



Slovak residential property market in the European context

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1 One of these sources is, for example, web portal Global PropertyGuide, which is a useful database of information and data on the global residential property market on the basis of the national data of proprietary created characteristics.

2 For more details see: Technical Manual on Owner-Occupied Housing, Draft version 1.9, Eurostat, February 2010.

INTRODUCTION

The relatively small Slovak residential property market is often characterised by analysts with various further attributes, such as being young, dynamic, non-standard, not yet crystallized out, but also as interesting. For all of the mentioned attributes, there is a whole series of reasons.

For the purpose of creating one more plastic image of the national residential property market it is appropriate to introduce it from the point of view of several aspects. So far as comparable data exist, it is very practical to show the residential property market in question also in the international context. International comparability is still

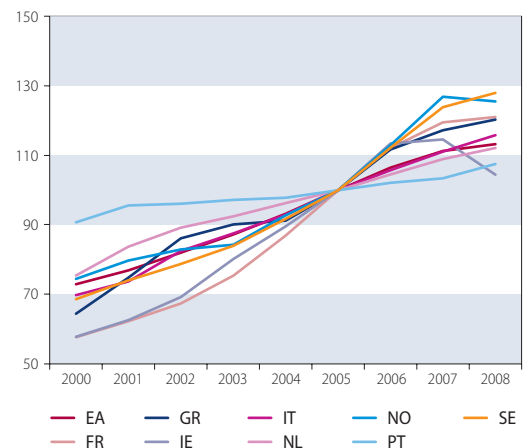
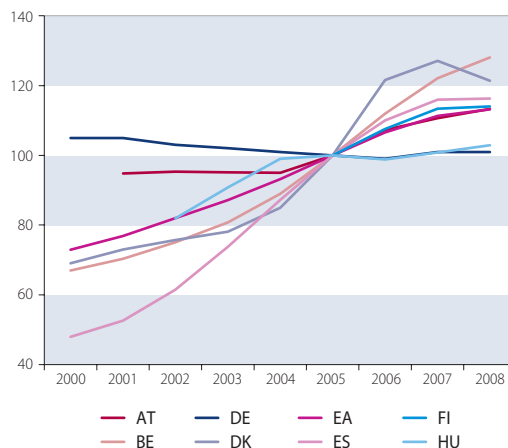
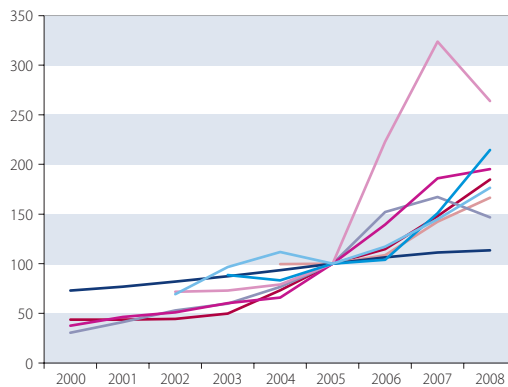
the relatively weak side of the data on the residential property market not only in Slovakia, but also in the majority of European countries.

One of the important sources of data on residential property prices is the database of the Bank for International Settlements – BIS, which comprises probably the longest time series concerning this issue. In recent years there have been certain attempts by specialised institutions that came up with inspiring proposals as well as practical solutions in the form of quasi comparable characteristics from the field of the residential property market¹. Even though these sources offer very useful information, their orientation and unofficial character should be kept in mind when using them.

Within Eurostat there is a methodology of a relatively high level of elaboration, which characterises potential sources of data and possible procedures at the construction of partial as well as aggregated indices of the prices for the acquisition, reconstruction and maintenance of houses and flats². Actively engaged in the mentioned activity of Eurostat are also national statistical offices, which is why the perspective of practical usage of internationally comparable data on the development of residential property prices is slowly approaching.

Because of considerable diversification of sources and procedures, with the help of which the data on residential property prices in individual countries are collected, it is relatively problematic to create a reliable basis of identical coefficients for international comparison. Even though we are

Chart 1 Development of residential property prices in selected European countries (2005=100) (in %)



Source: BIS, the NBS charts.

Note: The data for the euro area (EA) is quoted in each chart for comparison.



aware of certain inaccuracies, we will try to create a more plastic image of the Slovak residential property market from the available sources, by putting it into the broader European context.

DEVELOPMENT TREND OF RESIDENTIAL PROPERTY PRICES POST-2000

In consideration of the differentiated factual as well as temporal development of residential property markets in particular European countries, it is appropriate to use indices with an identical comparable base for the mutual comparison of the dynamics of residential property prices development. As in the BIS database there are data for particular countries quoted with different bases, we made their calculation for the basis year 2005 (2005 = 100). Such standardization of data on residential property prices development enables us a relatively reliable comparison of development among countries within Europe subsequent to 2000.

Data on the development of residential property prices have been accessible for some European countries including Slovakia only since the year 2002; that is why evaluative considerations begin from this year.

With respect to the general knowledge of dynamic growth of house and flat prices after 2000, the value of basic indices (2005 = 100) in 2002 should be less than 100 in particular countries. This assumption, however, does not apply to Germany where the average square meter price of residential area was 3% higher in 2002 compared to 2005. This is related to the generally known very low variability of changes in average residential property prices in Germany, with oscillation around the zero value in both directions in the relatively long-term.

From 2002 up to 2005 residential property prices grew most dynamically in Bulgaria (by 55.8%), Lithuania (by 55.8%), Estonia (by 47.1 %), Spain (by 38.5%), in France (by 32.6%), and Ireland and Slovakia (both by 30.8%). In contrast, over this period the average prices of houses and flats grew least in Portugal (by 3.9 %) and Austria (by 4.7 %).

After 2005 the residential property prices grew markedly over the average in Latvia, when they rose in 2007 more three-fold against the basis year, and in 2008 even after the slowdown they considerably surpassed the growth dynamics of prices for houses and flats in other countries. More than a two-fold increase after 2005 also had average residential property prices in Poland, and almost two-fold in Lithuania. By more than one half against the basis year the average prices of houses and flats grew also in another four new EU member countries, among which is also Slovakia (by 76.6%). Contrary to this, even after 2005 average residential property prices grew only minimally in Germany (by 1.0 %), Hungary (by 2.9%), and Portugal (by 7.5%) experienced only a moderate rise.

Slovakia closes the quartet of countries (LV, LT, NG, SK)³ where in 2008 growth of average residential property prices more than doubled against

2002. On the opposite pole are countries where only minimal growth (less than by 20 percentage points in PT and AT) or even a decrease (by 2 percentage points in DE) of the average prices of houses and flats in the evaluated period took place.

From the graphical analysis unequivocally follows a considerably higher variability of changes of average residential property prices from 2002 up to 2008 in the new EU member countries (with the exception of Hungary) compared to the old EU member countries. The variation span between the lowest basic index value (44.2% in Bulgaria in 2002) and the highest basic index value (323.8% in Latvia in 2007) represents the value of almost 280 percentage points in the framework of the new member countries, while within the majority of old member countries only fewer than 70 percentage points (the lowest growth by 61.5% in Spain in 2002 and the highest growth by 128% in Belgium in 2008). A relatively independent group is composed by the Nordic states (DK, NO and SE) in which residential property prices increased from 2002 more markedly than in the majority of old EU member states, but less markedly than the majority of new EU member states. Average residential property prices in Denmark and Norway grew after reaching a climax in 2007 yet more slowly in the next year, but in Sweden the prices of houses and flats grew dynamically even in 2008.

Within the euro area the average residential property prices grew from 2002 up to 2005 relatively evenly, and then increased annually by almost 7% on average. After 2005 annual growth started to alleviate to fewer than two per cent in 2008. Contrary to this, in Slovakia but also the majority of new EU member states (with the exception of Hungary where the prices of houses and flats have been stagnating in recent years) residential property prices started to grow considerably after 2005, which started to widen the gap against the dynamics of growth of prices in the euro area. The development of prices of houses and flats for the euro area as a whole was resembled most of all by development in Italy and from 2004 also Austria.

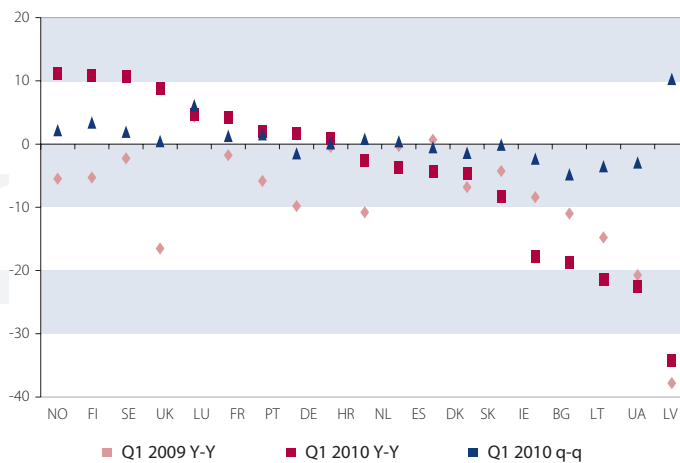
CURRENT DEVELOPMENT OF RESIDENTIAL PROPERTY PRICES

According to the evaluations of the Národná banka Slovenska from the data of the National Association of Residential property Agencies of Slovakia (which are also part of the portal Global Property Guide), the average prices of houses and flats started to decrease gradually in Slovakia from the 3rd quarter of 2008, and in the 1st quarter of 2010 they almost stagnated in comparison with the previous quarter. The average price of one square meter of residential property reached EUR 1,296/m², which meant a quarterly yearly decrease of 0.1% and a decrease on an annual basis of 8.3% (in the 4th quarter of the year 2009 it was EUR 1,297/m², -1.9% and -12.3%).

³ Used abbreviations of the states are in accordance with statistical abbreviations of names of states in the Annex to the Legal Order of Statistical Office of SR No. 303/2007 Coll. More in detail see, e.g. http://portal.statistics.sk/files/Sekcie/sek_200/Klasifikacie/ciskraj.rtf.



Chart 2 Development of residential property prices in selected countries (in %)



Source: Global Property Guide, the NBS chart.

Based on currently available comparable data, Slovakia in the 1st quarter of 2010 was one of the European countries in which last year annual decrease of average residential property prices persisted (DK, NL, ES, SK, BG, IE, UA, LT and LV). The second group was represented by countries which moved during last year from annual decrease of average residential property prices to annual growth (FI, NO, SE, UK, LU, PT, FR and DE). In almost all of the countries from this group in the 1st quarter of 2010 inter quarterly growth also contributed to the annual growth of average prices of houses and flats. This can be considered as a certain signal of gradual recovery of the residential property market in these countries. Austria finds itself in a special position, in which the average residential property prices also rose annually one year ago.

The above indicated typology of countries according to the current development of average residential property prices signals also certain features through which the residential property markets distinguish themselves in the old and new EU member states. Processes taking place in the residential property markets including the price development of houses and flats in the new EU member and candidate countries react as if having a certain time lag to various – first of all outward – stimuli compared to old EU member countries.

A simple comparison of available data signals a certain variability of the annual development of average prices of houses and flats not only in old EU member countries, but also in new EU members, perhaps even candidate countries. It can be deduced from this that even though the residential property markets in old EU member countries have been established for a longer time, the impacts of the global economic recession rocked them in a similar manner as in new EU member states. As a certain exception stand Germany and Austria with a relatively small variation span of

annual dynamics of average residential property prices in the first quarters of 2009 and 2010.

According to available data on the current development of average prices of houses and flats, Slovakia finds itself on the imaginary border between the old and new EU member countries. While in the majority of old member countries the average residential property prices already increased inter quarterly as well as annually during the 1st quarter of 2010, they decreased in Slovakia but not so markedly as in other new EU member countries. In the case of Latvia, the relatively massive inter quarterly growth of the average residential property prices in the 1st quarter of 2010 caused only a moderate deceleration of the annual decrease in comparison with the 1st quarter of 2009. Soon the overall development of average residential property prices in the old member countries will probably have a moderately growing trend, and in new member countries the annual decrease of average prices of houses and flats should decelerate.

SELECTED CHARACTERISTICS OF THE RESIDENTIAL PROPERTY MARKET

Participants of the residential property market within the framework of one country pay attention primarily to the domestic price relations of houses and flats, or to prices just across the nearest national border. The issues of various factors that decisively influence the very price level of residential property and their development are as a rule only inferior to potential sellers and buyers.

For the simple international comparison of a concrete residential property market and to determine possible trends of further development it is necessary to use, if possible, data on characteristics such as Buying Price, Price/Income Ratio, Gross Rental Yield, Roundtrip Costs, and eventually Rental Income Tax and Capital Gains Tax. There is more information on these characteristics in the following box.

Available data on the average buying price of existing flats in the centres of important cities of particular countries in €/m² are continually updated and provide the opportunity to have an informative view on the relations of house prices within a broader territory. Even though the point is that values are higher than average residential property prices as quoted for the concerned country as a whole, such can be used for informative comparison of house price levels because transactions with houses and flats in capital cities of countries and their surroundings represent the decisive weight in the residential property market within the concerned country. For the requirements of an analysis, it is not the exact values of average prices of flats in the centres of capital cities which is so important, but rather their mutual relations.

The price of housing (average buying price for 1 m² of the flat) in Slovakia can according to available data be compared informatively to house prices in another approximately ten European



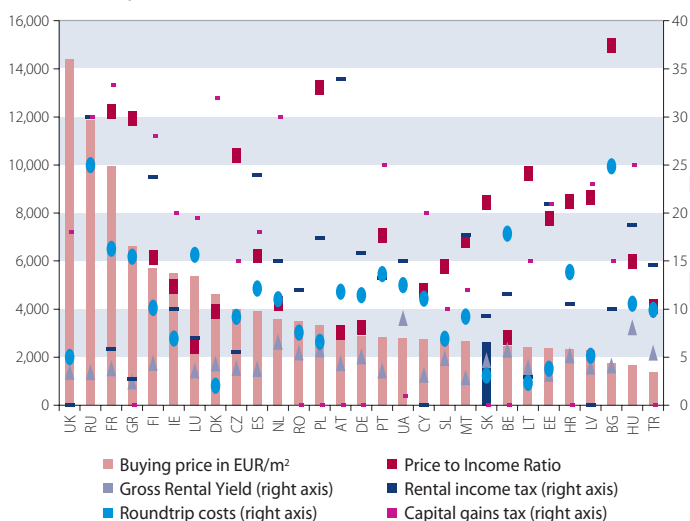
countries (in Chart 3 informatively from Portugal up to Latvia). Housing relatively cheaper than in Slovakia is in Bulgaria, Hungary and Turkey. By approximately 10% up to 15% more expensive housing compared to Slovakia is signalled through the data to be in Germany and Austria, approximately 30% more expensive in Poland and Romania, and almost 40% more expensive in the Netherlands. Informatively by more than half higher are prices for housing in Spain and the Czech Republic, and the most expensive housing is signalled to be in United Kingdom. For sure, one can discuss the accuracy and informative capability of a list of average prices for housing in particular countries compiled in this way, but what is important from the point of view of Slovakia is the finding that within the given arrangement we are in roughly the first third of European countries with relatively lower average housing prices. It means that current residential property prices in Slovakia have the potential to converge gradually in the future towards prices in old EU member countries. Of course, it depends on a whole array of factors, where the decisive factor will be the efficiency growth of the Slovak economy as a whole, as well as the rate of retaining appropriate economic growth.

Closely connected with the procurement of housing are also roundtrip costs that buyers expend besides purchase price of houses and flats when acquiring housing and assigning official ownership. Roundtrip costs are relatively differentiated in particular European countries and usually fluctuate from roughly 2% (Denmark) to an extreme 25% in Bulgaria and Russia. Approximately in half of the 33 compared countries do roundtrip costs not exceed 10% of the value of mediated residential property. Slovakia according to the used data is one of the countries with a relatively low rate of roundtrip costs (3.1%). This is probably connected with the fact that the substantial part of transactions with residential property in Slovakia is at the expense of sellers, i.e. the services of professional residential property intermediaries are less used than the majority of European countries.

The ratio of average residential property prices to GDP value per nation inhabitant provides orientation information about housing accessibility. Based on available data this relation ranks Slovakia (with a level of more than 20%) to countries with relatively average housing accessibility. The best housing accessibility is – according to this coefficient – in Luxembourg and Belgium (at the level of approximately 6% to 7%), and the worst in Russia and Ukraine where roughly one hundred yearly incomes are needed to procure housing. In the group with relatively worse housing accessibility are besides Bulgaria (around 38%) and Poland (around 33%), also Greece and France (around 30%).

The mechanism of letting houses and flats and the effectiveness thereof forms an inseparable part of the residential property market in every country. Within Europe are considerable differ-

Chart 3 Selected reality market characteristics (in %) in the countries of Europe (in EUR/m²)



Source: Global Property Guide, the NBS chart.

ences between countries as far as housing in own or rented houses or flats is concerned. While in Germany for example are rented tenements for more than half of households, in Spain it is only around one quarter, and in Slovakia even smaller (around 11%)⁴. This fact must be born in mind when evaluating rented housing, but the rate of interest for rented housing is mainly given by the accessibility of ownership housing for individuals as well as multiple-person households. Because the substantial part of ownership housing procurement is presently carried out with loans, the decision-making on whether to procure one's own house or flat, or whether to obtain housing in a rented tenement consists in comparing the average annual percentage rate of costs to the eventual housing credit with average annual rental yield.

The gross rental yield span is relatively small in the framework of Europe according to the data being used. The cheapest sub-tenancy can be found in Greece (2.5%) and the most expensive in the Ukraine (9.1%). Slovakia ranks with its percentage ratio of the value of annual rental yield to the buying price of the rented flat (4,7%) to the end of the first third of compared European countries. More expensive tenancies in Slovakia, but also other countries in Central and Eastern Europe, are probably related to the lesser rate of housing satisfaction in this part of Europe in comparison with the countries of Southern, Western, and Northern Europe. It is generally known, that in several new member countries including Slovakia, the number of flats available per thousands of inhabitants is still substantially lower than the average usually quoted for the euro area (roughly 450 flats per thousand inhabitants). Various national particularities notwithstanding, outlined unsatisfied ownership housing, also in the conditions of Slovakia, represents a certain potential for individuals and households who consider solving

4 See e.g. http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Housing_statistics



Description of selected characteristics of the residential property market

On the residential property web portal Global Property Guide, which was used to supply data for this analysis, the quoted characteristics are defined as follows:

- Data on *Buying Price* represent the average price of existing quality flats with an area of 120 m² in the centres of important cities in particular countries (in €/m²). In Bratislava the data are collected in the city districts of Staré mesto, Ružinov, Nové mesto and Rača.
- The *Price/income ratio* is a proprietary construction of the Global Property Guide based on data from the database of IMF. It represents the ratio between the residential property prices and the value of GDP per inhabitant in a particular country (in %) and it signals informatively housing accessibility given the effectiveness of the economy.
- Under *Gross Rental Yield* is the percentage ratio of yearly income from quality existing flats with an area of 120 m² in the centre of important cities of particular countries adjusted for tax, maintenance costs, as well as other costs in relation to the buying price of the flat being rented. As a matter of fact, this is an inverse coefficient against the ratio of price to rent, i.e. a ratio between the value of the price of corresponding residential property and the value of yearly rent of this residential property as expressed in years.
- *Roundtrip Costs* are expressed by a ratio of overall costs connected with the mediation of purchase, or more precisely, the repeated sales of residential property for housing (commission to the reality agent, administrative charges and taxes etc.) to the residential property being mediated in per cents.
- *Rental Income Tax* is the percentage ratio of tax paid plus possible insurance premium for the flat from the average yearly rental income of the flat in a particular country. In the case of Slovakia the possibility is being considered that residential property is in the undivided co-ownership of spouses and the income from rent may also be taxed separately from one half of the rental income for each one of the married couple.
- *Capital Gains Tax* represents the tax paid from the increased value of the residential property between the time of its buying and selling.

their housing needs either by buying or tenancy. The decision to procure ownership housing is determined mainly by current possibilities to secure the necessary financial means. In the case of the failure of this possibility, there is a standby solution in the form of tenement housing. Persisting potential demand for housing is therefore one of the important factors that also influences the prices and yields of rents.

Rental Yield is subject to taxation and its rate greatly varies in particular countries, as well as the taxation of capital gains. All of the quoted characteristics are functioning in the residential property market and together create an environment more or less advantageous for sellers, buyers, lessors, and lessees. On the basis of overall assessments of selected characteristics of the residential property market, in Slovakia in recent years has been one of the relatively attractive countries as far as possibilities for appreciation of purchased real estates are concerned.

The methodology of construction of evaluated coefficients in this part of the contribution is based on data acquired in selected parts in broader centres mainly in capital cities in particular countries, which is why (for example) we worked with higher values when evaluating average prices for housing than the average values of prices of houses and flats for concerned countries as a whole. Because in particular countries there are significant regional differences, we consider the findings acquired by means of coefficients such as buying price, price/earning ratio, roundtrip costs or gross

rental yield to be the orientation characteristics of national residential property markets.

CONCLUSION

Accessibility of official internationally comparable data on the state and development of residential property markets for particular European countries is still relatively problematic. A relatively extensive data base of data regarding prices of residential property for housing is held by the Bank for International Settlements (BIS), and some specialised institutions also have interesting proposals and practical constructions of selected, relatively comparable characteristics from the field of the residential property market in recent years. The analysis in question comes from BIS data and from the data of web real estate portal Global Property Guide; by combining these data certain image on the state and development of the residential property market in Slovakia in the European context was created.

Prices of houses and flats recorded in Slovakia in recent years experienced much more significant growth than old EU member countries and Nordic countries, but with the exception of Hungary and Czech Republic, such prices rose more moderately as the majority of new EU member countries. Price growth of residential property culminated in Slovakia in the 2nd quarter of 2008, and subsequently inter-quarterly declines have taken place.

In comparison with the majority of old EU member countries, the development of the resi-



dential property market in Slovakia and in new EU member countries is time-shifted. The residential property prices growth in old member countries culminated in 2005 and then a moderate deceleration of growth took place, and in some countries a more significant decline (mainly in Ireland and Spain) of average prices of houses and flats took place. At the beginning of 2010 the prices of houses and flats started to increase again in the majority of old EU member states, while in new EU member states they declined. In the near future one can expect a moderately growing trend of average prices of residential property for housing in old EU member countries, while in new EU member countries the annual decrease of aver-

age prices of houses and flats will probably start to decelerate.

Current prices of residential property for housing are lower in Slovakia than in two thirds of European countries, which represents a potential for possible faster future growth in connection with the gradual convergence towards prices in old EU member states. This process is (besides the current level of house and flat prices in Slovakia) to a considerable degree influenced by the accessibility of housing which is closely connected with the efficiency of the economy, sustaining appropriate economic growth and income possibilities, as well as the expectations of individuals and households.

References:

1. Recent housing market developments in the euro area. In: ECB Monthly Bulletin, May 2010.
2. Technical Manual on Owner-Occupied Housing. Draft version 1.9, Eurostat, February 2010