Real Estate

Property index
Overview of European Residential Markets

European housing 2013

3rd edition, June 2014

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Introduction

Property Index, Overview of European Residential Markets, with its two-year history, has become an important part of European real estate publications. In this context, we are pleased to present to you the **third edition**.

Property Index analyses factors influencing the development of residential markets and compares residential property prices in selected (not only) European countries and cities.

Our goal is to provide you with European residential market data on a regular basis and answers to questions on how Europeans live and at what costs.

This publication focuses especially on housing specifics and the prices of own housing in selected countries.

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

- Austria;
- Belgium;
- Czech Republic;
- Denmark;
- France;
- Germany;
- Hungary;
- Italy;
- Netherlands;
- Poland;
- Spain;
- United Kingdom; and
- Russia.

In addition, this year we added data regarding:

- **Ireland;**
- **Portugal; and**
- **Israel.**

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 main factors are particularly:

- Housing stock
- Intensity of residential development – completed and initiated dwellings;
- Ownership structure of the housing stock; and
- Standard size of the dwelling.

Most presented indicators are on a year-on-year basis and are to some extent also influenced by geopolitical developments. For example, we can mention the seventh enlargement of the European Union in July 2013.

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.

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 are convinced you will find this third issue of the publication of interest for your business and we would be delighted to receive your feedback.

Economic Development in Europe

Another difficult year for European economy brought some positive signs. Despite a slight decrease of real GDP in the Eurozone, the European economy bottomed out in mid-2013 and turned the trend in the second half of the year. The real GDP of the European Union remained close the 2012 level. Major world economies of the United States, China and Japan experienced real GDP growth of 2%, 6% and 1.5%.

Strengthening domestic demand and private consumption in the EU member countries were the main factors turning the trend in the second half of 2013. Futher development of these factors is crucial for future growth hand-in-hand with the recovery on the labour market.

Weak bank lending continued in 2013 in most countries, contrasting with the increased corporate investments financed by bonds or internally. Central bankers kept the key interest rates at low levels.

Consolidation of unsustainable public finances continued in the member countries; nevertheless, debt-to-GDP rose in 2013.

The European labour market remained under pressure – the rate of unemployment further increased and reached almost 12% in 2013 – its historical maximum. A very large degree of divergence across EU countries was recorded with the rate of unemployment ranging from 5% in Austria and Germany to more than 25% in Greece and Spain.

Inflation reached 1.5% in the European Union. The current lower level was driven by falling commodity prices as well as the general unfavourable economic conditions determining the demand.

The European economic outlook for 2014 is more positive than one year ago. The vast majority of member countries are expected to grow slightly – including Spain and Italy. The recovery is predicted to be regionally relatively balanced with GDP growth in the key European economies of Germany, France, Italy and the UK. The rate of unemployment is projected to decrease during 2014 as the result of slow GDP growth with further positive expectations to 2015. Inflation may become negative in some member countries; the EU average is projected to decrease to 1%.

After several years of treading water, slow economic growth can be expected in Europe. The economic outlook may be regarded as positive; however, new risks occurred. The current situation in Ukraine and Russia may negatively affect international trade and thus slow the economic recovery.

Comparison of Residential Markets

Housing Development Intensity

Completed apartments

The indicator of housing development intensity on the residential market of the European Union continued to decline. The number of completed apartments (dwellings) per 1,000 citizens decreased from 3.9 in 2011 and 3.3 in 2012 to 2.5 in 2013.

The highest housing development intensity in all selected countries in 2013 was seen in Russia (6.5 completed apartments per 1,000 citizens) and Israel (5.3). Residential development in Russia and Israel exceeded the European Union average by 158% and 109% respectively.

From the European countries the highest housing development intensity in 2013 was recorded in France (5.0) and Austria (4.7). Residential development in France in 2013 was twice the European Union average, while in Austria it was 86% above average. Other countries above the European average include Poland, the Netherlands and Belgium.

Housing development intensity in Germany and the Czech Republic in 2013 were near the European average.

The lowest intensity of housing development in 2013 was found again in Hungary (0.7 completed apartments per 1,000 citizens) and Spain (1.4), where the percentage values were 29% and 55% of the European average, respectively.

Newly-added Ireland and Portugal reached over 70% of the EU average in 2013.

Initiated apartments

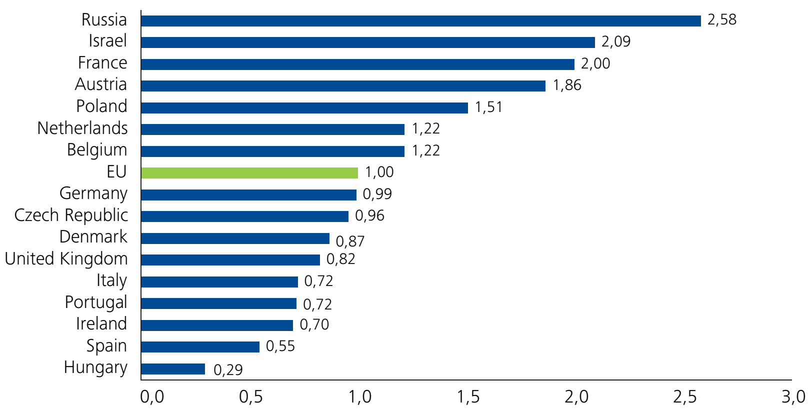
The intensity of initiated residential construction (the number of initiated apartments per 1,000 citizens) sank in 2013 in the majority of European countries.

The average value of the indicator of the intensity of initiated construction in 2013 amounts in the countries of interest to almost 2.7 initiated apartments per 1,000 citizens, which represents a year-on-year decrease in this indicator by almost 4%. Data regarding the European average is not available.

From a regional viewpoint, the highest intensity of initiated residential development in 2013 was found in Austria (6.1 started apartments per 1,000 citizens), Israel (5.5) and France (5.0).

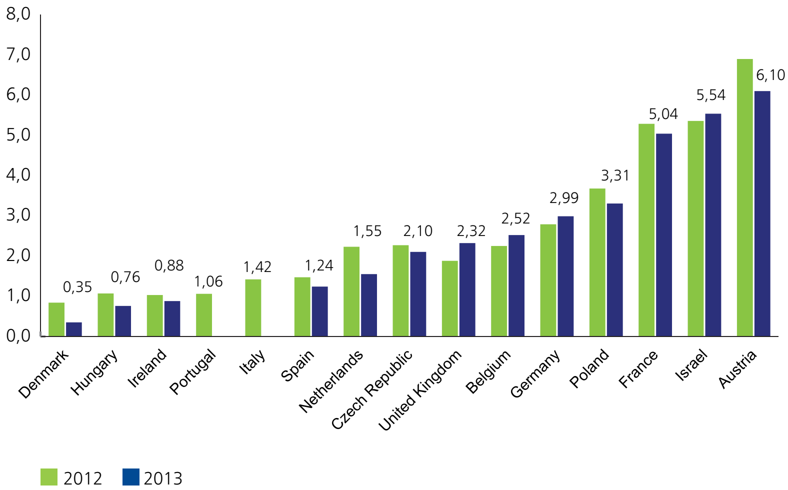
On the other hand, the lowest number of apartments was initiated in Denmark (0.35 started apartments per 1,000 citizens), Hungary (0.8) and Ireland (0.9).

Housing development intensity
Index of the number of completed apartments per 1,000 citizens 2013, EU average = 1



Source: National Statistical Offices/Euromonitor International, calculated by Deloitte

Housing development intensity
The number of started apartments per 1,000 citizens 2012 and 2013



Source: National Statistical Offices/Euromonitor International, calculated by Deloitte

Housing Stock

The housing stock in individual selected countries changes on a year-on-year basis depending primarily on several factors, like economic development, civic sentiment and also housing development intensity.

The average housing stock in the European Union in 2013 increased to 475.9 apartments per 1,000 citizens. In 2012, the average housing stock reached 473.6 apartments per 1,000 citizens. This represents a year-on-year positive change of this indicator by 0.5%.

In the comparison of selected countries, (as in 2011 and 2012) Spain reported the greatest housing stock recalculated per 1,000 citizens in 2013, exceeding the European average by more than 18%. The second-greatest housing stock was found in newly-added Portugal, where the percentage value exceeded the EU average by almost 15%. France, which exceeded the European average by more than 11%, ranked third in 2013.

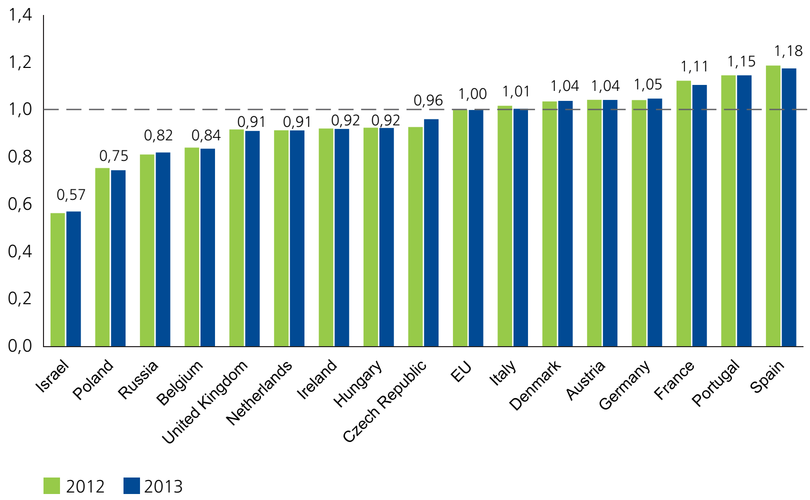
Countries such as Spain, Portugal and France remain rather specific markets due to the ownership of second/ leisure apart¬ments particularly at the seaside or in the mountains.

As in 2011 and 2012, one of the lowest housing stocks in 2013 per 1,000 citizen was found in Poland (almost 25% below the European average), Russia (18% below the European average) and in Belgium (almost 16% below the European average).

The lowest housing stock in 2013 could be found in Israel, below the European average by more than 43%.

A geographical comparison reveals a rule similar to previous indicators, which means that, Eastern European countries show average or below-average values for the number of apartments per 1,000 citizens while Western European countries show rather above-average values.

Housing stock
Index of the number of apartments per 1,000 citizens, EU average = 1



Source: National Statistical Offices/Euromonitor International, calculated by Deloitte

Ownership Structure

The average values of housing stock according to ownership structure in the European Union in 2013 are:

Ownership structure
Households per 1,000 citizens

Apartment owner	Apartment lessee	Other
279	125	25

Source: National Statistical Offices/Euromonitor International, calculated by Deloitte

In 2013, the highest proportion of privately-owned apartments could again be found in Hungary, where the average per 1,000 citizens showed 112 more privately-owned apartments than the European Union average.

A high share of privately-owned apartments could be also found in Spain, Italy and the United Kingdom.

On the other hand, in Germany, Denmark, Austria, France and the Netherlands rental housing plays a significant role in the long term.

For example, in 2013, Germany again reported the highest number of rented apartments from all selected countries, ie approximately 257 rented apartments per 1,000 citizens.

Israel and the Czech Republic report recently the lowest share of privately-owned housing in all of selected countries – there are 74 and 71 fewer privately-owned apartments per 1,000 citizens than the European Union average, respectively.

One specific detail of the residential market is coopera¬tive housing, whose character, however, is identical to privately-owned housing in many respects. This form of housing remained an important part of the residential market in 2013, particularly in the Czech Republic, Poland and Italy.

Apartment Size – Number of Rooms

The comparison of the housing stock by real estate type (inclination to living in family houses) still shows that Western European, as opposed to other European or Eastern countries, tends to acquire or rent property with a higher number of rooms.

The housing stock by apartment size in the European Union in 2013 (when taking into account the number of households living in certain type of dwelling) did not noticed a significant change and could be divided as follows:

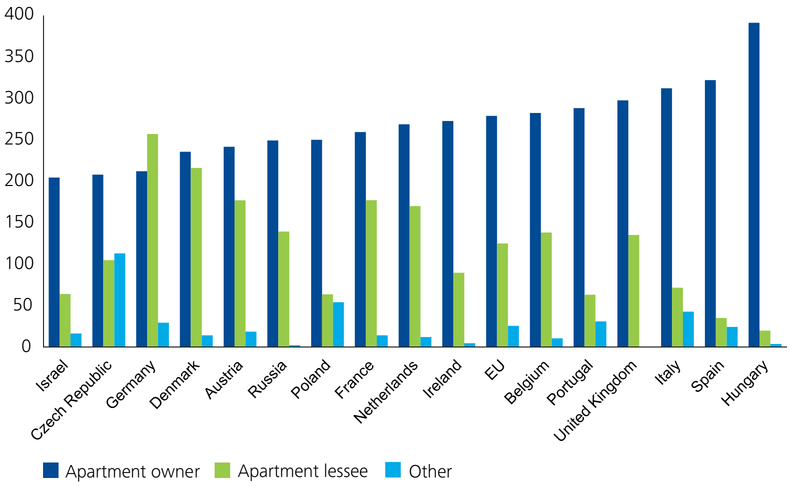
- 1 room – 3% of households;
- 2 rooms – 10% of households;
- 3 rooms – 21% of households;
- 4 rooms – 25% of households;
- 5 or more rooms – 41% of households.

In 2013 the highest share of large apartments in terms of the number of rooms was found in Spain, Ireland and Belgium. The United Kingdom ranked fourth in 2013. Over 60% of the housing stock in these countries is made up of apartments with 5 or more rooms.

In 2013, the smallest apartments from all selected countries could be found in Russia and Hungary.

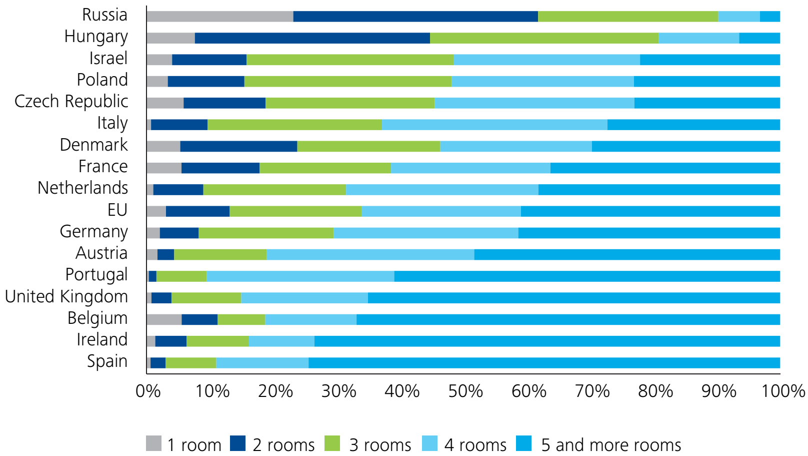
In a geographical comparison, the inhabitants of Eastern European countries tend to live in smaller apartments.

Housing Stock According to Ownership Structure
Number of households per 1,000 citizens in 2013



Source: National statistical offices/Euromonitor International, calculated by Deloitte

Housing stock by accommodation unit size
Households living in apartments with a certain number of rooms, per 1,000 citizens in 2013



Source: National Statistical Offices/Euromonitor International, calculated by Deloitte

Housing Costs

Based on the available data and information about the development of the residential housing markets, it could be stated that the index of total consumer costs of housing remained almost unchanged in 2013.

The average consumer costs of housing in the European Union (in other words, the costs of households in individual EU countries such as rent, services, repairs and reconstructions) in 2013 exceeded EUR 3,560,000 (increase by 0,5%) per 1,000 citizens in current prices based on year-on-year exchange rates.

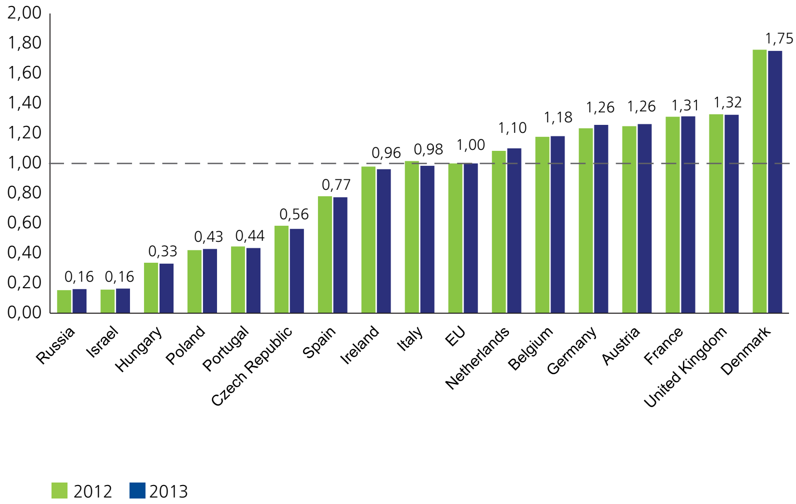
As in 2012, the highest housing costs of the selected countries in 2013 were found in Denmark and also in the United Kingdom. The total housing costs in these countries exceeded the European Union average by 75% and 32% respectively.

In 2013, the lowest housing costs out of the selected countries were reported in newly-added Russia and Israel.

As in 2011 and 2012, some of the lowest housing costs were recorded in Hungary and Poland, where they have for a long time not exceeded 36% and 43% of the average housing costs in the European Union, respectively.

A comparison of the average values of housing costs in Eastern and Western Europe shows that the Eastern European average remains significantly lower than that of Western Europe.

Total consumer costs of housing
Index of the total annual costs per 1,000 citizens, EU average = 1



Source: National Statistical Offices/Euromonitor International, calculated by Deloitte

Comparison of Residential Property Prices in Selected Countries and Cities

Average Transaction Price of the New Dwelling in Selected Countries

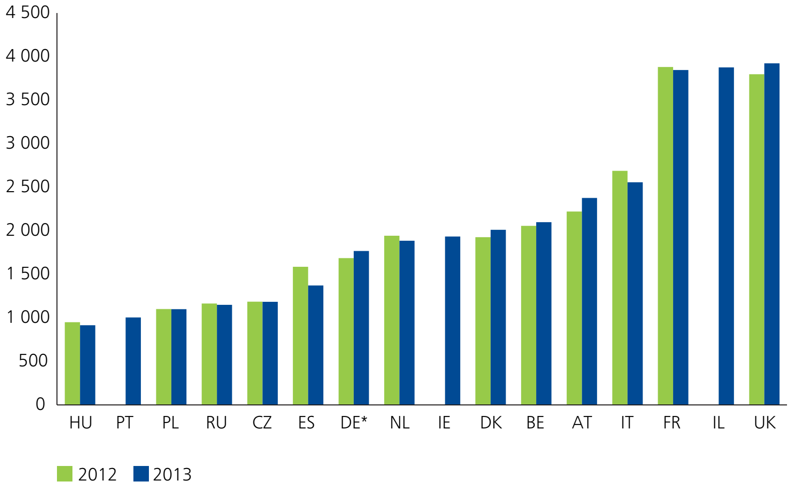
In the third edition of Property Index, Irish, Israeli and Portuguese data were newly included. The different situation of Israel compared to Western European countries and transitive economies in Central Europe is demonstrated. The comparison of transaction prices in selected European countries in 2012 and 2013 indicates the following:

- As last year, a slight decrease of prices was recorded in the transitive economies of Hungary, Poland and the Czech Republic
- The biggest drop in prices was seen in Spain. Contrarily, the prices of new dwellings in Austria, Germany, Denmark, the United Kingdom and Belgium grew
- Generally, the transitive economies, Russia and Portugal have the lowest average transaction prices, just slightly above EUR 1,000/m² (excluding Hungary, with prices under EUR 1,000/m²)
- Due to the continuous price decrease in Spain, the prices drew near the prices of the Czech Republic
- The group of countries with average realised prices around EUR 2,000/m² includes the Netherlands, Ireland, Denmark, Belgium and Austria
- Prices of the new joiner, Israel, are comparable to the most expensive European countries - UK and France
- Still decreasing prices in Italy brought its level near Austria

The year-on-year price changes differed significantly in the compared countries. The highest price growth was seen in Austria (+7.0) and Germany (4.9%), followed by Denmark (+4.4%). Moderate price growth was recorded in the UK (+3.3%) and Belgium (+2.4%). The transitive economies of Czech Republic and Poland experienced a slight decrease in prices denominated in EUR (-0.2%), followed by France (-0.9%), Russia (-1.3%) and the Netherlands (-2.9%). Hungary again experienced a price decrease (-3.6%).

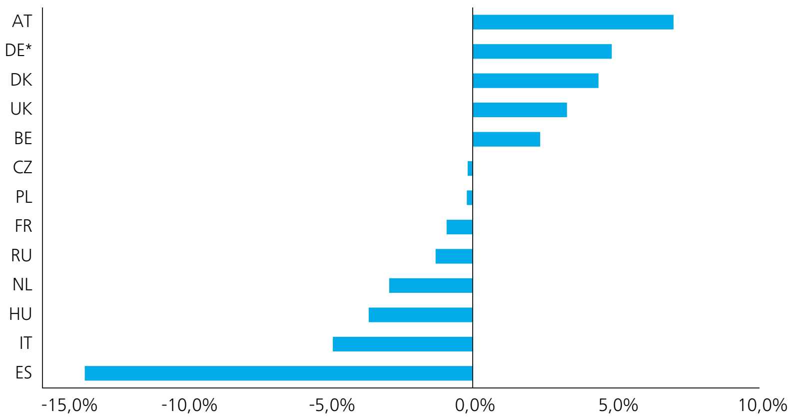
Negative price development of the new dwellings continued in Spain (-13.5%) and Italy (-4.9%).

Average Transaction Price of the New Dwelling
EUR / m²



*bid price
Source: National Statistical Authorities, Deloitte data calculations

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



*bid price
Source: National Statistical Authorities, Deloitte data calculations

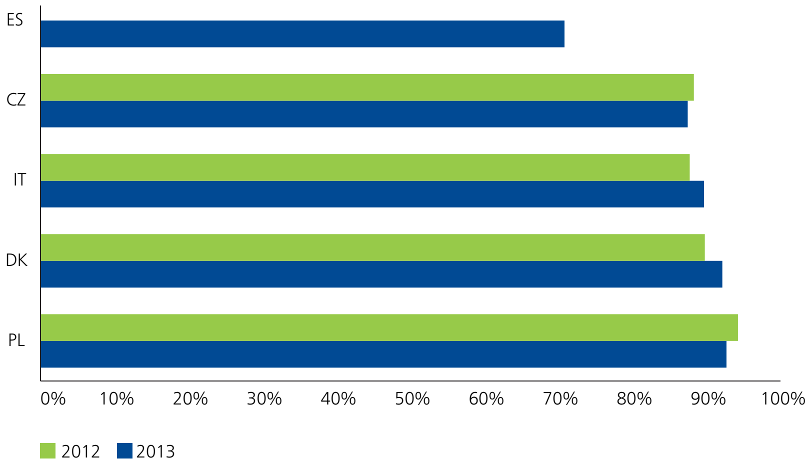
The spread between the offered and final transaction prices of new dwellings is a very important market indicator as it may demonstrate the situation of buyers (demand side) and sellers (supply side) and their negotiating power. This indicator may be compared in Poland, Denmark, the Czech Republic, Italy and Spain; in the other countries, statistical authorities analyse only one of the transaction or offered prices.

Compared to 2012, the discount decreased in Denmark and Italy in 2013. In the economies of the Czech Republic and Poland, the discount slightly increased. The highest gap between the transaction and offered price was recorded in Spain, indicating a weak demand side and difficult position on the supply side.

The prices vary when comparing new and older dwellings to be purchased. Generally, older dwellings were significantly cheaper in 2013 especially in Hungary (-49% in 2013), Germany (-41%), Austria (-37%) and France (-33%). In the Czech Republic, Poland and Ireland, older dwellings were 28%, 19%, 18% and 15% below the price of new developments. The difference was less significant in Spain with a gap of 7%.

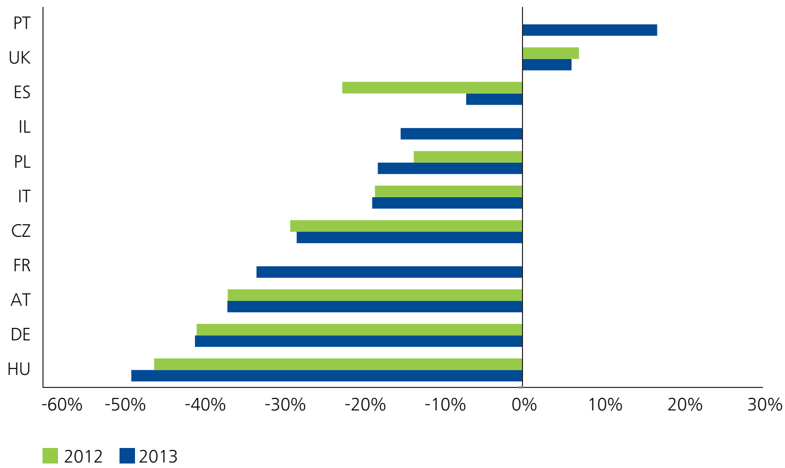
The opposite situation was recorded in the UK and Portugal. These are the only two countries where new developments were sold at lower prices than older dwellings.

Transaction price as the percentage of the offered price of the new dwelling



Source: National Statistical Authorities, Deloitte data calculations

Transaction price difference between new and older dwellings
Discount (%) of older dwellings with respect to new dwelling



Source: National Statistical Authorities, Deloitte data calculations

Average Transaction Price of the New Dwelling in Selected Cities

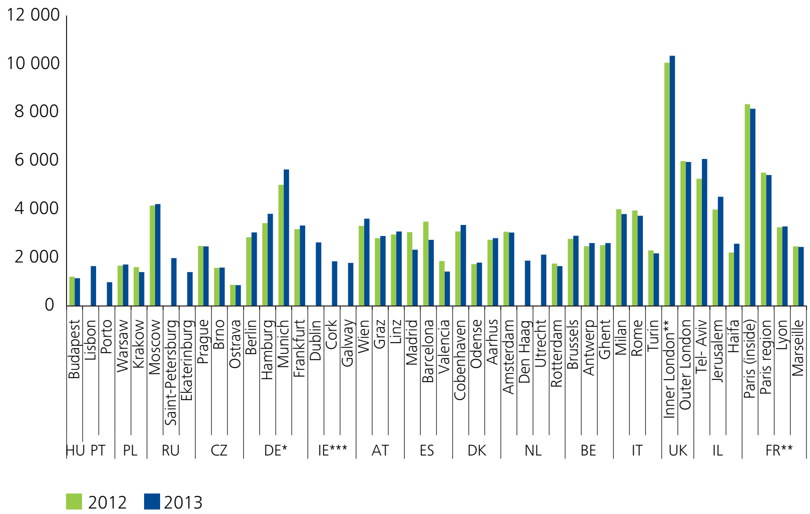
A comparison of transaction prices in selected European cities in 2012 and 2013 indicates the following:

- Inner London is still the most expensive city in Europe. Price growth was recorded between 2013 and 2012 as well as a year ago. Outer London prices remained stable just below EUR 6,000 in 2013.
- In Paris, the average transaction prices of older apartments slightly decreased to EUR 8,140 in 2013 and to EUR 5,400 in Paris region.
- Munich, the most expensive German city in terms of housing, continued in price growth and average bid prices exceeded EUR 5,600/m^2 in 2013;
- Cities with average transaction prices of EUR 3,500 - 4,200/m^2 are Hamburg, Vienna, Milan, Rome and Moscow;
- Not surprisingly, the cheapest capitals can be found in the CEE region, namely:
    - Budapest, with an average transaction price of EUR 1,140/m^2;
    - Warsaw, with an average transaction price of EUR 1,704/m^2.

A comparison of the prices of dwellings in major European cities and their respective national average may identify the biggest price differentiation country by country:

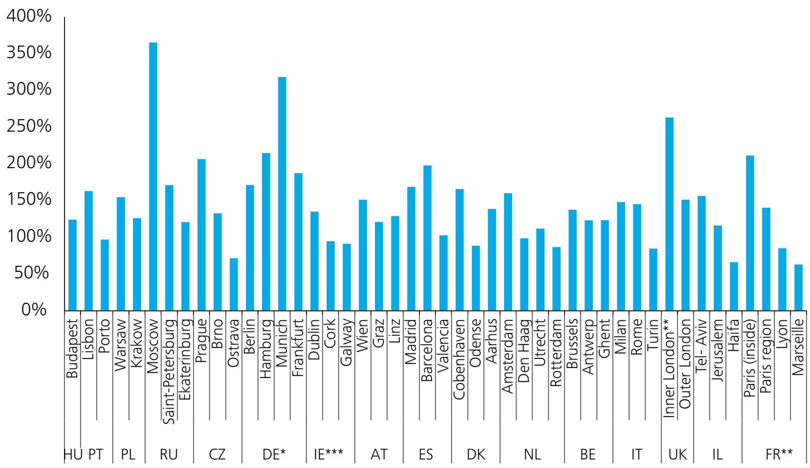
- There are two major cities where the prices exceed the national average more than three times – Munich and Moscow, where the prices reach 316% and 365% of its country average;
- There is a group of cities where prices reach more than 200% of its national average – Prague, Hamburg, London and Paris;
- 7 capital cities exceed the national average by more than by 50% -, Lisbon, Warsaw Berlin, Vienna, Madrid, Copenhagen, and Amsterdam.

Average Transaction Price of the New Dwelling
EUR / m^2



*bid price, **older dwellings, *** all dwellings
Source: National Statistical Authorities, Deloitte data calculations

Comparison of the Main Cities to the Country Average
(country average = 100%), 2013



*bid price, ** older dwellings, *** all dwellings
Source: National Statistical Authorities, Deloitte data calculations

The price development between 2012 and 2013 was recorded in the capitals of the compared countries. The most significant price decrease (in EUR) was seen in Madrid (-24.8%), followed by Rome (-5.6%), and Budapest (-4.8%).

The opposite trend – dynamic price growth- was significant mainly Jerusalem (+13.3%), in Vienna (+9.1%), Copenhagen (+8.8%), Berlin (+7.1%) and Brussels (+4.1%).

Affordability of Own Housing

As in the first two editions of Property Index, the gross monthly salaries and the transaction prices of the new dwellings in the selected cities and countries were compared to measure the affordability of own housing. The criterion is the number of the annual gross salaries required to buy a standard-sized new dwelling (70 m^2).

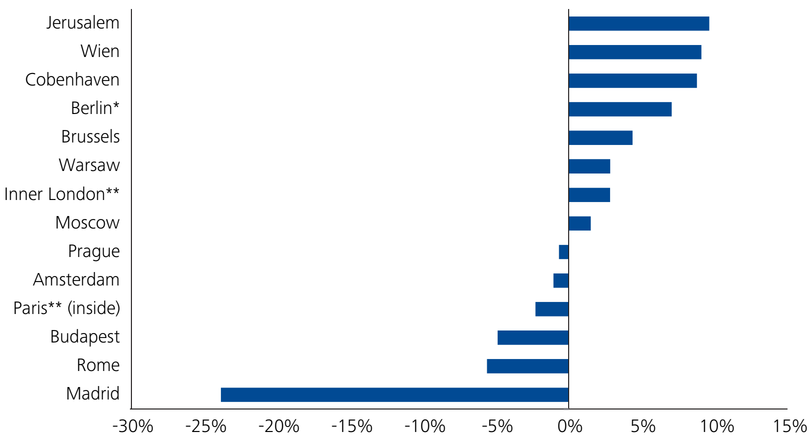
The criterion ranges from 2.1 years in Denmark to 12.1 years in Israel.

The most affordable own housing was recorded in Denmark, Germany and Portugal. These three countries are followed by the group of countries including Belgium, the Netherlands, Ireland, Spain and Austria, with relatively affordable own housing ranging 3.6 – 5.6 years for a standard dwelling

Another group with less-affordable own housing include countries with 7.2 – 7.4 years needed for a 70 m^2 new dwelling – the Czech Republic, Italy, Hungary and Poland.

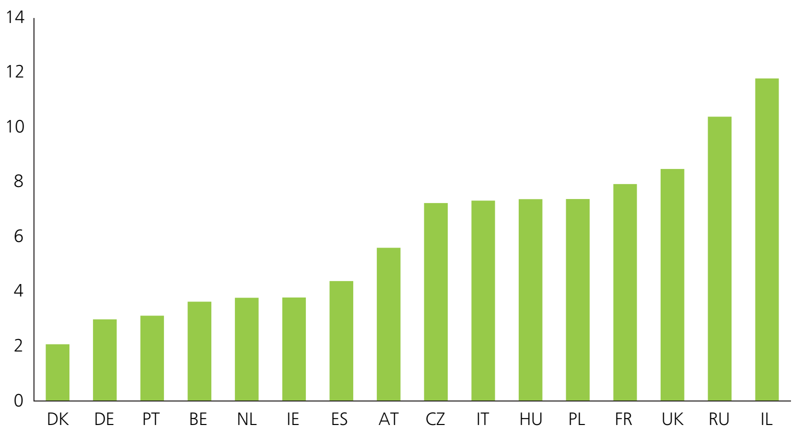
The highest number of gross annual salaries is needed in France (7.9), the UK (8.5), Russia (10.4) and Israel (12.1).

Average Transaction Price of the New Dwelling - Capitals
Annual change (%), 2013



*bid price **older dwellings
Source: National Statistical Authorities, Deloitte data calculations

Affordability of Own Housing
Gross annual salaries for the standardized new dwelling (70 m²), 2013



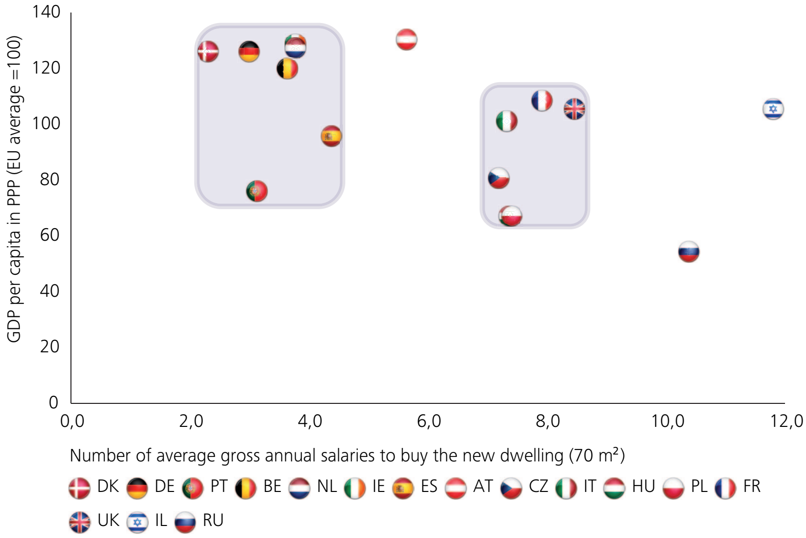
Source: National Statistical Authorities, Deloitte data calculations

The affordability of own housing does not seem to correlate significantly with the economic level of the country. When GDP per capita in PPP and affordability are seen in one chart, three groups of countries may be seen:

1. Denmark, Germany, Belgium, the Netherlands and Ireland with high levels of GDP per capita in PPP, together with Spain and Portugal with lower levels of GDP per capita, create a group of countries with relatively-affordable own housing
2. Italy, the UK and France with higher levels of GDP per capita together with transitive economies of the Czech Republic, Hungary Poland are in the group of countries with lower affordability of own housing (7.2 – 8.5 gross annual salaries for the new dwelling – 70 m^2).
3. Israel and Russia where own housing affordability is below average.

Austria, with GDP per capita in PPP significantly higher than the EU average, cannot be included in any group, with 5.6 annual salaries required to buy a dwelling.

Affordability of housing and the economic level



Source: National Statistical Authorities, IMF, Deloitte data calculations

Mortgage Markets in Europe

Indebtedness of the Housing Stock

An important indicator on the residential market is the indebtedness of the housing stock, ie the proportion of the volume of mortgage loans to GDP. This indicator has significantly-different values for the monitored countries – while the EU average is 52%, the Czech Republic reports the lowest level of indebtedness from EU members, ie 14.3% of GDP; the Netherlands and Denmark, on the other hand, report the highest level of indebtedness amounting to a mortgage-to-GDP proportion of over 100%. Russia, as a non EU-member country, in comparison has the lowest indebtedness of the housing stock, reaching 3.2% of GDP.

Of the monitored Western European countries, the lowest level of indebtedness is reported by the housing stock in Italy and Austria, amounting to 23% and 27% of GDP. In the two major European economic powers, France and Germany, the recorded volume of mortgages is 43% and 45% of GDP.

Residential Debt per Capita

The following criterion has several factors that influence its value:

- Price of the property;
- Loan to Value;
- Number of mortgages issued to number of inhabitants.

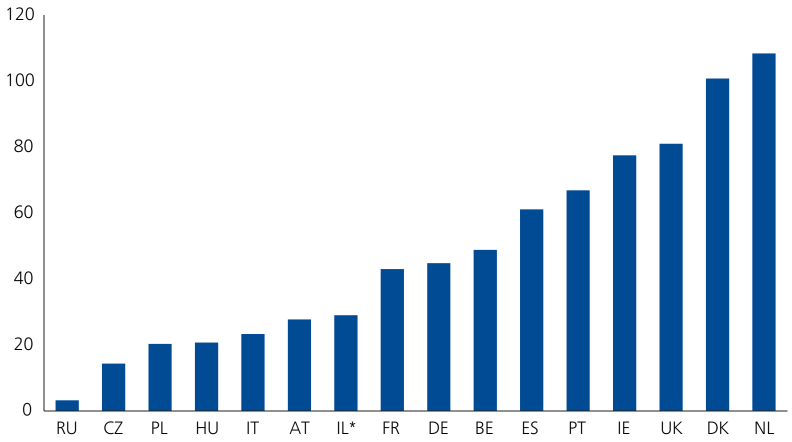
The newest EU joiners, the transitive economies of Hungary, Poland and the Czech Republic, with the lowest salaries, have the lowest residential debt per capita in the EU. In line with the lower salaries – lower residential debt equation, Russian residential debt per capita is the lowest in the comparison.

The Netherlands, Ireland, the UK, France and Austria, with salaries ranging from EUR 2,477 to 3,000, differ a lot in the residential debt per capita – in the Netherlands, the debt is 4 times higher than in Austria (EUR 48,500 compared to EUR 12,300). The UK, with EUR 30,700 and Ireland with EUR 36,400, are significantly higher than France, with EUR 16,900.

Compared to other Western European countries, Italy has relatively-low residential debt per capita, even considering the relatively-low average salary.

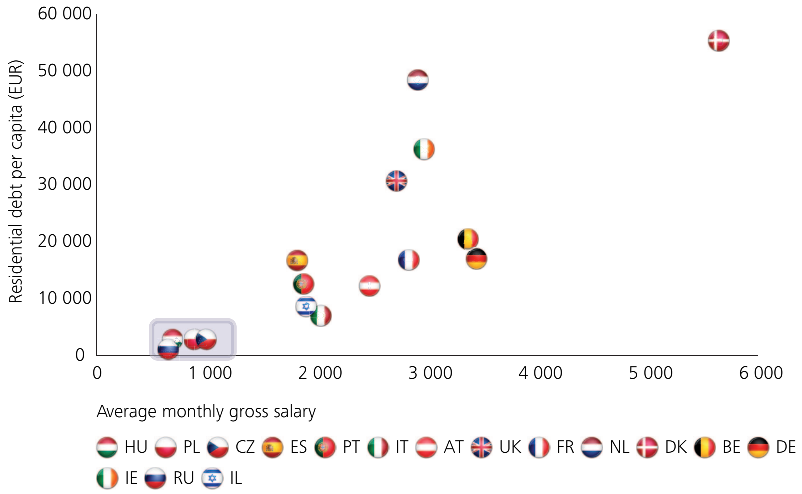
The highest debt per capita can be seen in Denmark; on the other hand, the average gross salaries are by far the highest.

Residentail debt to GDP (%)
2013



Source: European Mortgage Federation, Bank of Israel
*2012

Residential debt per capita (adult over 18 years of age, EUR) and average monthly gross salary



Source: European Mortgage Federation, National Statistical Authorities, Bank of Israel, Deloitte data calculations

Annex: Comments on Residential Markets

Austria

Since 2004, residential property prices in real terms have increased steadily at an average annual rate of 7%. The Austrian housing market has shown dynamic development in the last few years, with Vienna leading the way.

Vienna continues to be a popular location for high-quality residential real estate (starting at € 6,000 per square metre) in 2013. The sale of residential real estate in the top segment has already achieved prices of more than € 20,000 per m^2. The sharp increase in prices can be attributed partly to rising demand prompted by the global economic crisis, as money has flown into "safe" residential property investments. In the mid-price segment, condominiums of between 40 and 80 m^2 are most popular. Despite the steep price increases of recent years, housing in Austria is still relatively achievable, partly as a result of government-subsidised residential construction.

Belgium

Residential property prices in Belgium increased with approximately 2% compared to 2012. There are no current indications that the moderate annual increase in prices seen historically on the Belgian market would not continue in 2014 in line with inflation. The highest sale prices for residential property can be found in Brussels, with statistics indicating a significant premium compared to other main cities like Antwerp and Ghent.

Investment activity in Belgian residential property remained stable in 2013 and no excessive debt accumulation by Belgian households has been observed.

Due to very high registration duties (among the highest in Europe), rotational rate of existing stock is traditionally slow as compared to other countries. The threat of possible heavier future taxation of real estate, especially with regards to the tax deductibility of mortgage-related costs, could impact the residential real estate market in 2014.

Czech Republic

A recovery on the residential market was recorded in 2013. Prices were bottoming out and the number of transactions grew mainly in the second half of the year. New price levels, which were acceptable to the sellers, buyers and also financing banks, were set. The market was not significantly influenced by a major overhang of demand or supply, developers had more-favourable entry conditions (construction costs, financing) to start new projects than in 2007 – 2012 and people stopped postponing the purchase of real estate.

The development of housing prices in 2013 stabilised but differentiated in terms of both price type (realised prices compared to bid prices) and regional development (Prague compared to other regions of the Czech Republic). The relative recovery of the residential market in 2013 occurred despite the minor slowdown in the economy, the deterioration in the labour market and demographic trends.

The outlook for 2014 is rather positive with the predicted upturn of the economy and recovery on the residential market. Strengthening demand particularly on the Prague residential market may lead to slight price growth.

The conditions for mortgage financing remain favourable and no substantial administrative intervention is going to happen in 2014.

Denmark

The prices found their bottom in 2012. The trend changed in 2013; however, this development is largely skewed by price appreciation in the largest cities of Denmark, while the prices in rural areas of Denmark are stagnant or declining. Furthermore, the Danish residential market is still considered fragile as a consequence of the uncertain market conditions of the financial markets.

France

French residential market was relatively stable in prices (-1.6%) but recorded decrease in housing construction and a drop in the number of transactions in 2013 (-5%).

On the market within Paris (Inner Paris), after a slight increase in 2012, there has been a small decline in prices initiated in early 2013. Prices of old dwellings range from € 6 790/m² to € 12 390/m² between districts.

The housing stock in Ile-de-France (Outer Paris), has increased significantly since 2010 (20% in 2013). However, if the prices of old dwellings declined (as in Paris), prices of new dwellings rose slightly.

Germany

The German residential market has been stable. Residential investors are predominately risk-averse seeking low-risk opportunities. The attractiveness of investments into residential property is explained by the bond-like features that these investments exhibit. Due to high granularity of the tenant structure and the fact that housing is a basic need, tenant fluctuation is less dependent on the overall economic climate. The asset class of residential investments continued its story of success in the year 2013. Hence, the market trend that has endured for several years - having only been interrupted during the financial crisis from 2008-2010 - persists.

Residential real estate has already been strong in 2012. Around two thirds of total real estate transaction volume (€162 bn) recorded by the official valuation committees in Germany accounted for residential use. Around 1 million transactions accounted for the total transaction volume, which was 3% higher compared to the previous year. Hence, transaction volume increased for the third year in succession. However, it did so at a lower rate compared to a 14% rise in 2010 and a 6% rise in 2011.

Hungary

The number of new developments further decreased by approximately 30% in 2013. In spite of some optimistic expectations at the beginning of the year, not much positive change was experienced on the market. Transaction volume has decreased more than 50% since 2007. The marketing period extended and transaction prices fell, while the bidder position further improved in 2013.

The transaction volume of new dwellings covers only 3-4% of the total volume. Rental prices have decreased by 20% since 2008; however, a steady increase is foreseen for the upcoming period.

Due to the current economic growth, the slightly improving market sentiment and some additional available financing in housing sector, the residential market was probably already bottoming out in 2013 and is expected to improve in the mid-term.

Israel

The general trend in the housing market in Israel is an increase of prices. Since 2007, prices have risen by about 80%, which caused a further decrease in the affordability of own housing. Affordability is the lowest across the compared countries.

Italy

Following a period of stagnation, the first signs of recovery are being seen. In the context of a fragile market, the predicted improvement for the second half of 2013 was verified to some extent but was not by any means robust. The prospect for economic growth in 2014, even if weak, can be linked not only to the slight strengthening of consumer and business confidence but also to the returning confidence in the banking sector, which is slowly opening to requests from lenders. The latest information from the Italian banking association reports that in the first 3 months of 2014 the value of mortgage loans granted have jumped by over 18% in comparison to the same period in 2013 – a positive start to a challenging year.

A decline in the number of transactions on the residential market was recorded - from its peak of 869,308 in 2006 to only 406,967 transactions in 2013 (-53%).

In addition to the reduction in trading activity on the residential market, there has also been a significant shift in the profile of new buyers. Previously, two thirds of the acquisitions on residential market involved mortgage financing; however by 2013 the effect of the credit squeeze reduced this proportion to less than half.

Ireland

Residential sales in 2013 remained relatively static compared to 2012, although international investment in Irish residential property increased substantially in the period. Supply remained constrained in Dublin in 2013 mainly due to vendors' inability to accept current prices due to negative equity, an unwillingness to give up tracker rate mortgages and a lack of new construction, which is affecting availability.

Rents continue to rise in 2013 as demand outstrips supply within the market. As supply reaches crisis levels, we anticipate a growth in residential construction in the near future.

Netherlands

The average transaction price decreased over 2013. Transaction prices have decreased by 20% since 2008 (pre-crisis). The transaction volume decreased in 2013 as well. In contradiction to the first half of 2013, the transaction volume increased (10.6%) during the second half of 2013 compared to the same period in 2012.

The addition to the housing stock was 4.8% higher compared to 2012. However, it must be stated that the permits that are issued in 2013 are at an all-time low (26,000) which is -20% compared to 2012 and even -70% compared to 2008 (pre-crisis). This decrease is for the greater part attributable to the reduced development ambitions of social housing corporations. This might be a serious cause of concern since the amount of households is expected to rise evenly with 50,000 per year until 2020.

Overall, the second half of 2013 shows elements of stabilisation: house prices are bottoming out and there is a significant increase in transaction volumes. The first half of 2014 should reveal if this stabilisation is structural and sets through to 2014. Notwithstanding, the overall market segment is more positive compared to 2012 and there is an increasing interest notable of foreign investors in the Dutch rental segment. In addition, a new legal amendment enables social housing corporations to dispose of housing portfolios more easily to private investors. Altogether, this might result in a tipping point for the Dutch housing market in 2014.

Poland

Positive development was recorded on the residential market in 2013. The overall number of sold apartments reached a level comparable to that achieved in the peak year of 2007.

There are several reasons behind this, among which are past and planned changes in legislation, such as that implemented as of 1st January 2014 - the ban on new mortgage finance covering 100% of the purchase price. On the other hand, developers have been selling projects commenced before mid-2012, and therefore are not subject to implemented stronger control over purchasers' pre-payments.

Limited new supplies combined with growing demand resulted in a gradual decrease of available stock (number of unsold completed apartments), which at the end of 2013 equalled 5 quarters of sales. Such level is perceived as typical for stable markets. Prices did not change significantly during 2013 and are not expected to change over 2014 as developers will focus on dwellings eligible for support from recently introduced new governmental programmes.

Over the coming years, the biggest change is expected in relation to the rental market, related to the launch of a dedicated property fund investing in apartments for rent, which has been set up by the state-owned BGK bank.

Portugal

The Portuguese residential market in 2013 reflected the recovery of the economy and consequently registered a slight upturn in the demand and prices of residential assets. The banks are still a major player in the market, with a large amount of properties in the balance sheet that they need to sell, not leaving much room for new developments.

Russia

In 2013, the market was active in terms of construction volume. Rouble-denominated prices continued to grow with inflation, almost reaching the pre-crisis level of the 1st half of 2008. The year-end was characterised by a high level of uncertainty related to political and economic issues.

Spain

A further price decrease on the residential market was recorded in 2013. Therefore, Spain reported negative values since 2007, with a total decrease of -41.4%. In terms of the indicator of housing development intensity, in 2013 Spain registered a lower amount of developing building works and a higher housing stock, based also on a population decrease.

United Kingdom

2013 was the year that finally saw a sustained pick up in housing market activity. Consumer confidence increased throughout the year as the economic outlook improved, and this fed through into much stronger demand in the housing market.

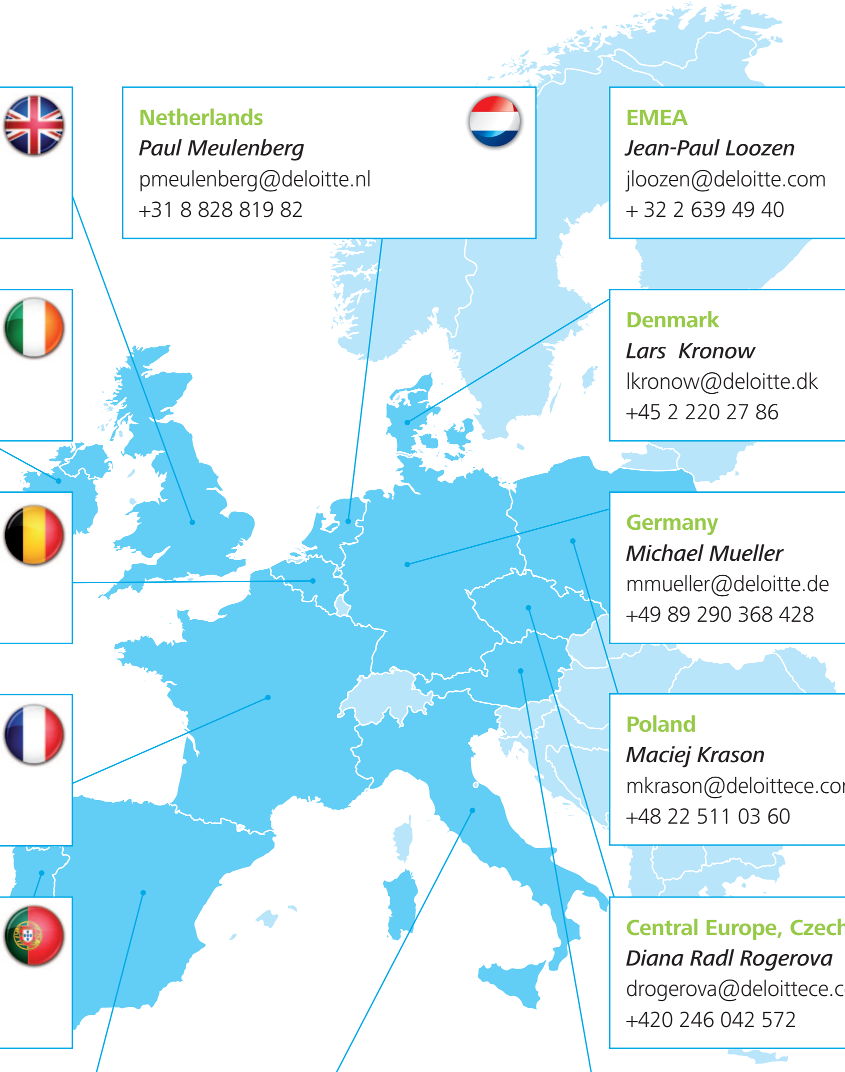
Prices rose steadily and the rises were no longer confined to London. London remains a very different market to the rest of the UK, however, with demand driven by a wide range of overseas buyers as well as domestic purchasers.

Development activity has started to pick up as well, although the UK in general remains undersupplied, despite initiatives to boost activity. This is one of the main factors behind the rapid acceleration in prices. For now, prices appear to be continuing to rise, but the big question will be the impact of interest rate increases when they arrive. Buyers are currently benefitting from record-low mortgage rates, but rates are likely to rise as base rates normalise over the next five years.

Highlights

- The highest housing development intensity in the selected countries in 2013 was seen in Austria, Israel and France
- The lowest housing stock in 2013 per 1,000 citizens across EU member states was recorded in Poland (25% below the European average)
- The highest level of privately-owned housing was seen in Hungary, Spain and Poland. The highest share of rental housing was recorded in Germany
- Also in 2013, the highest number of large apartments was found in Spain, Ireland and Belgium
- The highest housing costs of the selected countries in 2013 were found in Denmark
- The year-on-year price changes differed significantly in the compared countries. The highest price growth was seen in Austria and Germany. Contrarily, the significant price drop was seen in Spain and Italy.
- From the compared countries and cities:
  - London and Paris remained the most expensive capitals in Europe with an average transaction price exceeding EUR 10,000/m^2 in Inner London and EUR 8,100/m^2 in Paris
  - The cheapest capitals can be found in the CEE region, namely: Budapest, with an average transaction price of EUR 1,140/m^2 and Warsaw with EUR 1,704/m^2. Lisbon is the cheapest capital from the elder EU-members with an average transaction price of EUR 1,640/m^2
  - There are 2 major cities where the prices exceed the national average more than three times – Munich and Moscow
- To buy a new dwelling (70 m^2), the number of annual gross salaries needed ranges from 2.1 in Denmark to 12.1 in Israel.

Contacts



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