Europe quantitative easing European house prices

The Italian house price conundrum

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NOVEMBER 18 2019 2:30 PM

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In Europe, there is one dominant explanation for why house prices are rising sharply. Low interest rates and cheap ECB money, the story goes, is propping up the prices of assets even as inflation remains low.

If that's what's going on, someone forgot to tell Italy. From a Bank of America Merrill Lynch report today:

> Italian house prices continue to lag behind other European RMBS jurisdictions. The house price index dropped 1.2% in 2017 and 0.6% in 2018. The pace of decline has slowed a bit further in 1H19, with prices down 0.4% yoy in 2Q19. Although the

> new dwellings index improved in 2017, 2018 saw no change and it fell 0.3% yoy in 2Q19.

The FT's Valentina Romei [pointed out (https://www.ft.com/content/778fb0b8-1b11-11e9-b93e-f4351a53f1c3)](https://www.ft.com/content/778fb0b8-1b11-11e9-b93e-f4351a53f1c3), at the start of the year, that Italy was dragging down the sector's overall performance on the continent. In Spain, the posterchild of Eurozone Crisis housing collapses, prices recovered to their pre-crisis levels last year. But in Italy, they're still around 20 per cent their peak in 2012.

What is particularly intriguing here, at a time when house prices are often explained through the impact of finance and credit provision, is the lending backdrop. The country's infamous stock of bad loans includes real estate exposures. But here's BOFA again:

> Italian gross mortgage lending (for purchases of dwellings excluding loans for construction) grew 7% in 2018 but was 7% lower 1H19 vs 1H18. While 2018 pick-up in lending growth was broad-based, the drop in 1H19 was more pronounced in the South/Islands. Net lending has been positive since 2016, reaching c.€10bn in 2018, followed by €4.3bn in 1H19. This is somewhat inconsistent with weaker house prices and lower gross lending.

If net mortgage lending - the amount lent out minus repayments or amounts written off - is positive, this implies more money is flowing into housing. Yet prices are falling.

There are, as ever, some national idiosyncrasies that might explain the Italian case. [La Repubblica (https://www.repubblica.it/economia/2019/01/18/news/case_vecchie_e_boom_di_airbnb_ecco_perche_il_prezzo_degli_immobili_italiani_continua_a_scendere-216721675/?refresh_ce)](https://www.repubblica.it/economia/2019/01/18/news/case_vecchie_e_boom_di_airbnb_ecco_perche_il_prezzo_degli_immobili_italiani_continua_a_scendere-216721675/?refresh_ce), at the start of the year, pointed to the age of Italian housing as driving the weakness, pointing out that new stock is rising in value, and adding that Italians, on average, do not spend much on maintenance.

There may also be a strong regional distribution to the locations of new housing, and to price changes, in line with the regional aspects of credit allocation mentioned above. Italy is not immune to the urban/rural zeitgeist that by now characterises housing markets in most developed economies (not to mention politics) — including rising rents in its biggest cities.

It's hard to show central bank excesses aren't propping up any given prices, given the lack of counterfactual. But it is at least worth noting that they aren't directly pushing all house prices higher, even in places where their actions are perhaps most stark.

While QE bond purchases are usually cited as the primary cause, the ECB is also pumping hundreds of billions of euros into the system through its TLTRO program. The biggest recipients (https://ftalphaville.ft.com/2018/12/07/1544194183000/Weaning-European-banks-off-ECB-support/) of these funds are, you guessed it, Italian banks.