



The EU, the Economic and Financial Crisis and the Property Market What Plan for the Future?

Position

CEPI, the European Council of Real Estate Professions

Contact Janet K. Griffiths - janet.griffiths@cepi.eu
Reference CEPI/JKG/financialcrisisSept09



The mission of CEPI, the European Real Estate Council, is to support European and cross-border transactions by enhancing and strengthening the work and activities of property professionals. We represent more than forty national professional associations of estate agents and property managers based in 27 EU and EFTA countries.

SUMMARY

Until now the property market has not been considered to be a European subject. Today the impact and extent of the current crisis demonstrate the importance of strong and effective intervention by the European Union in the property sector. The crisis has affected the entire EU, undermined the confidence of consumers, and apart from the repercussions for the market and the social and economic situation of property professionals, has also affected a considerable number of other professions (including architects, builders and manufacturers of household equipment). Therefore it is time for the EU to consider taking concerted action to find a solution to the problems of the property market.

Accordingly CEPI and its members propose a four stage action plan:

1. Acknowledge the importance of discussing the property market at a European level

The crisis means that this is the time for the European political decision makers to interest themselves, as they have already started to do, in the property market and the problems which affect it. Whilst respecting national differences there are problems to be addressed at the level of the EU.

2. Aim to facilitate cross-frontier transactions

Facilitating cross-frontier transactions would contribute towards free movement, freedom of establishment and the offering of services in a different EU Member State. Making official and reliable pan-European statistics available would help to make the market more transparent.

3. Take measures to relaunch transactions

Successful measures have been taken at a national level, which could be analyzed and adapted in other countries. The EU could also take steps to facilitate initiatives to encourage contacts between banks and property professionals, in order to offer better solutions to consumers.

4. Harmonize the property professions

The same rules of the game must apply across the EU for all property professionals. More harmonization of standards in force would strengthen guarantees for consumers and property professionals who want to embark upon cross-frontier transactions.



The EU, the Economic and Financial Crisis and the Property Market. What Plan for the Future?

A great deal has been written about the current economic and financial crisis. A great deal has also been written about the property market in different European countries. Yet the property market is not being discussed at a European level, although the role of property in this crisis is a complex one. It is already clear that some aspects of European legislation and programmes do impact on the property sector, but what lessons can be learnt from the current crisis and what is the plan for the future?

Firstly to state the obvious, property is hardly mentioned in the EC Treaties. Indeed any references to property at a European level are limited. But, with all respect to the founding fathers of the EU they could not have foreseen the effect that the crisis in the property market which originated in the sub-prime sector in the US would have on the EU economy, and consequently on the internal market. Times have changed and it is now time to acknowledge the role that property plays in the European economy and discuss ways of making it perform that role more efficiently.

More than ever we can see that European markets are moving together. Our own research into the trends in the European residential property market in 2008 shows the effects of the financial crisis. Whilst it is clear that in some countries the effects were felt earlier or harder than others, by the end of 2008 most European housing markets had been affected with this continuing into 2009. It is also true that national markets are still different, but in this financial crisis the effect has spread rapidly and that effect is Europe-wide. In particular liquidity and consequently the number of transactions have reduced as the financial problems have spread.

Why is this question important?

It is important that the property market is able to maintain a normal level of activity. It is important for the EU economy and European citizens, for professional mobility and the functioning of the internal market. It is also important for European consumer confidence which has suffered recently. There are many other industries, businesses and professions which support the property market directly and indirectly, such as architects, builders and manufacturers of household equipment, so that the impact of reduced activity is widespread. Indeed it is unlikely that the current crisis will end without problems in the property market being resolved. It is time for the EU to look at what steps can and need to be taken to review and strengthen the structure of the market.

We acknowledge that there remain important differences between markets in Europe. There remain differences in the rates of home ownership, in structures of loans, tax treatment of homeowners, legal treatment and transfer of ownership etc. Demand for houses and consequently production also varies. However whilst those differences are clear it does not mean that there is no need for concerted action. The property finance markets are now more integrated than they have ever been due to securitization and developments in those markets and finance systems can have implications for monetary policy. These spill-over effects from the property market can and do cause problems for the economy as a whole.

European Central Bank President Jean-Claude Trichet has said that "growth in 2010 depends on us"¹. The future of the European residential property market also depends on action being taken now. What then, can we urge the EU legislator to do?

¹ Speaking before the Economic and Monetary Affairs Committee of the European Parliament on 31.03.2009.



Step One

Acknowledge the importance of discussing the property market at a European level

As previously stated the property market has not until now been seen as a European issue. But the effect of the current crisis is Europe-wide, and the social and economic situation of many property professionals, especially estate agents, is seriously affected by the crisis. We welcome the earlier work of the European Parliament on housing issues and the draft European Charter on Housing adopted by the European Parliament's URBAN-Housing intergroup on 4 April 2006. We further note and welcome the participation of representatives from the European Commission, the European Parliament and of the Committee of the Regions in the 17th European Union Housing Ministers' meeting which was held on 24 November 2008 in Marseille.

Given the complexity and importance of the issues under discussion the involvement of the EU as well as Member States in matters relating to the property market can only be welcome. As an association representing property professionals with the interests of consumers in mind, we believe that the financial crisis can and should provide the impetus to review the status of property at a European level and ask that the EU regulator bring this under consideration.

We believe this should be done because, whilst we know that property is currently a matter of Member State competence, the European regulator cannot ignore the fact that the residential property market is of fundamental importance to European citizens as demonstrated by the current crisis. This has an effect in an internal market where cross-border services and investment are increasing and also an effect on the European economy as a whole. This applies even though national laws and regulations mean that property markets throughout Europe differ, the net effect is the same. Any attempt to deal with problems concerning the property market must take a European view. Clearly any action taken must be targeted, but in order that this may be done we need to identify common problems to find common solutions.

Step Two

Aim to facilitate cross-frontier transactions

The success of the internal market depends on companies and individuals being able to exercise their right to free movement, establishment and the offering of services in a Member State other than their own. The lack of liquidity in the mortgage market is a major factor depressing the number of transactions and professional mobility. CEPI supports all responsible measures aimed at improving the level of bank lending on acceptable terms to buyers at all levels of society.

In order to make sensible decisions concerning these measures we need information about the market based on agreed common denominators. Throughout Europe the availability and accuracy of official statistics concerning the property market varies. This is a matter of concern at a European level. Efforts need to be made to produce better, more reliable statistics. We understand that Eurostat is engaged in a pilot phase of a project involving the compilation of experimental price indices for inclusion in the harmonized index of consumer prices and hope that this will soon come to fruition. CEPI itself is starting a pilot project for a European Observatory involving initially four European countries. We believe that such efforts are important to bring more transparency to the market.



Step Three

Take measures to relaunch transactions

Many EU Member States have taken action to promote transactions in their particular country. These are of course targeted to local market needs. But in a crisis which is not just European but global it is important that these responses are coherent and coordinated to avoid distortions of the internal market. We do not foresee action at a European level which could deal with all these national issues but the EU could play an important role in examining the best case national scenarios which could then be adapted and replicated elsewhere.

We also believe that in order to relaunch transactions there must be more contact between banks and property professionals. Some CEPI member associations are taking steps to ensure this at a national level, for example in the Netherlands the NVM has participated in a scheme with the national authorities to determine agreed valuation standards. CEPI itself will be promoting the idea amongst its member associations that they must encourage greater discussion with banks to find solutions for consumers. We would welcome any attempts to facilitate these discussions at a European level.

Step Four

Harmonize the property professions

There is a need to ensure a level playing field across the EU for property professionals. In some EU countries the professions of property manager and estate agent are regulated, in others not at all. This creates discrepancies across the board, in valuations, sales and lettings. Professionals must understand what is required and expected of them and consumers must understand the qualifications of the professionals they are dealing with in what is often one of the most important financial transactions in which they are likely to be involved.

We understand the interest of the EU legislator in self-regulation and promote within the CEPI network strong codes of conduct and professional education. We appreciate also the efforts of the EU regulator in promoting the recognition of professional qualifications throughout Europe, with particular reference to Directive 2006/123/EC on services in the internal market and Directive 2005/36/EC on the recognition of professional qualifications, and follow the implementation of these directives with interest.

Yet with such evident national differences within the European Union we have to say that it is our view that for these efforts to succeed there must first be greater harmonization of regulation which would strengthen consumer protection and also certainty both for consumers and for property professionals who wish to work cross-border. It would facilitate cross-border transactions by making the process of professional recognition easier and better reflect the needs of the internal market.

Difficult market conditions tend to bring problems to the fore and mean that preventative action is important. Property professionals are facing both difficult times and changing markets. Difficult times can also be times of change and opportunity. The impact and extent of the current crisis show the importance of strong and effective intervention at a European level. Accordingly we urge that this crisis be seen as an opportunity to both consider the importance of the European residential market to the European economy and also to strengthen the structure of the property professions in the interests of the European consumer. Together Europe can make a plan for the future which will benefit all European citizens.