



The real estate market and residential property prices developments in Slovakia in 2006

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Real estate is today becoming a global asset class due to the enduring advantages of investing in different property segments. For international real estate capital, Europe continues to be attractive even though expectations for rates of return have already been lowered to single digits. Recent years have seen foreign property investors take a substantially keener interest in the countries of central and eastern Europe, which receives around 5% of all foreign investments in the European property market as a whole.

The ECB's Working Group on General Economic Statistics is developing activities for the purpose of acquiring residential property price data from all EU Member States, even though there are currently no binding statistical directives for this area. In November 2007, the EU's Statistics Committee (STC) is due to present an evaluation of the progress made in non-financial statistics covering the market and residential property prices over the past four years.

BRIEF OUTLINE OF THE EUROPEAN PROPERTY MARKET AND REAL ESTATE PRICES DEVELOPMENTS

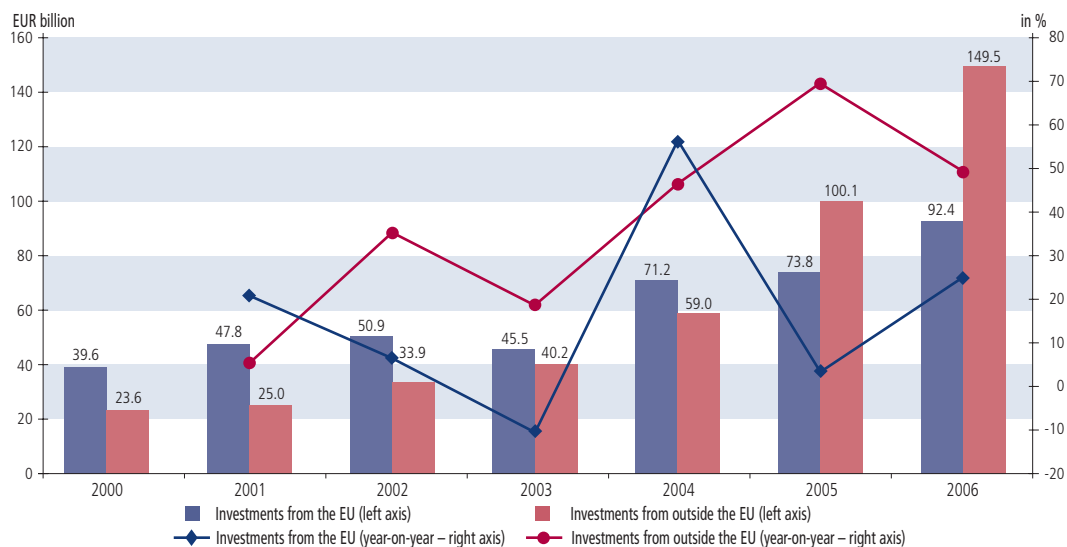
The European property market in 2006 was described by experts as less dynamic than in previous years. The reason was that rising interest rates within the euro area made the acquisition of real estate more expensive, and consequently supply exceeded demand in certain segments and regions in the largest property markets.

Nevertheless, the relatively dynamic growth in investments in European properties continued in 2006. They rose in value by more than EUR 240 billion, which in comparison with the previous year represented an increase of almost 40%. Direct property investments made from outside the EU recorded higher year-on-year growth (almost 50%) than did property investments within EU countries (more than 25%).

According to real estate experts, the most attractive investments in Europe are currently in business centres, hotels, multifunctional properties and office premises in urban centres. Investments in residential property are also now attractively efficient. It is proving less profitable to invest in industrial parks or in the construction of office premises on peripheries.

The residential property market in European countries displayed considerable variability in 2006, and there were also relative differences in price developments within this property seg-

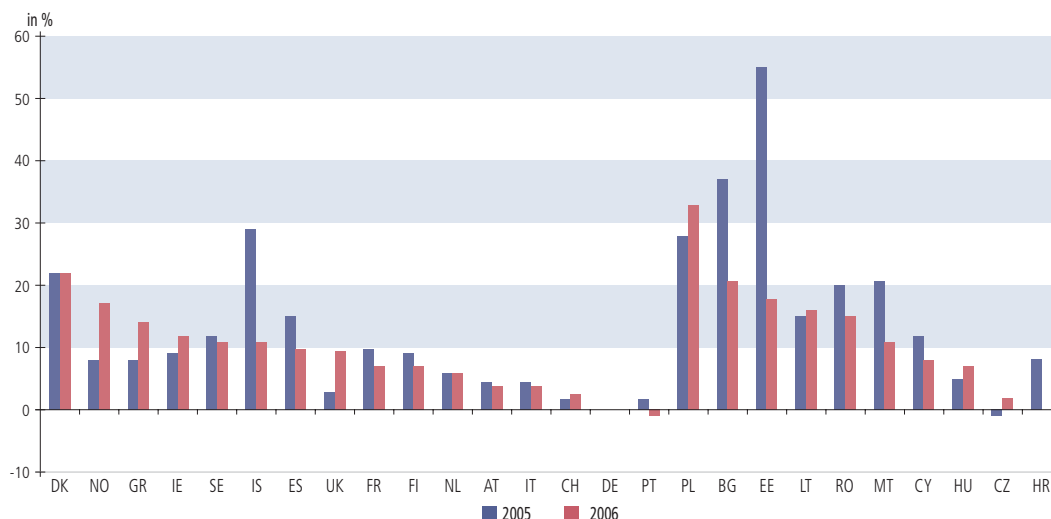
Chart 1 Direct property investments in Europe



Source: Slovenská sporiteľňa, a.s., NBS own calculations.

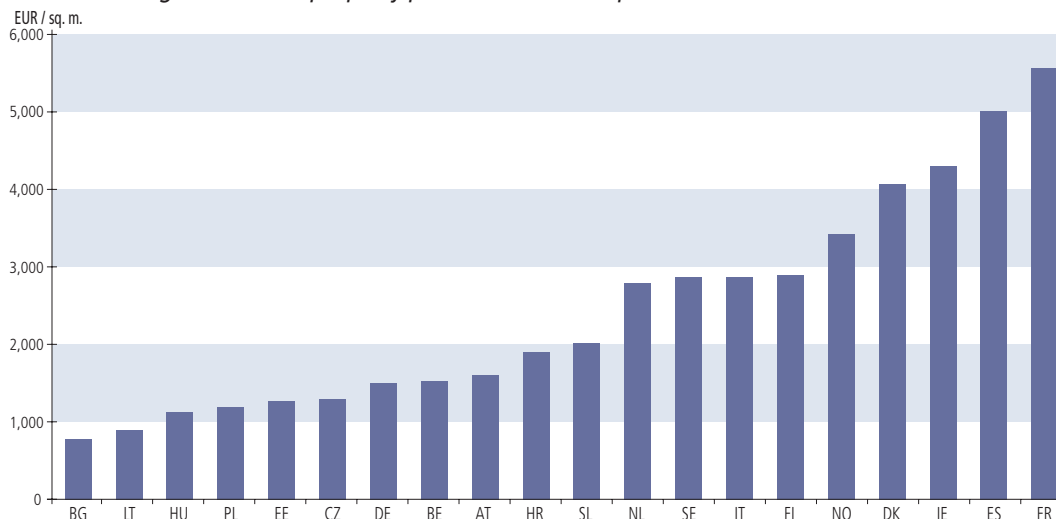


Chart 2 Residential property prices in selected European countries (year-on-year change)



Source: European housing review 2007. RICS Research, Brussels 2007.

Chart 3 Average residential property prices in selected capital cities



Source: Égert, B. – Dubravko, M.: Determinants of House Price Dynamics in Central and Eastern Europe. BIS, Basel 2007.

ment. The year-on-year rise in residential property prices was sharper in new EU Member States than in old ones.

In most new Member States, residential property prices recorded double-digit growth (year-on-year) in 2006. According to the available data, Poland experienced the sharpest rise in these prices (although the data are only for the capital city), and Estonia and Bulgaria also reported substantial increases, albeit much lower than in the previous year. In neighbouring Hungary and the Czech Republic, the year-on-year growth in prices of houses and flats was far lower than in other new EU countries.

In comparison with previous years, 2006 saw stagnating prices of houses and flats in Germany and Portugal and a slowdown in price growth in several other western European countries (Iceland, Spain, France, Finland, Sweden, Austria and Italy). Residential property prices rose, by contrast, in the United Kingdom, Norway, Greece and Ireland, and they continued a trend of steep growth in Denmark.

Prices rose particularly sharply in the capital cities of France, Spain and smaller northern countries. Compared with prices in Paris, the average unit price of houses and flats in the capital cities of the new EU Member States was five times lower (Bratislava prices in 2006 fluctuated at around the level of prices in the Hungarian capital).

Several factors lie behind the increase in real estate prices, including economic growth, relatively low inflation, declining nominal interest rates, an expanding labour market, and unmet household demand for dwellings (especially in rapidly developing regions).

Flat and house prices are also affected by a whole range of other factors, significant examples of which include credible information on the state and real needs of the dwelling stock, signals from the government in the field of housing policy (e.g. support for social housing etc.), or the conditions under which mortgage loans and other home loans are extended, which can apply upward or downward pressure on prices. Other key factors are the degree of match be-



tween demand and supply and the development of prices in surrounding countries.

Amid general expectations for a slight slowdown (year-on-year) in residential property prices in Europe, experts are not admitting the possibility of a price bubble forming in the near future and possibly bursting (where prices decline by more than 15%). This optimism is based on the tools and institutions within the property market which limit the scope for risky lending and create conditions for European property markets to develop on a more stable footing than in the past.

It is well known that the EU does not yet have a uniform methodology for the collection of data on residential property prices. The available data come from various national sources, whose definitions of residential real estate and their prices differ in content, time and area terms. This should be taken into account, especially in regard to various international comparisons.

As regards the quality improvement and harmonization of data on residential property prices, there are high expectations for a pilot project that Eurostat is currently conducting with support from the ECB. The main purpose of the project is to examine, first, the need and potential for including owner-occupied housing costs in the harmonized index of consumer prices (HICP) and, subsequently, how to construct the harmonized index of residential property prices in all Member States in accordance with a uniform methodology. The evaluation of the project and approval of recommendations for the uniform collection of data on residential property prices in the EU should be completed in 2008. The subsequent inclusion of the collection of residential property price data in Slovakia's national statistical collection programme is expected to require intensive efforts in regard to preparing and ensuring the essential organizational-technical, personnel and financial conditions for implementation of the new collection by the Statistical Office of the Slovak Republic, the country's official coordinator of price statistics.

RESIDENTIAL PROPERTY PRICES AND RENTS IN SLOVAKIA IN 2006

The average price per square metre of residential property in Slovakia in 2006 was SKK 30,661, representing a rise of almost SKK 4,600 or 17.5% in comparison with 2005, according to NBS calculations based on data from the National Association of Slovak Real Estate Agencies (NARKS). The aggregate prices of residential property rose at a relatively even pace in each quarter of the year.

Residential property rents averaged SKK 19,509 per month in 2006, which was a decline of almost SKK 2,300 or more than 10% year-on-year. Average monthly rents fell steadily over the first three quarters of 2006, but rose again in the fourth quarter.

Looking at the year-on-year development of average prices (up) and rents (down) for residential property in Slovakia in 2006, the contrast indicates that some real estate was bought not for the purchaser's dwelling purposes but in order to be rented out. The increased supply of rented accommodation caused the average monthly rent in 2006 to decline in comparison with 2005, down to around the 2004 level. The ratio of the average rent to the average price per square metre of real estate fell from approximately 80% in 2005 to around 60% in 2006, and this declining trend may be expected to continue in the next period.

The average price per square metre of flats sold in Slovakia amounted to SKK 30,804 in 2006, representing a rise of almost 20% in comparison with 2005. The price per square metre of living area varied between types of flats: five-room flats were the most expensive (around SKK 33,400 / sq. m.) and four-room flats the least (around SKK 28,700 / sq. m.). The sharpest rise from the previous year was recorded by two-room flats (up by 24.1%) and the lowest by five-room flats (17.8%).

Of the total number of flat sales in 2006, three-room flats accounted for the largest share (more

Table 1 Sale and rent prices for residential property in Slovakia

	Sale			Rent		
Year, quarter	Price in SKK per sq. m.	Overall price change in %		Monthly price in SKK	Overall price change in %	
		2002 = 100	Year-on-year change		2002 = 100	Year-on-year change
2006	30,661	171.9	117.5	19,509	86.5	89.5
4. Q 06	32,209	180.6	117.0	19,566	86.7	94.2
3. Q 06	31,427	176.2	117.2	18,638	82.6	77.5
2. Q 06	30,000	168.2	119.9	19,735	87.5	92.1
1. Q 06	29,007	162.7	116.0	20,097	89.1	96.1
2005	26,088	146.3	90.8	21,789	96.6	109.2
2004	28,746	161.2	115.4	19,957	88.5	109.9
2003	24,901	139.6	139.6	18,166	80.5	80.5
2002	17,832	100.0	–	22,562	100.0	–

Source: NARKS, NBS calculations.



than 44%) and five-room flats for the lowest share (less than 2%).

In each quarter of 2006, the average unit price for all types of flats increased more evenly than in the previous year. In general, its year-on-year rise was sharper in the first half of the year than in the second. Unit prices of four-room flats rose year-on-year in the third quarter, too, while the prices of five-room flats followed a year-on-year fall in the second quarter (largely resulting from a basis effect) with a marked rise in the third and fourth quarters. In each quarter, the relatively low number of sales of four-room and five-room flats had only a small effect on the average unit price for all flat types.

As for house sales in Slovakia in 2006, the average price per square metre rose by almost 10% in comparison with the previous year, to stand at SKK 30,251, with the average unit prices of family houses increasing more sharply than the unit prices of villas.

Among rent prices, the highest average monthly increase in 2006 was recorded by rents for one-room flats (up by more than 9%), including a rising pace of growth in each quarter. By contrast, rents for three-room flats declined year-on-year by more than 10%, possibly reflecting the large rise in the share of flat purchases accounted for by these flats, some of which may have been bought for the purpose of renting out. Rents for three-room flats stopped declining in the third quarter.

Average monthly house rents in 2006 were around SKK 44,000, almost three times higher than the average monthly flat rents.

In the regional breakdown for 2006, unit prices of residential property were highest in Bratislava region (SKK 41,464 / sq. m.), at more than a third of the average for Slovakia as a whole. Among the other regions, unit prices of house and flat sales differed but were never as high as the national average. The lowest average sale prices for residential property were in Nitra region (SKK 14,258 / sq. m.) and Trenčín region (SKK 14,262 / sq. m.).

Average monthly rents for residential property in Slovakia came to SKK 19,509 in 2006. The figures for Bratislava and Trnava region were above the national average, while the lowest average rent was reported in Prešov region (SKK

Chart 4 Average unit prices for different flat types and their increase year-on-year

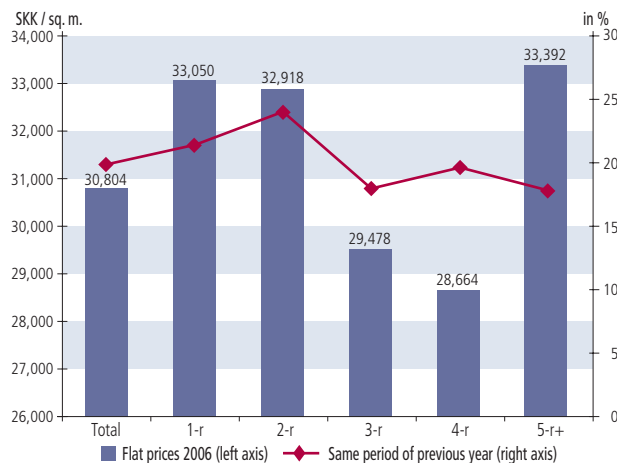
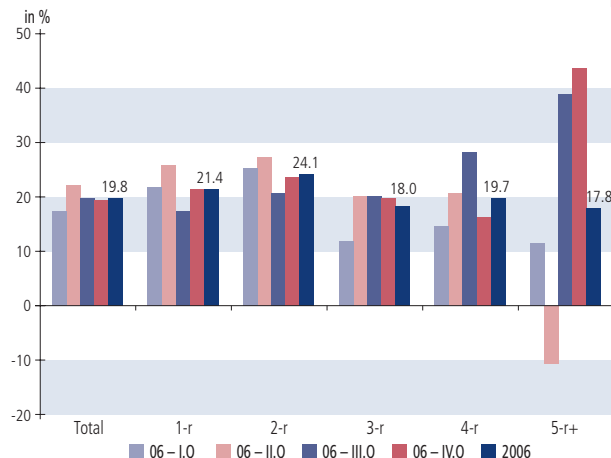


Chart 5 Sale prices for different flat types (year-on-year change)



Source: NARKS, NBS calculations.

11,156), representing around 57 per cent of the national average.

The ratio of the average monthly rent to the average unit sale price for residential property was around 64% for Slovakia as a whole in 2006. The ratios for Bratislava and Prešov regions were similar, and those for Košice, Trnava and Banská Bystrica regions were substantially higher. In the other three regions, Nitra, Trenčín and Žilina, the average monthly rent was even higher than the average unit sale price for houses and flats.

Year-on-year increases in residential property

Table 2 Sale and rent price for residential property in 2006, by region

Sale	BA	NR	KE	PO	TT	TN	BB	ZA	SR
SKK / sq. m.	41,464	14,258	17,489	18,425	21,449	14,262	15,410	15,275	30,661
region to Slovakia ratio (%)	135.2	46.5	57.0	60.1	70.0	46.5	50.3	49.8	100.0
Rent									
SKK / month	25,704	17,597	16,406	11,156	20,937	18,368	12,787	18,629	19,509
region to Slovakia ratio (%)	131.8	90.2	84.1	57.2	107.3	94.1	65.5	95.5	100.0

Source: NARKS, NBS calculations.



Chart 6 Average unit prices for residential property in 2006 and their year-on-year increase, by region

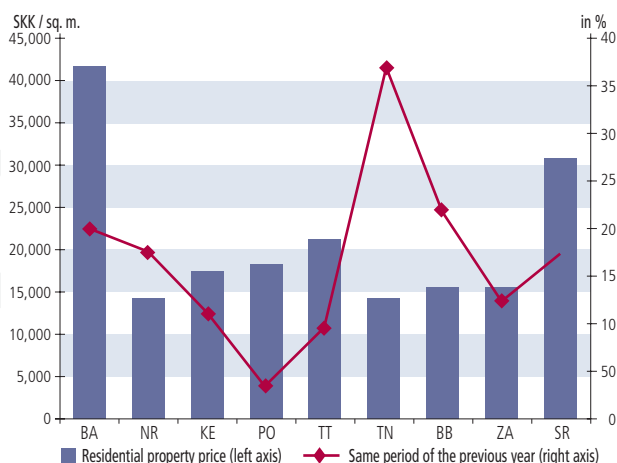
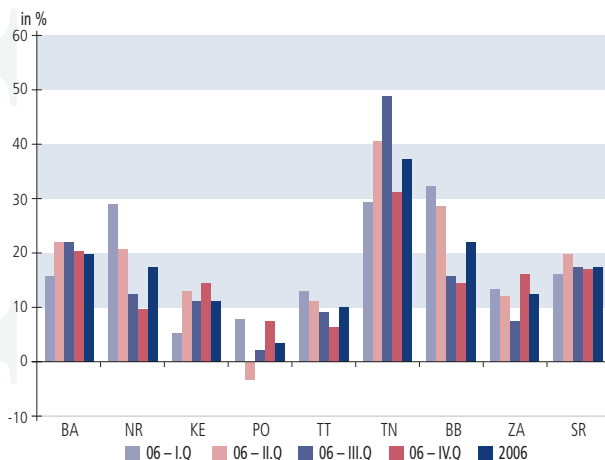


Chart 7 Residential property sale prices by region (year-on-year change)



Source: NARKS, NBS calculations.

able variability between national property markets in Europe, and this differentiation extended to the development of residential property prices. The year-on-year increase in house and flat prices was sharper in the new EU Member States than in the old ones.

The indications are that the residential property market in Slovakia, concentrated mainly in Bratislava and its environs and in other developing industrial centres, includes considerable unmet demand for permanent or temporary housing. This may arise from efforts to acquire housing as such, or in the need to refurbish housing. Another motive for many flat and house purchases is to rent the property out.

In 2006, the average unit price of residential property in Slovakia came to SKK 30,661, which represents a year-on-year increase of 17.5%. The aggregate sale prices of residential property recorded a relatively even increase in each quarter. From the view of flat types, the sharpest year-on-year rise in unit prices were reported for smaller flats (mainly one-room and two-room).

The average monthly rents for residential property fell by more than 10% in 2006 to stand at SKK 19,509.

In the regional breakdown for 2006, unit prices of residential real estate were highest in Bratislava region, at more than a third higher than the average for Slovakia as a whole. Among the other regions, average unit prices for house and flat sales differed but were never as high as the national average. The lowest average sale prices for residential property were in Nitra region.

From the view of the property business, Slovakia remains attractive to investors, not least because of the advantageous tax system and relatively favourable macroeconomic environment. That said, Slovakia has the drawback of its property market being smaller than property markets in neighbouring countries.

The activity of developers in Slovakia's real property market may be expected to continue in 2007, and may to a certain extent be affected by the Europe-wide decline on returns on investment in real estate. If, as expected, the demand for houses and flats continues, the trend of rising prices in Slovakia should be maintained in 2007.

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prices in 2006 differed quite significantly between regions. The sharpest rises were reported in Trenčín and Banská Bystrica regions and the lowest in Prešov region.

Regions also reported very different quarterly developments in residential property prices, including a relative increase in more than one quarter (Trenčín, Bratislava and Košice regions), a decrease (Banská Bystrica, Nitra and Trnava regions) and the onset of a decline in the second quarter (Prešov region).

Like the majority of new EU Member States, Slovakia reported double-digit growth in residential property prices in 2006 and has seen a property boom in recent years. Selected data on residential property prices in Slovakia and their development has been published on the NBS website since the beginning of 2007.

CONCLUSION

The relatively dynamic rise in direct investment in European real estate continued in 2006, and amounted to more than EUR 240 billion for the year. A substantial portion of that investment came from outside the EU. There was consider-