


Analyses

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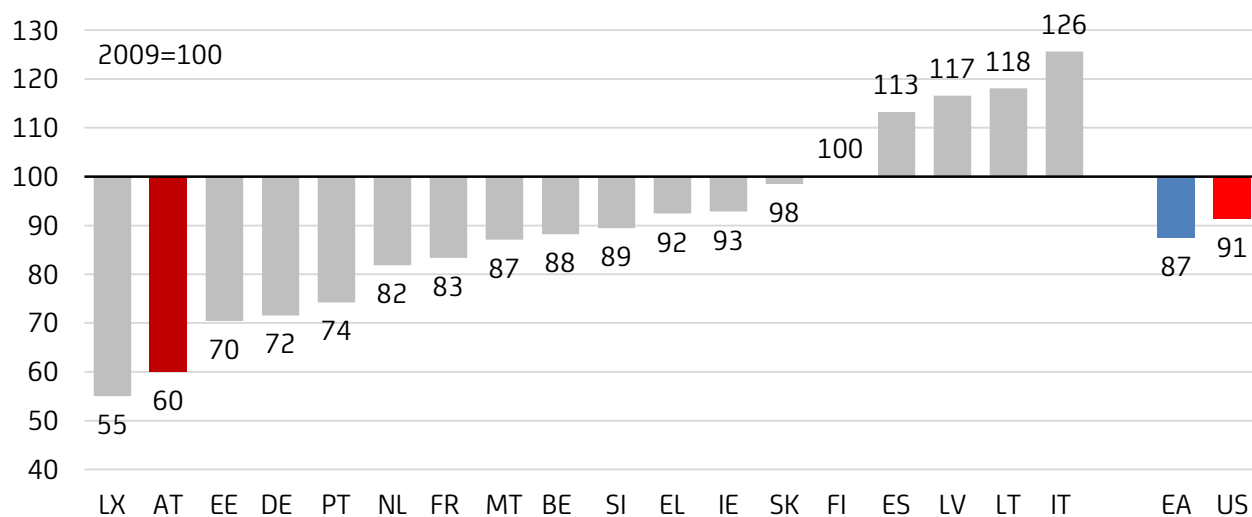
Price is the problem, not interest rates - Housing affordability in European comparison

A hand holding a magnifying glass over a blue-tinted landscape image. The magnifying glass is held by a hand on the right side of the frame, and the lens is focused on a landscape of rolling hills or mountains. The background is a soft-focus image of a hand holding a magnifying glass over a blue-tinted landscape.

HOUSING AFFORDABILITY IN EUROPEAN COMPARISON

Affordability of residential property

(Value of average net income* in relation to property prices)



*Net annual earnings (couple with two children and earnings of 100 % of the average wage)

Source: Eurostat, UniCredit Research

- Residential property prices in the euro area have risen significantly more than average net earnings in recent years. The affordability of residential real estate has thus declined sharply. The real value of net earnings in relation to housing prices fell by more than one percent annually to around 87 percent of 2009.
- A strong reduction in the affordability of residential real estate within the euro area since the financial crisis can be seen in Luxembourg and Austria. In contrast, the value of average income in relation to property price development in Italy, Lithuania, Latvia and Spain has increased over this period.
- Despite the high real decline in the value of incomes in Austria, housing is still relatively cheap in a European comparison. According to our calculations based on the Deloitte Property Index, the purchase of a newly constructed residential property with 100 square metres required an average of 6.5 net annual salaries in 2022, less than in Germany, Spain or France.
- Despite the tightening of monetary policy since the middle of 2022, the strong increase in real estate prices is clearly the cause of the reduced affordability of residential real estate in the euro area and in Austria. Compared to 2009, the financing costs for a real equivalent property in Austria more than doubled, of which about 95 percent is due to the increase in real estate prices.

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as of August 2023

Residential property prices in the euro area have risen by 45 percent since the financial crisis

Austria is the country with the third strongest price dynamic in the euro area.

At around 5,200 euros per square metre, residential property in Austria is now more expensive than in Germany or France

Property prices in the euro area have risen by an average of one percentage point per year since 2009, higher than general inflation

Rise in property prices...

In 2022, residential property prices in the euro area were 45 percent higher than in 2009, which corresponds to an average increase in property prices of almost 3 percent per year since the financial crisis. Within Europe, however, there were clear differences in price dynamics. The strongest increase occurred in Estonia, where prices tripled (+9.1 percent per year), followed by Luxembourg with a factor of 2.5 (+7.2 percent per year) and Austria, where residential property prices also more than doubled and, with an average annual increase of 6.6 percent, rose even more strongly than in the US.

Immediately after the financial crisis, the development in the euro area was characterised by a decline in prices caused by the bursting of real estate bubbles, among others in Ireland, Greece and Spain. With the easing of the euro crisis and the progressive loosening of monetary policy, which made it easier to finance residential real estate through favourable credit conditions, as well as the increasing attractiveness of real estate as an investment, real estate prices in the euro area began to rise again. In Austria, however, the price development took an atypical course. Prices for residential real estate rose without interruption until the end of 2022. According to the Property Index 2022 by Deloitte and our calculations based on it, the price per square metre for a newly built property in Austria was at the top of the European countries compared, at around 5,200 euros in 2022. The absolute purchase price of residential property in Austria even exceeds those in France (4,900 euros) and Germany (4,850 euros) on average. In Spain (2,800 euros) or Italy (2,400 euros) as well as in the surrounding Eastern European countries, property prices are even significantly lower.

...clearly exceeds general inflation

The rise in real estate prices in the euro area has significantly outpaced the rise in consumer prices since the financial crisis. Real estate thus became significantly more expensive relative to other goods and services, as residential property prices rose by an average of 2.9 percent per year while the annual inflation rate was only 1.9 percent.

Only in four countries was inflation higher than the increase in property prices. These were mainly countries struggling with the consequences of a real estate bubble, e.g. Spain. In three quarters of the current 20 member states, on the other hand, the increase in real estate prices up to 2022 was in part considerably higher than that of consumer prices. The strongest difference between real estate and consumer price dynamics is in Estonia with 5 percentage points per year, followed by Luxembourg. In Austria, the annual difference since 2009 is more than 4 percentage points, given that real estate prices have more than doubled and the general price level has risen by 35 percent in this period.

Chart 1: Residential property prices in the euro area (2022, 2009=100)

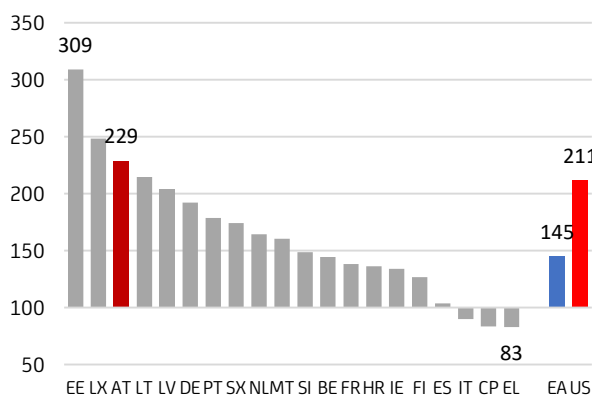
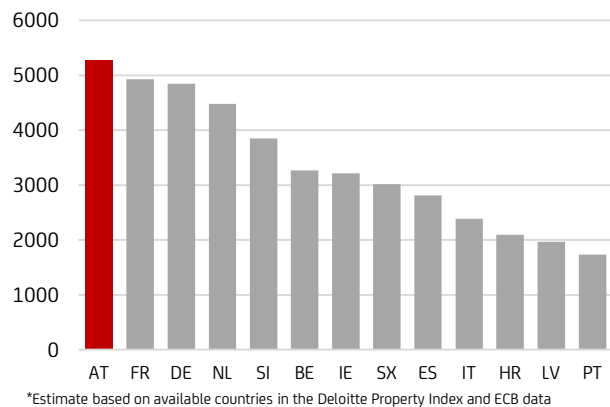


Chart 2: Property prices in selected countries* (2022, in EUR per sqm for purchase of new property)



Source: Deloitte Property Index 2022, ECB, Eurostat, UniCredit Research

Affordability of residential property in the euro area has fallen by almost 15 percent since the financial crisis

Above-average real depreciation of incomes in Austria of almost 40 percent

Housing in Austria is still relatively affordable despite high prices per square metre thanks to high incomes

Income development does not keep pace with real estate price dynamics

Since incomes largely follow the development of consumer prices, the affordability of residential real estate in the euro area has declined significantly since the financial crisis. Immediately after 2009 there was a short-term decline in house prices and thus an increase in affordability, but the subsequent low-interest phase supported a strong increase in house prices far beyond the extent of income increases. The gap between house price and income dynamics subsequently widened further during the Corona crisis.

By the end of 2022, real estate prices in the euro area have increased by 45 percent compared to 2009, while net incomes have only increased by 27 percent, about the same as consumer prices. This means that real net income in the euro area in 2022 in terms of house price development is only about 87 percent of what it was in 2009, which means that housing affordability has fallen by about 13 percent since the financial crisis.

In Luxembourg, the affordability of real estate has decreased the most during this period. The value of average annual income in relation to property prices fell to only 55 percent of 2009. In Austria, too, the decline in value to around 60 percent was above average. With Finland, Spain, Latvia, Lithuania and Italy, the value of income in relation to property prices has increased in only five countries since the financial crisis.

Over a longer period of time, corresponding comparative data are available at least for the most important countries of the euro area and for Austria. For example, the increase in the value of incomes in Italy from 2009 onwards is put into perspective, as incomes have lost slightly in value compared to the year 2000. The strongest loss in value over the longer period of observation occurs in France, which reflects the above-average increase in real estate prices before the financial crisis. In Austria, the opposite development can be seen. Property prices in relation to incomes remained largely stable until the financial crisis, and only then did the massive decline in the value of incomes set in.

Despite the high real loss in income value in Austria, housing is still relatively cheap in a European comparison. According to our calculations based on the Deloitte Property Index, the purchase of a newly built residential property with 100 square metres in 2022 would require an average of 6.5 annual salaries (net income of a couple with two children earning 100 percent of the average wage). This means that real estate is significantly cheaper than in Central and Eastern European countries in particular. In Slovakia, an average of almost 14 years' income is needed to buy a residential property of the same size. However, housing in Austria is also relatively cheaper than in France, Spain or Germany.

Chart 3: House price growth versus inflation
(Average change per year in % from 2009-2022)

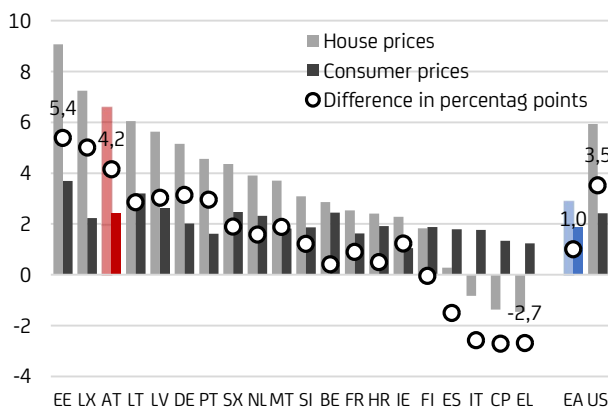
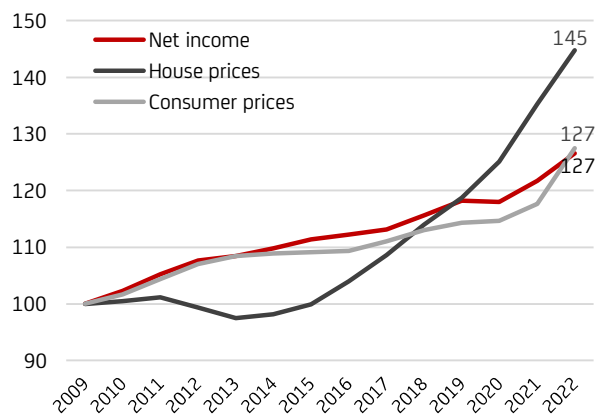


Chart 4: House prices and income in the euro area
(2009=100)



Source: OeNB, UniCredit Research

Slightly higher absolute financing costs than in 2009, but share of net income is significantly lower

Due to strong price increases, the purchase of a property of the same size requires a significantly higher loan amount than in 2009

Strong increase in real estate prices responsible for reduced affordability

In addition to the development of property prices and incomes, the costs of possible loan financing are also important for assessing the affordability of a residential property. As a result of the key interest rate increases by the ECB since mid-2022, loan interest rates in Austria have risen to around 4 percent p.a. in the meantime. At 1.2 percent, lending rates were at their lowest point in 2021 after a continuous decline since the financial crisis. In 2009, loan interest rates were still just below 4 percent on an annual average. The monthly costs (repayment and interest) for a real estate loan of 100,000 euros for 20 years averaged almost 600 euros in 2009. After the decline in the following years with a low point in 2021 of only 470 euros, the tighter monetary policy led again to an increase in the monthly costs for a similar loan to currently just over 600 euros. Taking into account the increase in income since 2009, the share of monthly costs for a real estate loan of more than 100,000 euros with a term of 20 years in monthly net income is currently 9 percent, higher than the annual average of 7.4 percent in 2022, but significantly lower than in 2009 with more than 12 percent or even in 2000 with almost 18 percent.

However, the increase in real estate prices now requires a significantly higher loan amount to buy a property of the same size. Taking into account the development of real estate prices, which have meanwhile reached 2.3 times the level of 2009, the financing of a property of the same size, which was purchased for 100,000 euros in 2009, currently causes monthly costs of more than 1,375 euros compared to not quite 600 euros in 2009. These costs add up to slightly more than 19 percent of average net earnings this year, significantly more than the 12 percent in 2009. If house prices had developed in step with inflation, the share of credit costs in net earnings would currently be almost the same as in 2009 and affordability would thus be almost unchanged.

The increase in the monthly financing costs of a property of the same size by 775 euros between 2009 and mid-2023 is almost exclusively due to the rise in prices. Of the higher total costs, almost 750 euros or about 95 percent are caused by the price increase and only about 25 euros by higher interest rates. Only in the short-term view of the past months is an increase in the costs of loan financing more strongly explained by the rise in interest rates as a result of the tighter monetary policy, while property prices have begun to fall at the current margin.

Chart 5: Housing prices in selected countries
(Number of annual incomes for purchase of 100 sqm, 2022)

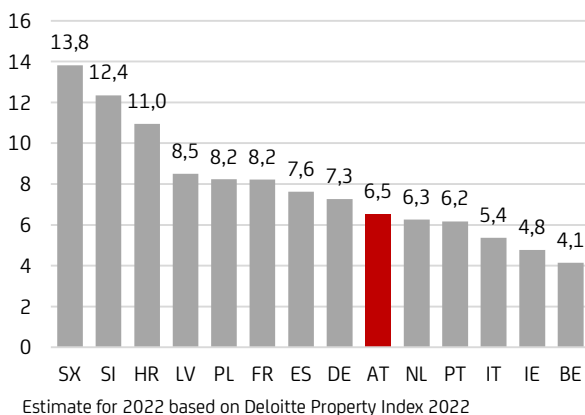
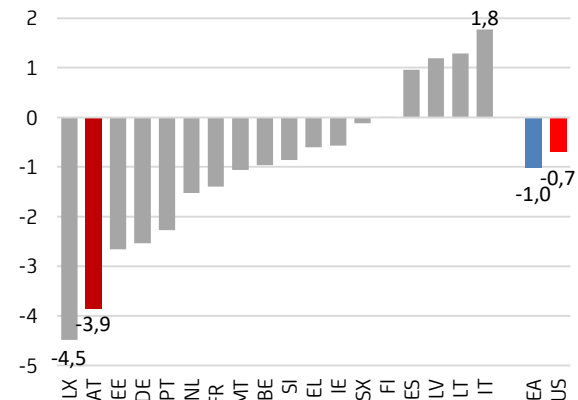


Chart 6: Affordability of residential property
(Value of income in relation to property prices, annual change in % since 2009)



Source: Deloitte Property Index 2022, Eurostat, UniCredit Research

In a nutshell

In recent years, property prices have risen sharply across the euro area, driven by the loose monetary policy of the European Central Bank, making residential property much more expensive by the end of 2022. Since the financial crisis in 2009, residential property prices in the euro area have risen by 45 percent, particularly strongly in the Baltic countries and in Luxembourg. In Austria, property prices more than doubled during this period. With a price per square metre of over 5,000 euros, Austria has now taken a top position in the euro area.

The prices for residential real estate in the euro area rose significantly more than general inflation. Real estate thus became more expensive in relation to other goods and services. Since incomes have developed largely in step with consumer prices, the affordability of housing in the euro area has also declined sharply since the financial crisis. Average net earnings in terms of house prices fell by more than one percent annually to around 87 percent of its value in 2009. Luxembourg and Austria show the sharpest deterioration in housing affordability over this period, while Spain and Italy, for example, have seen an improvement since the financial crisis. Despite the high real decline in income values in Austria, housing is still relatively cheap compared to the rest of Europe. According to our calculations based on the Deloitte Property Index, the purchase of a newly built residential property with 100 square metres required an average of 6.5 net annual salaries in 2022, less than in Germany, among other countries.

Since mid-2022, the affordability of residential real estate in the euro area has also been unfavourably affected by the tightening of monetary policy by the ECB and the subsequent increase in the cost of credit financing. However, the development since the financial crisis or in relation to even longer periods clearly shows that it is not the interest rate development but the price increase of real estate that is decisive for the reduction in affordability. The financing costs for a property of the same size in Austria, which could be purchased in 2009 for 100,000 euros, increased from 600 euros per month to about 1350 euros, of which about 95 percent can be attributed to the increase in property prices.

Chart 7: Interest rate and loan instalments for housing loans
(Austria, in % resp in EUR)

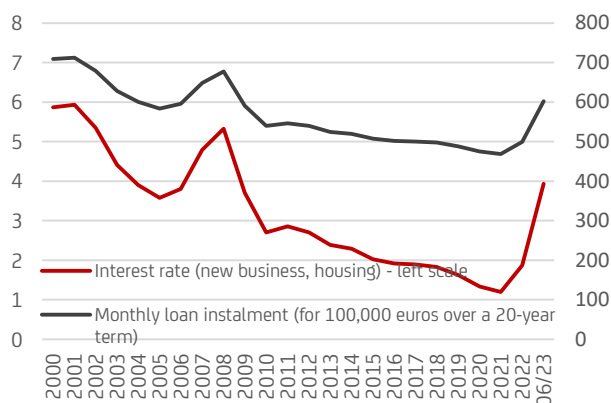
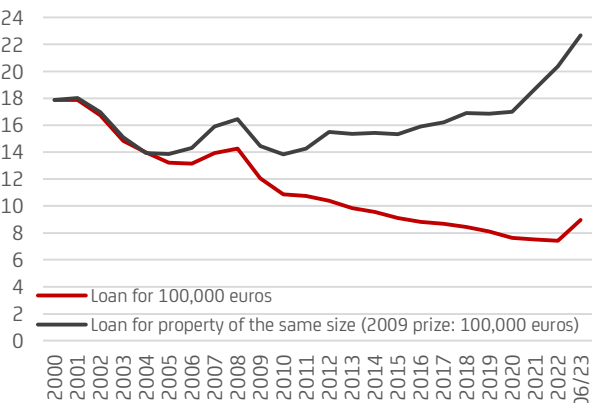


Chart 8: Affordability of housing loans in Austria
(Yearly loan instalments in % of yearly net income)



Source: Eurostat, UniCredit Research

Appendix: Development of affordability in a country comparison since 2000

Chart 9: Affordability of residential real estate
 (Real value of income in relation to real estate prices)

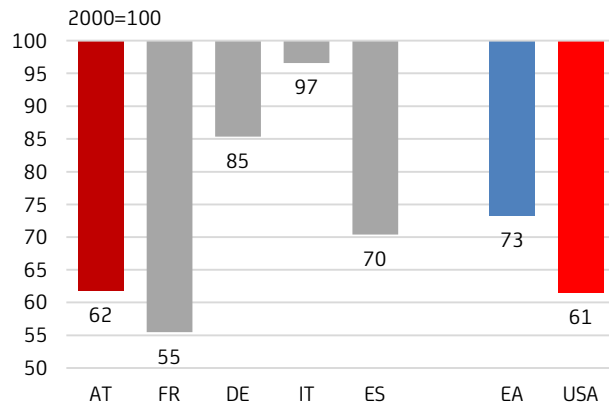


Chart 10: Development of affordability in the euro area
 (2000=100)

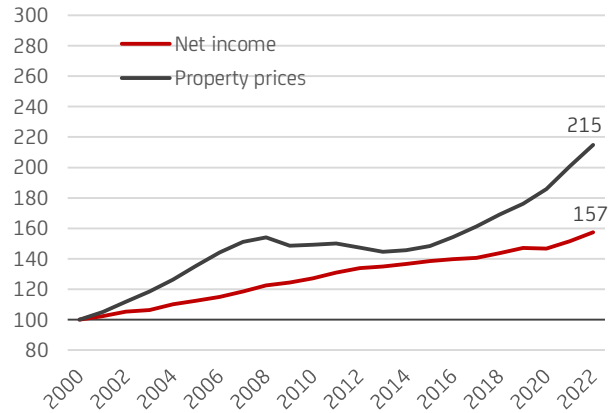


Chart 11: Development of affordability in Austria
 (2000=100)

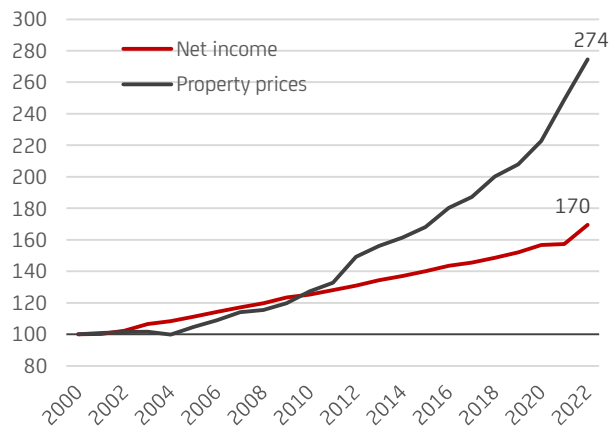


Chart 12: Development of affordability in Germany
 (2000=100)

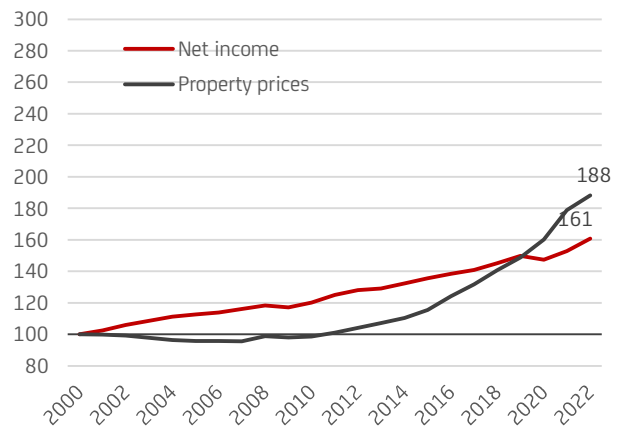


Chart 13: Development of affordability in France
 (2000=100)

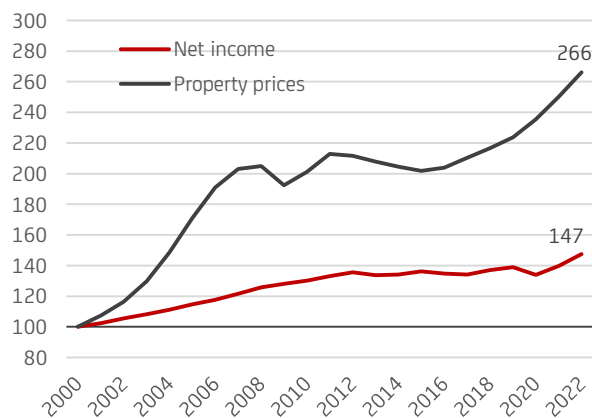
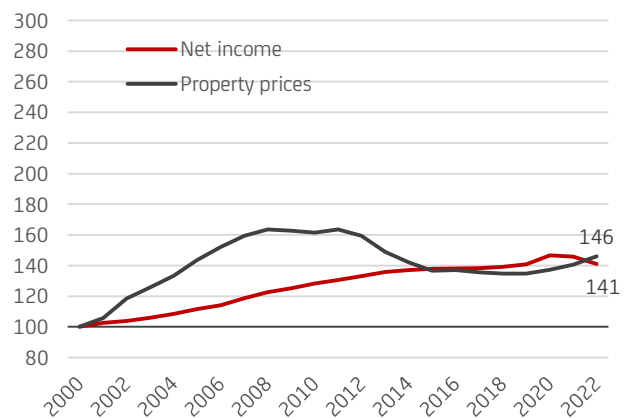


Chart 14: Development of affordability in Italy
 (2000=100)



Quelle: Statistik Austria, UniCredit Research

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