

House Prices are expected to decrease

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The freeze of credit at the banks is being spread out due to the tougher environment for loan takers in real estate, which brakes the prices in real house prices further. In september real estate continued to decrease across Europe. The key to the Swedish housing market is to be found in the Swedish job market, which has warned about worse times to come.

The credit party is over. The outlook for the Western European real estate markets is very insecure and restricted access to real estate loan taking, which can intensify the price decreases. Thats the formulation from the IMF, in its latest global statement about the current economic situation.

In Great Britain the credit constrain has been mentioned as the main reason why house prices has decreased and why there are fewer transactions. In Sweden banks demand that you have sold your former apartment before you can buy a new home. And Swedbank has implemented a new en more restrictive credit policy for real estate.

-What drives the process of price decreases is the tightening of access to credit. The only thing you can do is to lower the price to make your house more attractive on the market, says the Danish economist Jens Kjaer Sorensen.

He predicted in 2006 that an international housing bubble was about to burst.

Through analysis of the development in house prices in the very long run he found that real house prices (adjusted for inflation) is constant over time. If you discard the effects of great historic happenings then 90% of all house price bubbles are caused by financial liberalisation and deregulation, Soerensen says. In all of the price decreases the markets have decreased back to the long run equilibrium, which he also believes will happen this time. Such a viewpoint would lead to the conclusion that there is a big adjustment in price on its way.

Asked about how the Swedish housing market will handle the crisis. Tougher credit markets will create further negative pressure, but is only one of many factors, Swedbanks chief economist Cecilia Hermansson says. The most important factor for Sweden is the development on the job market. With additional numbers warning about levels like after the millenium crisis the outlook looks darker than the Swedish job center previously had predicted.

For others the interest rate cuts from the National bank of Swedish has helped a bit, but is far from enough to fully make an impact as long as the banks own loans are expensive. Inflation is expected to decrease, which increases real income.

Prices on real estate has decreased by 7% according to the latest 3/month period compared to the previous 3 month. That would mean that prices has decreased by an increasing pace in September. Most apartment prices in central Stockholm are decreasing (-10%). But so far houses are stable, is the evidence from real estate price statistics.

One of the European real estate markets which is similar to Sweden is Denmark, suggests Cecilia Hermansson. In Denmark prices have increased dramatically for two years now. And so far no clearing is visible. Like Denmark Sweden have had a period with low interest rates, a credit expansion which has driven up house prices and increasingly indebted households. But the overvaluation at the market and the construction of new houses in Denmark have been greater in Denmark.

Jens Kjaer Soerensen predicts that real house prices in Denmark and even Norway will have to decrease by further 35-40%. Sweden will handle the crisis better, but even here prices are predicted to be lowered by 25-30%. Such suggests that nominal prices should decrease by a further 15-20% with the inflation rates today.

Such prediction can be compared to the calculations from IMF, which calculates on the basis of what part of the recent price increase across countries can not be explained by fundamental factors as income and interest rates (see graph). According to IMF the drop in Swedish house prices would be around 17.5% from the end of 2007, in real terms. The Danish market was according to the same calculation less overvaluated than the Swedish at the end of 2007.

The situation today with the frozen credit markets can also cause an even greater correction in house prices, IMF predicts. What can dampen the price decrease is lower inflation and aid packages, which in Sweden would be the continuous decrease in taxes. If the market will follow historic patterns the downturn will last for around 2-4 years, says IMF.

At least another year of price decreases in Europe and in Sweden with the job market as the most important factor.

With the freeze of credit markets and the latest development of the crisis insecurity persists.