

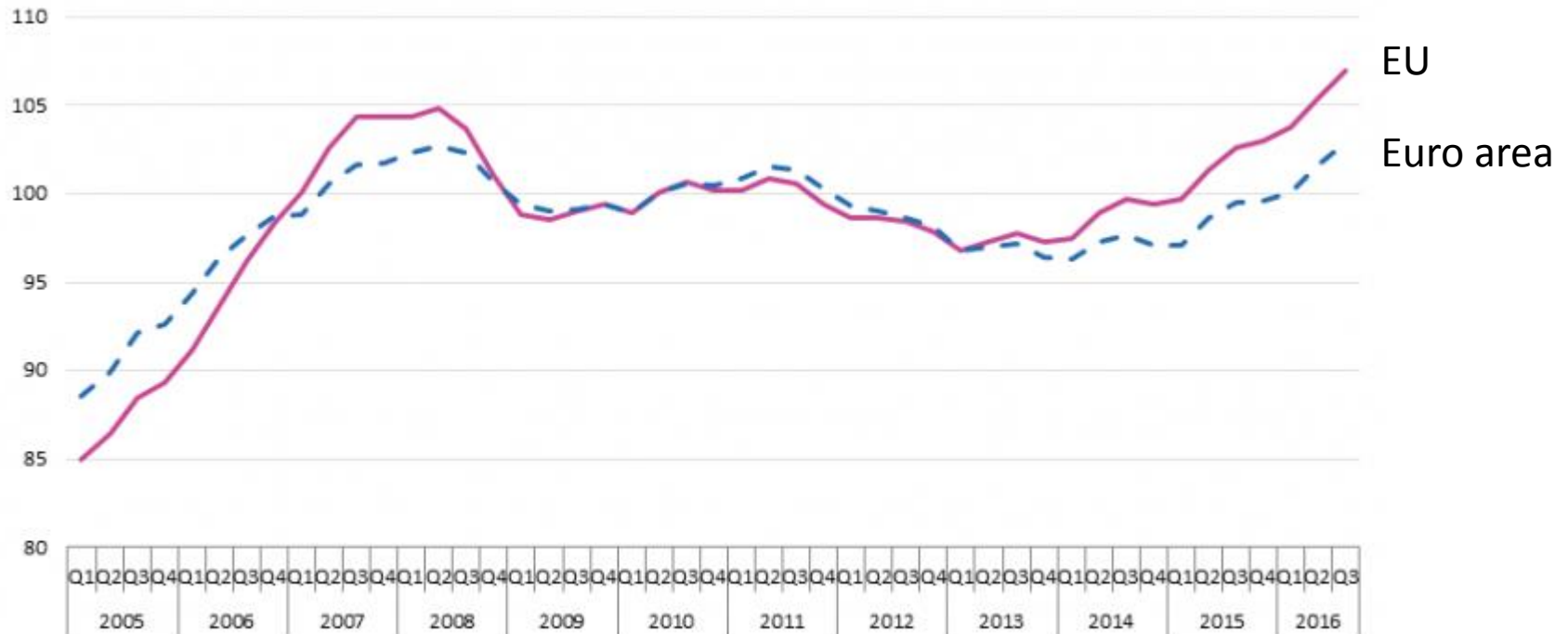


Global Opportunities in Housing Finance? 30th IUHF World Congress, Washington D.C.

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House price development in Europe

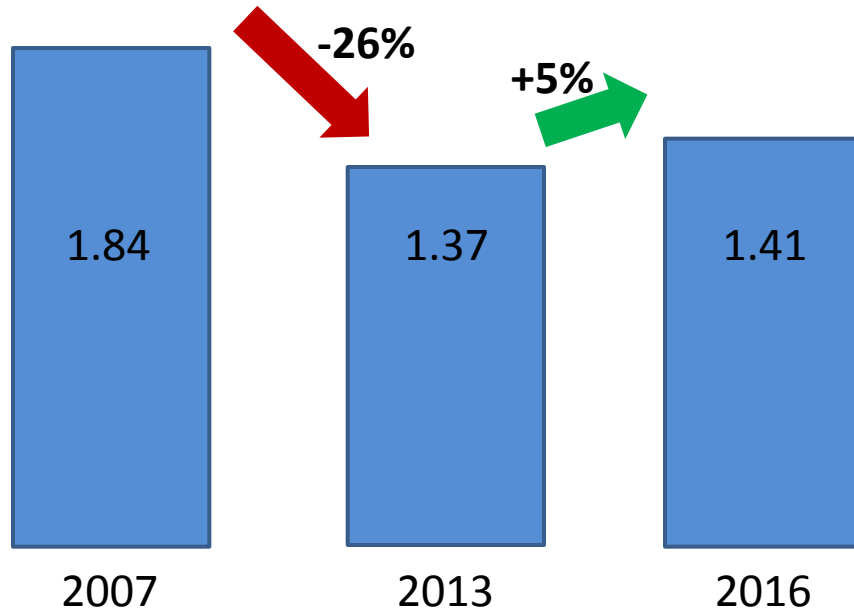
House Price Indices Euro area and EU aggregates, 2005-2016; 2010 = 100



- Dramatic increase of 25% in house prices from Q1 2005 to Q2 2007
- House prices fell after peak in Q2 2008 by more than 5% in one year
- Recovery since Q1 2014

Construction output in Europe

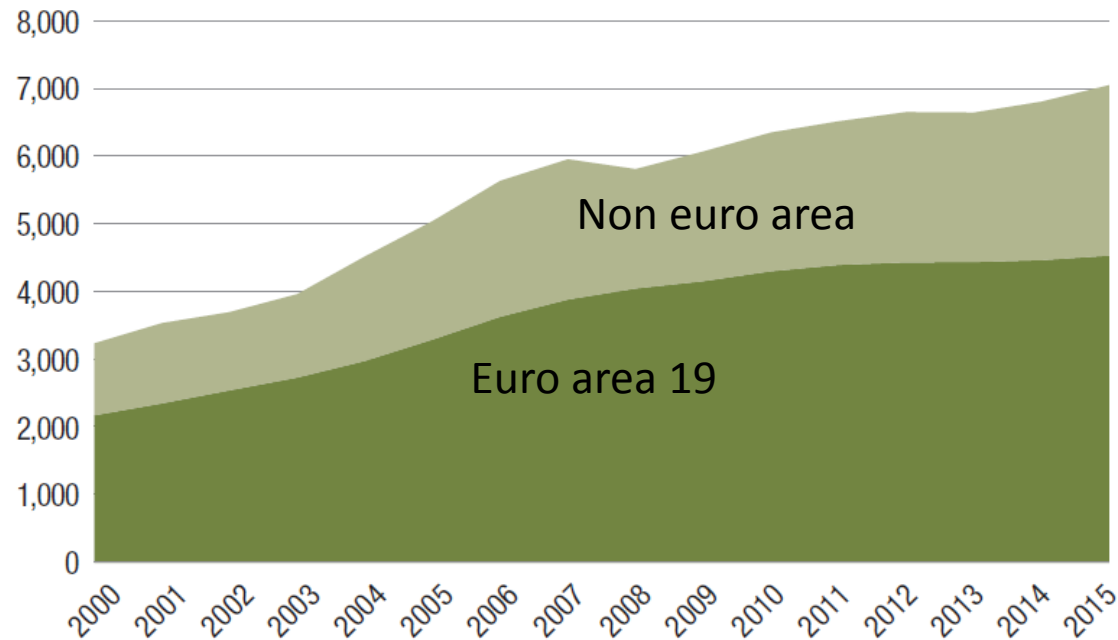
Construction output in Europe in trillion Euro ; 2007, 2013 and 2016



Outstanding mortgage lending in Europe

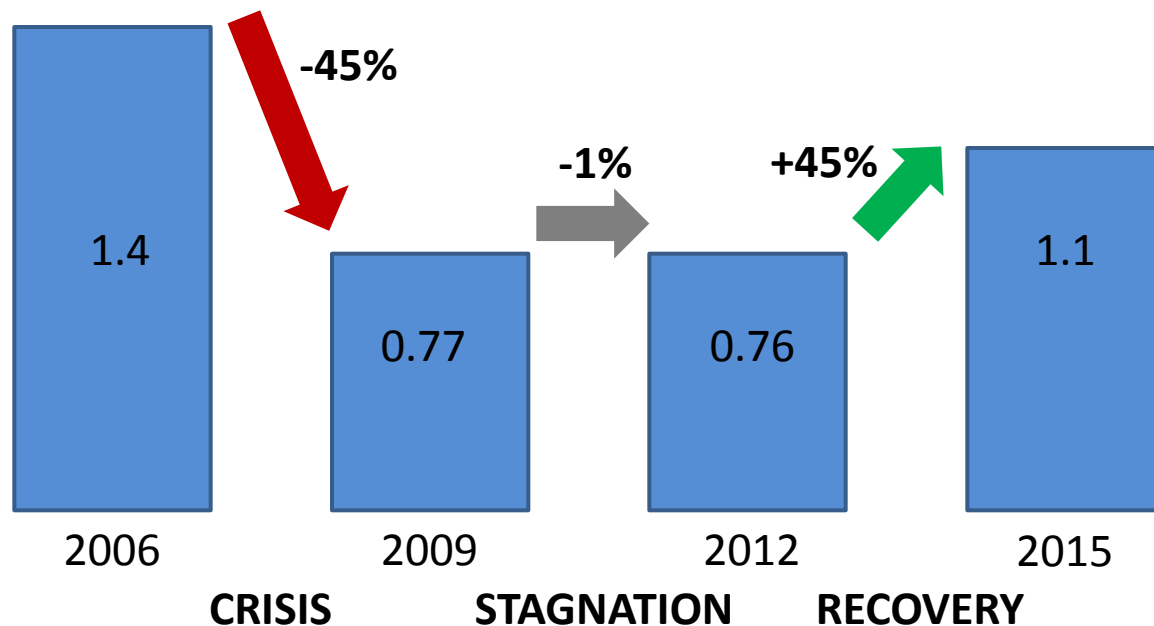
- France, Germany, the Netherlands, Spain and the UK accounted for 74% of the outstanding residential mortgages in 2015
- Value of residential lending in the European Union influenced by exchange rate fluctuations of non-euro area currencies

Outstanding Mortgage Lending in the EU; Euro billion



Evolution of gross lending in Europe

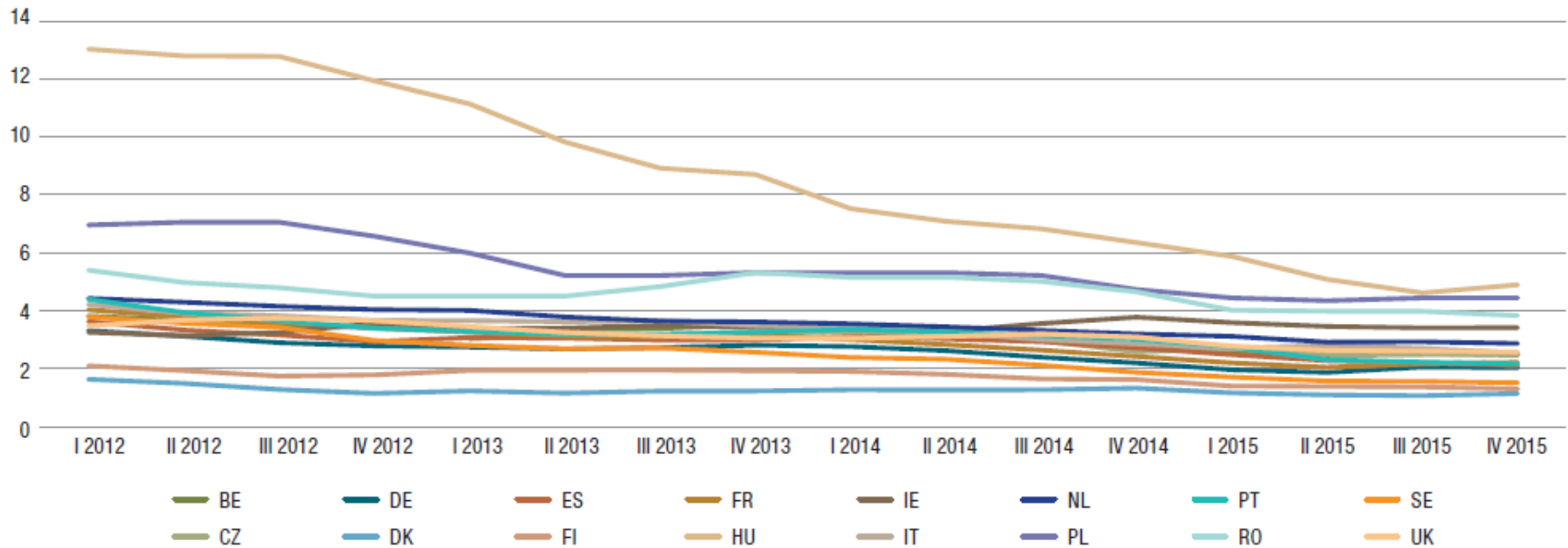
Gross residential lending EU 28 in 2006, 2009, 2012 and 2015; in Euro trillion



- Gross residential lending shows similar pattern as housing market
- Different countries display different trends: while some countries reported in crisis time dramatic negative changes (e.g. Spain, UK), others reported only marginal decreases (eg. Germany)

Mortgage rates in Europe

Mortgage rates in the EU, Q1 2012 – Q4 2015; in per cent



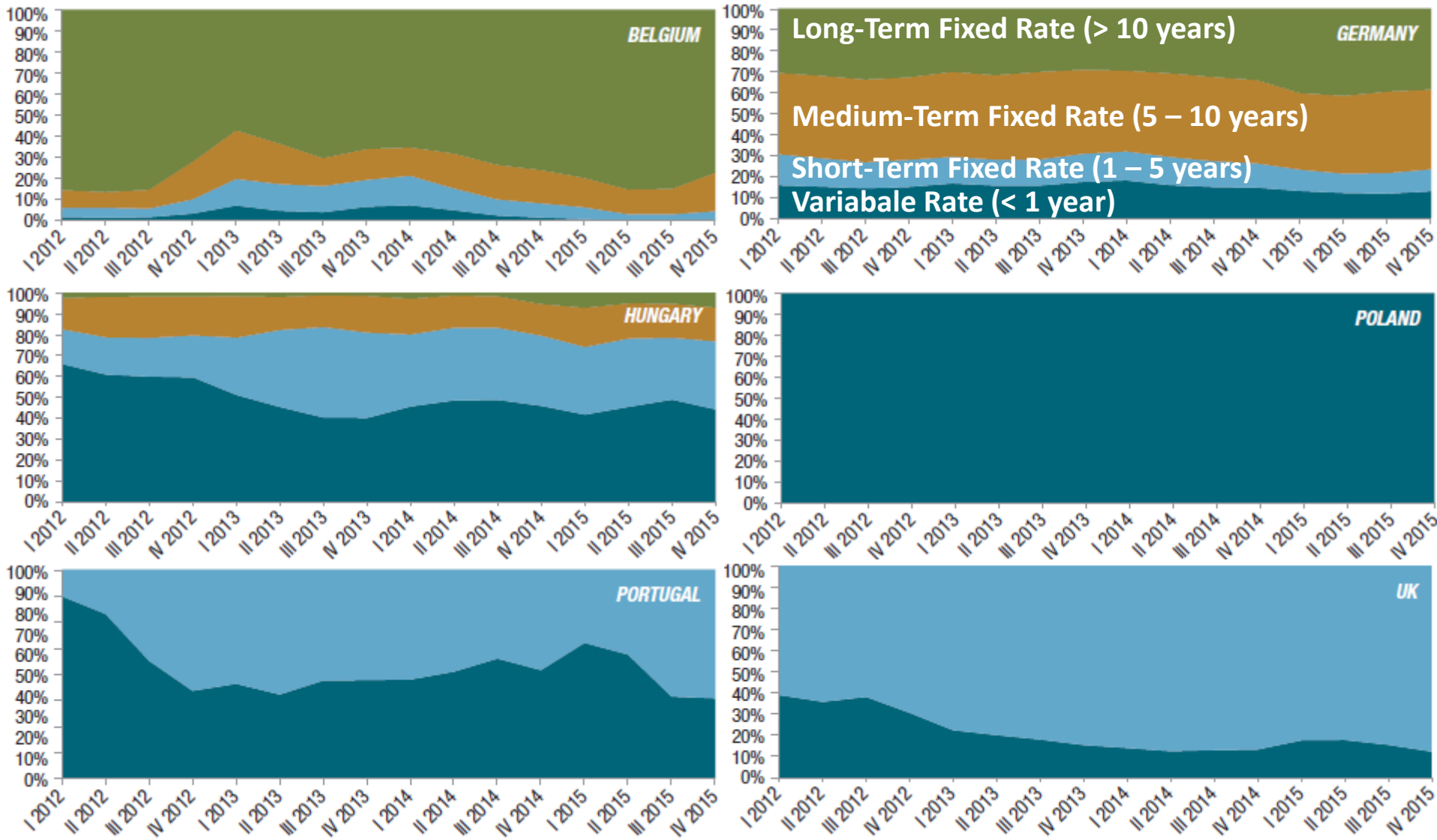
- Same decreasing trend, narrowing differences
- However, large differences for interest rates prevail

Mortgage products in Europe

- Mortgage markets, despite some common trends, remain very diverse in Europe
- These substantial differences exist due to diverse economic circumstances, legal systems, property laws, taxation systems, social policies, cultures and traditions
- Consumer choice of fixed versus variable mortgage rates provides a very mixed picture in the European Union



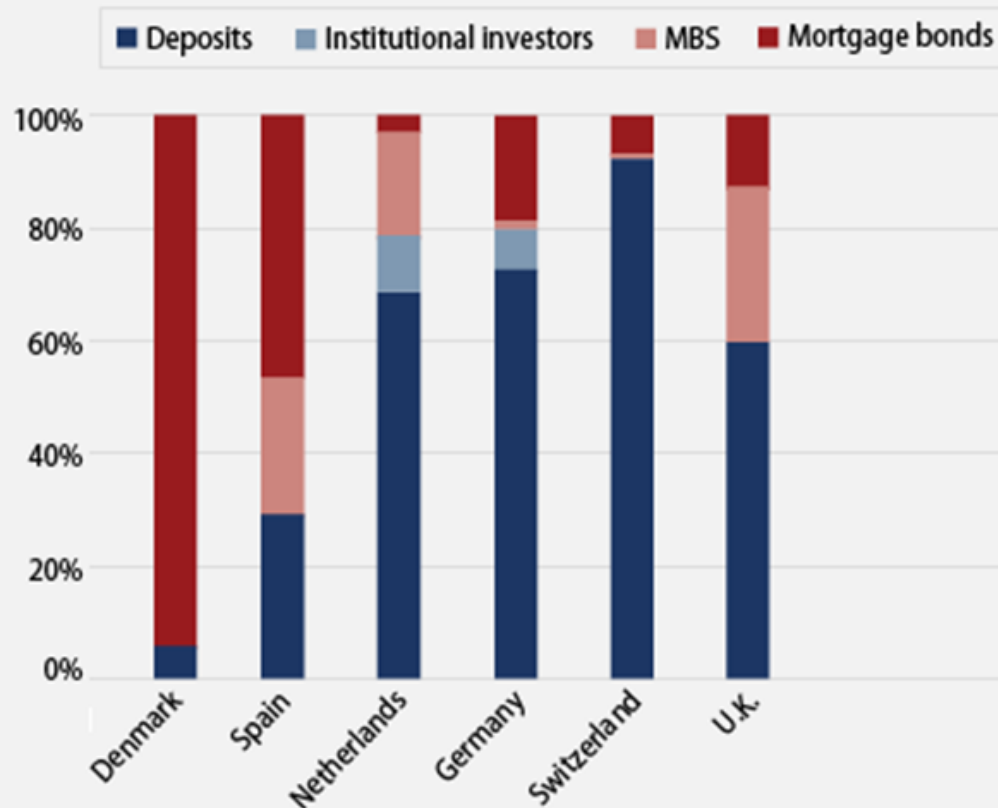
Market breakdown for new mortgage loans by interest rate type



Mortgage funding in Europe

Sources of mortgage finance are different in Europe

Mortgage funding channels in select European countries



Source: Michael Lea, "International Comparison of Mortgage Product Offerings,"
Research Institute for Housing America (2010)

- Although bank deposits account for the lion's share of mortgage funding in most European countries, diversity prevails also for the funding channels

Mortgage funding in Europe

- Funding channel does not allow for a general conclusion on duration:
 - Covered bonds are usually long-term instruments, but in Denmark short-term covered bonds are very common
 - Deposits are usually an instrument with a short-term nature, but contractual savings system, in use in many European countries, turn it into a long-term instrument

Understanding European mortgage markets requires always an in depth analysis!



European Central Bank policy and mortgage markets



- Extremely accommodative policy of the ECB has a direct impact on business models and threatens to bring about considerable structural changes
- Many financial institutions' business models are shaken to the core while their earnings erode.
- Less product choice and favorable terms can be the consequence for customers in the mortgage market
- Significant spread compression between 'core' and 'peripheral' markets masks the different credit risk levels
- Well-timed and well-managed end to the accommodative policy of the European Central Bank is absolutely necessary

Thank you!

Enjoy the conference!

Andreas Zehnder

President

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