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Euro Area Housing Market

Diverse housing landscape showing signs of a recovery

- The euro area housing market is a diverse market reflecting an interplay of factors including from monetary policy transmission to demographic developments.
- Some member states have already seen rising housing prices, but low consumer confidence is holding the market down in others.
- Lower interest rates should boost housing demand, particularly in regions with variable-rate mortgages in a greater role, like in Spain, Italy, and Finland.

The housing market plays an important role in the transmission of monetary policy to the real economy. Housing market developments affect investment and consumption decisions. Both demand and supply factors shape housing market activity and significant heterogeneity exists between the different property markets in euro area countries. A housing market recovery has a tendency to increase construction of new homes, which has a positive impact on the wider economic growth.

The current euro area housing market reflects an interplay of factors including monetary policy easing, pent-up demand coupled with reduced construction activity, varying consumer confidence, and regional disparities in underlying demand based on population trends. The ECB's rate cuts should stimulate economic activity and housing market, but its impact varies across member states due to differences in monetary policy transmission.

The ECB's interest rate cuts are expected to boost housing demand, particularly in regions where variable-rate mortgages are prevalent, which is the case in Spain, Italy and Finland. Fixed rate mortgages are dominant in Belgium, France, Germany and the Netherlands. According to the ECB bank lending survey, banks continued easing of the overall credit terms and conditions for housing loans in Q1. In Germany, however, banks also reported a small tightening contribution from higher collateral requirements.

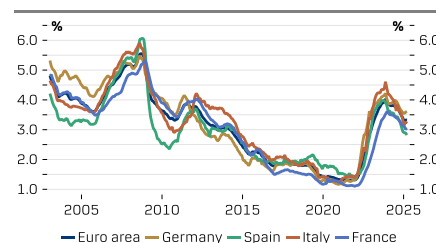
Pent-up demand, which has accumulated notably at least in Finland, is gradually being released, indicating potential recovery in housing transactions. However, low consumer confidence may still dampen buying activity in the short term. This issue is likely to improve over the medium term, assuming economic recovery continues, and employment remains stable, potentially supporting market growth together with lower mortgage rates.

Housing prices have cooled in Germany, Finland and France in the near past, with France experiencing a notable decline in 2024, and Germany showing signs of stabilisation. In contrast, Spain, Italy, and the Netherlands have witnessed price increases, driven by stronger demand and limited supply. Supply side has been affected by higher interest rates, higher construction costs, zoning issues and investor caution.

Home buying intentions have risen in several countries, with Germany displaying unusually high intentions and Spain maintaining a steady upward trend. Housing loan stock has also grown fast in Germany. Germany's housing cost overburden remains surprisingly high, however, which could influence market dynamics.

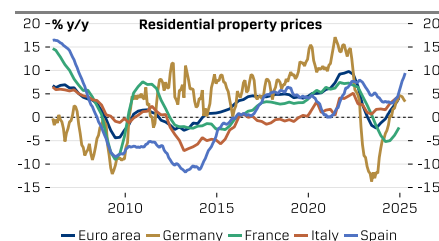
The euro area housing market outlook is characterized by a blend of recovery amidst divergent trends. Countries like Spain and Germany could experience price growth driven by stronger demand and supply constraints after a period of construction slump, while some

Mortgage rates are falling



Source: ECB, New Composite Indicator of Systemic Stress

Housing prices recovering



Source: ECB, New Composite Indicator of Systemic Stress

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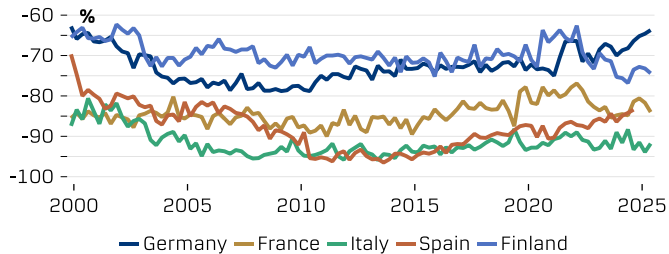
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others like France navigate market correction at the moment. Finland's market, despite a downturn, shows signs of increased transaction activity, hinting at a recovery.

Home buying intentions have increased in some countries

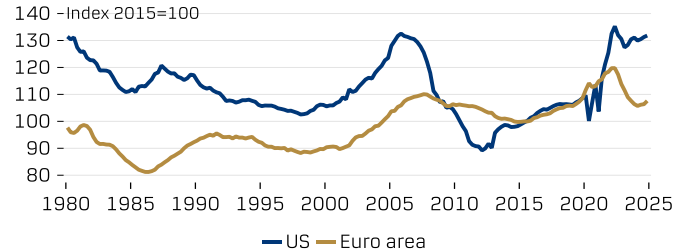
Home buying intentions 12 months ahead



Source: DG ECFIN, Macrobond Financial, Danske Bank

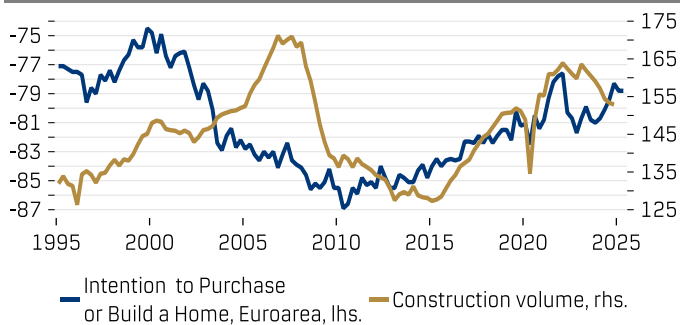
Affordability at an average level

House price-to-income



Source: OECD, Macrobond Financial, Danske Bank

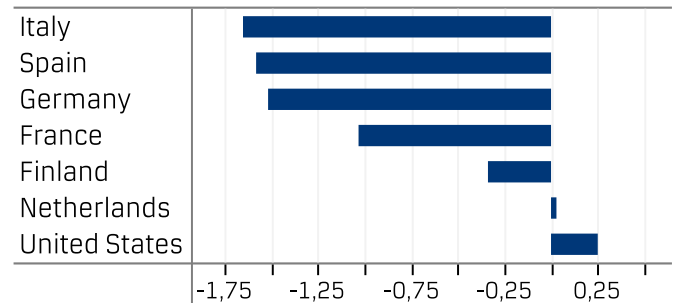
Buyer interest likely to increase residential construction



Source: DG ECFIN; Eurostat, Macrobond Financial, Danske Bank

EA housing prices are not elevated compared to fundamentals

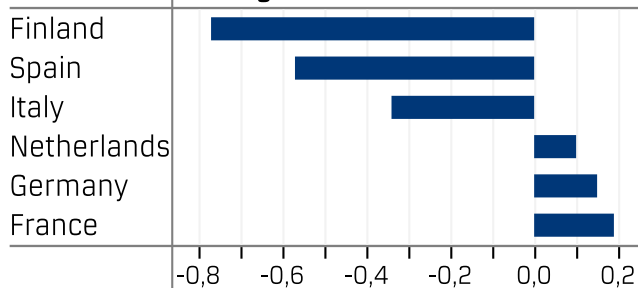
Residential Price Exuberance Index, Dallas Fed



Source: Dallas Fed, Macrobond Financial, Danske Bank

Rate on mortgage stock falls in variable rate countries

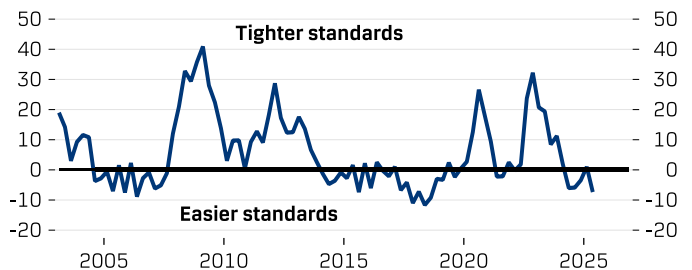
Change in 12 months



Source: ECB, Macrobond Financial, Danske Bank

Credit standards have eased moderately

Credit Standards on Loans for Home Purchase



Source: ECB, Macrobond Financial, Danske Bank

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None

Date of first publication

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