

CHART OF THE WEEK

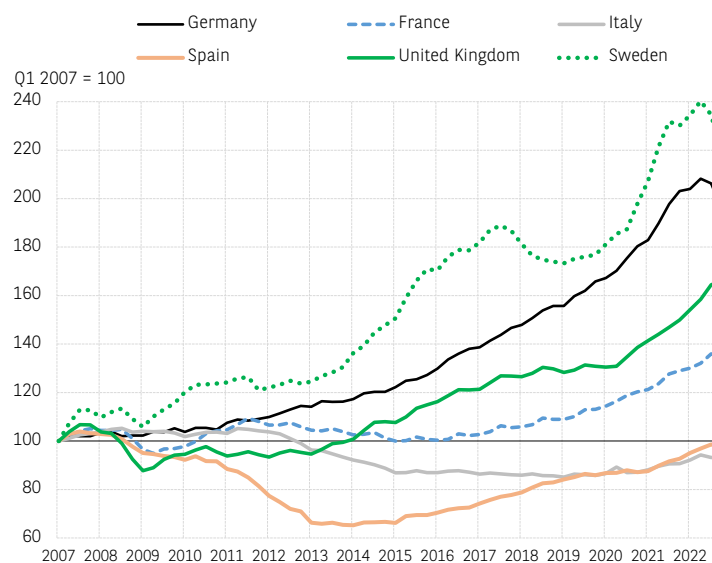


12 April 2023

REAL ESTATE PRICES IN EUROPE: TOWARDS A WIDER REVERSAL?

Stéphane Colliac with Louis Morillon (intern)

Real estate price in Europe: residential nominal price indices



Source: BIS, Destatis, INSEE, INE, SCB, UK Land Registry, BNP Paribas

Evidence of falling housing prices remains patchy. After a sustained rise throughout 2021, residential housing prices in the main European countries continued to resist the tightening of credit conditions in the fourth quarter 2022, with the notable exception of Sweden (for which the national series suggests a further decline in Q4 2022) and Germany. However, prices peaked in the fourth quarter in France, Spain and Italy. The trend is also towards a marked slowdown in the United Kingdom.

A generalisation of real estate price declines in 2023 is a significant possibility given the European Central Bank's last Bank Lending Survey (BLS) on credit conditions in the fourth quarter 2022. Indeed, the decline in the net demand for housing loans is the strongest since the survey began (2003): 74% of banks reported a decline in demand for Q4 (balance of opinion, compared to 42% for Q3). At the same time, 29% of banks reported a tightening of overall terms and conditions for housing loans in the fourth quarter 2022 (24% in the third quarter), mainly due to an increase in the cost of risk.

This tightening of credit standards is expected to continue in 2023, if not to increase, while the ongoing monetary tightening is still having an effect on borrowing rates. In addition to higher house prices, this may encourage households to postpone purchases, leading to a more pronounced turnaround in real estate prices.

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