



News Release

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More countries registering falls as global house price inflation continues to slow

Key Highlights:

- **Global house price inflation continues to slow, with annual growth standing at 4.8% during Q2 2008, down from 6.1% in the previous quarter**
- **Lithuania, Denmark and New Zealand have joined the group of countries where house prices are now falling quickly**
- **Prices in Latvia continue to plummet, with values now 24.1% below the same time last year, the steepest drop in the index**
- **For the fourth consecutive quarter Bulgaria tops the index, with growth of 32.2% over the year**
- **Slovakia, Russia, the Czech Republic and Hong Kong all recorded strong annual growth of over 25%**

Nick Barnes, head of international research, Knight Frank, commented:

“The Knight Frank Global House Price Index shows that global house price inflation is continuing to fall back, with much of continental Europe now seeing low or negative growth. Nevertheless, performance is very varied, with prices still rising rapidly in several locations in Asia and Eastern Europe.

“Bulgaria is at the head of this list, where values have grown at 32.3% over the past year, and have now risen by 68% over the past two years. Admittedly this occurred from a low base, but demand from international investors and domestic economic growth remain strong, although there are fears of oversupply, particularly in the resort locations. Strong performance in Slovakia and the Czech Republic is also driven by robust economic growth.

“The rapidly depreciating housing markets of the Baltic States – led by Latvia, where prices fell by 24.1% over the past year, demonstrate that rising inflation and mortgage costs are real risks for the emerging economies of Europe, particularly those that have seen high levels of investment activity over recent years. However, housing markets in countries such as Spain, Denmark, the UK and Ireland are all being severely challenged by the global credit squeeze.”



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

Overview:

Annual residential property price inflation fell to 4.8% during the second quarter of 2008, down from 6.1% in the first quarter of the year. Prices are now falling in almost half the markets listed in the index, although growth rates in double figures are still being recorded in eight markets – Bulgaria, Slovakia, Russia, the Czech Republic, Hong Kong, Singapore, Cyprus and Colombia. Nevertheless, this presents a considerable contrast to a year ago, when double-figure house price inflation was seen in over a third of the markets covered. The economies of central and south-eastern Europe appear to be the strongest performers, while northern Europe (including the Baltic States), together with the United States, are suffering the most.

Europe:

Since Q2 2007, foreign direct investment and a growing manufacturing base have combined with its appeal as a holiday home location to make **Bulgaria** the best performing location in the Knight Frank Global House Price Index. Its current annual growth of 32.2% is only slightly lower than the 33.7% recorded in the first quarter.

A booming economy – GDP rose by 10.4% in 2007 alone – is the major factor behind the performance of **Slovakia**, where prices have grown by 31.2% over the past year. The highest rates of growth were seen in Košice (58.6%), Nitra (58.1%) and Prešov (54.8%), while the Bratislava region showed an increase of 27.2%. Flats (34.2%) have gone up in value far faster than houses (18.5%) and villas (3.2%). Economic growth in the neighbouring **Czech Republic** was more modest at 6.6%, but property prices have still grown at 25.4% over the past year. However, the Czech economy is likely to slow over the next few years, and there are already signs of a downturn in the housing market.

Price growth in **Russia** has picked up speed over the past quarter and now stands at 26.5%, compared to 24.7% during the first quarter of the year. Growth was highest in the Republic of Khakasiya (88.2%), whereas prices fell by 8.2% in the Chechen Republic. Growth in St Petersburg (41.5%) and Moscow (18.2%) was also strong, driven, as elsewhere, by rising wages and the increasing importance of the country's natural resources.

Rising tourist and second home demand continues to push prices upwards in both **Croatia** (5.8%) and **Cyprus** (12.9%). There are signs that the latter market is beginning to plateau, but locations such as Limassol are still attracting buyers and seeing steep price rises.



Latvia continues to report the highest house price falls in the Knight Frank Global House Price Index, with values now 24.1% lower than a year ago. However, along with **Estonia** (-16%), the rate of decline is beginning to moderate. Both countries are experiencing high inflation and mortgage rates combined with a slowing economy and pessimism over the outlook for property prices. Prices in nearby **Lithuania** are now showing negative growth of 9.9%, and its situation is rapidly becoming comparable to its neighbours.

Denmark appears to be suffering most of all the Western European economies, with annual price falls now amounting to 9.6%, according to the Knight Frank Global House Price Index. The Danish market peaked in the third quarter of 2006, and the slowdown began earlier here than elsewhere. The root causes are a slowing economy and increasing problems with interest rates and mortgage finance – a crisis highlighted by the high-profile rescue of Roskilde Bank earlier this year in the wake of £1bn of losses from bad debt, concentrated in the housing sector. Two thirds of Danish Banks are on a 'watch list' composed by the Danish Financial Oversight Institute. The downturn in **Ireland**, which also began earlier than most, is continuing with prices now 8.1% below last year's level. Prices in **Norway** are flat but there are signs that the economy is slowing and inflation is rising, which could leave the market vulnerable to price falls.

"The slowdown in the **United Kingdom** market is continuing. Although prices at the end of Q2 were only 3.9% lower than at the same point in the previous year, sales volumes are at the lowest level seen since the 1990s, with mortgage finance still very difficult to obtain. The prospects for the UK economy over 2009 are not optimistic, and it is unlikely that prices will recover until 2010. However, employment remains high and there are few forced sellers.

Prices in **Germany** show an annual fall of 2.5%, down from 4.4% at the same time last year, and the rate of price falls is declining on a quarterly basis. There is less demand for owner-occupied property in Germany than in many other European countries and there is no shortage of supply. The economy is also slowing. Industrial orders have fallen for six months in the row, the worst run since the early 1990s. The German Chamber of Industry and Commerce has warned of up to 200,000 job losses in coming months.

The well-publicised problems in **Spain** have not yet fed into house price statistics, and the Knight Frank Global House Price index reports a rise of 2.4%. So far, price falls have been concentrated in the coastal resorts and among new developments in the larger cities, and the changing climate here has not yet influenced the figure listed in the index. Spain looks likely to fall into recession later this year, and house sales fell steeply during June. The number of sales dropped by 34.3% in May and 29.6% in June, suggesting that wider price falls could be imminent.



Asia Pacific:

Prices in **Singapore** fell by 2.0% during a quarter in which its economy shrank by 6.6%, bringing annual growth to 16.3%, down from 29.9% three months ago. Rising inflation will further reduce purchasing power, and could lead to further price falls. **Hong Kong** is now the most rapidly appreciating property market in the region, with annual growth amounting to 25.1%. Economic growth remains strong but is expected to ease over the next year.

In **China**, property prices rose by 1.1% during the quarter, meaning that annual growth in the country is now 9.2%, compared to 7.1% at the same point last year. The rate of increase has slowed slightly, which can be attributed to the government clamping down on mortgage lending, in an attempt to prevent overinvestment and excessive construction activity. Despite increasing concerns, export and GDP growth remains strong in the country. New house price growth remains high in north-western Urumqi (20.2%), southern Haikou (18.1%), eastern Ningbo (14.7%), Hangzhou (13.3%) and Beijing (14.3%).

Indonesia is experiencing a cooling housing market, with prices rising by just 0.9% over the quarter. Annual house price inflation is now 4.4%. There are concerns that the market is oversupplied as a result of the construction boom of recent years.

Australia has experienced a downturn in house price growth over the past quarter, with values dropping by 0.8%. Annual growth has now dropped to 9.0%, from 13.8% during the first quarter of the year. The Reserve Bank of Australia has increased its target cash rate to 7.25%, the highest level since 1994. In combination with a general tightening of lending rates and criteria among domestic banks, this has dampened activity throughout the market. Rates should decrease towards the end of the year, but it will be some time before this has any effect. Prices in **New Zealand** are sliding slowly, having fallen by 2.2% during the quarter. House prices are high compared to income and the country is pessimistic about the prospects for further price growth.

The Americas:

Prices continue to fall in the **United States**. Values fell by 3.3% during the second quarter of 2008, contributing to an annual decline of 16.8%, the second largest fall in the Knight Frank Global House Price Index. However, prices are still rising in some states, including Oklahoma (4.9%). States such as California and Florida have witnessed falls of more than 12%. There are signs of recovery in cities such as Denver, Boston, Charlotte and Dallas, although according to some measures prices fell by over a quarter over the last year in Las Vegas, Miami, Phoenix and Los Angeles. Continuing problems with accessing finance and the ongoing crisis in the 'sub-prime' sector continue to haunt the market.



According to the Knight Frank Global House Price Index, **Canada** saw prices grow by 1.8% during the second quarter of 2008. Prices are now 4.8% higher than a year ago. There are signs, however, that the market is beginning to weaken. Prices in Calgary and Edmonton dropped by 8% and 5% respectively. Meanwhile, sales have dropped by over 10% over the past year and the number of new listings has increased by over 11%.

Africa:

According to the Knight Frank Global House Price Index, prices in **South Africa** rose by 3.8% over the past year, the lowest rate since the third quarter of 1999. In real terms, prices have been falling since the beginning of the year: growth during the past quarter was just 0.1%. Double-digit inflation has forced a 5 percentage point rise in the base rate, which has severely dented affordability. South African consumers are highly indebted and it seems likely that prices will fall slightly in the near future.

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

Country	year on year % change on 2008 Q2, unless otherwise stated	2007 Q2	Rank 2008 Q2	Rank 2007 Q2	notes
Bulgaria	32.2%	27.1%	1	3	
Slovakia	31.2%	20.5%	2	5	
Russia	26.5%	53.7%	3	1	
Czech Republic	25.4%	20.5%	4	5	
Hong Kong	25.1%	n/a	5	n/a	
Singapore	16.3%	25.2%	6	4	
Cyprus	12.9%	8.0%	7	20	
Colombia	12.5%	12.8%	8	10	(*
Iceland	9.6%	9.6%	9	17	
China	9.2%	7.1%	10	22	
Australia	9.0%	10.1%	11	16	
Belgium	6.9%	11.0%	12	12	(**
Croatia	5.8%	6.9%	13	24	
Austria	5.4%	7.7%	14	21	(*
Italy	5.4%	5.4%	14	28	(**
Canada	4.8%	9.1%	16	18	
Indonesia	4.4%	7.0%	17	23	
Sweden	4.3%	10.3%	18	14	
Serbia	3.8%	0.2%	19	36	(**
South Africa	3.8%	15.5%	19	7	
France	3.2%	6.8%	21	25	
Finland	2.8%	6.5%	22	26	
Spain	2.4%	5.8%	23	27	
Malaysia	2.2%	11.0%	24	12	(**
Greece	1.7%	4.2%	25	29	(*



Portugal	1.6%	1.3%	26	33	(*)
Hungary	1.2%	0.5%	27	35	(*)
Netherlands	1.1%	3.6%	28	30	(**)
Norway	0.6%	14.1%	29	9	
Luxembourg	0.5%	1.0%	30	34	(*)
Switzerland	0.4%	1.7%	31	32	(*)
Israel	-0.2%	-3.6%	32	40	(*)
Japan	-0.7%	-1.1%	33	38	(*)
New Zealand	-2.2%	12.1%	34	11	
Germany	-2.5%	-4.4%	35	41	
Malta	-2.7%	0.2%	36	36	
United Kingdom	-3.9%	10.3%	37	14	
Ireland	-8.1%	2.1%	38	31	
Denmark	-9.6%	-5.6%	39	42	
Lithuania	-9.9%	8.1%	40	19	
Estonia	-16.0%	15.4%	41	8	
United States	-16.8%	-3.3%	42	39	
Latvia	-24.1%	37.1%	43	2	

(*) = 2008Q1

(**) =
2007Q4

(Source: Knight Frank: August 2008)

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Notes to Editors

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