

THE DEVELOPMENT OF THE RESIDENTIAL REAL ESTATE MARKET IN CENTRAL AND EASTERN EUROPE IN COMPARISON WITH THE UNITED KINGDOM

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ABSTRACT

The apartment is a specific good that plays an important role in the human life. Owning your own home is the most important asset of many households. However, one cannot always be able to meet this need themselves due to the capital-intensive nature of the investment. That is why people often resort to external funding. Support for such people is the banking sector. However, the economic crisis in 2007-2009 restricted access to credit, in particular in the UK. Households had to deal with problems that resulted from the issues of financial institutions and security markets. The consequence of the financial crisis for households was limiting loans by banks and a sharp rise in prices of new loans. Based on the theory of Minsky, it can be said that the financial institutions in the moment of recession have changed their action model, going from extremely careless during the boom to restricting lending as a result of increased risk. Banks, fearing of an increase in credit risk not only on the interbank market but also in the economy, have limited the supply of credits, tightened the conditions for granting loans, where along with rising prices of funding on the interbank market, there were higher prices of household loans. This situation took place at the time of the Lehman Brothers collapse, where banks from day to day dramatically reduced lending. Many banks at that time had to suspend lending, because they were dependent on funding on the interbank market, which had frozen due to risk. Thus, the outbreak of the global financial crisis cut off household loans, which were destined for residential as well as consumer purposes.

Key words: bank, real estate, housing, households, loans.

JEL: A1, D0, E51, E52, E58

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1. Introduction

The residential real estate market is a very important element of the real estate sector. It is one of the markets which is characterized by broad economic relations and strongly reacts to interest rate changes, regardless of whether they occur in long or short term. The result of the high degree of sensitivity of the real estate market is creating changes in the overall economy that affect macroeconomic factors such as investments, demand, consumption, savings. The real estate market also affects the financial sector area as well as the international market.

Based on recent observations carried out by analysts regarding trends in international real estate markets, you can introduce dependence on imbalances in the economy, which is caused by too low interest rates and excessive demand which flows through a credit channel to the real estate markets. The expansion of credit causes a rapid rise in property prices. Likewise, they also interact with product innovations, especially credit, which increase the availability of credits for the price of the increase of risk (Ahrend, Cournede, Price, 2008).

The aim of the study is to assess the scale and dynamics of the development of the housing and residential mortgage markets in Central and Eastern Europe and the UK. The paper analyses the state of the percentage of the population dealing with overcrowded housing, the number of houses per 1000 people, the relationship of housing loans to GDP, the share of mortgage bonds to finance mortgage loans, the total balance of mortgage loans, the balance of housing loans per capita, the average housing price.

The research mainly covers the period of 2005-2014. The data analysed in the article comes from the collections of Eurostat, the Central Statistical Office, Federal Reserve Board, etc. In international comparisons, some difficulty is posed by the interpretation of the definitions and standards and obtaining information coinciding in time. The most frequently cited statistics are those of OECD and Eurostat (the statistical office of the European Union). The data presented by Eurostat is more aggregated than those of the national public statistics. They are presented on an annual or four-year basis, based on a common concept, having the principle of aiming at maximum comparability among the particular indicators.

2. British housing market among the countries of Central - Eastern Europe

Housing conditions in terms of housing population is defined by EUROSTAT in regards to the composition of the family/ household. People live in overpopulation if the household does not have at least the following available:

- one room for the household;

- one room for a couple on the household;
- one room for each person (single) at the age of 18 years and more;
- one room for two people of the same sex at the age of 12-17;
- one room for each person aged 12-17 years, not included in the previous category;
- one room for two children under the age of 12

In Europe, to a large extent the following situations had impact on the population policy: political (war), economic (crisis) and demographic (e.g. the aging of the population). For centuries, in Europe a pro-nationalist policy was conducted. The development of pro-nationalist policies on the Old Continent on a larger scale can be spoken of since the end of World War II.

Rated of people living in conditions of overpopulation in the selected countries in Central - Eastern Europe and the UK are presented in the following table.

Table 1. The percentage of the population dealing with overcrowded housing in selected countries in Central - Eastern Europe and the UK in 2010-2014 – population at risk of poverty

Country	2010	2011	2012	2013	2014
Hungary	69.7	71	71	70.1	69.9
Romania	65.2	66	63.7	65.1	65.7
Poland	65.6	62.5	60.8	61.9	61.7
Slovakia	58.4	55.5	52.4	55.7	56.4
Bulgaria	53.4	54.7	51.9	53	53.9
Latvia	66.4	57.4	48.7	47.9	47.2
Czech Republic	44.1	41	43.5	42.7	42.1
Lithuania	51.8	28.7	24.7	35.4	36.1
Great Britain	14	11	13.7	14.9	15.4

Source: European Commission Data.

The above table shows the population at risk of poverty - population reaching income below 60% of the comparable income median. Poland ranks third among the countries listed in the table when it comes to overcrowded housings. The worst situation is in Hungary, where 69.9% of people are living in overcrowded homes. Britain is the country with the best situation in this range- in 2014 the proportion of people living in overcrowded housings was 15.4%.

The United Kingdom is one of the countries of the European Union, which has the best-developed housing market. Many important parameters for both the housing market and the market for housing loans exceeds standards in the countries of Central - Eastern Europe.

The situation of housing per 1000 inhabitants in the EU has not changed much in the UK (from 430 in 2000 to 442 in 2015, i.e. an increase of 3%). A significant increase was observed in the case of countries such as Latvia - 30%, Poland - 17%, Lithuania - 15%, the Czech Republic 9%. Details in Table 2.

Table 2. The number of housing per 1000 people in the selected countries of Central and Eastern Europe and the UK in 2001-2015

Countries	Number of housings per 1000 inhabitants						
	2000	2001-2002	2003-2005	2006-2008	2009-2010	2012-2013	2014-2015
Czech Republic	427	-	-	458	462	469	469
Estonia	454	-	467	485	485	649	650
Hungary	399	-	413	429	429	445	446
Latvia	385	-	435	429	461	499	499
Lithuania	398	-	390	390	390	456	459
Poland	307	-	335	345	350	356	360
Romania	352	-	379	387	390	425	430
Slovakia	310	-	317	326	326	370	-
Great Britain	430	-	437	442	443	437	442

- no data

Source: Own calculations based on: *Housing Statistics in the European Union, GUS.*

Warsaw is by far the leader among the capitals of Central Europe: 8 new apartments are created for every thousand residents a year, while in other capitals of the region an average of: 4.7 of premises is created - as stated by Władysław J. Brzeski, REAS partner.

The largest housing shortage occurs on the markets for real estate in Kiev and Bucharest, while the increase in investor interest occurs in markets of Central Europe resulted in strong price increases. In 2007, the biggest one being almost 45%, was recorded in Hungary. The average prices in Slovakia increased by 25%, and in Romania, the Czech Republic and in Poland by 20%

Lack of housing is one of the main causes of very low labour mobility in Central – Eastern Europe. This affects the lowering of the level of effectiveness of the processes of restructuring the economy and reducing the rate of growth. Lack of strong and continuous growth in the construction of new housing makes

causes the efficiency to still be low and the differences in levels of unemployment and social exclusion in individual countries will perpetuate. Newly built apartments will be of significant importance to the ownership structure and, above all, whether it will be apartments for rent or bought / built for own use.

The level of shortage of housing and the amount of public support needed to start up adequately to the needs of the dynamic process of their construction are the basic reasons for the decision on the selection of the preferred ownership structure of housing developments. In addition, one should take into account the objectives and conditions of the socio-economic policy of the country pursued simultaneously, so that the preordain of the housing policy have a beneficial effect on the efficiency and effectiveness of their implementation. In a country with low wealth, high unemployment and high shortage of housing, a priority for the support of access to social housing is beneficial to the implementation of family and prenatal policies, increasing mobility of the population and strengthening the adjustment processes in the labour market (availability to a roof over one's head, avoiding attachments to the apartment with a housing loan). This is particularly important for young people, located at the beginning of their professional and family career (Herbst, 2013).

A properly functioning market of housing loans has a high proportion of loans in relation to the Gross Domestic Product. Development of this indicator in different countries is presented in the table 3.

Table 3. The ratio of housing loans to GDP in the years 2005-2013

Specification	2005	2007	2009	2011	2013	Change 2005- 2013 (p.p.)
The countries of Central and Eastern Europe						
Bulgaria	4.3	9.3	12.3	11.7	11.3	7.0
Czech Republic	9.7	15.2	19.0	19.7	21.4	11.7
Poland	5.4	10.5	16.0	20.5	21.0	15.6
Romania	1.0	3.2	4.9	5.7	6.6	5.6
Slovakia	10.5	12.3	15.0	17.8	22.3	11.8
Slovenia	4.8	7.7	11.1	14.5	15.1	10.3
Hungary	10.2	12.3	15.8	13.4	11.1	0.9
Great Britain	58.2	53.7	63.4	70.0	68.9	10.7

Source: *Statistics of the Central European Bank* (www.ecb.europa.eu/stat/New-BankStat-DataBase).

United Kingdom, among the countries listed in the table has the most developed market for housing loans. The ratio of mortgage debt to GDP is 68.9 in this country, so nearly 3 times more than the average for the best country of the

Central - Eastern Europe or Slovakia. However, in the UK in 2012-2013, a slight decrease of this ratio was reported (Table 3).

The UK has a different model of real estate loans than in the countries of Central - Eastern Europe. It is based on the securitization of mortgage loans in the form of bonds.

If you look at the market for mortgage bonds in financing mortgages in Europe, then at the end of 2014 the participation of the issuance of such instruments by Britain amounted to 12.1%, which gave it a leading position among European countries. Meanwhile, the Polish market share was 0.9% and Latvia only had a smaller share.

Table 4. The share of mortgage bonds in financing mortgages

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
PL	0,1%	0,3%	0,3%	0,4%	0,6%	0,6%	0,7%	0,7%	0,8%	0,9%
UK	0,0	0,0	0,0	1,2%	4,2%	5,4%	6,8%	8,0%	8,8%	12,1%

Source: PFSA (footnote 6); Foundation for the development of Mortgage Loans; ECBC; Bank of England.

The British market for housing loans far exceeds the balance of housing loans, which occurs in the countries of Central - Eastern Europe. Table 5 presents the total balance of mortgage loans in the selected countries in Central - Eastern Europe and the UK. As you can see, the greatest balance of housing loans exists in the UK. The smallest ones are in Estonia and Slovenia. Poland is among the countries of this area of Europe having the best representation.

Mortgage credit markets in Central - Eastern Europe are markets with stable mechanisms and are still in the development stage. They are very sensitive to the macroeconomic situation (economic cycle) and to interest rates and exchange rates (in particular the CHF exchange rate, due to the large share of loans denominated in this currency in the portfolio of housing loans). In Poland, for several years, particularly since 2010, one can observe a growing number of actions for financial supervision (T and S Recommendations, recommendations) aiming to create a better institutional order for this market, in order to limit systemic risks (financial and macro-economic) associated with mortgage loans. Many of these actions is late, discretionary and incomplete to each other (they do not form a coherent institutional system). Weaknesses and threats of the system of financing residential real estate has exposed crisis especially of loans denominated in CHF (Kata, 2015).

Table 5. Total balance of housing loans (millions of EUR)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Czech Republic	6 178	8 306	13 056	15 099	16 623	18 356	19 761	21 750	21 694	21 620
Estonia	3 184	5 194	6 958	7 713	7 494	7 244	7 063	6 905	6 907	6 911
Poland	14 646	22 795	36 632	51 750	53 005	67 526	71 883	79 434	80 650	81 250
Slovenia	1 368	1 956	2 670	3 398	3 933	4 844	5 164	5 259	5 307	5 340
Great Britain	1 411 090	1 606 490	1 618 895	1 287 432	1 391 257	1 440 258	1 491 974	1 553 837	1 531 585	1 536 251

Source: *European Mortgage Federation, Hypostat 2014, [in:] www.ehipoteka.pl (23.04.2015).*

The amount of housing loans per capita in 2014 was the biggest in the UK - over 30 thousand euro, and the smallest in the Czech Republic and Poland - more than 2 500 euros. As shown in Table 6, the value of this indicator in Poland since 2002 continued to increase and in 2014, it reached a height of 2 571 euro and was comparable to the size of the indicator Croatia, Hungary and Lithuania.

Households of the UK are some of the most indebted among all European countries. But the FCA states that the average household in the UK has a net worth exceeding its debt.

Table 6. The balance of housing loans per capita (euro)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Czech Republic	745	996	1 555	1 778	1 938	2 130	2 287	2 509	2 500	2 504
Estonia	2 928	4 780	6 406	7 093	6 885	6 658	6 506	6 385	6 416	6 425
Poland	487	752	1 202	1 690	1 722	2 183	2 298	2 530	2 563	2 571
Slovenia	836	1 186	1 607	2 041	2 333	2 851	3 039	3 089	3 117	3 124
Great Britain	30 070	33 908	33 856	26 671	28 565	29 309	30 077	31 077	30 421	30 650

Source: *European Mortgage Federation, Hypostat 2014, [in:] www.ehipoteka.pl (23.04.2015).*

Based on the "Property Index. Overview of European Residential Markets" report, one can be present the size of a new apartment that can be bought in European countries and cities for 200 thousand euro. As Deloitte calculates, on

the Vistula River for the same money you can buy a property four times bigger than in the UK. For the purpose of the article, property markets of Central - Eastern Europe and the UK have been selected.

A person who will want to buy housing in the UK, has to reckon with high costs. Prices for British housing market are among the highest in Europe. For 200 thousand euro in the UK, you can buy an average of 39 m². The situation is even worse in large cities, such as in London, where this amount of money is enough for just 11 m². On the outskirts of the capital of the UK, the prices are much lower and for 200 thousand euro, you will buy 23 m².

Another problem for the British is the time it takes to collect money to buy a home. The inhabitants of islands have to save their gross salary in total through nearly 11 years to buy their own apartment.

Despite the drop in demand for mortgage loans, the Bank of England has not taken a decision to reduce the minimum level of own contribution of the borrower. Therefore, the number of mortgages is still relatively low and so are the number of people who received credit. In the first years after the outbreak of the crisis it meant a drastic drop in demand for the real estate market, and thus falling prices. Only in the years 2015-2016 the average property price in the UK is similar to that which was offered before the economic crisis.

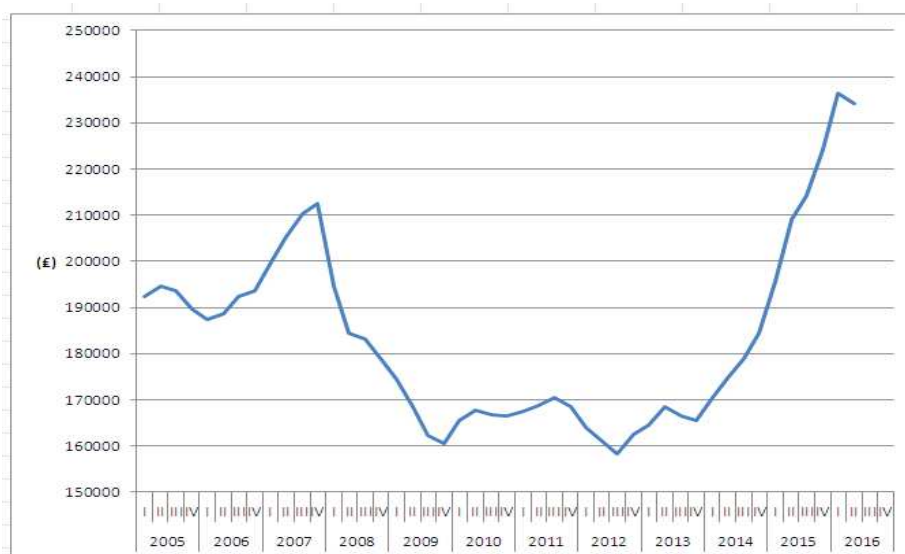


Figure 1. The average house price in the UK in the years 2005 to 2016 in British pounds.

Source: thisismoney.co.uk: S. Lambert, Rapid house price rises ease off but 'dearth of homes for sale' is hurting home buyers warns Nationwide; L. Boyce, 'Trouble in paradise': National estate agency boss warns of big slump in buyers after buy-to-let rush and that house prices have hit a ceiling.

The first decline of the house prices decrease occurred in 2009. Already in the second quarter of this year, they increased by approx. 5% of housing prices. But it was more the result of gradual stabilization of the economy and wage growth, and not the actions of the central bank. The number of loans was still very low. Market loans without down payment of the investor completely disappeared from the market. Only loans in which the bank's contribution accounted for 75-90% were left, but in practice, banks did not want to grant them anymore. Therefore, to attract customers, the banks began to lower the fees associated with mortgage loans. By 2010, they amounted to an average of 37%, and from 2011, they were 26%. In 2012, thanks to a partial release of the stamp duty of cheaper real estate and persistently low interest rates, interest in houses increase, and their prices also began to rise. This year, the policy of British banks was softened in relation to people with less deposit which immediately led to an increase in the number of loans granted (Lechowicz, 2013).

Against the background of the UK, the property market at our southern neighbours currently offers really reasonable prices. Owning 200 thousand euros you can buy an apartment with a size of 93-meter square in Prague. An even more place can be purchased in Brno, and Ostrava for that kind of money, you can buy up to 168 m².

Slovenia is a good country to invest money in the housing market. With expenditures of 200 thousand euros you can become the owner of an 80-meter apartment in the capital, Ljubljana. A bigger apartment, as big as 118 m², can be purchase in the industrial Kranj.

In turn, in the second largest city of Slovenia, seaside Maribor, you can buy an even 129-meter property.

In the Central – Eastern Europe, the cheapest apartments are available in Hungary. For the amount of 200 thousand euros you can buy a property with an area of 196 m² on average. In the Hungarian capital, you can afford to buy a 162-meter accommodation. But the biggest apartment can be purchased in the town of Debrecen, where for 200 thousand euros you can buy a 201-meter property.

Poland is still a cheap real estate market by comparing it to the UK. In 2015, the housing prices in our country in comparison with 2014 have hardly changed, and the average price per square meter amounted to slightly more than 1.1 thousand euro.

Therefore, having an amount of 200 thousand euro, one can purchase in Poland, on average, up to 163-meter of property. Even in big cities, prices are not exorbitant. For example, in Warsaw for the money, you can become the owner of a 114-meter apartment, and in Krakow of a 140-meter place.

Despite the fact, the Polish housing prices are much lower than in the UK, when compared with the average earnings they do not look quite as attractive. Poles can afford to buy a home only after 6-8 years of uninterrupted work.

In the UK, a person who wants to buy an apartment also has to collect the money for a few years. But the people there decide more quickly on buying an apartment, because the UK economy is strong and the labour market has the lowest unemployment in Europe.

3. Conclusions

The housing market is one of the most important segments of the real estate market or in the countries of Central - Eastern Europe and in the United Kingdom. Prospects of development are derived primarily from the local government and state policy, as well as the proper functioning of the system of financing. The basic tool of this system, allowing for the acquisition of goods is housing mortgage (Główka, 2010). Therefore, the residential market is very related to the market of housing loans. After the financial crisis of the years 2007-2009, strong commitment of banks in the financing of residential real estate is observed, although the size of this phenomenon is still insufficient. Development of the credit market brings benefits not only to banks, but also households and the wider economy (Zapotoczna, 2011). Unfortunately, in Central - Eastern Europe, the size of meeting housing needs is still very low. Although interest in housing loans is high, high housing prices become a serious barrier, which are mainly due to legal reasons, such as lack of proper spatial development plans and complex and lengthy administrative procedures. Another big obstacle is the income of the society. Such a large investment can be afforded only by people with high and stable salaries. Not without significance is the state of the economic situation of the country, because along with improving economic conditions, the wealth of the society is gradually increasing, and this is one of the conditions to improve the housing (Szulfer, 2015) situation. Therefore, it is easier for the borrowers of UK loans to get a loan, thanks to which they can buy their own homes. It is the credit market that is an effective tool for the development of the real estate market and the economy as a whole.

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