

EMF

Study



2010 EMF Study on the Cost of Housing in Europe



RATES
(simple)



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EXECUTIVE SUMMARY

Further to its first edition in February 2006, this study provides an updated comparative overview of housing transaction costs in a selection of EU housing markets by analysing the types of costs which are associated with a “typical property purchase” and with a “typical mortgage loan”¹.

The data included in this study refers to 2008 and to 2007 for some countries, while the data in the 2006 study referred to 2004. It covers the following fourteen EU countries (EU14): Belgium, Denmark, Estonia, France, Germany, Ireland, Italy, Latvia, Lithuania, Poland, Portugal, Spain, Sweden, United Kingdom.

The costs of purchasing a dwelling in the EU14 was, on weighted average, 5.3% of the property price in 2008. These costs ranged from 1.0% in Lithuania to 13.4% in Belgium. Generally, these are higher in Southern Europe while they are lower in Northern Europe and in the Baltic states.

Property purchase costs account for the largest part of transaction costs, and the largest component of these is formed of taxes. On weighted average, taxes amount to 2.8% of the value of transaction costs.

In many countries there is no tax on taking out a mortgage loan. In the countries where they exist, they account for a small share of the total loan transaction costs.

Comparisons with evidence from the 2006 study are possible for nine out of the fourteen countries surveyed in this study (Belgium, Denmark, France, Germany, Italy, Poland, Spain, Sweden and the UK).

In general, total costs associated with the purchase and the mortgage loan decreased in these seven countries except for a negligible increase in Germany (from 4.5% to 4.6%), and a more significant one in Spain (from 10.4% to 11.4%), while they remained unchanged in Poland (3.8%). In Belgium they recorded the most significant decrease (from 17.1% to 13.4%) but remained by far the highest among the countries analysed.

Property purchase taxes recorded a decrease on 2004 levels in Belgium (from 12.4% to 9.5%), Italy (from 4.0% to 3.3%), the UK (from 1.0% to nil) and remained substantially unchanged in France, Germany, Denmark, Sweden and they increased in Poland (from 0.2% to 2.0%).

Mortgage costs increased in Spain (from 2.4% to 3.0%). They decreased in France (from 1.0% to 0.5%) and Poland (from 1.3% to 1.0%) and remained substantially unchanged in all other markets.

It is interesting to note that in the markets which were surveyed in the 2006 study, property values increased significantly due to the very high housing inflation recorded from 2004 to 2008.

Loan-to-Value (LTV) ratios were essentially the same in 2008 and in 2004, and the increases recorded in house prices (which granted higher equity cushion to existing homeowners), were generally associated with higher mortgage values. The downturn in mortgage markets which was triggered by the financial crisis in the second half of 2008 may have impacted LTV ratios, which may have been reduced as a consequence of tightened lending criteria. However, evidence collected here (updated to end-2008) does not reflect these effects as yet.

The strong growth in house prices recorded over the previous housing cycle could have induced governments to increase revenues from housing transactions. There were considerable increases in absolute levels of revenues due to the rise in property values in recent years but no increases in the property purchase tax rates were recorded, whereas some countries recorded decreases in property tax rates. In this respect, markets surveyed in this study can be grouped by: a) countries which have experienced higher increases in house prices than the EU14 average and a decrease in the level of property taxation on 2004 (UK); b) countries which have experienced higher increases than the EU14 average in house prices and an increase in the level of taxation (Poland); c) countries which have experienced higher increases than the EU14 average in house prices and no change in the level of taxation (Denmark, France, Spain, Sweden); d) countries where prices have not exceeded the EU14 average and taxation has decreased (Belgium); e) countries where prices have not exceeded the EU14 average and the level of taxation has remained unchanged (Germany).

It should be underlined that this data did not capture the effects of the end of the housing market boom and the collapse in house prices after Q4 2008 (and throughout 2009) which certainly would be significant. The conclusion would be that, in general, governments in the EU14 were supportive of the last buoyant housing cycle – when peaks in house prices were recorded - and that taxation of property was not used as a policy instrument to curb housing demand.

There may be a relation between transaction costs and growth in house prices. Countries with higher levels of tax on property transactions could be expected to experience less sustained developments in housing demand and are less likely to experience speculative bubbles (and *vice versa*). However, evidence contained in this study shows that this relation can be observed for some countries and not for others, so that no clear correlation between transaction costs and growth in house prices could be observed.

¹ See Annex 2, Note on Methodology, for the definition of a typical mortgage borrower and typical property.

1. Introduction

1.1 Aim and rationale of the study

In keeping with the previous issue of 2006, the aim of the “Study on the Cost of Housing in Europe 2010” is to give a picture of the costs related to the purchase of a property for residential purposes in the EU and the costs related to taking out a mortgage to finance the purchase. Transaction costs are defined as all costs associated with the property purchase and with taking out a mortgage loan for a property purchase. These costs vary considerably in definitions and level of cost in individual countries, and they include, *inter alia*, taxes, legal fees, registering a mortgage with a land or mortgage register, property valuations, solicitors’ or notary fees, and bank charges. This study aims at shedding light on the size of these transaction costs in terms of proportion of the property value and to draw, as much as possible, both spatial (i.e. cross-country) comparisons based on national data referring to the year 2008, and also country-focussed comparisons between data from 2008 and 2004. Due to the unavailability of data for some of the countries that were included in the 2006 issue – a direct comparison between the results of 2004 and 2008 can only be made to a limited extent.

Another interesting point of discussion, which has largely been debated in the literature², is the impact of transaction costs on housing markets, which remains a much-debated point. This study investigates whether, on the basis of available information, there may be a relationship between transaction costs and growth in house prices in the countries surveyed (possibly in relation with some speculative bubbles which may be hampered by a rise in taxation).

Table 1 ► Typical house purchase values, loan values and LTV ratios in 2008⁷

Country	Purchase Price (EUR)	Mortgage Loan (EUR)	Loan to Value ratio (%)	Mortgage Maturity (years)
Belgium	235,000	188,000	80.0	25.0
Denmark	244,596	195,677	80.0	30.0
Estonia	91,600	73,280	80.0	20.0
France	220,000	160,000	72.7	20.0
Germany	276,600	197,800	72.0	31.0
Ireland	260,786	238,185	n/a	30.0
Italy	249,700	120,000	50.0	30.0
Latvia	80,000	64,000	80.0	20.0
Lithuania	97,300	77,840	80.0	20.0
Poland	91,670	55,300	80.0	30.0
Portugal	100,000	71,000	71.0	34.0
Spain	175,325	140,260	80.0	26.0
Sweden	250,000	200,000	80.0	50.0
United Kingdom	158,720	138,087	87.0	25.0
Simple Average	180,807	137,702	76.4	27.9
Weighted Average	210,713	160,001	74.9	27.6

Source: own calculations on EMF data

1.2 Definition of a Typical House Purchase

This study aims to provide information on the costs associated with a typical housing transaction in each of the countries surveyed so as to make them comparable across countries. The house purchase transactions have therefore been defined in each country as a “typical house purchase”³. Table 1 shows the typical house price, Loan-to-Value ratio (LTV), maturity of the loan and the typical mortgage loan borrowed in the fourteen countries⁴ (EU14) that have responded to the study as of end 2009. Outstanding residential loans in these markets amounted to 85.1% of the aggregate EU27 market at the end of 2008⁵.

On the basis of the data collected, a simple average shows that the house purchase value for the EU14 is 180,807 EUR, the average mortgage loan is 137,102 EUR, the average loan maturity is around 28 years and the average LTV ratio is 76.4%. A weighted average can be calculated using the share of each country’s mortgage market on the total aggregate of the EU14 as weights. As a result, the weighted average for house purchase value is 210,713 EUR, the average loan is 160,000 EUR, the average LTV ratio is 74.9% and the average maturity is still around 28 years.

Evidence from this study showed that large differences existed between EU countries in 2008. For example, loan maturities vary from 20 years in France and in the three Baltic countries (Estonia, Latvia, and Lithuania) to 50 years in Sweden⁶, where mortgages can be prolonged or renewed with a new maturity. Equally, LTV ratios can range from 50.0% in Italy to 87% in the UK.

When looking at the markets which were already surveyed with the 2006 study, property values increased significantly due to the very high housing inflation recorded between 2004 and 2008. Maturities in the countries observed were around 30 years. They increased in Belgium and Italy but remained substantially unchanged in the other countries.

LTV ratios were substantially the same in 2008 and in 2004, and the increases recorded in house prices between 2004 and 2008 (which granted higher equity cushion to existing homeowners) were generally associated with comparable increases in mortgage values. The downturn in mortgage markets which was triggered by the financial crisis in the second half of 2008 may have impacted LTV ratios, which have generally been reduced as a consequence of tightened lending criteria. However, evidence collected here (updated to end-2008) does not reflect these effects as yet.

Table 1 Notes:

Ireland	First homebuyers; average property price based on national average selling price. Source: ESRI
Spain	Data refers to the purchase of a new dwelling. LTV refers to first-time buyers. Source: AHE
Sweden	Property price refers to the average price for a one-family house in Sweden. That figure is perhaps not so typical as many rural houses are comparably cheap in Sweden. This notion refers to a more typical value of a house which corresponds to a property price in the suburbs of the big cities and in medium-sized towns in Sweden.
United Kingdom	Property price relates to the implied typical property purchased by first homebuyers, given the typical LTV. It does not correspond to the average mix-adjusted house price in 2007 shown in Table 4 which is for all houses and differently-sourced (see Table 4 for details)

² See, among others, D. R. Haurin and H. L. Gill (2002), *The Impact of Transaction Costs and the Expected Length of Stay on Homeownership*, in Journal of Urban Economics Vol. 51, Issue 3, and J. Van Ommeren (2008) *Transaction Costs in Housing Markets*, Tinbergen University Institute.

³ A “typical purchase” refers to a first time buyer and reflects the position of a “typical” rather than “average” borrower. See Annex 2 for details.

⁴ Belgium, Denmark, Estonia, France, Germany, Ireland, Italy, Latvia, Lithuania, Poland, Portugal, Spain, Sweden, United Kingdom.

⁵ For further details, see European Mortgage Federation, *Hypostat 2008*.

⁶ It should be noted that the Swedish banks and mortgage institutions are very flexible on amortisation periods and therefore there is uncertainty on what is the maturity of a mortgage. Amortisation periods are around 40 years, but they are often prolonged due to periods of “interest only” or periods of lower amortisations. Second mortgages, whose LTV ratio is above 85%, normally have to be amortised in 15 years.

⁷ Data for Estonia, Germany, Latvia, Lithuania and Portugal refers to 2007.

2. Costs related to buying a house financed by a mortgage loan

2.1 Transaction costs: Purchase and Loan costs

In this section, we present a detailed analysis of transaction costs (purchase costs and mortgage loan costs) in purchasing a dwelling at the EU14 and individual country level. On the basis of a weighted average of the EU14 the total costs (including both purchase and loans costs) of purchasing a dwelling as a percentage of the property value amount to 5.3%, which is slightly above the level reported in the 2006 study (5.1%). However, as previously underlined, a straight comparison between the two figures is misleading given that the panel of responding countries included different countries in the 2006 and in the 2008 studies. However, both the previous and the present issues highlight how these costs vary considerably from one country to another. In fact, these costs range from 1.0% of the property value in Lithuania to 13.4% in Belgium⁸.

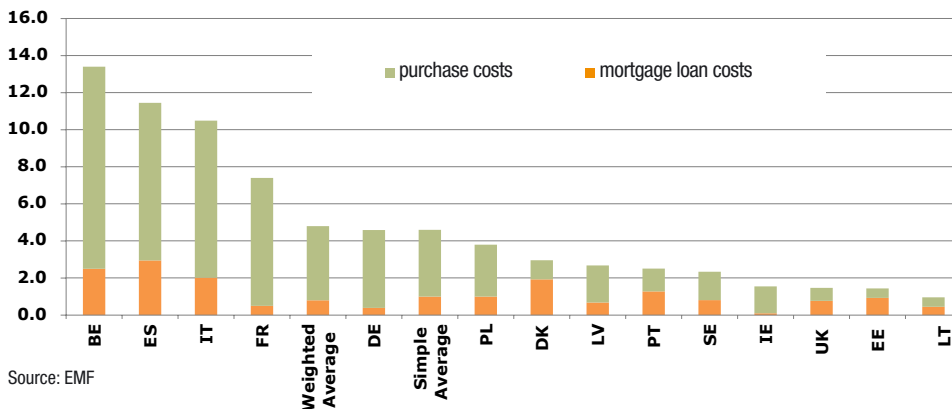
Nine out of the fourteen countries surveyed in this study were included in the 2006 issue (Belgium, Denmark, France, Germany, Italy, Poland, Spain, Sweden, UK). 2008 data for these countries show that total costs associated to the purchase and to the mortgage loan decreased in all countries, except for a negligible increase in Germany (from 4.5% to 4.6%), and a more significant one in Spain (from 10.4% to 11.4%), while they remained unchanged in Poland (3.8%). In Belgium they recorded the most significant decrease (from 17.1% to 13.4%) but they remained the highest among the countries analysed.

The costs linked to a house purchase in 2008 formed the biggest part of the total cost of housing (4.2% out of the 5.3% total costs, on weighted average), and the largest part of purchase costs is represented by taxes. The EU14 weighted average of the ratio of property taxes ratio to typical property prices in 2008 was 2.8% (see Table 4). It is worth highlighting that the number is biased by the fact that in 5 out of the 14 countries there is no property tax (i.e. the Baltic States, Ireland and the UK)⁹. The peak in the tax rate is observed for Spain¹⁰ (between 7.5% and 8.0%) and Germany (3.5%, that is the same level as the 2006 study).

In comparison with 2004 data, property purchase taxes recorded a decrease in Belgium (from 12.4% to 9.5%), Italy¹¹ (from 4.0% to 3.3%), and the UK (from 1.0% to nil). They remained unchanged in Denmark, France, Germany and Sweden and increased Poland (from 0.2% to 2.0%).

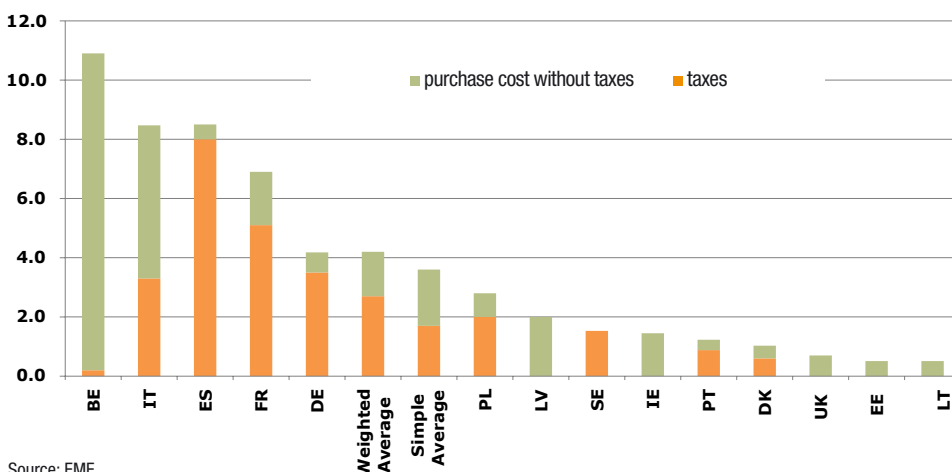
It is worth noting that in some countries there are also so-called optional costs, mostly real estate agency fees, which widely vary as a percentage value of the property and also differ in definition, so that figures are not reported in tables and charts in this study. However, some country-specific information can be pointed out. For example, optional costs do not exist in Estonia, Denmark and Portugal. In Belgium they range from 4.0% to 5.0%, in Germany from 3.0% to 7.0%. In France they can reach 4.5%, in Italy, Latvia and Lithuania 3.0%, in Poland and Sweden 2.0%. In Spain they do not exceed 0.1%, but they should be included in the "other purchase costs". In Ireland they can reach 1.5% and in the UK 1.0%.

Chart 1 ► Total Transaction Costs (ratio of total costs to property purchase), %



Source: EMF

Chart 2 ► Costs related to a house purchase and breakdown by taxes and non-taxes costs (%)



Source: EMF

⁸ It should be underlined that in Belgium relevant differences occur in property purchase costs for a "typical property purchase" at the regional level. In the Flanders region, first-time buyers who purchase for owner occupation purposes have to pay a purchase fee which is equal to 10% of the property price, after a deduction of 12,500 EUR. However, homebuyers can benefit from a reduction of the taxable property price up to 15,000 EUR. In the Wallon region, there are no reductions in property registration fees. In the Brussels Capital region, the registration fee of 12.5% who purchase for owner occupation is reduced by an amount of 5,625 EUR (so that the registration fee amounts to 23,750 EUR instead of 29,375 EUR). Moreover, if the apartment (or the house) is located in one of the "EDRLR areas" (i.e. areas grouping old residential buildings which need structural renovation works by the public sector) homebuyers can benefit from a further reduction of 1,875 EUR in their registration fee.

⁹ Note also that in Ireland, the "Stamp Duty" tax does not apply to first-time buyers or to the purchase of new properties. For non-first-time buyers, the following stamp duty applies to new and second-hand residential property: up to the first 125,000 EUR = nil; up to the next 825,000 EUR=7.0% of the value; over 1 million EUR=9%. Similarly, in the UK the threshold for the Stamp Duty exemption has been recently increased to £125,000 (182,738 EUR).

¹⁰ Note that in Spain, a VAT rate of 7% is chargeable for the first purchase of new dwellings, while as regards a second purchase (and subsequent ones) a tax on capital transfers (*TPO*) of 6 or 7% can be charged. Additionally, the first purchase is also subject to a Regional Tax on Legal Acts (*AJD*) which can range from 0.5 to 1.0%, but 1.0% was most frequently recorded across the Regions of Spain during 2008 (the second purchases are exempted from the *AJD*).

¹¹ As regards Italy, 2008 data on the level of property taxation did not include the effects of the abolition of the Council Real Estate Tax (*ICI*) for first-time buyers. The abolition of the *ICI* had been established with the Legislative Decree no.93 of 27/05/2008 but has come into force in 2009.

Mortgage loan costs form a much smaller proportion of total costs (1.1% on weighted average, out of the 5.3% total transaction costs) than house purchase costs, confirming evidence from the 2006 study (which reported 0.8% on weighted average). Taxes on mortgage loans, in turn, account for a much smaller share of mortgage costs than taxes on property on the total purchase costs. Taxes are a part of mortgage loan costs in Denmark, Italy, Poland, Portugal, Spain and Sweden¹². In the rest of the countries analysed there is no tax on taking out a mortgage¹³.

As regards the countries which were surveyed in the previous edition of the study, mortgage-related costs increased only in Spain (from 2.4% in 2004 to 3.0% in 2008). They decreased in France (from 1.0% to 0.5%) and Poland (from 1.3% to 1.0%) and generally remained unchanged in all other markets.

2.2 Breakdown of transaction costs

The following table 2 provides a full overview of costs of house purchase and of mortgage loan expressed as a percentage of the property price and also their breakdown by purchase and mortgage loan costs for the aggregate EU14. The annexed Table 4 (see Annex 1) also summarises the breakdown of the cost of housing in 2008 in each country.

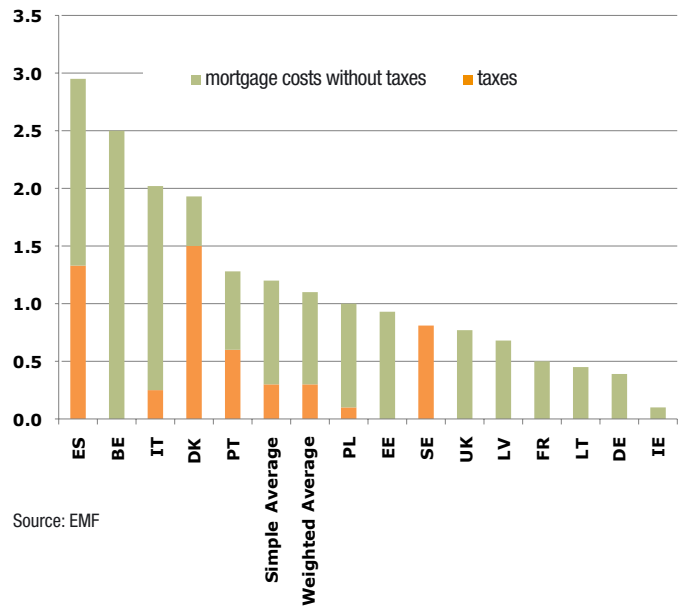
Note that, on weighted average, assuming 100 as the total transaction costs, the burden of purchase costs on the total transaction costs is considerably higher than that of mortgage loan costs (79.2% against 20.8%). Taxes form the biggest part of the costs both as regards purchase costs (52.8% out of 79.2%) and, although to a lesser extent, as regards mortgage loan costs (taxes account for 5.7% out of 20.8%) (See table 2).

Table 2 ► Breakdown of typical transaction costs, EU14, % (weighted averages)

	% of property value	% of total transaction costs
Solicitors' / notary's fees	0.7	13.2
Property registration	0.6	11.3
Property Taxes	2.8	52.8
Other purchase costs	0.1	1.5
Total purchase costs	4.2	79.2
Property valuation	0.2	3.5
Solicitors' / notary fees	0.2	3.7
Mortgage registration	0.1	1.0
Loan Taxes	0.3	5.7
Other loan costs	0.3	5.7
Total Mortgage Loan Costs	1.1	20.8
Total transaction costs	5.3	100.0

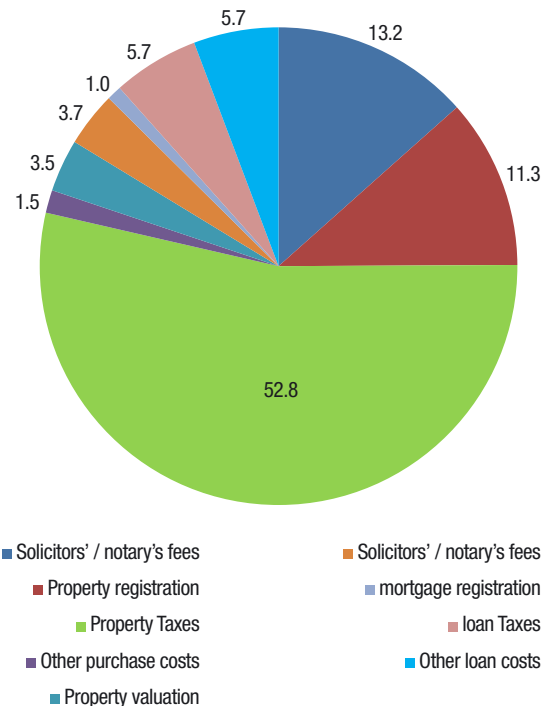
Source: own calculations on EMF data

Chart 3 ► Costs related to a mortgage loan and breakdown by taxes and non-taxes costs (%)



Source: EMF

Chart 4 ► Breakdown of transaction costs, EU14, % (weighted averages)



Source: own calculations on EMF data

¹² As regards Sweden, it should be noted that, indeed, there is a mortgage registration fee on new mortgage loans which amounts to 2.0% of the property value. If borrowers have existing mortgages, they are not charged with any fees on these new mortgage loans. In this case we have assumed that the borrower takes out new mortgages corresponding to 50% of the mortgage

loan. In this case, an additional fixed cost of EUR 35 is also included.

¹³ Note that in Belgium lenders generally also charge borrowers with a flat file cost (i.e. the so-called *Frais de Dossier*) which approximately amounts to 240 EUR.

2.3 Transaction Costs and Growth in House Prices

The primary reason for differences in the levels of transaction costs lies in the different levels of taxation on property. Property is a major source of revenue for governments largely due to the fact that it is by its nature a non-movable asset, which makes tax collection easier. The amount of revenue raised by governments on a transaction tax will therefore depend considerably on housing market activity, which may be discouraged or – on the contrary – boosted by the level of transaction costs. In general, the bullish developments in house prices recorded over the previous housing cycle may have induced governments to increase revenues from housing transactions. There were considerable increases in absolute levels of revenues due to the considerable rise in house prices in recent years but no increases in the property purchase tax rates as such, were recorded, whereas some countries recorded decreases in the level of property taxation (Belgium, Italy and the UK). It should however be recalled that this data did not reflect the effects of the end of the housing market cycle and the collapse in house prices after Q4 2008 (and throughout 2009) in some markets. A general conclusion would be that in the surveyed countries, in the years when peaks in house prices were recorded (2004-2008), governments were accepting of the buoyant housing cycle and that taxation of property was not used as a policy instrument to curb housing demand.

Having observed very high increases in property prices over the last ten years in some EU countries, as reported, *inter alia*, by the ECB and the OECD¹⁴, it could be argued that countries with higher levels of taxes on property transactions also typically would see less buoyant developments in house prices in their respective domestic markets. That is to say that a higher cost of housing would prevent widening disequilibria in housing markets (i.e. excess supply over demand) and help prevent excessive booms in house prices¹⁵.

This would not, however, be confirmed by supporting evidence available from this study. For instance in Spain, which has high transaction costs, growth in house prices was much higher than in most EU countries over the last decade. Another exception is Belgium, where the highest transaction costs recorded in the EU14 is associated with a ten-year growth in house prices which is close to 7% per annum. A relationship between lower transaction costs and strong house prices may be observed, on the other hand, as regards not only the UK and Ireland – where some overheating in housing market was widely reported - but also in Sweden, although to a more limited extent. The present data does not point to a robust correlation between a higher cost of housing and lower increases in house prices which otherwise would have showcased the positive role of higher transaction costs in discouraging “housing bubble” phenomena.

The table below summarises the level of transaction costs against nominal growth rates in house prices from 1997 to 2008, which is the latest year for which annual data is available.

Table 3 ► Transaction costs and growth in house prices

	Compound annual growth rate in nominal house prices, 1997-2008¹⁶ (%)	Total Transaction Costs, 2008 (% of property purchase)
Spain	10.2	11.4
United Kingdom	10.0	1.5
Ireland	9.9	1.6
Denmark	8.9	3.0
Sweden	8.6	2.3
France	8.2	7.4
EU 14	8.1	5.3
Belgium	6.3	13.4
Portugal	2.5	2.5
Germany	2.3	4.6
per memoria: EU 27 average	2.7	n/a

Source: own calculations on EMF data

¹⁴ See European Central Bank (2009), *Housing Finance in the euro area*, and Van de Noord (2006), *Are House Prices Near a Peak? A Probit Analysis for 17 OECD Countries*, OECD Economic Department Working Papers, N. 488, OECD Papers, Paris.

¹⁵ See European Central Bank (2003), *Structural factors in the EU housing markets*.

¹⁶ Compound annual growth rates have been calculated on nominal house price indices from 1997 to 2008 (from 2004 to 2008 for Germany). Annual growth rates in nominal house price indices are available in the EMF's Hypostat 2008. Please note that a consistent times-series of data on growth in nominal house prices from 1997 to 2008 in Estonia, Italy, Latvia, Lithuania and Poland is not available.

Conclusions

An overview of transaction costs in the 14 countries analysed in this study (Belgium, Denmark, Estonia, France, Germany, Ireland, Italy, Latvia, Lithuania, Poland, Portugal, Spain, Sweden and the UK), showed that – as for the previous study based on 2004 data – the costs associated with buying a dwelling using a mortgage loan in 2008 varied considerably, ranging from 1.0% in Lithuania to 13.4% in Belgium.

The costs of purchasing a dwelling, on average, amount to 5.3% of the price of a typical property in the EU14. They were highest in Belgium, Italy and Spain and generally higher in Southern Europe while they were lower in Northern Europe and the Baltic states.

Nine out of the fourteen countries surveyed in this study (Belgium, Denmark, France, Germany, Italy, Poland, Spain, Sweden and the UK) were already included in the 2006 issue. Country-specific developments showed that, in general, total costs associated with the purchase and the mortgage loan decreased in all these countries except for a negligible increase in Germany (from 4.5% to 4.6%), and a more significant one in Spain (from 10.4% to 11.4%), while they remained unchanged in Poland (3.8%). In Belgium they recorded the most significant decrease (from 17.1% to 13.4%) but remained the highest among the countries analysed.

As in the 2006 study, the largest part of transaction costs is formed by the property purchase costs, and the largest component of these is formed by taxes. On weighted average, in the EU14 taxes amount to 2.8% of the property value. Assuming 100 as the amount of total transaction costs in the EU14, property taxes accounted for 52.8 of transaction costs and were by far their largest component.

Property purchase taxes recorded a decrease on 2004 in Belgium (from 12.4% to 9.5%), Italy (from 4.0% to 3.3%), the UK (from 1.0% to nil) and remained unchanged in France (5.1%), Germany (3.5%), Denmark (0.6%) and Sweden (1.5%), while they increased in Poland (from 0.2% to 2.0%).

Mortgage costs increased only in Spain (from 2.4% to 3.0%). They decreased in France (from 1.0% to 0.5%) and Poland (from 1.3% to 1.0%) and remained substantially unchanged in all other markets.

In the markets which were already surveyed with the 2006 study, property values increased significantly due to the very high housing inflation recorded from 2004 to 2008.

Markets surveyed in this study can be grouped by: a) countries which have experienced higher increases in house prices than the EU14 average and a decrease in the level of property taxation on 2004 (UK); b) countries which have experienced higher increases in house prices and an increase in the level of taxation (Poland); c) countries which have experienced higher increases in house prices and no change in the level of taxation (Denmark, France, Spain, Sweden); d) countries where prices have not exceeded EU14 average and taxation has decreased (Belgium); e) countries where prices have not exceeded the EU14 average and the level of taxation has remained unchanged (Germany); in general, governments across the EU14 have not raised property taxation during the years of the historical peaks recorded in house prices (2004-2008).

There may be a relation between transaction costs and growth in house prices. Countries with higher levels of tax on property transactions could be expected to experience less sustained developments in housing demand and are less likely to experience speculative bubbles (and *vice versa*). However, evidence contained in this study shows that this relation can be observed for some countries and not for others. Therefore, evidence collected here does not lead to any clear conclusions on the role of taxation on housing and mortgages in countering growth in house prices and in hampering speculative bubbles.



Annex 1

Cost Breakdown in 2008 by country

	BE	DK	EE	FR	DE	IE	IT	LV	LT	PL	PT	ES	SE	UK	Simple Average	Weighted Average
Typical property value (EUR)	235,000	244,596	91,600	220,000	276,600	260,786	249,700	80,000	97,300	91,670	100,000	175,325	250,000	158,720	180,807	210,713
Value of typical mortgage loan (EUR)	188,000	195,677	73,280	160,000	197,800	238,185	120,000	64,000	77,840	55,300	94,000	140,260	200,000	138,087	137,102	160,001
Typical loan to value (%)	80.0	80.0	80.0	72.7	72.0	n/a	50.0	80.0	80.0	80.0	n/a	80.0	80.0	87.0	76.4	74.9
Mortgage Maturity (years)	25	30	20	20	31	30	30	20	20	30	34	26	50	25	27.9	27.6
Total dwelling stock (thousand units)	4,950	2,684	645	32,515	39,900	1,883	26,700	1,013	1,316	12,987	5,520	26,230	4,470	26,194		
Total mortgage balances outstanding (million EUR)	137,126	222,105	6,216	700,800	1,147,869	148,542	311,788	7,220	5,575	56,476	105,210	674,434	199,055	1,458,895		

Costs related to a house purchase (%)

	BE	DK	EE	FR	DE	IE	IT	LV	LT	PL	PT	ES	SE	UK	Simple Average	Weighted Average
Solicitors' / notary's fees	1.1	0.4	0.4	1.4	0.5	1.2	1.9	0.0	0.5	0.7	0.2	0.2	0.0	0.4	0.6	0.7
Property registration	9.5	0.1	0.1	0.1	0.2	0.3	3.2	2.0	0.0	0.1	0.2	0.1	0.0	0.1	1.1	0.6
Property Taxes	0.2	0.6	0.0	5.1	3.5	0.0	3.3	0.0	0.0	2.0	0.9	8.0	1.5	0.0	1.8	2.8
Other purchase costs	0.1	0.0	0.0	0.3	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.1	0.0	0.2	0.1	0.1
Total Purchase Costs	10.9	1.0	0.5	6.9	4.2	1.5	8.5	2.0	0.5	2.8	1.2	8.5	1.5	0.7	3.6	4.2

Costs related to the mortgage loan (%)

	BE	DK	EE	FR	DE	IE	IT	LV	LT	PL	PT	ES	SE	UK	Simple Average	Weighted Average
Property valuation	0.1	0.0	0.1	0.0	0.2	0.1	0.5	0.1	0.1	0.5	0.2	0.1	0.0	0.2	0.2	0.2
Solicitors' / notary fees	0.7	0.1	0.6	0.4	0.2	0.0	1.3	0.1	0.2	0.2	0.2	0.2	0.0	0.0	0.3	0.2
Mortgage registration	1.4	0.1	0.2	0.1	0.0	0.0	0.0	0.1	0.0	0.1	0.2	0.1	0.0	0.0	0.2	0.1
Loan Taxes	0.0	1.5	0.0	0.0	0.0	0.0	0.3	0.0	0.0	0.1	0.6	1.3	0.8	0.0	0.3	0.3
Other loan costs	0.3	0.3	0.0	0.0	0.0	0.0	0.0	0.3	0.1	0.1	0.2	1.2	0.0	0.6	0.2	0.3
Total Mortgage Loan Costs	2.5	1.9	0.9	0.5	0.4	0.1	2.0	0.7	0.5	1.0	1.3	3.0	0.8	0.8	1.2	1.1
Total Costs (ratio of costs to property value)	13.4	3.0	1.4	7.4	4.6	1.6	10.5	2.7	1.0	3.8	2.5	11.4	2.3	1.5	4.8	5.3

Annex 2

Note on Methodology

A standard questionnaire was first sent to EMF experts in the first half of 2009. The countries analysed are in this study are 14 and include: Belgium, Denmark, France, Estonia, Germany, Ireland, Italy, Latvia, Lithuania, Poland, Portugal, Spain, Sweden and the UK. In 2008, these countries accounted for 85.1% of total EU27 outstanding residential lending.

In order to draw meaningful comparisons between markets where national legislation and market characteristics can widely differ, the costs relate to a “typical” situation rather than an “average” situation. The “typical” purchase value, mortgage loan value and loan-to-value ratio refer to an existing property for residential purposes (dwelling) on the basis of non-social ownership. The borrower is a first time buyer, employee, and married with a joint mortgage.



Glossary of terms for individual costs

Costs related to a dwelling purchase	
Solicitors' and notary fees	Legal fees linked to the property transaction. In relation to the country it can be a solicitor, a notary or both.
Property registration	Refers to a record of the exact details of a property that has a registered title and the exact details of the registered owner of that property. Thus, it is a tax paid for transferring the register to the new owner.
Taxes (taxes purchase)	The taxes vary with regard to the different countries and include: <ul style="list-style-type: none"> ■ Transfer tax ■ Stamp duty (stamp duty is primarily a tax on documents). ■ Cadastral tax ■ VAT
Other purchase costs	This category includes a variety of costs, including: building insurance premium, reconnection of services, disconnection of services, installation of new equipment, mail redirection, change of address notices.
Costs related to the mortgage loan	
Solicitors' and notary fees	Legal fees linked to the mortgage credit transaction.
Property valuation	The mortgage lender normally requires a selected valuer to carry out a report on the property for the lending institution. This valuation is designed to independently confirm to the lending institution the current market value of the property.
Mortgage registration	Refers to a detailed record of charges such as mortgages and restrictive covenants which exist in relation to a particular property.
Taxes (loan)	The taxes vary with regard to the different countries and include: <ul style="list-style-type: none"> ■ VAT ■ Stamp duty (Stamp duty is primarily a tax on documents)
Other loan costs	Other loan costs include the following: bank charges (as loan study, handling expenses, commission), insurance

Source: own calculations on EMF data

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RATES
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