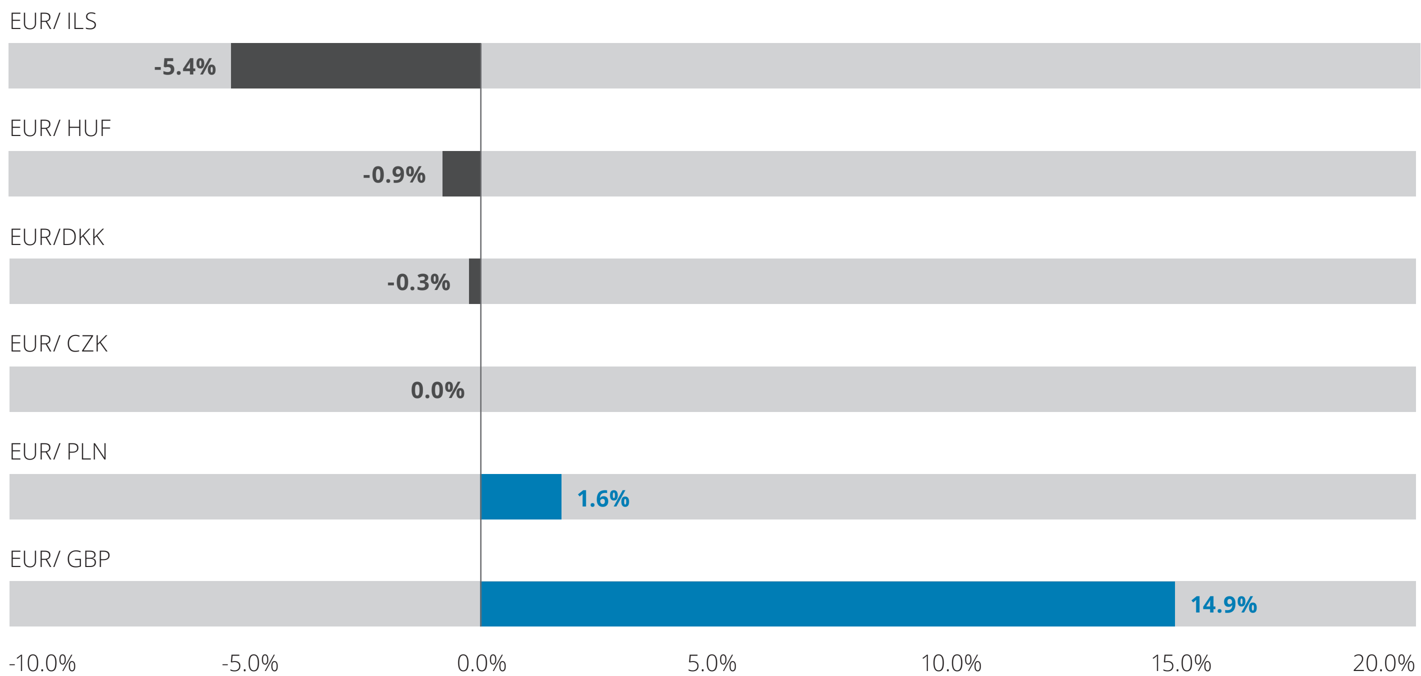
Property Index | 6th edition, July 2017

Comparison of Residential Property Prices in Selected Countries and Cities

In this edition of the Property Index, we have added again data for Denmark, however, figures from Russia are no more included. All dwelling prices are calculated in Euros, as such the price growth or fall is influenced by a change in exchange rates.

Depreciation or appreciation of national currencies other than euro are shown in the chart below. Largest y-o-y difference that affected the property value was recorded in the United Kingdom due to Brexit negotiation.

Euro exchange rates changes, 31. 12. 2016/31. 12. 2015
(+%) = euro appreciation, (%) = euro depreciation against a currency



Source: Yahoo Finance

Property Index | 6th edition, July 2017

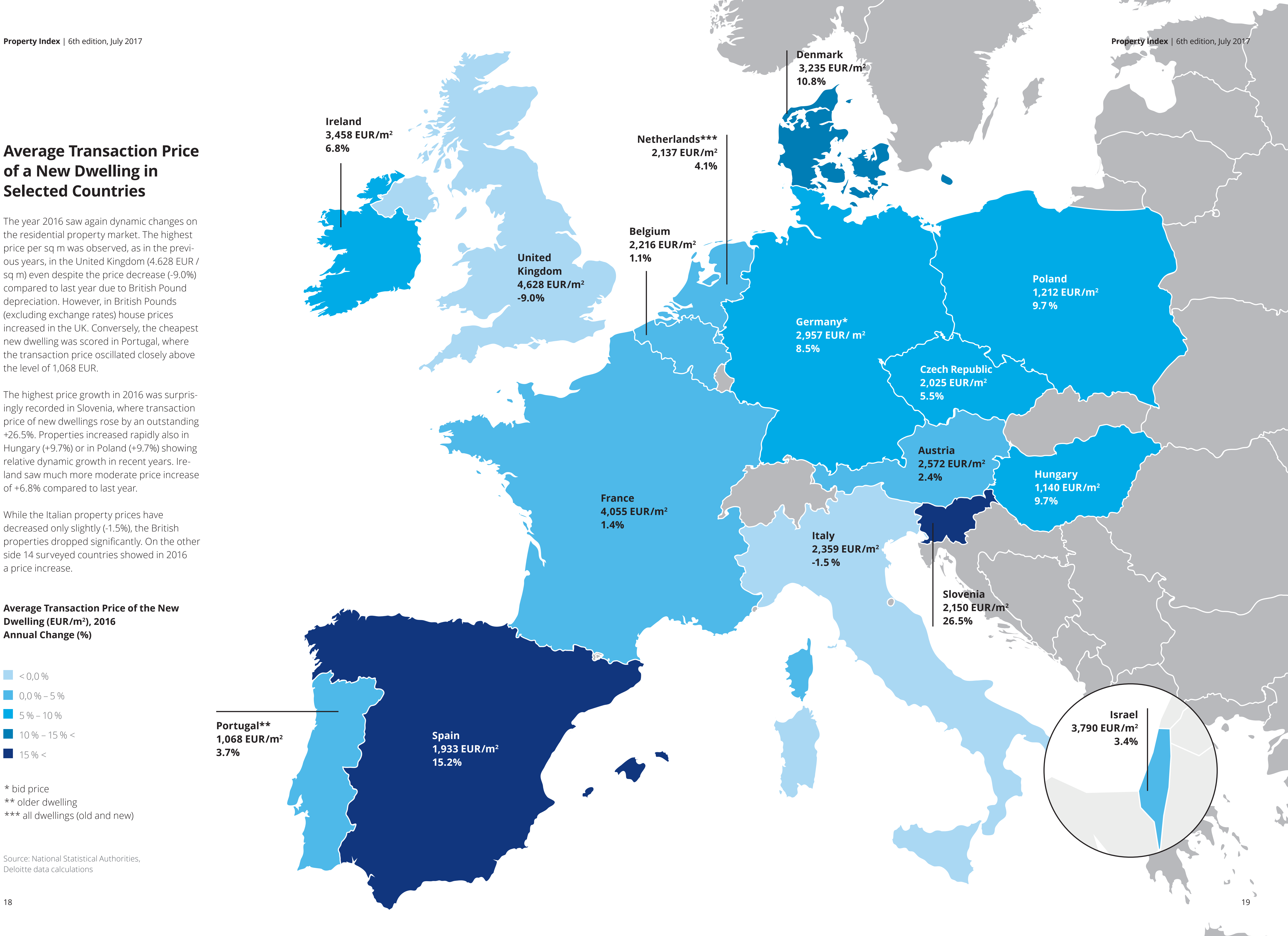
Average Transaction Price of a New Dwelling in Selected Countries

The year 2016 saw again dynamic changes on the residential property market. The highest price per sq m was observed, as in the previous years, in the United Kingdom (4.628 EUR / sq m) even despite the price decrease (-9.0%) compared to last year due to British Pound depreciation. However, in British Pounds (excluding exchange rates) house prices increased in the UK. Conversely, the cheapest new dwelling was scored in Portugal, where the transaction price oscillated closely above the level of 1,068 EUR.

The highest price growth in 2016 was surprisingly recorded in Slovenia, where transaction price of new dwellings rose by an outstanding +26.5%. Properties increased rapidly also in Hungary (+9.7%) or in Poland (+9.7%) showing relative dynamic growth in recent years. Ireland saw much more moderate price increase of +6.8% compared to last year.

While the Italian property prices have decreased only slightly (-1.5%), the British properties dropped significantly. On the other side 14 surveyed countries showed in 2016 a price increase.

Average Transaction Price of the New Dwelling (EUR/m²), 2016
Annual Change (%)



* bid price
** older dwelling
*** all dwellings (old and new)

Source: National Statistical Authorities, Deloitte data calculations

Property Index | 6th edition, July 2017

Average Transaction Price of a New Dwelling (EUR/ m²) and 2016/ 2015 change

AT	Vienna	1.8%	3,999
	Graz	1.3%	3,063
	Linz	1.9%	2,842
BE	Brussels	2.7%	3,096
	Antwerp	0.5%	2,925
	Ghent	-3.2%	2,777
CZ	Prague	10.5%	2,368
	Brno	15.2%	1,939
	Ostrava	-3.2%	1,149
DE*	Berlin	9.7%	3,510
	Hamburg	6.1%	4,020
	Munich	8.2%	6,580
	Frankfurt	8.9%	4,300
DK	Copenhagen	NA	4,582
	Aarhus	NA	3,918
	Odense	NA	2,327
EE*	Tallinn	0.0%	2,340
ES	Madrid	4.0%	3,353
	Barcelona	6.0%	4,008
	Valencia	4.3%	1,982
FR	Paris (inside)	15.6%	12,374
	Lyon	5.0%	4,015
	Marseille	-2.0%	3,700
	Ile de France	2.0%	4,838
HU	Budapest	15.3%	1,480
	Debrecen	11.2%	883
	Győr	-0.5%	947
IE	Dublin	6.5%	4,519
	Cork	12.6%	3,324
	Galway	9.0%	2,998
IL	Tel- Aviv	16.6%	8,168
	Jerusalem	2.4%	5,202
	Haifa	21.3%	3,884
IT	Milan	0.0%	3,613
	Rome	-1.7%	3,409
	Turin	-2.0%	1,992
LT*	Vilnius	7.6%	1,775
LV*	Riga	NA	1,810
NL***	Amsterdam	11.9%	4,081
	The Hague	6.6%	2,089
	Rotterdam	9.5%	1,963
PL	Warsaw	-1.5%	1,729
	Krakow	0.0%	1,432
	Łódź	-2.0%	1,071
	Wrocław	-2.4%	1,387
PT	Lisbon	NA	2,572
	Porto***	NA	1,407
	Algarve Region	NA	1,514
SI	Ljubljana	6.4%	2,660
	Maribor	0.0%	1,550
UK	Inner London	-8.8%	16,538
	Outer London	-16.7%	7,145
	Manchester	NA	3,035

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

Average Transaction Price of a New Dwelling in Selected Cities

As in previous editions, we compiled a comparison of prices among 53 major European cities. Below are listed key messages from our research.

- Inner London was again the most expensive city among surveyed cities with a price tag reaching 16,538 EUR/sq m. Due to exchange rate movements the dwelling price in Euros decreased in Inner London by 9 %. Living outside of Inner London was cheaper, however, still above average amounting 7,145 EUR/sq m.
- The second most expensive city after London was inner Paris with a price at 12,374 EUR/ sq m with rapid y-o-y price increase of 16 %. The cost of buying a dwelling in Marseille and Lyon were in 2016 much more affordable.
- Tel-Aviv became again the third most expensive city with an average price of 8,168 EUR/ sq m, surpassing the Israeli capital Jerusalem.
- If you are looking for cheap living, Debrecen in Hungary might be exactly the place for you. With a price tag of 883 EUR/ sq m, it is the least expensive city in our survey. The second cheapest city in 2016 was Győr also from Hungary. Average dwelling price amounted in this case 947 EUR/ sq m.

Inner London was again the most expensive city among surveyed cities with a price tag reaching 16,538 EUR/sq m. However, due to exchange rate movements the dwelling price decreased.

% Average Transaction Price of the New Dwelling – Annual change (%)

Average Transaction Price of a New Dwelling

Source: Source: National Statistical Authorities, Deloitte data calculations

Comparison of the Main Cities to the Country Average (country average = 100%), 2016

AT	Vienna	155%
	Graz	119%
	Linz	110%
BE	Brussels	140%
	Antwerp	132%
	Gent	125%
CZ	Prague	117%
	Brno	96%
	Ostrava	57%
DE	Berlin	119%
	Hamburg	136%
	Munich	223%
	Frankfurt	145%
DK	Copenhagen	142%
	Aarhus	121%
	Odense	72%
ES	Madrid	173%
	Barcelona	207%
	Valencia	103%
FR	Paris (inside)	305%
	Lyon	99%
	Marseille	91%
	Ile de France	119%
HU	Budapest	130%
	Győr	77%
	Debrecen	83%
IE	Dublin	131%
	Cork	96%
	Galway	87%
IL	Tel- Aviv	216%
	Jerusalem	137%
	Haifa	102%
IT	Milan	153%
	Rome	145%
	Turin	84%
NL**	Amsterdam	191%
	The Hague	98%
	Rotterdam	92%
PL	Warsaw	143%
	Krakow	118%
	Łódź	88%
	Wrocław	114%
PT	Lisbon	241%
	Porto***	132
	Algarve Region	142%
SI	Ljubljana	124%
	Maribor	72%
UK	Inner London***	357%
	Outer London	154%
	Manchester	66%

**older dwellings ***all dwellings (old and new)

Property Index | 6th edition, July 2017

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

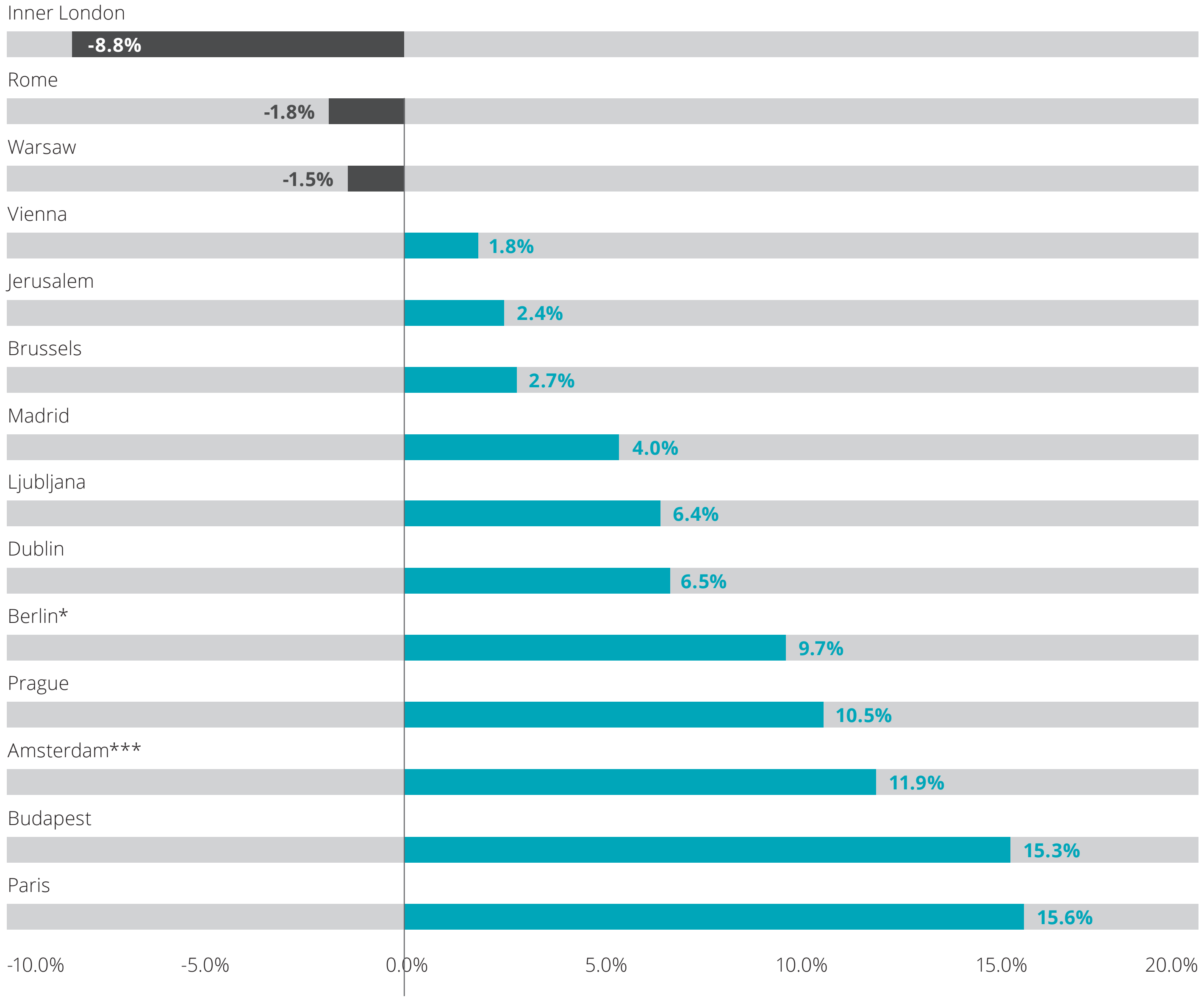
- Properties in Inner London were on average 357% of the national average and recorded therefore the largest difference.
- In inner Paris it would cost 3 times as much to buy an average apartment than in an average city in France.
- Munich and Lisbon exceeds the national average of Germany and Portugal, almost 2.5 times, respectively.
- Barcelona and Tel-Aviv exceed the national averages by more than double.
- Some cities from our survey recorded this year lower dwelling price than the national average. Namely: Łódź, Brno, Ostrava, Cork, Galway, The Hague, Rotterdam, Turin, Maribor, Manchester, Lyon, Marseille, Györ, Debrecen and Odense.
- Ostrava had the lowest price level compared to national average among all surveyed cities amounting only 57%.

Properties in Inner London were on average 357% of the national average and recorded therefore the largest difference.

■ Comparison of the Main Cities to the Country Average in %, average transaction price of a new dwelling

Source: Source: National Statistical Authorities, Deloitte data calculations

Average Transaction Price of the New Dwelling
Capitals 2016/ 2015 change (%)

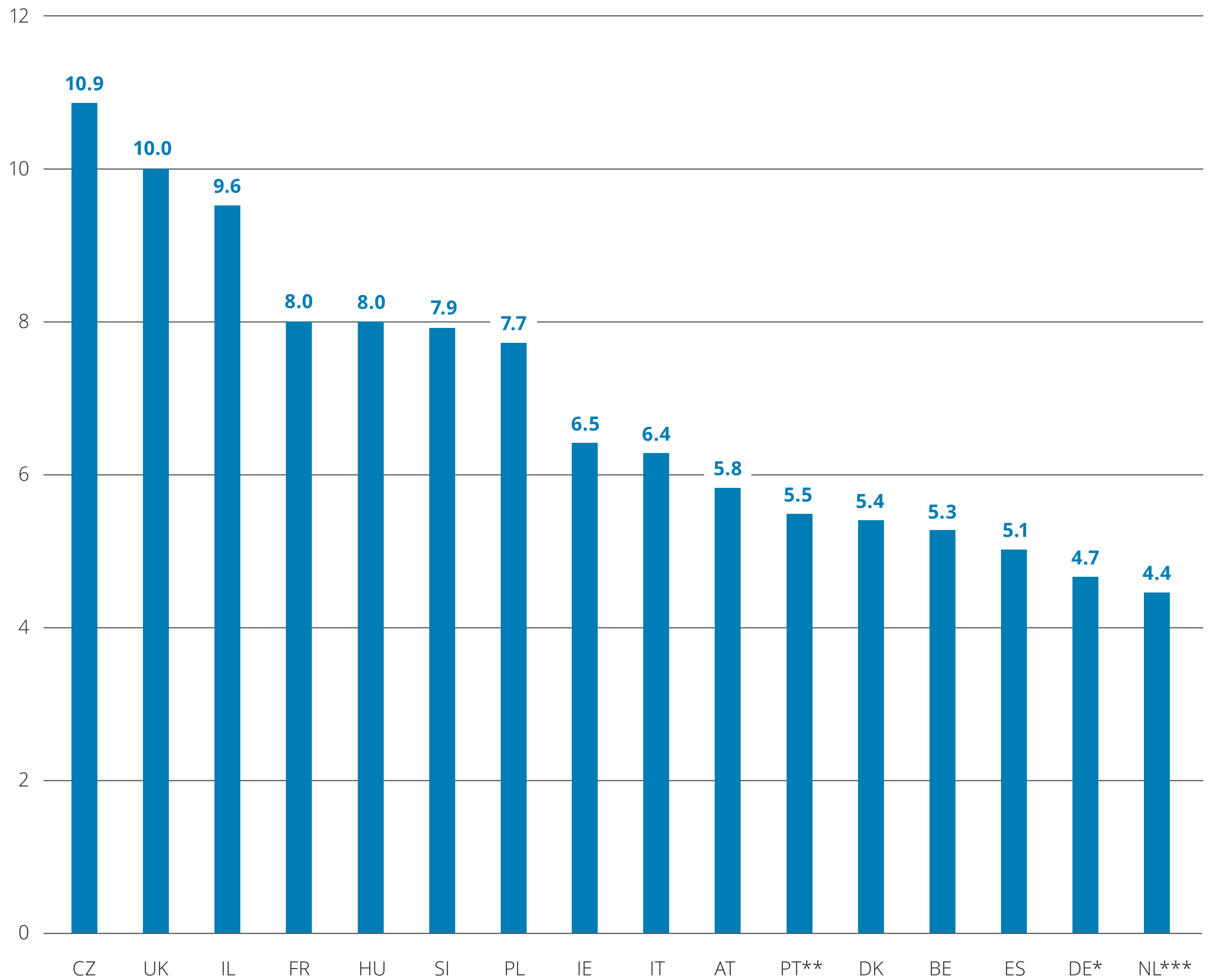


Source: National Statistical Authorities, Deloitte data calculations
* bid price, ** older dwellings, *** all dwellings (older and new)

It better illustrate pricing across the market we have also looked at transaction prices across the European capitals. Key results are:

- Property prices were growing again across most of the markets in 2016. Out of the 14 cities, where data was available only 3 saw a decrease in price compared to 2015.
- Dwelling prices rose by 15.6% in Paris (inside) showing relative high demand for dwellings in the Capital of France.
- Double digit growth was also observed in Budapest (+15.3%), Amsterdam (+11.9%) and Prague (+10.5%). This rapid increase was shown in completely different cities than last year.
- Moderate y-o-y decline in dwelling prices were recorded in Warsaw (-1.5%) and Rome (-1.7%)
- The worst performing market was unexpectedly Inner London with a price decrease of (-8.8%), whereby the main reason of this trend was the deprecation of the British pound.

Affordability of Own Housing
Gross annual salaries for the standardized new dwelling (70 m²), 2016



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

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 newly in the Netherlands, where a person needs to on average save only 4.4 years to buy a new dwelling. The Netherlands is closely followed by its neighbours – Germany or Belgium.
- Relatively affordable housing, which is up to 6 annual salaries, can be found in Spain, Denmark, Portugal and Austria.
- Second highest affordability of own housing was recorded in the United Kingdom amounting 10 years.
- The least affordable own housing was for the first time observed in the Czech Republic where citizens need to save almost 11 years to buy a new apartment.

Property Index | 6th edition, July 2017

Mortgage Markets in Europe

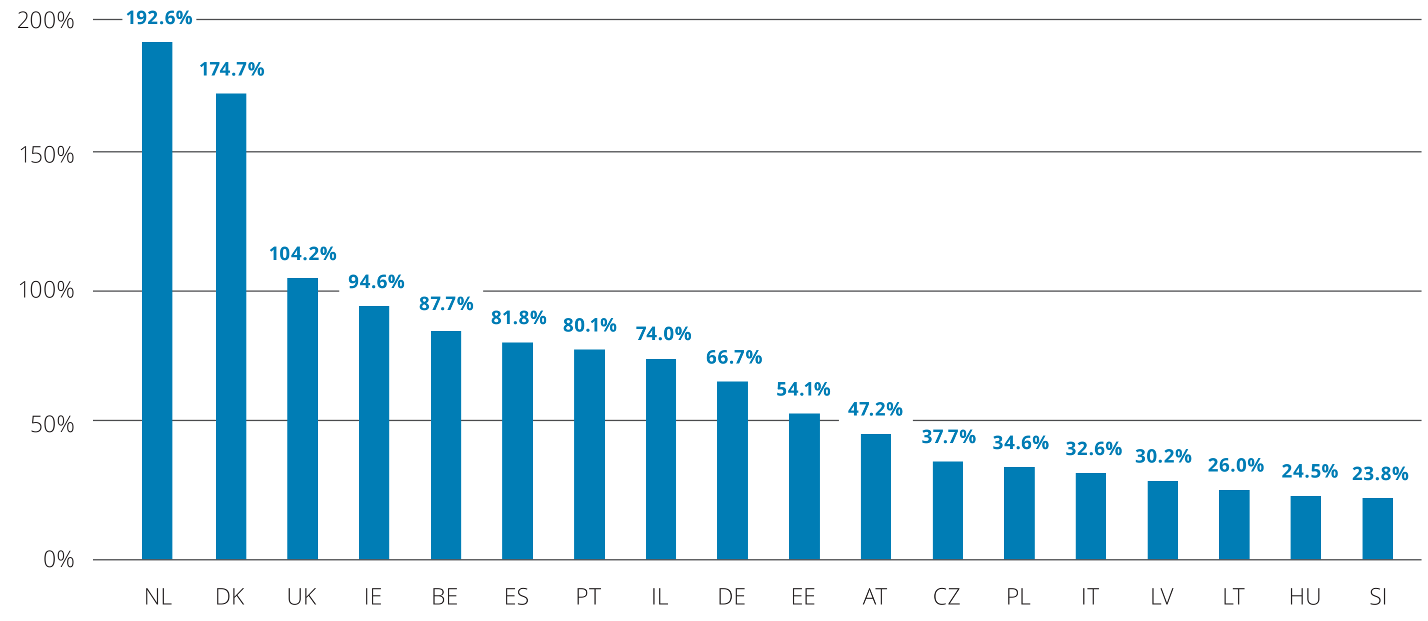
An important indicator on the residential market is the indebtedness of the housing stock, i.e. the proportion of the volume of mortgage loans to household disposable income. Consequently is the debt capacity one of the determinants of house price growth.

- The lowest level of indebtedness among all surveying countries could be found in Slovenia with 23.8% of residential debt to household disposable income.
- Countries with a low level of indebtedness proportion were Hungary, Lithuania, Latvia, Italy, Poland Czech Republic and Austria, with total outstanding residential loans to house disposable income under 50%.
- The highest level of indebtedness could be found in the Netherlands, Denmark and United Kingdom with residential debt to household disposable income of above 100%.

In fact all developed countries are in recent years facing low interest rates environment. Main reason for causing the current state lies in loose monetary policy of national central banks. Also the residential market is heavily influenced and the mortgage rates are still moving at the lowest levels. Therefore we compared average annual mortgage rate with average mortgage loan value to see differences among selected countries.

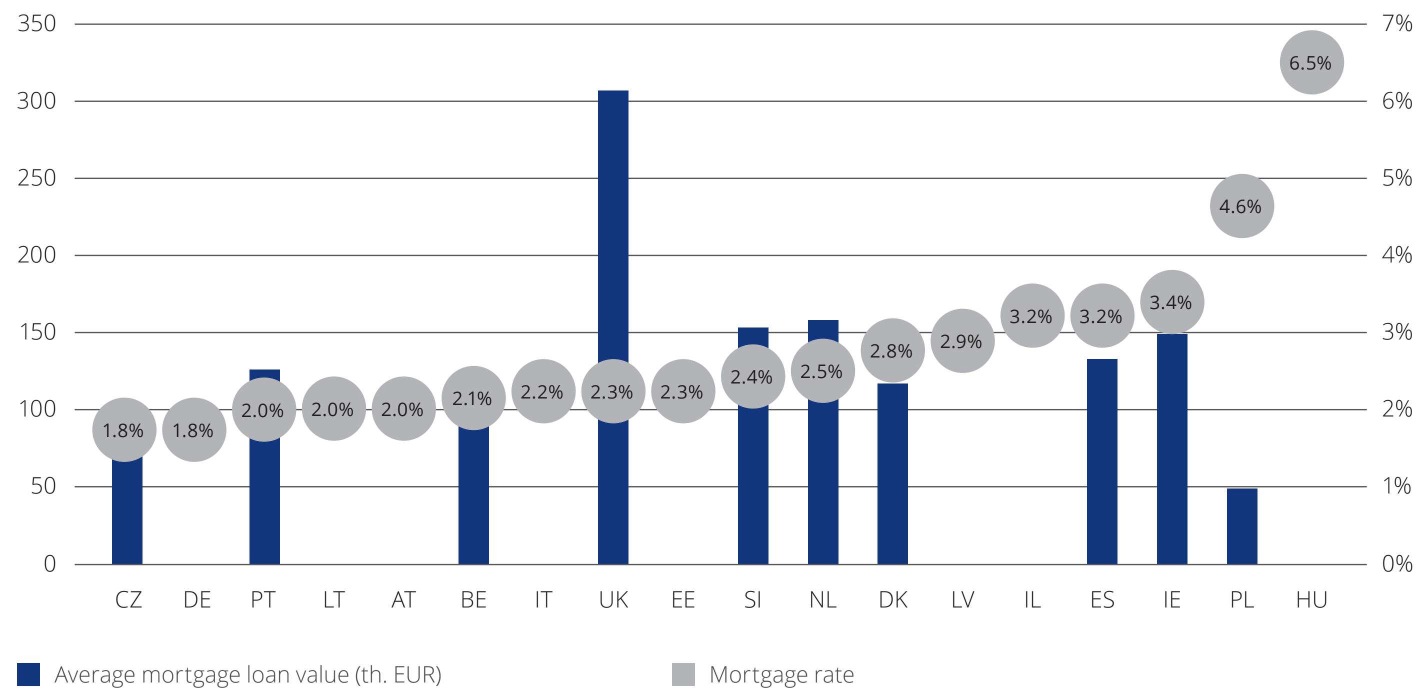
- Czech Republic was the place where you could get a mortgage with most favourable conditions of bank financing in 2016. The average mortgage rate fluctuated around 1.77%.
- Second lowest level were observed in Germany, where it is possible to find mortgage financing with 1.8% interest rate.
- Least affordable mortgage financing could be found in Hungary with an average interest rate of 6.5%.
- Undoubtedly the highest average mortgage loan value was recorded in the United Kingdom amounting more than 300.000 EUR.

Residential debt to house disposable income
(data for 2015)



Source: Hypostat 2016

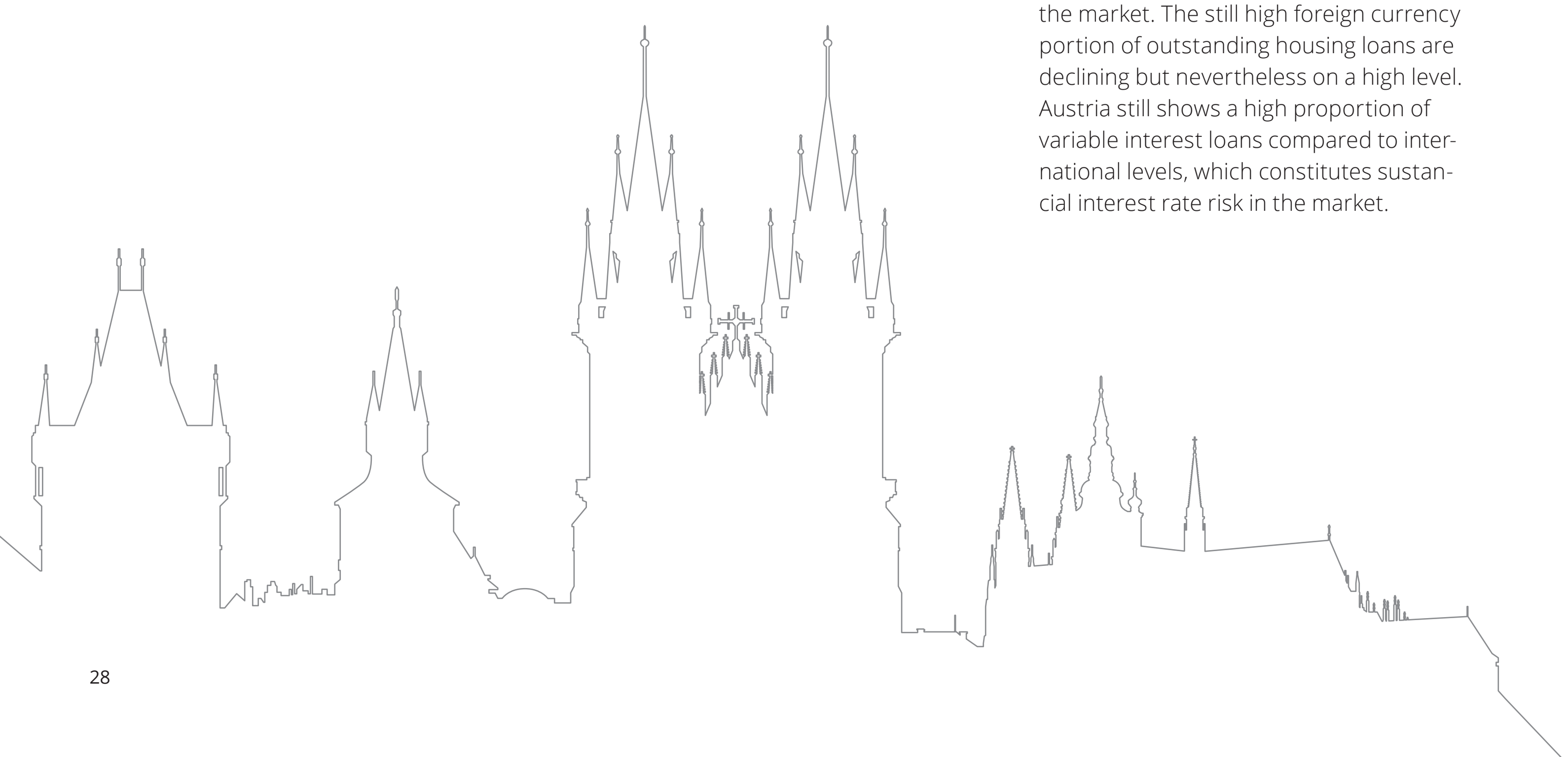
Mortgage rate (in %)
Average Mortgage Loan Value (th. EUR)



Source: National Statistical Authorities, Deloitte data calculations

Property Index | 6th edition, July 2017

Annex: Comments on Residential Markets



Austria

As a result of a high demand and cheap real estate financing conditions the volume of residential property transactions has increased by 14,4% during 2016 (2015: +20,4%).

Residential property prices in Austria showed a 7,3% growth during the year 2016. Price development stabilized in the second half of the year after strong growth in the first half year. In the fourth quarter, Austrian prices rose by 4.6% (after + 9.5% in the second and + 7.2% in the third quarter on a year-to-year basis).

On the supply side, residential construction investments as well as construction output and working hours are declining. However, the construction permits and the results of the quarterly survey by the European Commission indicate an acceleration any time soon.

On the demand side, there has been a growth in demand, as illustrated by the 4,8% year-on-year increase of the housing loans volume to households in 2016 (2015: +4,5%), mainly due to favourable financing conditions currently available in the market. The still high foreign currency portion of outstanding housing loans are declining but nevertheless on a high level. Austria still shows a high proportion of variable interest loans compared to international levels, which constitutes sustancial interest rate risk in the market.

Belgium

Belgian residential property prices have more than doubled in nominal terms in the last 15 years, but growth has slowed down significantly since 2011. Despite a less generous tax treatment of mortgages, residential property prices were able to recover by the end of 2016 after having dropped slightly in the first half of 2016. Overall, property prices increased by 1,1%. We expect this slight increase to continue in the near future.

Prices of new dwellings developed favorably in Brussels (+2,7%) and Antwerp (+0,5%), while decreasing in Ghent (-3,2%).

The Belgian residential property market keeps showing healthy fundamentals. It is heavily supported by small investors and the scarcity of land. Overall, no oversupply is recorded and the financial position of households remains overall robust with a debt-to-assets ratio for Belgium that is still below the euro zone average.

On the mid-term the main risks for the Belgian property market remain changes in property taxation and rising interest rates. The current government keeps working on tax-shift measures aiming to shift taxes away from labour, and it is unclear how this will impact the real estate market in the coming years.

Another factor that could influence property prices is the minimum amount of equity required to secure a mortgage loan. The National Bank of Belgium has recently proposed a measure to discourage banks from providing mortgages to households that are not able to fund at least 20% of the property price. Nonetheless, discussions are being held about this and the translation of this measure into regulation.

Czech Republic

2016 saw highly dynamic developments on the Czech residential market. The year was characterised by combining the existing market trends with administrative interventions by the government that had an impact on both the mortgage market and (by means thereof) the residential market. High demand, substantially lower supply (in all residential real estate segments), investment appetite and low interest rates of mortgage loans in the long-term were among the most significant market factors.

Due to the absence of new supply, the available housing stock (especially new construction) was continually sold out in the long-term. For example, the number of available new apartments in Prague decreased by 40% over two years. With regard to price development, the average transaction price of residential property located in Prague or regional cities saw a year-on-year increase of more than 15%.

The average price of an apartment sold at the end of 2016 was CZK 48,100 per square meter. With the price of CZK 57,400 per square meter, the most expensive apartments were in development projects and, on the other hand, the least expensive apartments were to be found in concrete high-rise blocks (CZK 36,300 per square meter). Although the average transaction price of completed apartments in Prague development projects amounted to CZK 64,000 per square meter in recorded purchase agreements, the average offer price already exceeded CZK 80,000 per square meter.

In view of the current situation, a major change in developments can hardly be anticipated in 2017. The significant deficit in new construction is so large that it could only be eliminated by an above-average offer of new apartments which, however, is not available on the market.

Denmark

The Danish residential market development faced in 2016 generally a continuation of tendencies experienced in later years, with decreasing yields, increasing rent levels, low vacancy and increasing property prices. A lower magnitude of property price increases was however prevailing towards the end 2016.

A large investor interest was seen in 2016, also in the residential area. The investor interest comes from both national and international players, and is experienced both in the largest cities Copenhagen and Aarhus, but also to a larger extend in other Danish cities.

These trends are expected to continue in 2017, although at a slower pace, leading to high transaction volumes, slightly increasing prices and slightly falling yields.

Property Index | 6th edition, July 2017

Estonia

Tallinn residential market has been active in recent years with average price level increasing by 5–10% since 2014. Main drivers behind price increase were growing nominal wages (average nominal annual growth over 6% since 2011) and declining Euribor, which is base interest rate for almost all mortgage loans in Estonia. All these factors resulted in higher affordability of real estate for local people.

Developers responded to increased demand with accelerating pace of new developments, which resulted in stabilizing price level of new apartments since H2 2015. 2016 average growth of 5–10% was caused by price growth of old apartments and larger proportion of more expensive new developments in total sales; prices of new developments remained relatively stable.

Crowdfinancing is becoming more important source of financing new development projects, which may result in overheating some development segments in near future. Overall the market may be somewhat overheated currently, especially in the segment of expensive apartments (2600+ EUR/m2), where demand is limited, while upcoming supply is substantial.

We expect prices remain relatively stable in the nearest future, as supply has catched with increased demand; we do not exclude some softeness of the market in 2018, as upcoming supply may exceed existing demand. Still, market condition is highly dependent on lending practices of local branches of Nordic banks (mainly Swedish), which may rapidly change due to currently unexpected developments in global financial markets and especially in Sweden.

France

2016 was again a dynamic year for the residential market. The number of transaction continued to increase to reach 843,000 units at the end of 2016 (+9% over a year). This dynamic is explained by multiple factors: the attractivity of mortgage interest rates, the relative stability of prices in large cities and the support plan for new housing, in particular the buy-to-let scheme (Pinel), and the reform of the interest-free loan (PTZ).

Following this trend, the number of mortgage credit granted to citizens continued to increase in 2016 to reach 157 bld EUR (excl. refinancing). It is linked to an increase in purchasing power and solvency of French households driven by the low mortgage interest rates.

Regarding the construction market, the upward started in 2015 continue with 453,000 building permits authorised in 2016 barely in line with the government's objective of 500,000 units. However, the stock of new dwellings decreases which shows that the construction sector is doing better and 2017 should confirm this trend.

Pricewise, the French markets are historically driven by a major gap between Paris and the regional towns. For example Bordeaux, Lyon and Nice show average price per sqm circa two times lower that Paris'. From a letting perspective, cities suffering from under-supply (Paris, Lille...) have now been experiencing the "reference rent" setting. This new rule has not materially changed the liquidity of the market. Outside of Paris, it is always worth carefully analyzing the depth of a letting market; over the past decade tax-incentives policies (known as laws Scellier, Duflot, Pinel) have incentivized the construction of residential units to be let at pre-set rents. It is important to ascertain that local markets are in line with these pre-set levels.

Germany

The previous year was marked by an ongoing strong interest in residential properties. Germany's positive economic prospects in general, the favorable outlook for the residential market and an increasing concentration of population in prospering cities in particular have resulted in an increasing popularity of German residential accommodation among national and international investors.

As a result of a very limited offer in prime markets a stronger investment demand in secondary markets could be observed. Furthermore, at major locations and university towns decreasing vacancy rates were accompanied by rising rents and sales prices.

The German federal bank warns, however, against a overvaluation in prime markets. In order to meet the gap between offer and demand in prospering cities the construction activity increased as well.

However, due to all developments in the socioeconomic and macroeconomic situation, we can expect that the market will not slow down in 2017 as long as there is no fundamental change in interest rates or/ and a substantial expansion of the housing supply in the emerging cities.

Hungary

In Hungary residential prices showed a very dynamic increase of an average 15.4% in 2016 reaching a more mature stage of the market. Price increase, however, shows regional differences: in Budapest prices grew by 22.5%, which significantly surpasses the countryside average. In other towns the average increase was 13.4%, meanwhile a 9.3% rise was measured with regard to rural dwellings.

In 2016 supply started to increase to catch up with the rising demand but it's still a long way to go to reach an equilibrium. The number of completed dwellings in 2016 was 31.2% starting from a very low base in 2015. Although there is a rise on the supply side, most projects will be handed over in 2018, meaning demand dominating the market in 2017. Lack of workforce is becoming more intense is various sectors including the construction industry, which leads to a rise in construction costs, also inducing further rise in residential prices.

Demand (as well as development activity) is also supported by favourable interest rates and boosting demand for residential loans. In 2016 lending increased by 42%, meanwhile half of residential purchases includes loans.

Taken into account current macroeconomic fundamentals and increasing disposable income as well as the rise in constructions costs we expect a decent, but probably slightly slowing price increase in 2017.

Ireland

The lack of housing stock in the Irish Market reached a critical point in 2016. This is a direct result of the unprecedented economic downturn between 2008–2013 and then a very rapid recovery of the economy, where unemployment has fallen from 15% to 6% in four years. This has prompted the Irish Government to make solving this issue one of its cornerstone policies.

A new (Housing) Ministery has been formed and a raft of policies and legislation has been drafted and implemented to encourage development, increase the supply of new and rental properties and alleviate the problem. All the indicators suggest that activity is increasing but with a typical lead time of 1–3 years for delivery, many are of the view that in the short term the crisis will deepen.

In the meantime, house prices and rents are escalating and its feared it may have an impact on the wider economy. The medium to long term forecast is that c. 25,000–30,000 units are required per annum with short term demand exceeding this amount.

Israel

In the last few years, Israel's residential market experienced significant price increase. Since the beginning of 2007, prices rose by approximately 100% and the positive trend maintained 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 by the Mechir Lamishtaken program, designed to facilitate the buying of a first apartment with preferential terms. In Mechir Lamishtaken, 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.

Another trend reflected the reflect is that the prices of old dwellings is greater then new dwellings, due to the more attractive location in the city center. In 2017, after a government decision to increase taxation on private residential investors, the number of transactions has started to decrease.

Property Index | 6th edition, July 2017

Italy

In 2016, Italian GDP registered a growth of 0,9%, following a similar growth of 0,8% in 2015. The European Commission has forecasted a growth of GDP for Italy around 0,9% for 2017 (in line with the International Monetary Fund forecast of 0,8%) with a stronger growth of 1,1% for 2018. In April 2017 the Italian government approved several measures to raise taxes and to reduce tax evasion, as a result of which it expects to lower the budget deficit to 2.1% of GDP this year, an improvement from its target of 2.3%.

In this economic context, the Italian residential real estate market continues its recovery ahead of the other Real Estate subsectors. The environment of low mortgage rates together with an opening of the financial system to new loans is encouraging citizens back into the market.

This can be seen in the number of transactions completed. In 2016, transactions recorded in the residential real estate market reached 528.865 and is forecast to rise to: 565.391 in 2017; 584.523 in 2018 and 616.513 in 2019 – an increase of nearly 17% in the 3 year period. In terms of value, the transactions completed in 2016 amounted to around €9.1 billion an increase of 14% with respect to the volume recorded for 2016.

As expected this improvement has been most felt in the main cities but is now starting to spread to the secondary cities and the periphery of the main cities.

Latvia

There has been a gradual growth in Riga housing market compared to previous year, resulting in approx. 16% increase in amount of transactions, reaching a total of EUR 388m. Growth was driven by several factors.

- More accessible crediting strategy from the banks due to low interest rate environment and active implementation of government grant program ALTUM. The program offers better crediting conditions for families with at least one child to apply for their first mortgage with lower first installment.
- Lack of appropriately skilled personnel also led to moderate increase in overall salary level together with inflation, which remained close to 0% and positively affected income level of population. In the end, amount of salaries has increased by 5%, comparing to 2015, therefore increasing the credit solvency of private individuals. In addition, according to the latest estimates, Latvian real GDP growth in the past year reached 1.6%.

Price level of apartments in Riga experienced minimal growth with only 6% increase throughout the year. Overall, the market has recovered from the notable fall in 2014 caused by changes in local legislation regarding issuance terms of residential permits. The housing market will, most likely, continue to grow in the near future due to increasing number of dwellings in construction, based on the data of newly issued permits.

Lithuania

Total value of completed residential transactions in Lithuania amounted to EUR 1.56 bn for 2016, 49% out of which where completed in Vilnius. Vilnius housing market experienced increasing prices for both apartments and private houses, especially for new ones – average price of new apartments in Vilnius increased by 6.8% for 2016 compared to 2015 and amounted to EUR 1,549 per square meter, while price of new houses increased by 7.1% to EUR 835 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. Supply of luxury housing with prices in excess of EUR 2,000 per square meter is noticebly growing in Vilnius, while typical floor area of new apartments is around 50–55 square meters and exhibits a decreasing trend.

Netherlands

In 2016 the residential market in the Netherlands showed positive signs. Fueled by steady economic growth (2.2% GDP increase in 2016), record levels of consumer confidence, decreasing unemployment rates, and above all the historical low mortgage interest rate, the Dutch residential market experienced growth in both average transaction prices and number of dwellings sold. Furthermore, due to the thriving residential real estate market, we observe an increase in the number of completed dwellings by 11.3% compared to last year.

Especially in densely populated areas like Amsterdam, with limited supply and high popularity, offer and transaction prices increased compared to last year's average. The continued low mortgage interest rate and the forecasted stable growth of the economy will continue to create demand for residential properties in the short term.

Poland

As expected, 2016 turned out to be another record year in terms of transactions on the residential market. We observed strong demand and increase in prices on residential market. On the six largest markets in Poland (Warszawa, Kraków, Wrocław, Poznań, Łódź and Tricity i.e. Gdańsk, Gdynia and Sopot) during 2016, there were sold ca. 61.6k residential units (in comparison to 58.2k sold in 2015). The significant increase was partly made of binding reservations done by the buyers, who wanted to apply for MDM ("Mieszkanie Dla Młodych" – "An Apartment for Young") programme support in January 2017.

Additionally, the low interest rates that have been on the market for a long time promoted residential sector as an alternative investment market, as well as facilitated acquisitions supported by bank financing. Despite the expected negative impact of new regulations introduced at the beginning of 2016 (Recommendation S introducing a minimum of 20% own contribution), the value of the newly granted mortgages hasn't been lower than in 2015.

As the mentioned above governmental programme MDM is to be closed in 2018, a new one is to be introduced in 2017 – "Mieszkanie Plus" ("Apartment Plus"). The programme is to guarantee flats for living based on a long term leasing, connected with a buy back option. The details are still not revealed but the process of gathering land by State for the residential projects has already been started.

2016 was a good year for the residential sector. The market visibly starts the process of transmitting the way of possessing a living place from owning into leasing. The growing scale of "apartments for rent" business, aparthotels and condohotels, attracting investment funds introduces residential properties into investment assets' class.

Portugal

Throughout 2016, the residential market remained highly dynamic. This dynamic was more evident in the Old town areas of Lisbon and Porto, but since the 3rd quarter of 2016 investors looked to other areas, expanding their activity to nearby locations and developing new projects in consolidated areas of the city, targeting both the national and international market.

As in precedent years, the residential market in Lisbon and in Porto has registered a highly positive evolution of levels of demand for the 3rd consecutive year, mainly supported by the Golden Visa program, the non-habitual resident tax regime program and the short rentals market. The supply has been following this dynamism, leading to new projects resulting mainly from refurbishment, mostly targeting the international residential market and tourism. The Student Housing and the Short rental units are also 2 strong sub sectors of the residential market, in Lisbon and Porto.

The investment incentives and a retake of housing loans affected positively the international and domestic demand (the housing loans have growth by 51% between 2015 and 2016). Past trends have persisted: most of the invested capital comes from abroad, more than half of it served by investment funds.

It is expected that througth 2017 we'll see new projects outside the Old town areas coming to the market, thus consolidating the growth trend of this sector. Alongside with this expansion of the area of interest for residential investments, new players (local and international) are coming into the market, putting additional pressure on the prices. The Student Housing and Short rentals will remain as key areas of investment.

Slovenia

Favourable economic conditions continued to stimulate growth of the real estate sector in 2016 – particularly in the area of residential properties and land for construction thereof. In particular, low interest rates, higher employment, growth in average income and lower property prices during the financial crisis all drove demand for real estate – both for private use and for investment purposes. This, in turn, pushed up real estate prices for the first time since 2010.

The year 2016 witnessed the sale of last remaining stocks of newly completed dwellings from the past couple of years. Yet sales of failed housing projects of the past are no more – due to high demand for "new" dwellings, auction prices are comparable with market ones.

Based on the above trends for 2016 and a prognosis for further GDP growth, we can expect the residential market to further expand in 2017. As supply follows demand, we are witnessing a new investment and construction cycle; as this comes with a lag, prices can be expected to rise further in 2017.

Spain

First recovery signs from the Spanish housing market detected along 2014 are now consolidating. The past 2016 was noticeable due to the acceleration in the number of housing transactions, new mortgages, and the number of new construction permits granted.

Although the Spanish Residential Market presents healthier figures than previous years it is worth mentioning it has been a selective recovery so far. During 2016 we could witness significant rise in the residential market prices from major Spanish cities as well as in some hotspots along the coast.

Nonetheless, a consideable part of the Spanish territory still presents a paralysed or negative trends. Demand now is the Key driver. Even though economic fundamental have shown a positive trend, with a robust growth and a continued job creation, the quality of the employment is not yet such that can create a strong demand with a high solvency level. There is a stucked demand with limited access to the residential market either due to a lack of work or poor wages and in addition with a lack in savings.

Consensus of main analysts expect a continued growth and job creation for the Spanish economy for the next years. This expansive cycle should develop into an improvement of the employment conditions and therefore into an enhancement of the citizen's spending power, contributing therefore to a normalisation of the spanish Residential Market across the country.

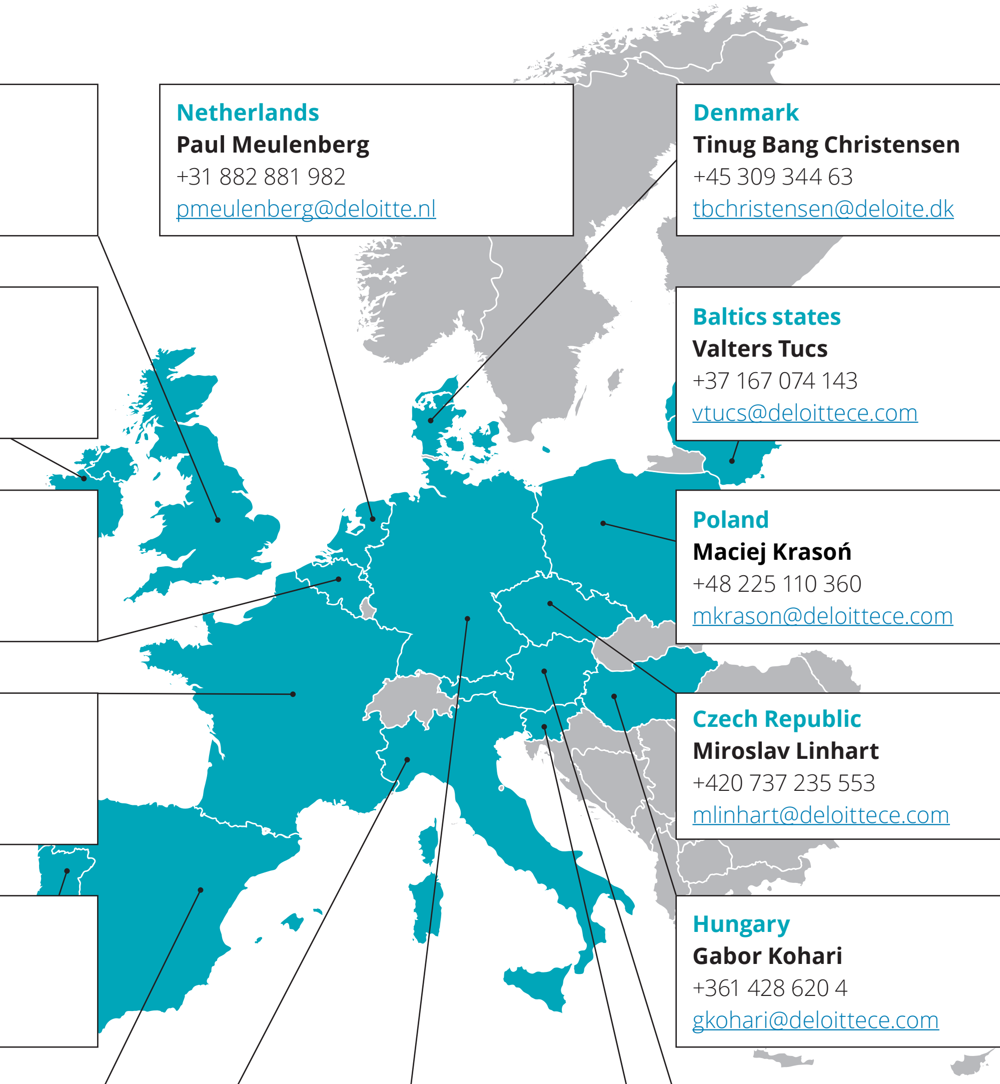
United Kingdom

2016 saw another year of rising residential prices in the UK, continuing the trend of recent years. Underlying this growth has been strong competition within the mortgage market, which has reduced borrowing costs, as well as an ongoing structural shortage of housing, at least in the South East.

London has traditionally seen the fastest growth in house prices across the UK, but there are signs that this is changing, as the prime end of the market begins to cool.

Across the UK more broadly, one of the other factors supporting prices is a relative lack of stock coming to the market for sale. Construction levels are rising modestly, but not enough either to meet demand or to act as a break on prices.

Contacts



United Kingdom
Nigel Shilton
+44 207 007 793 4
nshilton@deloitte.co.uk

Netherlands
Paul Meulenberg
+31 882 881 982
pmeulenberg@deloitte.nl

Denmark
Tinug Bang Christensen
+45 309 344 63
tbchristensen@deloitte.dk

Ireland
Padraic Whelan
+35 314 172 848
pwhelan@deloitte.ie

Baltics states
Valters Tucs
+37 167 074 143
vtucs@deloittece.com

Belgium
Frédéric Sohet
+32 263 949 51
fsohet@deloitte.com

Poland
Maciej Krasoń
+48 225 110 360
mkrason@deloittece.com

France
Laure Silvestre-Siaz
+33 155 612 171
lsilvestresiaz@deloitte.fr

Czech Republic
Miroslav Linhart
+420 737 235 553
mlinhart@deloittece.com

Portugal
Jorge Sousa Marrão
+351 210 422 500
jmarrao@deloitte.pt

Hungary
Gabor Kohari
+361 428 620 4
gkohari@deloittece.com

Spain
Javier Parada
+34 915 145 000
japarada@deloitte.es

Germany
Michael Mueller
+49 892 903 684 28
mmueller@deloitte.de

Austria
Alexander Hohendanner
+43 153 700 270 0
ahohendanner@deloitte.at

Italy
Elena Vistarini
+39 028 332 512 2
evistarini@deloitte.it

Israel
Doron Gibor
+97 237 181 819
dgibor@deloitte.co.il

Slovenia
Lap Filipic
+38 613 072 960
lfilipic@deloittece.com

Authors

Residential Market

Miroslav Linhart
Partner
Real Estate & Construction
+420 737 235 553
mlinhart@deloittece.com

Petr Hána
Manager
Real Estate & Construction
+420 731 638 268
phana@deloittece.com

Vojtěch Petrík
Consultant
Real Estate & Construction
+420 739 071 649
vpetrik@deloittece.com

Economic development in Europe

David Marek
Director
Financial Advisory
+420 606 656 599
dmarek@deloittece.com