

European Housing Insights

Your Quarterly
Market Update



Q3 2023

RE/MAX
Europe

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Change in real estate is not just inevitable; it's an opportunity for progress. This makes access to information vital for consumers navigating the complexities of buying and selling. Our Quarterly Market Update offers the latest insights on the European housing market, based on interviews with Regional Owners and Regional Directors as well as pan-European market data with details on specific key markets. The European Housing Insights report will serve as a compass for understanding the current market dynamics, guiding buyers and sellers through their real estate journeys.

Executive Summary by RE/MAX Europe CEO Michael Polzler

Navigating New Economic Realities

Amid ongoing economic shifts, the European House Price Index emerges as a crucial gauge for the dynamic housing market. Notably, the index experiences its first negative development since 2014, particularly pronounced in countries like Germany and the Czech Republic. At the same time, EU inflation is on a recovery path at 2.9%, following the historic peak of 10.7% in October 2022, the highest rate since the founding of the EU.

As the European Central Bank takes steps to address inflation, the 0.25% interest rate hike in September 2023 poses a new challenge for the market. This marks the tenth consecutive rate increase, restoring the interest rate to early 2000s levels. While interest rates have risen over the past decade, reaching 4.01% for a 10-year fixed rate or 4.16% for a 15-year fixed rate in October 2023, current rates are seen as attractive in a 30-year context. However, the impact of these changes varies across regions, influencing shifts in demand and property prices.

Listing Price Patterns Across Europe

The European property market shows dynamic variations in listing prices, shaped by geography, property types, and market segments. The third quarter of the year saw stability in Germany,



Italy, and Portugal, contrasting with declines in France and Spain. Overall, listing prices in urban areas and major cities dipped slightly this quarter, yet a significant year-on-year rise implies a long-term trend toward price stability. For consumers, affordability fluctuates widely across Europe, highlighting diverse paths to homeownership dreams.

Changing Dynamics in Supply and Demand Patterns

Despite the widespread desire to own property, demand across Europe varies. Regional disparities are apparent even within countries, as urban centres consistently encounter higher demand compared to other regions. Specific property types and segments contribute to variations in demand; nevertheless, the demand for two-to-three-bedroom flats remains stable across Europe,

suggesting a consistent preference for this type of residence. The influence of foreign buyers, notably from overseas, adds another layer to demand dynamics, shaping property prices and altering the European real estate landscape. On the other hand, the number of real estate transactions is experiencing a decline, with listings remaining on the market longer than in the past.

Shift to Rental Market Continues

Stricter lending conditions and evolving market dynamics are directing buyers towards rental properties, evident in the rise in the number of renters over the past decade. This shift in demand towards rental properties is further contributing to an uptick in listing prices, underscoring overall challenges in the market.

Rental Listing Prices

For consumers, overcoming economic challenges is just the beginning. Buyers face a dwindling supply of available properties, especially new builds, as seen by the overall decline in building permits compared to the same quarter last year. Construction delays intensify competition for existing properties, prompting consumers to approach property selection more carefully to find the right property for their families – and their future.

Resilience Amidst Economic Challenges

Navigating economic challenges poses a difficult task for consumers, and high inflation and soaring interest rates have created an air of pessimism. Yet, amid these challenges, there are glimpses of cautious optimism, signalling opportunities for consumers armed with the right knowledge.

European House Price Index¹

The European House Price Index (HPI) is a pivotal tool for assessing housing market dynamics, and recent trends reveal noteworthy shifts. After peaking at 9.8% in the first quarter of 2022, the HPI's annual growth rate has steadily declined, with the second quarter of 2023 seeing a notable dip of 1.1% compared to the previous year.

More people opt for rental properties amidst tighter lending conditions and evolving market dynamics.

The Embrace of Sustainability

A societal shift towards environmental awareness is continuously reshaping housing preferences, with a growing demand for properties that comply with sustainable practices and policies. The EU's efforts to enforce minimum energy efficiency standards include a standardised rating system (A to G) for buildings, providing a clear overview of energy efficiency and directing owners to take steps if a property falls below energy class D. Meanwhile, homeowners are already planning their own steps to improve the energy efficiency of their properties in response to these evolving EU standards.

Commitment to Guidance

As buyers and sellers navigate these transitions – struggling with economic challenges and construction roadblocks as they work to achieve their environmental goals – support from a trusted guide is more important than ever. RE/MAX Europe is committed to providing accurate and timely information based on the extensive analysis, industry knowledge, and expert opinions we have gathered from across Europe. With a focus on turning market challenges into opportunities for innovation, our RE/MAX Europe network is ready to guide consumers toward a successful future.

This downturn marks the HPI's first negative development since the first quarter of 2014, with Germany experiencing a substantial drop of -9.9%, and the Czech Republic reporting a downturn of -2.9%. At the same time, Croatia saw a sharp rise of 13.7% and Spain saw an increase of 3.7%. Notably, Turkey defied the trend, surging with an impressive 95.9% rise in the HPI in the second quarter of 2023.

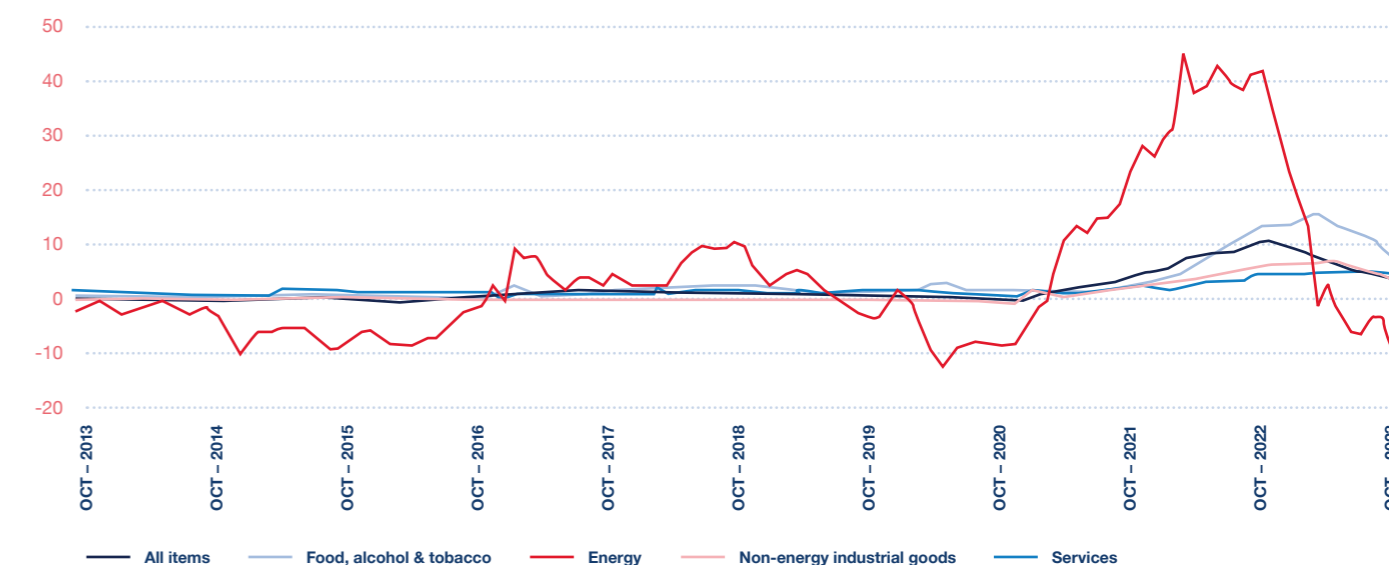
Inflationary Trends Across Europe²

Inflation continues to shape property transactions and market behaviours across Europe. According to Eurostat's initial estimate, inflation in the European Union (EU-27) dropped to 2.9% in October 2023 from 4.9% the previous month. This gradual decrease follows the historic peak of 10.7% in October 2022, marking the highest rate since the EU's founding.

Across EU countries, Hungary leads with the highest inflation rate at approximately 12.2%, while the Czech Republic and Croatia experienced rates of 8.3% and 7.4% respectively. Germany reported a rate of 4.3%, and Spain's inflation stood at 3.3%. According to Jaime Suárez, Regional Director at RE/MAX Spain, "This rapid rise in interest rates is unprecedented, influencing the supply and demand for property".

Euro Area Annual Inflation and Its Main Components

October 2013 – October 2023³



However, the inflation rate in Turkey is significantly higher than in other European countries, hitting a historic 61.7% in September 2023. "Despite high inflation rates", says Murat Goldstajn, Regional Owner of RE/MAX Turkey, "there is a general decline in demand due to the significant decrease in purchasing power. Sellers, accustomed to rising prices, are reluctant to lower property prices in this stagnant market".

European Central Bank Policy⁴

The European Central Bank (ECB) confronts a new challenge as it adjusts interest rates to combat inflation. In a move to reach its 2% inflation target, the ECB raised the key interest rate by 0.25% on 20 September 2023 – the tenth consecutive rate hike – returning rates to early 2000s levels. However, the persistent high key interest rate poses the risk of worsening a recession on the horizon.

1 https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Housing_price_statistics_-_house_price_index#Dynamics_in_the_housing_market:_uses_of_the_house_price_index_and_policy_implications

2 https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Inflation_in_the_euro_area

3 https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Inflation_in_the_euro_area

4 <https://de.statista.com/statistik/daten/studie/201216/umfrage/ezb-zinssatz-fuer-das-hauptfinanzierungsgeschaefit-seit-1999/>
https://www.destatis.de/DE/Presse/Pressemitteilungen/2023/10/PD23_420_811.html

Amid expectations of a modest 0.8% economic growth in the EU, the ECB grapples with the challenge of utilising monetary policy to address economic challenges across European countries. Notably, Germany, the largest EU economy, experienced a third-quarter decline of -0.1%, projecting a -0.6% for 2023, sparking concerns of a recession. September witnessed a slower rise in consumer prices at 4.9%, the lowest in two years, reinforcing the significance of the ECB's policy. The estimated October inflation rate eased to 2.9%, underscoring the ongoing economic considerations.

Buyers are starting to understand that even an interest rate of 5% is not so bad!

Jan Hruby,
Regional Director of
RE/MAX Czech Republic

Pessimism Among Consumers⁵

Across Europe, consumers view current interest rates with scepticism. In Spain, borrowers used to favourable mortgage terms are now hesitant due to escalating rates. "The mortgage repayment rate for average consumers – families – in Spain is the highest it has been since 2003", says Jaime Suárez. Anticipating worsening conditions, borrowers prioritise debt repayment over investment. Additionally, individuals should exercise caution regarding fees when exiting pre-agreed mortgages earlier than planned.

Looking at mortgage interest rates over the last 10 years, it's easy to understand consumers' pessimism. In Germany, for example, interest rates rose over the last decade – from 2.76% (10-year

fixed) and 3.29% (15-year fixed) in November 2013 to 4.01% and 4.16%, respectively, in October 2023. However, over a broader 30-year context, current rates appear attractive when compared to historical rates. For example, mortgage loans on residential properties with 10-year fixed interest rates were an average of 7.3% in November 1993.

This realization is gaining ground in some markets. Despite adjusted interest rates, the Czech Republic has experienced a slight uptick in mortgage applicants. According to Jan Hruby, Regional Director of RE/MAX Czech Republic, "Buyers are beginning to understand that even an interest rate of 5% is not so bad".



⁵ <https://www.euribor-rates.eu/de/>
<https://www.euribor-rates.eu/de/euribor-grafik/https://www.bundesbank.de/resource/blob/691310/2dd-5840139be41af8172376cfbe3609f/mL/1993-12-monatsbericht-data.pdf>, Page 15 left side
<https://de.statista.com/statistik/daten/studie/1347565/umfrage/entwicklung-der-bauzinsen-in-deutschland/>
<https://de.statista.com/statistik/daten/studie/155740/umfrage/entwicklung-der-hypothekenzinsen-seit-1996/>

Helping Consumers Find Future Opportunities

Expectations for a decline in interest rates are low due to the focus on containing inflation. The ECB is not expected to intensify its rate policy significantly, as that could impact countries with high debt ratios in Southern Europe.

Yet, individuals with strong credit profiles enjoy relatively favourable long-term loan rates. So real estate professionals can help customers focus on their own needs to find the best path forward, says Jaime Suárez.

Property listing prices in Europe reveal a dynamic landscape with variations across geographical locations, property types, and specific market segments.

Exploring the Diversity in EU Property Values

Property listing prices in Europe reveal a dynamic landscape with variations across geographical locations, property types, and specific market segments. From the tranquil countryside to pulsating urban centres, each environment adds to the broader story of housing affordability.



Percentage Change Average Listing Price Per Sqm

Per country⁶

■ % QoQ (Q3 23 vs Q2 23)

■ % YoY (Q3 23 vs Q3 22)

Portugal

+0.1%

+2.7%



Italy

-0.2%

-0.1%



France

-3.8%

+1.3%



Germany

-0.2%

-2.4%



Spain

-1.9%

+4.3%



Czech Republic

-1.7%

-9.5%



⁶ Casafari

Listing Price Differences Across Countries

The third quarter of the year unveiled diverse patterns in property markets across different countries. Portugal, Germany, and Italy maintained stable listing prices, while Spain and France experienced declines of -1.9% and -3.8%, respectively.

However, looking at a broader perspective, the year-on-year analysis indicated moderate listing price increases. Portugal, Spain, and France saw increases of +2.7%, +4.3%, and +1.3%, respectively, while Italy experienced a minimal decline of -0.1%. Germany faced a dip of -2.4%, and the Czech Republic stood out with notable decreases of 9% compared to Q3 2022 and a 2% decline from Q2 2023.⁷

Regional Trends in Listing Prices

Listing prices don't just vary from country to country but also show distinct patterns within each nation. Vladimir Zerjavic, Regional Owner of RE/MAX Croatia, highlights regional nuances, noting, "The market as a whole isn't as dynamic as it was a few years ago and prices overall are stagnating, but there are still regions in Croatia where prices have risen slightly".

This is mirrored in major cities across the continent. For Germany, listing prices in Berlin saw a decline of 3.16% from the second to the third quarter, while Hamburg witnessed a rise of 0.47% during the same period. In Portugal, Porto fell by -1.62%, but Lisbon rose by +1.65%. Heading east, Prague and Brno in the Czech Republic experienced significant declines of -7% and -10% compared to Q3 2022, marking them among the cities with the sharpest listing price falls.

Overall, major cities collectively saw a 0.9% decline in this quarter. However, a year-on-year perspective reveals a contrasting story, with a collective rise of 4.9%, hinting at a subtle trend towards listing price stabilisation in major European urban landscapes.⁸

⁷ Casafari and Octopus Pro

⁸ Casafari and Octopus Pro

⁹ Casafari

The demand for two-to-three-bedroom flats remains stable throughout Europe.



Property Types Influencing Listing Price Dynamics

Further variations can be seen by exploring the contrasting price movements between flats and houses. In the Czech Republic, flat listing prices dropped by 12% in a year, surpassing the 6% decline in house listing prices. France shows a notable contrast, with per square metre listing prices for flats decreasing by 3.8%, while houses experienced a 5% increase.⁹

Residential Real Estate Listing Prices

Sqm price main cities (Q3 2022 vs Q3 2023)¹⁰

Barcelona		Berlin		Brno		Hamburg	
-0.5% change YoY price	+8.0% change YoY price	-7.7% change YoY price	-3.8% change YoY price	-9.0% change YoY price	-15.0% change YoY price	-6.8% change YoY price	+13.6% change YoY price
80 sqm average size	200 sqm average size	72 sqm average size	137 sqm average size	64 sqm average size	170 sqm average size	71 sqm average size	137 sqm average size
€3,221.40 price per sqm	€2,891.5 price per sqm	€5,323.30 price per sqm	€5,052.00 price per sqm	€3,660.00 price per sqm	€2,583.00 price per sqm	€6,652.60 price per sqm	€5,463.50 price per sqm
€293,535.40 asking price	€633,939.4 asking price	€479,482.50 asking price	€795,959.00 asking price	€234,510.00 asking price	€438,647.00 asking price	€599,680.40 asking price	€911,452.70 asking price
€335,657.00 average asking price		€666,325.30 average asking price		€265,547.00 average asking price		€739,342.30 average asking price	

Lisbon		Lyon		Madrid		Milano	
-1.5% change YoY price	+10.0% change YoY price	+0.9% change YoY price	+1.9% change YoY price	+7.4% change YoY price	+7.9% change YoY price	+2.8% change YoY price	+19.0% change YoY price
93 sqm average size	165 sqm average size	68 sqm average size	144 sqm average size	85 sqm average size	250 sqm average size	80 sqm average size	180 sqm average size
€5,279.40 price per sqm	€5,245.50 price per sqm	€5,647.70 price per sqm	€5,368.60 price per sqm	€3,522.20 price per sqm	€2,721.30 price per sqm	€3,983.70 price per sqm	€3,270.60 price per sqm
€599,005.20 asking price	€1,149,808.10 asking price	€401,612.80 asking price	€843,271.10 asking price	€387,393.70 asking price	€797,903.60 asking price	€399,881.30 asking price	€766,971.00 asking price
€625,743.70 average asking price		€422,047.90 average asking price		€433,212.00 average asking price		€415,520.10 average asking price	

Paris		Prague		Porto		Rome	
+1.1% change YoY price	+2.8% change YoY price	-5.0% change YoY price	+1.0% change YoY price	+9.4% change YoY price	+19.7% change YoY price	+0.6% change YoY price	+8.1% change YoY price
51 sqm average size	146 sqm average size	68 sqm average size	175 sqm average size	94 sqm average size	238 sqm average size	87 sqm average size	130 sqm average size
€11,810.90 price per sqm	€8,631.20 price per sqm	€4,689.00 price per sqm	€3,593.00 price per sqm	€3,342.70 price per sqm	€2,778.60 price per sqm	€3,008.00 price per sqm	€2,147.20 price per sqm
€786,707.50 asking price	€1,742,221.90 asking price	€317,266.00 asking price	€628,611.00 asking price	€344,766.90 asking price	€653,346.40 asking price	€298,323.10 asking price	€345,733.70 asking price
€810,297.80 average asking price		€343,294.00 average asking price		€410,010.10 average asking price		€306,209.70 average asking price	

Munich	
-6.7% change YoY price	-11.2% change YoY price
68 sqm average size	148 sqm average size
€9,151.6 price per sqm	€9,626.5 price per sqm
€699,057.4 asking price	€1,739,788.0 asking price
€914,508.1 average asking price	

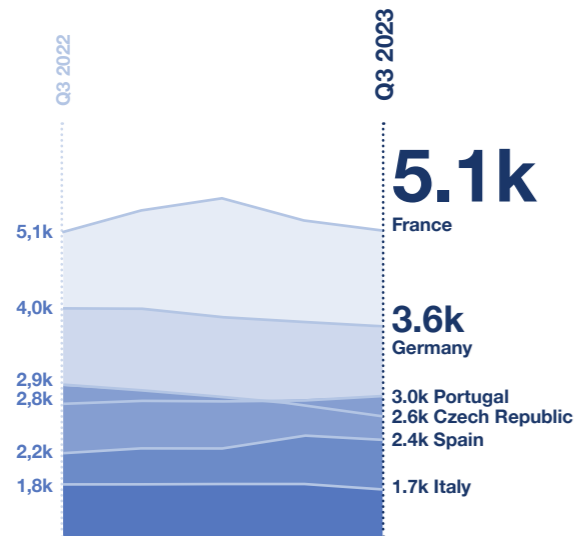
¹⁰ Casafari and Octopus Pro



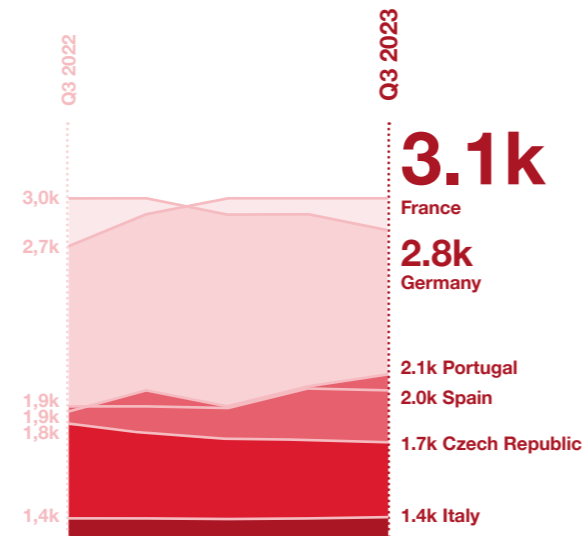
Listing Prices for Apartments and Houses

Per sqm per quarter¹¹

Apartments EUR per sqm



Houses EUR per sqm



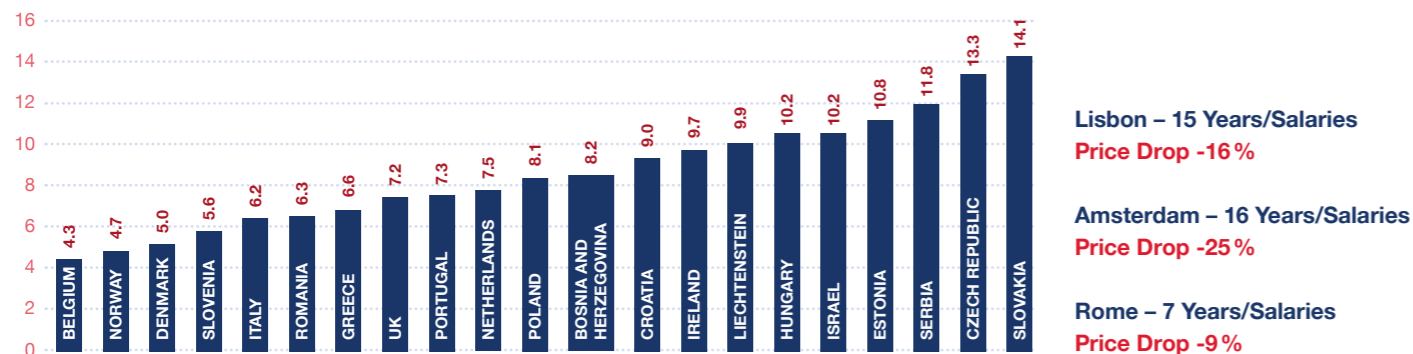
In the Czech Republic, listing price diversification extends across segments. “Over the past year, prices have fallen sharply, especially for energy-inefficient, outdated properties”, says Jan Hruby, Regional Director of RE/MAX Czech Republic. “In contrast, prices for new-builds and luxury properties have stagnated”. Despite these variations, the overall Czech market has seen a positive trend in the past quarter, indicating signs of recovery.

Affordability Across Europe

The path to homeownership in Europe is as diverse as the continent itself. In the Czech Republic, achieving the dream of a 70-square-metre home requires a significant financial commitment of 13.3 annual salaries. In contrast, Belgium, Norway, and Denmark offer an easier path to homeownership, with only 4 to 5 annual salaries needed. The Netherlands and Portugal strike a balance at 7.5 and 7.3 annual salaries, respectively, while in Italy, buyers need 6.2 annual salaries for a comparable purchase.

Affordability to Own Housing

Multiple of annual salaries needed to purchase a 70-sqm property¹²



¹¹ Casafari and Octopus Pro

¹² Deloitte and Moody's

Diverse Demand Across European Markets

Just as prices differ between countries, regions, property types and segments, so does the enthusiasm people have for buying homes.

Consumer Needs Across Borders

Economic challenges are driving variations in demand across Europe. While the market in Spain shows continued demand, consumers are still hesitant. “We see families with average incomes are reluctant to buy property, partly because there is uncertainty in the labour market”, says Jaime Suárez, Regional Director at RE/MAX Spain.

Throughout the continent, demand for properties in lower price segments remains restrained. An illustrative example can be found in Croatia, where there is a noticeable rise in demand for properties priced under €250,000. This increase is driven by factors such as affordability and favourable mortgage trends. Vladimir Zerjavic, Regional Owner of RE/MAX Croatia, notes that this price range corresponds to the average mortgage that Croatians can currently secure.

In stark contrast, Turkey is experiencing a sharp decline in demand, largely due to an ongoing recession. “We are currently seeing stagnation in the market, and the number of buyers is decreasing”, says Murat Goldstayn, Regional Owner of RE/MAX Turkey.

Tracking Regional Dynamics

Urban centres are seeing higher demand across Europe. “For the Czech Republic, Prague and the surrounding regions, as well as Brno, have the highest demand and supply of property compared with the rest of the country, which is also reflected in higher prices”, says Jan Hruby, Regional Director of RE/MAX Czech Republic.

This urban-centric trend is also noticeable in Spain, where a distinct preference for such areas significantly contributes to the overall market vitality. According to Jaime Suárez, “Apartments under 100 square metres in city centres and metropolitan areas will always be in demand”.

Croatia's demand similarly hinges on regional dynamics, with Zagreb and Split attracting buyers most. “Demand in Zagreb is driven mainly by locals”, says Vladimir Zerjavic. “Many want to live in the suburbs and countryside, and COVID and the recent earthquake have contributed to this development”.

¹³ Jan Hruby, Regional Director of RE/MAX Czech Republic and Murat Goldstayn, Regional Owner of RE/MAX Turkey

Evolving Trends in Property Preferences

Prospective buyers in Turkey are redirecting their focus towards existing flats, emphasising a response to economic challenges. “Despite the difficult market, there are still prospective buyers”, says Murat Goldstayn.

Meanwhile, the demand for two to three-bedroom flats stays robust across Europe, indicating a consistent preference for this specific property category. Additionally, the luxury real estate sector remains resilient in Spain. According to Jaime Suárez, “Properties in the top price range are among the most popular, and demand remains very high”.



Market Outlook

Looking ahead, Turkey anticipates a continued weakening market over the next two years due to the ongoing recession. In Croatia, trends diverge, with increased demand in suburban areas and a decline in many coastal regions. The varied landscape of the European housing market underscores the role of income, location, and regional economic conditions on demand.¹³

The Impact of Foreign Buyers

Foreign buyers, increasingly from overseas, continue to wield influence on both demand and prices. Turkey, in particular, experiences a significant impact from foreign buyers, while high-income buyers from Latin America, such as Mexico or Venezuela, are shaping markets in Spain. According to Jaime Suárez, “Madrid is seen as the new Miami, serving as a gateway to Europe, and people/investors from Latin America are acquiring a substantial amount of property in Spain, particularly in Madrid”.

While Spain is the focus of Latin-American buyers, Croatia is a hotspot for buyers from neighbouring European countries.

According to Vladimir Zerjavic, more than 60% of transactions on the country's coast are made by European foreigners, predominantly from Slovenia, Austria, Germany, and Italy. "The market is heavily dependent on foreign investors", says Zerjavic. "A decline in demand from foreign investment leads to a general decline in demand in our country".

Shift to the Rental Market Continues

Prospective buyers, struggling to buy property amid ongoing supply shortages and stricter lending conditions, are increasingly choosing to rent. Over the last decade, the tenant-homeowner ratio in Europe, stable at around 30 to 70, has modestly shifted, with the proportion of tenants edging up by 1.9% from 2012 to 2022.¹⁴

The conclusion of the low-interest phase contributes to a surge in rental listing prices, which increased by 0.7% in the EU during the second quarter of 2023 compared to the first quarter, particularly for new leases. Year-on-year, rents rose by 3.0%, with notable increases in Hungary, Malta, Slovenia, and Romania. Croatia, experiencing a 7% rise, reflects the impact of rising demand for rentals. "Due to high property costs, demand is shifting towards renting, leading to an increase in rental prices", notes Vladimir

Zerjavic. "Prospective tenants must now expect an average monthly rent of around €800 instead of the previous €600".¹⁵

Despite this rising trend toward renting, escalating prices may not ease housing market challenges. In countries with a strong homeownership tradition like the Czech Republic (77.1%), Hungary (90.1%), and Croatia (91.1%), entering the rental market poses socio-political hurdles. Deeply ingrained cultural values associated with homeownership make renting a higher-risk endeavour. "In the Czech Republic, tenants have little protection and can be easily evicted from their flats", says Jan Hruby. The impact of this extends beyond market dynamics, shaping the social and political fabric of Europe.¹⁶



The Balancing Act of Property Supply

Once consumers are able to overcome the immense economic obstacles of the current market, a new challenge awaits them: the growing scarcity of available properties. With construction bottlenecks slowing new builds, competition for properties is growing.

Listings Linger on the Market

In the third quarter of 2023, the European property market saw a decline in property transactions compared to the previous year, with Spain reporting a significant 17% decrease, as indicated by Spain's Chamber of Notaries in August 2023.

This decline is attributed, in part, to the differing expectations between sellers and buyers. "In the past, properties were sold at lightning speed, and this became ingrained in sellers' minds", says Jaime Suárez, Regional Director at RE/MAX Spain. "Buyers

are also no longer prepared to accept high prices, while sellers are not prepared to lower the price. It therefore takes much longer to sell property".

Reflecting a broader trend, the Czech Republic experiences a rise in the average time a property remains on the market, climbing from around 70 to 100 days. "This extended period allows buyers with a strong credit rating and a willingness to pay current market prices greater flexibility and choice due to reduced competition", says Jan Hruby, Regional Director of RE/MAX Czech Republic.

However, regional disparities persist, particularly in Croatia where Vladimir Zerjavic, Regional Owner of RE/MAX Croatia, highlights variations in transaction speed. "In high-demand regions such as Zagreb and Split, properties sell very quickly", says Zerjavic. Despite this, overall transactions have declined in Croatia, resulting in an increase in the number of listings. Nevertheless, individual listings are less likely to meet the requirements of potential buyers.

¹⁴ https://ec.europa.eu/eurostat/databrowser/view/ILC_LVHO02__custom_8261807/default/table?lang=en

¹⁵ Source https://ec.europa.eu/eurostat/databrowser/view/PRC_HICP_MIDX__custom_8261096/default/table?lang=en
<https://ec.europa.eu/eurostat/web/products-eurostat-news/w/ddn-20231003-1>

¹⁶ https://ec.europa.eu/eurostat/databrowser/view/ILC_LVHO02__custom_8261807/default/table?lang=en

The Construction Sector is Struggling

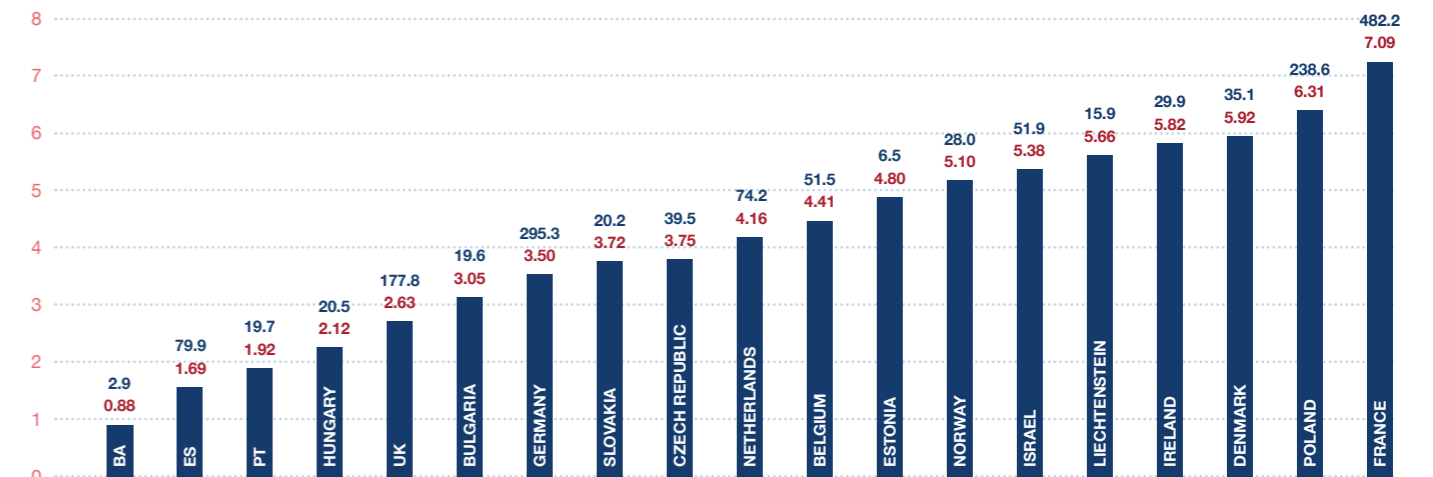
If prospective buyers are unable to find what they are looking for in existing properties, the search for new builds is also becoming difficult – as shown by the limited number of completed dwellings across Europe in 2022. France and Poland stand out with relatively higher completion rates in 2022, recording 7.09 and 6.31 dwellings per 1000 citizens, respectively.

However, this apparent success is overshadowed by the broader struggle, as Germany and the Czech Republic show moderate completion figures at 3.5 and 3.75 dwellings per 1000 citizens, while Portugal and Spain grapple with significantly lower rates of 1.92 and 1.69 dwellings per 1000 citizens. These figures underscore the construction sector's difficulties in meeting the growing demand for housing.¹⁷

A primary challenge lies in the soaring costs of building materials, now at an all-time high according to the Central Association of the German Construction Industry. The significant increase is driven by supply bottlenecks and higher energy costs, impacting energy-intensive materials such as bricks, cement, concrete, and non-woven building materials. Forecasts anticipate a 5.5% year-on-year price increase in construction services for 2023. Moreover, recent EU regulations, particularly concerning heating, further strain new construction activities.¹⁸

At the same time, high inflation, higher interest rates, and higher risks associated with completing and selling new buildings have made it less lucrative for large and institutional investors to start new construction projects. These factors create a challenging scenario where rising costs clash with dwindling financing options.

Housing Development Intensity 2022¹⁹



BA Bosnia and Herzegovina

ES Spain

PT Portugal

France ↑
482K
7/1000 Hab

Variations Positive
Ireland / Czech
+45% vs 2021

Spain ↓
79K
1.69/1000 Hab

Variations Negative
Spain / Belgium
-5% vs 2021

¹⁷ Deloitte and Moodys

¹⁸ <https://www.zdb.de/baukonjunktur/konjunkturprognose-2023>
<https://www.zdb.de/baukonjunktur/konjunkturprognose-2023>

¹⁹ Deloitte and Moodys

Obstacles to Completed Homes

As a result, the construction industry is losing momentum, leading to a huge drop in completed projects across Central Europe. Despite minimal growth of +0.9% in the EU's Production in Construction Index from July 2022 to July 2023, there was a 17% decline in building permits in Q2 2023 compared to Q2 2022. This decline is notably pronounced in Sweden (-39.1%), Germany (-34%), the Czech Republic (-31.9%), and Poland (-30.6%). Jan Hruby, maintaining a neutral stance on the Czech Republic's situation, suggests, "Given the economic situation and the relatively high number of existing properties, it looks like a market correction where supply and demand are meeting".²⁰

Even in countries where the situation seems initially positive, like Spain (+4.7%), Croatia (+9.6%), and Greece (+8.6%), tensions still persist. Spain, despite recording a growth rate of over 55% in Q2 2022 compared to 2021, faces challenges in its construction and renovation sector due to high inflation. Jaime Suárez emphasises the impact, "Supply is too low for demand, leading to a rise in property prices in many places".²¹

The situation is similar in Croatia. "Although Zagreb is a construction hotspot, the number of construction projects is nowhere near enough to meet the nationwide demand", says Vladimir Zerjavic. Even France, with the most completed dwellings in 2022, recorded a 19.4% decline in building permits in Q3 compared to the previous year.

The construction crisis echoes across Europe, except for Turkey, where a tragic earthquake resulted in a notable 20.4% growth from Q2 2022 to Q2 2023. "After the earthquake in February, construction activity in our country accelerated", says Murat Goldstayn, Regional Owner of RE/MAX Turkey, "with a massive increase in demolishing old buildings and replacing them with new ones".

Regional Initiatives Offer Hope

Given the many challenges for the European property market, regional initiatives to speed up building permits are becoming a beacon of hope. Streamlining and standardising the long and complex approval processes would revitalise the construction industry and make living spaces available more quickly.

"The law to simplify the construction sector is probably the most important initiative", says Jan Hruby. "Currently, the period from issuing a building permit to completing a building is eight years. With the planned reform, the government not only wants to simplify the authorisation procedure but also speed up the construction process significantly".

While long development cycles in the construction industry mean it may take five years before the results of these efforts are seen, these initiatives are an important step towards making the sector more efficient and meeting the urgent need for housing in Europe more quickly.

The Sustainable Revolution in Housing

Energy efficiency is emerging as a critical factor shaping the real estate market, affecting property appeal and pricing for both new and existing properties. In fact, properties lacking insulation or featuring outdated electrical systems face lower demand, prompting significant price reductions. This dilemma forces buyers to choose between investing in a higher-priced, energy-efficient property or undertaking a renovation project with state subsidies to enhance energy efficiency.



Minimum Standards for Energy Efficiency

The EU is taking steps to enforce minimum energy efficiency standards for buildings, proposing stricter rules in the Energy Performance of Buildings Directive reform in March 2023. The updated directive introduces a standardised efficiency class system (A to G) and targets energy class E for all private buildings by 2030, advancing to class D by 2033. Moreover, starting from 2028, only zero-emission buildings will be permitted for new constructions. The energy performance certificate provides owners with a clear overview, prompting measures if a property falls below energy class D.²²

While the EU Commission supports these ambitious targets with various measures, implementation faces challenges in areas where large investments and skilled labour are required. Ongoing negotiations between the EU Parliament and member states seek a compromise for converting directives into national laws, a process expected to take several more months. Meanwhile, many homeowners plan their own steps to improve energy efficiency in their homes in anticipation of evolving EU standards.²³

Policy Effectiveness and Regional Disparities



Countries across Europe are recognising the imperative need for economic policy measures to regulate the real estate markets. However, the effectiveness of subsidy programs reveals disparities, particularly in Eastern Europe. In Croatia, a subsidy program aimed at interest rate support for loans was discontinued due to counterproductive effects. "The subsidy was priced into property sales, causing a lot of damage to the property market", says Vladimir Zerjavic, Regional Owner of RE/MAX Croatia. "The government is currently considering the introduction of alternative measures".

In the Czech Republic, initiatives offer incentives like free kitchens or contributions to mortgage interest payments for new builds. Local efforts in Prague focus on creating state-owned energy-efficient rental and co-operative housing, with special purchase

options. According to Jan Hruby, Regional Director of RE/MAX Czech Republic, these efforts create a form of 'national housing', a concept that, while stronger in the past, currently faces decline. "As consumers with average salaries can hardly afford to buy a flat now, these initiatives have little impact on the market", says Hruby.

After the economic challenges of the recent earthquake, discussions are finally underway in Turkey to reduce interest rates for first-time buyers. "Although specific campaigns are yet to be announced, such cuts generally stimulate demand, so this campaign could help alleviate the stagnation of the housing market in Turkey", says Murat Goldstayn, Regional Owner of RE/MAX Turkey.

Challenging Times are Best Met with Expertise

In a shifting real estate landscapes, buyers and sellers struggle with many challenges – financial uncertainties, frustrating construction bottlenecks, and their own shared desire to plan for a brighter future. It is clear that the support of an experienced advisor is essential to recognise opportunities. "As the market becomes increasingly complex, consumers are turning to real estate professionals for guidance in a market where expertise is at a premium", says Jan Hruby, Regional Director of RE/MAX Czech Republic.

Affordability is a pressing concern for many consumers, and knowing where to turn can bring peace of mind to a difficult journey. "Our professionals are trained in finance issues and have expertise in guiding buyers through the entire process", says Jaime Suárez, Regional Director at RE/MAX Spain.

Amid local challenges across Europe, real estate professionals play a crucial role in stabilising the market. "Thanks to the success of our property consultants, we have been able to minimise the effects of the decline in demand", says Murat Goldstayn, Regional Owner of RE/MAX Turkey.

In this era of change, real estate professionals stand as beacons of support, providing more than just negotiation expertise. They guide clients through financial issues, providing essential expertise and ensuring that clients not only navigate challenges but also emerge with clarity and confidence in their property decisions – no matter what the market brings.

²⁰ <https://www.zdb.de/baukonjunktur/konjunkturprognose-2023>
https://ec.europa.eu/eurostat/databrowser/view/sts_cobp_q__custom_8262455/default/table?lang=en

²¹ <https://www.zdb.de/baukonjunktur/konjunkturprognose-2023>
https://ec.europa.eu/eurostat/databrowser/view/sts_cobp_q__custom_8262455/default/table?lang=en

²² chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/https://www.europarl.europa.eu/doceo/document/TA-9-2023-0068_DE.pdf

²³ RE/MAX European Housing Trend Report 2023

About RE/MAX Europe

The RE/MAX Europe franchise network is one of the largest in the industry. The brand is represented by over 30,000 real estate professionals across 2,400 offices in 40 countries throughout the continent. With more than 50 years of experience, RE/MAX has grown into a huge global company. Never one to rest on its past successes, RE/MAX Europe continues to build on its history of innovation to transform the way real estate is bought and sold across the continent.

Data Sources

This edition of the 'European Housing Insights' (Quarterly market update Q3 2023) is supported by internal data from RE/MAX Europe, as well as external market data from Casafari, a real estate market professionals' database that aggregates and centralises information available online. The provided insights are derived from comprehensive data across Europe. For a more profound understanding, certain data points have been computed, focusing on specific markets. Casafari is a provider of an AI- and machine learning-based metasearch platform for the real estate industry, which tracks, aggregates, and centralises all information available online on residential properties in Portugal, Spain, Italy, France, and Germany. The data for the Czech market has been derived from Octopus Pro.

Please Note: While RE/MAX Europe has compiled the information in this report diligently and to the best of its knowledge, RE/MAX Europe does not assume any liability for the accuracy of the information or for any damages resulting from the use of the information.



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contact us today!**

RE/MAX Europe

PMSCS Real Estate Franchising Inc.
Alpenstraße 15
6302 Zug, Switzerland

E marketing@remax.eu
W remax.eu

RE/MAX
Europe