

Knight Frank Global House Price Index – Second Quarter 2006 results

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Risk of global house price crash falls away

Headlines this quarter

- **Second quarter 2006 results from the only truly global house price index are released today, with new data and more countries covered**
- **Average global house prices stood 8.5% higher at the end of June 2006 compared to the same period 12 months earlier**
- **Global house price growth has continued to slow from the recent peak reached in 2004, average annual prices were growing by 12.3% in June 2005, overall 18 out of the 30 countries covered saw price growth slow over the last 12 months**
- **The annualised growth table is led by phenomenal growth in Latvia (45.3%), Bulgaria (20.5%) and Denmark (15.4%)**
- **The slowest annualised price growth is experienced in Serbia (-5.1%), Japan (-2.7%) and Hong Kong (-2.4%)**
- **The sharpest reversal of fortune was experienced in Hong Kong moving from 22.5% growth in mid 2005 to -2.4% falls in mid 2006**

Data overview

The Knight Frank Global House Price Index is the first serious attempt to analyse pricing trends in residential property across the world on a standardised basis every quarter. Results for 30 countries are released today and are based on an assessment of price changes in the mainstream housing markets of the countries covered.

Moving outside of the **UK, US** and northern **Europe** in most parts of the world there is a serious lack of data to enable the assessment of market movements in many countries; even tracking basic data on house prices on a like for basis within the European Union can be very problematic.

Where possible the Knight Frank index relies on an official national statistical source or a well respected national financial institution, usually a large mortgage provider (as in the case of the **UK** where we adopt figures provided by the Nationwide Building Society). In some cases these sources of data are not available and we have had to rely on valuation assessments of market movements – effectively assessing the value of a basket of properties from quarter to quarter. In certain cases we have had to relate our findings to capital cities as a

proxy for the wider national market – this is the case for example for the three Baltic states; **Lithuania, Latvia and Estonia.**

Liam Bailey, Head of Knight Frank Residential Research, comments: -

The most notable trend is that house price growth is continuing to slow across the globe. Many commentators have been concerned that the boom in prices which has been seen in many countries would end in tears. When price growth began to slow in **Australia** and the **UK**, in 2003 and 2004 the belief was that this was the beginning of a house price slowdown which would influence consumer confidence, spending and economic growth.

Close attention has been paid to the **US** market and to other European markets such as **France** and **Ireland** where price growth continued to expand last year. However in all of these markets price growth has begun to slow with annualised inflation lower in each compared to the same period last year. A stable slowdown appears to have taken place in the **UK** and **Australia** with both countries sitting well down the price growth league table.

New data for **Latvia** reveals huge growth in prices over the past two years, with prices for apartments in Riga and the surrounding area over 45% higher in a year. Why has this market performed so well? A levelling up situation is affecting all markets in the former Eastern Bloc – especially those which have joined the EU in recent years. Wage inflation, growing prosperity and access to less constrained mortgage finance have all contributed to rapidly rising prices.

The same process has been seen in **Bulgaria** – with a classic combination of catch-up, speculation, second home interest and slow but sustained economic growth underpinning prices.

Higher prices in most parts of the globe are a result of lower finance costs and increased wealth following strong economic growth in recent years. Slower house price growth globally suggests that affordability constraints have been hit in more locations.

Our forecast is that we will see continued slowing of average global house price growth over the rest of 2006 and into 2007. However this wider trend will mask regional hot-spots and investment opportunities. Our favoured locations are: -

- **Germany** – Europe's largest economy, and the world's largest exporter is still underperforming and we believe will see sustained growth from 2007
- **Slovenia** and **Slovakia** – the two countries with the best potential for further growth in Eastern Europe (not yet in our index but joining from next quarter with new data sets available)
- **Cyprus** – has potential for growth over the medium term – once the VAT changes are implemented and settle down
- **Russia** – effectively Moscow, has the potential for more growth and will rival eventually rival London as the most expensive world city within five years

Data summary

Knight Frank Global House Price Index - annualised house price growth and country rankings

	Annual % change at 2005 Q2	Annual % change at 2006 Q2	Rank as at 2005 Q2	Rank as at 2006 Q2	Position change 2005 Q2 to 2006 Q2	Position change from 2006 Q1 to Q2
Latvia (Riga)	73.5	45.3	1	1	0	10
Bulgaria	43.8	20.5	2	2	0	2
Denmark	15.3	15.4	9	3	6	-1
Belgium	18.9	14.9	7	4	3	13
South Africa	25.2	14.3	3	5	-2	0
Estonia (Tallinn)	19.9	12.9	6	6	0	-5
Sweden	7.7	12.8	19	7	12	3
Canada	9.5	11.8	16	8	8	8
Greece	10.4	11.8	14	9	5	4
New Zealand	13.4	10.6	12	10	2	-7
US	14.1	9.4	10	11	-1	-3
France	15.3	9.4	8	12	-4	-3
Ireland	10.1	9.4	15	13	2	-6
Spain	14.0	8.5	11	14	-3	-8
Lithuania (Vilnius)	21.7	7.0	5	15	-10	-3
Finland	4.8	6.7	21	16	5	2
Norway	9.1	6.4	17	17	0	N/A
China	8.0	5.8	18	18	0	1
Singapore	2.4	5.7	24	19	5	2
Italy	11.2	5.2	13	20	-7	-6
Hungary	1.3	4.9	26	21	5	N/A
UK	6.1	4.8	20	22	-2	-7
Australia	1.9	3.7	25	23	2	-1
Switzerland	0.8	3.4	27	24	3	-1
Austria	3.9	3.2	23	25	-2	0
Netherlands	4.4	2.0	22	26	-4	-6
Germany	0.2	0.5	28	27	1	-1
Hong Kong	22.5	-2.4	4	28	-24	0
Japan	-4.8	-2.7	29	29	0	-2
Serbia (Belgrade)	-14.8	-5.1	30	30	0	-1

Source: Knight Frank Residential Research

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Notes to editors

The Knight Frank Global House Price Index

The Knight Frank Global House Price Index tracks average house prices across a comprehensive selection of countries from the US, Europe, Africa and Asia. The index is based on an assessment of price changes in the broad mainstream housing markets of the countries covered.

Where possible we rely on official national statistics or a well respected national financial institution – usually a large mortgage provider as in the case of the UK where we adopt figures provided by Nationwide. In some cases these sources of data are not available and we rely on valuation basket assessments. In some cases this means we relate our findings to capital cities as a proxy for the wider national market.

About Knight Frank

London-headquartered Knight Frank and its New York-based partner Newmark Knight Frank operate from over 140 offices in established and emerging property markets on five continents. Last year, the companies handled transactions valued at over \$41 billion with annual revenues of over \$545 million. With a combined staff of 4,500, this major force in real estate is meeting the local and global needs of owners, tenants, investors and developers worldwide. For further information about the Company, please visit www.knightfrank.com

About Knight Frank Residential Research

Knight Frank Residential Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, financial and corporate institutions. All our clients recognise the need for the provision of expert independent advice customised to their specific needs.

Knight Frank Research Reports are also available at www.knightfrank.com

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