

Global House Price Index Q1 2008



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Isolated hotspots buck the trend of slowing house price growth in early 2008

Key Highlights:

- Global house price inflation in Q1 2008 stood at 6.1%, compared to 9.2% in Q4 2007
- Bulgaria, again tops the index as the country with the greatest annualised price growth (31.5%)
- Latvia prices appear to be in freefall, with negative price inflation of -20%, down from over 60% growth during the same period in 2007
- Outside Europe, Singapore and Hong Kong continued to outperform the market, as did Russia, Australia, and China

Liam Bailey, Head of Residential Research, Knight Frank, says:

“The Knight Frank Global House Price Index shows that while house price growth in Europe and America continues to slow or even fall, pockets of strong growth remain.

“Bulgaria continues to confound market fears of oversupply and has so far proved immune to the deceleration seen in much of the continent. Iceland is another surprisingly strong performer with growth of 19.1%. The Baltic region remains in the doldrums, noticeably Latvia and Estonia. Difficult economic conditions, evident in high rates of national debt, are partially to blame for the Baltic woes. The US also continues to experience difficulties, while the far-eastern cities of Hong Kong and Singapore are bright spots on the residential investment horizon.

“The country by country summary that follows provides an insight to the shifts currently taking place in house prices across the world.”

Overview:

Residential property price inflation continued to slow in the first quarter of 2008, falling to 6.1%, compared to the 9.2% recorded the previous quarter and 9.8% over the 12 months to Q1 2007. The number of markets where prices have fallen has increased, and although there are still locations where price growth is in double figures, at the moment they are the exception rather than the rule. A year ago, 35% of the markets covered by Knight Frank in the Global House Price Index saw house price inflation in double figures. In Q1 2008, this proportion had fallen to just 20%. The geography of the best performing markets is not so clearly delineated as in previous years, when we might have been able to say that growth was strongest in the Far East, or Central and Eastern

Europe. Today, the top performing markets are dispersed around the world, with Bulgaria, Singapore, Hong Kong and Jersey being the locations with the highest growth rates.

Europe:

Since Q2 2007, **Bulgaria** has been the best performing location in the Knight Frank Global House Price Index. While the rate of growth in the price of flats was lower than in previous quarters, it was nonetheless maintained at over 30%, again being driven by the performance of areas bordering Romania such as Ruse and Vidin, as well as the capital Sofia, where year-on-year price inflation exceeded 60%.

Jersey has been included in the Knight Frank Index for the first time. The British Crown dependency has seen price growth accelerate to 28%, while much of Europe has experienced growth returning to a more sustainable level. Over the last quarter, prices of property in the capital rose by nearly 10%, with the average property costing nearly £475,000.

A location where previously high rates of growth have slowed is **Russia**. Price inflation has fallen from an annual rate of 30% to Q4 2007 to 22% in Q1 2008. St Petersburg has continued to see growth rates outpace those in the capital.

Iceland's economy has cooled significantly over the last year. With GDP growth falling to less than 1%, a current account deficit at the end of 2006 exceeding 25% of GDP, central bank interest rates of over 14%, and a sharp decline in the value of the Icelandic Krona, a slowdown in the housing market might appear to be inevitable. Yet to date, Iceland has not conformed to expectations, as annual house price inflation to Q1 2008 reached 19%, the highest rate of growth for 2 years. Deregulation of the Icelandic lending system fuelled borrowing and contributed to the high growth rates in house prices after 2005, although dependency on foreign investment could leave Iceland vulnerable to a slowdown in global economic growth

As in the previous release of the Knight Frank Global House Price Index, **Sweden** has seen strong house price inflation continue, with the year-on-year rate of growth of 9.1% only marginally lower than that of the 10.6% observed in Q4 2007, and a sharp reversal of fortune from the same period a year earlier, when residential property price growth went into negative territory for two successive quarters. The highest rates of growth have occurred in the north of the country, at over 13%. However, the number of transaction in these regions is relatively low. As well as in the capital, a large proportion of the transactions in Sweden have occurred in the Skåne region, which, thanks to the Oresund Bridge, is within commuting distance of Copenhagen. However, price growth in this area has been far below the national average, at 5%. Stockholm has seen rates of growth roughly comparable to the national average, at 10% over the year, and average values are around €365,000. Neighbouring **Norway** has seen growth decline significantly to the lowest rate since Q3 2003: annual growth to Q1 2008 was just 3.8%, compared to 16.4% the same period a year earlier. House price inflation in **Finland** is at

a similar rate to Norway and its lowest rate since Q2 2002, although the slowdown has been much less dramatic, and price inflation has less volatile over recent years. **Denmark** has seen the worst performance in house price growth, with prices falling by almost 1% across the country, while the Copenhagen market saw prices fall by 10%. However, many areas are still seeing positive growth, e.g. Aalborg, which recorded a rise of 7% to Q1 2008.

Croatia has also seen growth moderate over the last quarter. The annual rate of growth fell to 7% from nearly 12% the previous quarter. Property in Zagreb remains marginally more expensive than coastal properties.

Other European markets outside the UK have seen a similar trend. **Spain** continues to take a battering in the press, despite having seen one of Western Europe's strongest performances of 3.8% annual growth. However, this is the lowest rate of price inflation since 1997, and there are undoubtedly serious concerns over the Spanish housing market and its impact on the Spanish economy. Neighbouring **Portugal** appears to have escaped the market boom and bust cycle that has afflicted Spain: the highest growth rate seen in residential property prices over the last 12 years was 8.7% in 1999. After seeing slowing growth in late 2006 through to early 2007, price growth picked up in Portugal in the year to Q1 2008 to reach 3.8% - comparable with that of Spain.

After a fairly dramatic appearance on the Knight Frank Index in the fourth quarter of 2007, price growth in **Poland** has slowed significantly, with annual rates to Q1 2008 at 3%, a sudden reversal of fortune from the 22% observed to Q4 2007. The price of houses has been rising faster than the price of apartments, which in some locations have seen price falls. The rapid rate of apartment construction in recent years means that across the country there is a shortage of houses, which consequently hold their value better than property in the oversupplied apartment sector.

The residential market slowdown occurring in much of Europe has not bypassed **France**. The price boom that occurred in France over a four year period from 2002 to early 2006 definitely appears to be over. The rate of annual price growth to Q1 2008 slipped to 2.5%. Some regions have seen higher growth than others: the South East saw growth of 4.8% over the course of the year, while in Central and Alpine France, property price growth was the lowest of any French region, with annual growth of 1.4%. In the Ile-de-France region (Paris), price growth was marginally below the national average. On a quarterly basis, the price of property nationally has begun to fall, with achieved values falling by 1%. The price of houses are reported to be falling faster than the price of apartments.

Further east, housing markets in Europe are not immune to the trend of slowing price growth, particularly **Germany**, where residential property price growth has declined again, this time by more than 5% on a year on year basis. The bright point for the German market is that new build residential property prices are not falling as fast as those for resale property. Furthermore, the low rate of owner occupation in Germany relative to most of

Europe means that the consequences of negative equity is likely affect a smaller proportion of households than in much of Europe. The market may have also endured the worst, although the evidence of one quarter of data is not sufficient to draw any firm conclusions. **Austria** has also seen price growth slow, although the 1.2% annual growth nationally to Q1 2008 hides marked regional disparities. Growth in Vienna accelerated during the latter half of 2007, rising from 4% in the summer to 5.4% to Q1 2008. Meanwhile in **Hungary**, property price growth has been below 4% since early 2005, and the latest quarters figures are no different, with annual growth of 1.2%. **Switzerland's** stable growth in house prices continues, albeit at the extremely low rate of 0.4%, lower than the current rate (1%) of CPI inflation. The peak of Switzerland's housing market cycle occurred at the end of 2002, where price inflation reached a dizzy 5.5%.

The **UK** housing market is experiencing its most significant slowdown since the early 1990s. On almost every measure across the prime and mainstream markets and the new build sector, the market has shown worsening performance over the last six months. The weak sentiment in the housing market is reflected across the wider economy, with consumer confidence, as measured by the NOP Index, at its lowest level since April 1994. With some regional and local market variations, house prices across the UK have been falling since September, with prices in Q1 2008 approximately 1.1% below their values last year.

The dramatic reversal of fortune in the Baltic markets towards the end of 2007 is still reflected in Q1 data. The price of apartments in Riga, the **Latvian** capital fell by nearly 6% during the quarter, marginally less than the decline in prices observed during the previous two quarters. The annual decline in prices reached 20% with prices per m² falling to just under €1,400, down from the €1,700 peak reached in Q2 2007. While **Estonia** is also continuing to see apartment prices fall, the 11% decline in values to Q1 2008 was marginally less than the 14% drop seen to Q4 2007. Over the quarter values fell by around 3%. **Lithuania** remains the most stable Baltic market with a price rise of 0.5% over the course of the year.

In **Ireland** house prices have continued to fall. Nationally prices across the country fell by nearly 9% over the year to Q1 2008, an acceleration of the 7.3% decline observed in the previous quarter. The decline in property prices in Dublin is now comparable to the decline in prices in the rest of the country. Furthermore, unemployment is rising as the construction sector continues to react to the downturn in the property market and the construction of new homes has continued to fall. Despite this, the economy is experiencing strong levels of domestic demand.

Asia Pacific:

Singapore's property price growth has slowed marginally during the last quarter. Year on year growth to Q1 2008 was 29.9%, down from the 31% increase of the previous quarter. Price inflation over the previous quarter fell to 3.7% compared to the 6.8% in Q4 2007. **Hong Kong's** price growth has crept up to rival that of Singapore, recording nearly 29% growth in the year to Q1 2008.

In **China**, property prices house prices in 70 cities rose 11.7% year-on-year in the first quarter: 0.8% percentage points higher than the growth recorded in the previous quarter. New apartment price growth marginally exceeds that of re-sale property, with growth rates of 11.8% and 11.5% respectively. As in the previous quarter, the highest growth rates occurred in the city of Urumqi, capital of the north western Xinjiang Uygur Autonomous Region, followed by the cities of Haikou and Ningbo. Price inflation respectively in these locations was 25.3%, 18.3% and 18.2%. Contrasting sharply with the growth seen in neighbouring Hong Kong, Shenzhen saw prices fall by 4.9%.

Over the 12 months to Q1 2008 **Australia** recorded annual house price growth of 13.8%, compared to 8.6% for the 12 months to Q1 2007, moving its Global House Price Index ranking up six places. Although Australia has been subject to an extended period of restrictive monetary policy (12 consecutive 0.25% interest rate increases since May 2002), demand for residential accommodation has remained strong. Rising constructions costs, inflated by competing demand for labour and raw materials from the mineral sector, have contributed to a shortage of supply of new residential property, thus putting upward pressure on house prices. The increasing cost of finance has, to date, been counterbalanced by the strength of the minerals sector.

The Americas:

In the **United States**, the Knight Frank Global Index shows a house price decline of -0.03%, although the OFHEO data based on all transactions including mortgage refinancing is less pessimistic and volatile than other US house price indices. The Q1 2008 figure compares to that 12 months earlier when prices grew by 4.7%. California and Nevada led the way in terms of house price deflation, with prices decreasing by 10.6% and 10.3% respectively. While the US market overall reported negative growth, a number of states posted positive growth figures. The Midwest states of Wyoming and Utah led the market with growth of 6.3% and 5.6% respectively. The second quarter of 2008 will be critical in determining whether the US housing market will be subject to an extended period of negative growth or whether it will quickly return to positive territory.

Canada has seen a slowdown in the rate of house price inflation over the 12 months to Q1 2008. House price inflation has more than halved from Q1 2007 to Q1 2008 from 12.6% to 6.1% and moving down three places in the Knight Frank Global House Price Index. Despite Canada's slowing house price inflation at a national level, some areas are still performing extremely strongly. In Saaskatoon, house prices rose by almost 50% to Q1 2008, whilst in Regina, and in Winnipeg, prices rose by 28% and 15% respectively. Vancouver saw price growth akin to the national average, with 6.1% over the 12 month period.

Africa:

South Africa saw house price inflation of 8.8% over the 12 months to Q1 2008, a noticeable slowdown from the same period a year earlier which revealed growth of 13.6%. The last 12 months have recorded the lowest growth

in prices since Q1 2000. The slowdown in price inflation has accelerated since Q3 2007, driven by rising interest rates, a slowdown in wage inflation, and the completion of financial lending reforms started in Q2 2007. CPI inflation is forecast to remain relatively high, as a result of rising oil and food prices. Despite this, interest rates are unlikely to edge higher in the short to medium term. Political instability in the region, particularly in Zimbabwe and Kenya, may adversely affect any international investment in South Africa.

Knight Frank, Global House Price Index (annual % growth)

Location	2007 Q1	2008 Q1	2007 Q1 Rank	2008 Q1 Rank	Position change from 2007 Q1 index	Position change from 2007 Q4 index
Bulgaria	22.6%	31.5%	2	1	1	0
Singapore	13.5%	29.9%	7	2	5	0
Hong Kong	2.7%	28.8%	25	3	22	2
Jersey	4.5%	28.0%	22	4	18	n/a
Russia	#N/A	21.7%	#N/A	5	#N/A	-2
Iceland	9.7%	19.1%	11	6	5	0
Australia	8.6%	13.8%	12	7	5	2
China	5.5%	11.7%	19	8	11	4
Sweden	-0.3%	9.1%	31	9	22	2
South Africa	13.6%	8.8%	6	10	-4	-2
Croatia	0.0%	7.1%	28	11	17	-1
Canada	12.6%	6.1%	8	12	-4	-5
Indonesia	5.5%	6.1%	18	13	5	5
Netherlands	8.0%	4.5%	13	14	-1	11
Norway	16.4%	3.8%	5	15	-10	-2
Spain	7.2%	3.8%	16	16	0	1
Portugal	1.2%	3.8%	27	17	10	5
Finland	5.2%	3.6%	20	18	2	-3
Poland	0.0%	3.0%	28	19	9	-15
France	7.7%	2.5%	14	20	-6	-1
New Zealand	12.4%	2.1%	9	21	-12	-7
Hungary	3.8%	1.2%	24	22	2	2
Austria	6.1%	1.2%	17	23	-6	-3
UK	11.2%	1.1%	10	24	-14	-8
Lithuania (Vilnius)	21.7%	0.5%	3	25	-22	1
Switzerland	2.5%	0.4%	26	26	0	-5
US	4.7%	0.0%	21	27	-6	1
Israel	-5.0%	-0.2%	34	28	6	-5
Denmark	4.1%	-0.7%	23	29	-6	-2
Japan	-1.5%	-0.7%	33	30	3	n/a
Germany	-1.5%	-5.2%	32	31	1	-2
Ireland	7.6%	-8.8%	15	32	-17	-1
Estonia (Tallinn)	21.4%	-10.7%	4	33	-29	-1
Latvia (Riga) ¹	61.2%	-20.0%	1	34	-33	-4

(Source: Knight Frank: May 2008)

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