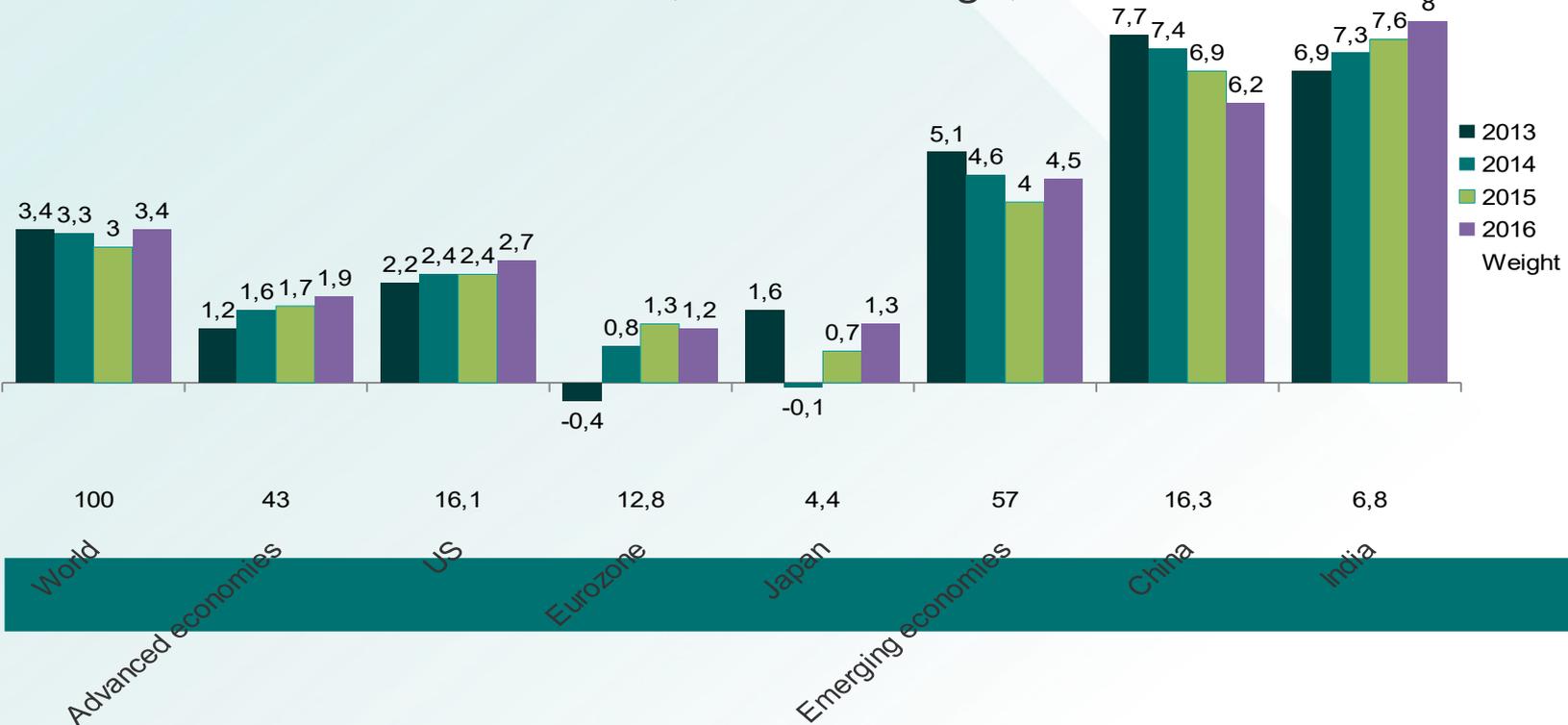


The Impact of Global Developments on Baltic Real Estate

Povilas Stankevičius
Analyst | DNB Markets
8th April, 2016

Global economic growth pattern is mixed

Real GDP, annual change, %



Source: DNB Markets, WB

International Economic and Political Developments

- **European Central Bank** monetary policy – negative interest rates and unconventional measures
- **Brexit** – a referendum in the UK, which will determine whether the country will exit the European Union.
- **Commodity prices** – downward commodity price trend has increased deflationary pressures in the whole world.

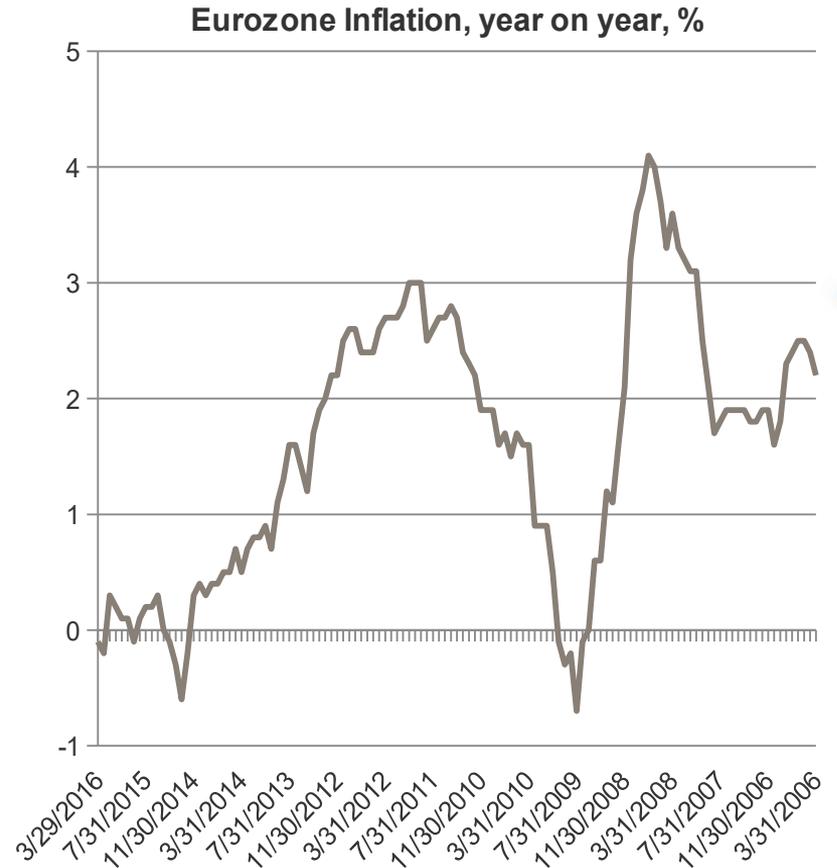
European Central Bank's Monetary Policy



Challenges and Objectives

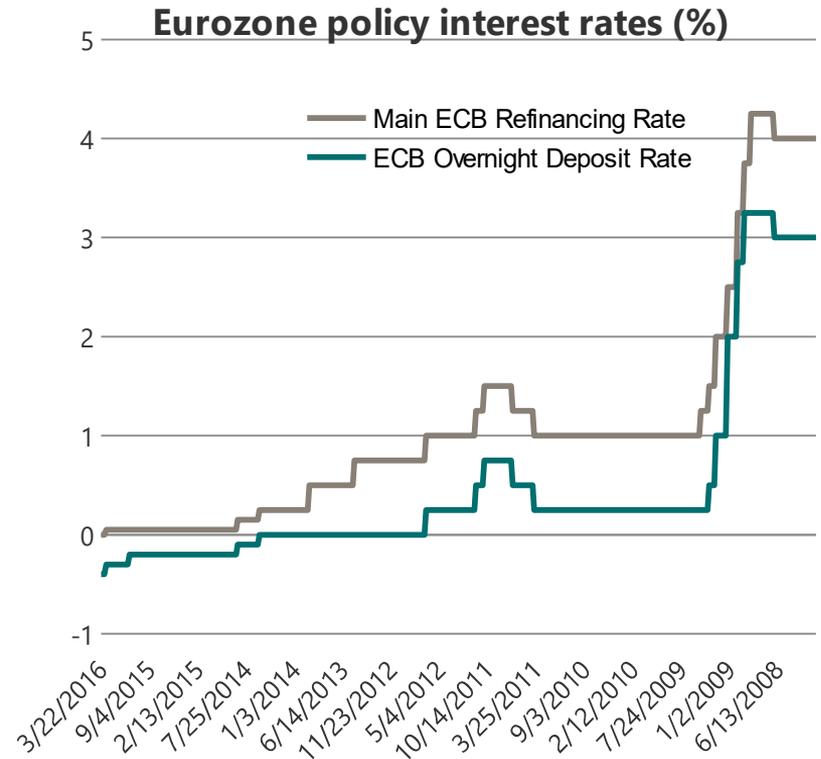
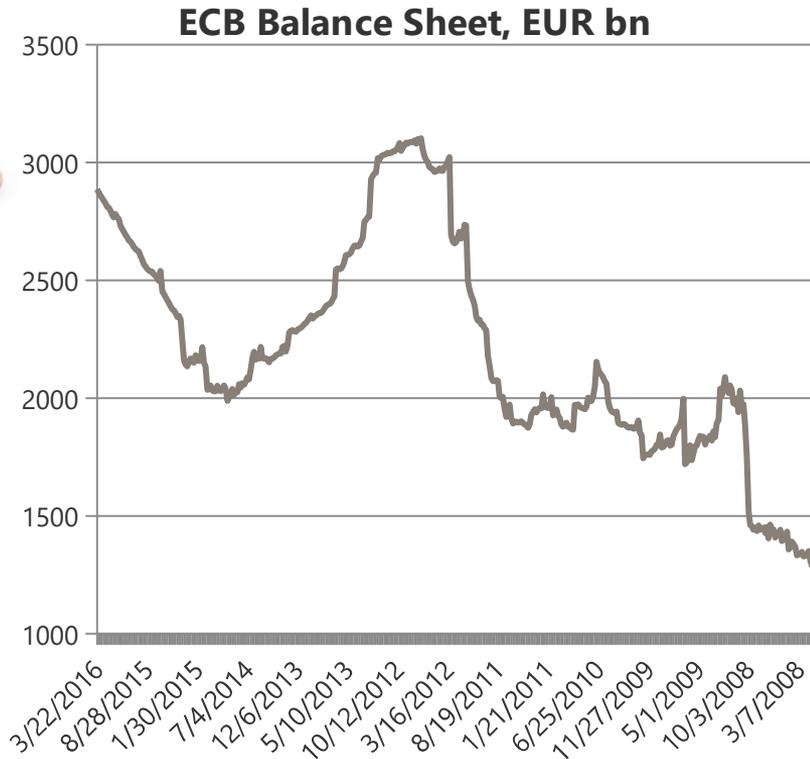
ECB has unveiled new package of monetary stimulus:

- **Objectives:** preventing **deflation**; jumpstarting **credit** mechanism; stimulating **investment**.
- ECB has announced an expansion of its **Quantitative Easing** programme, a further **cut in interest rates**, and new series of **TLTRO's** (Targeted long term refinancing operations)



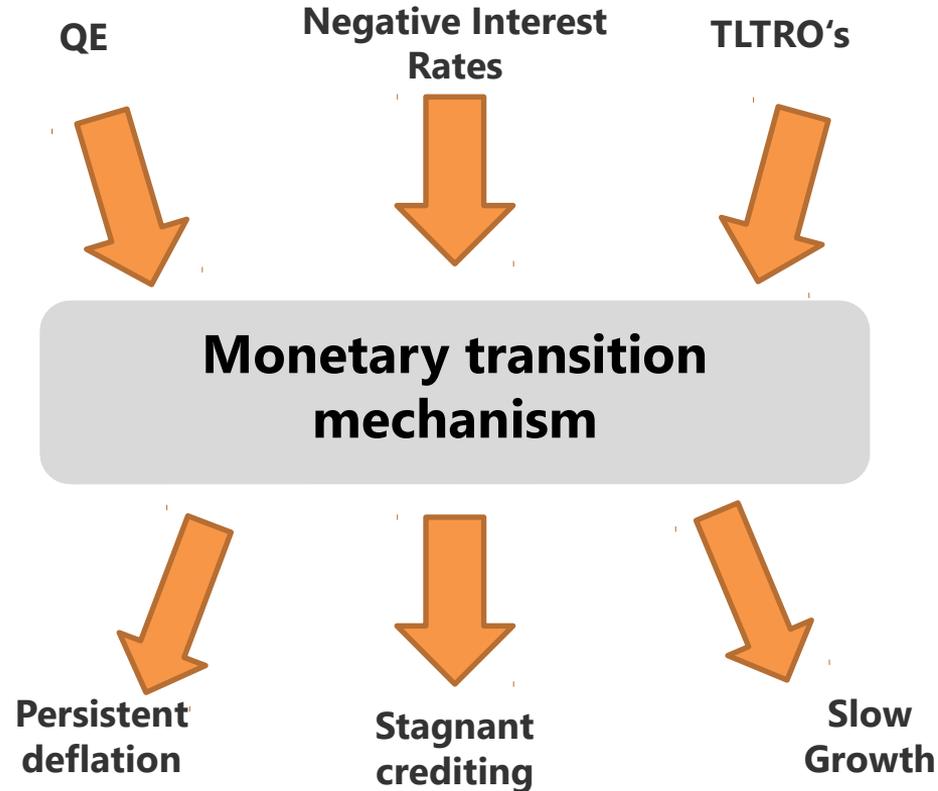
Source: Eurostat

ECB Monetary Stimulus – Full Throttle



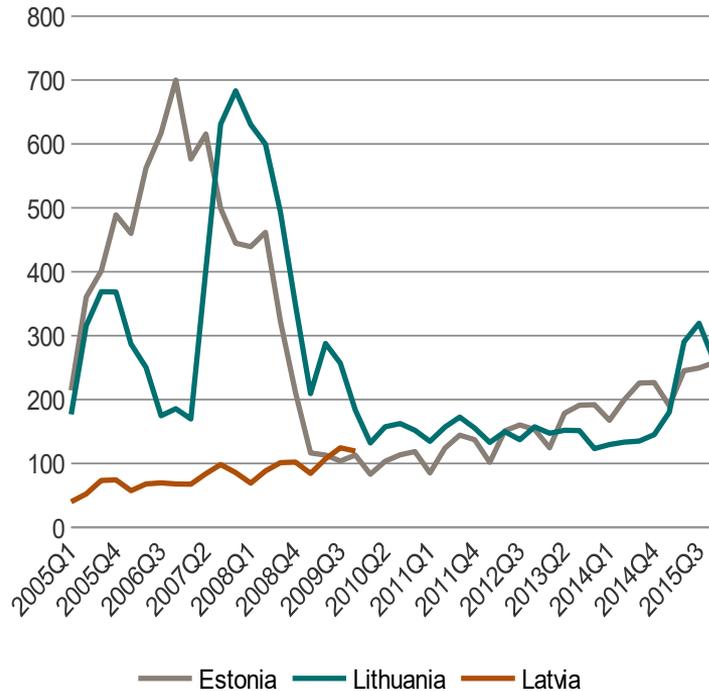
Source: Bloomberg

ECB Monetary Stimulus – a Broken Mechanism?

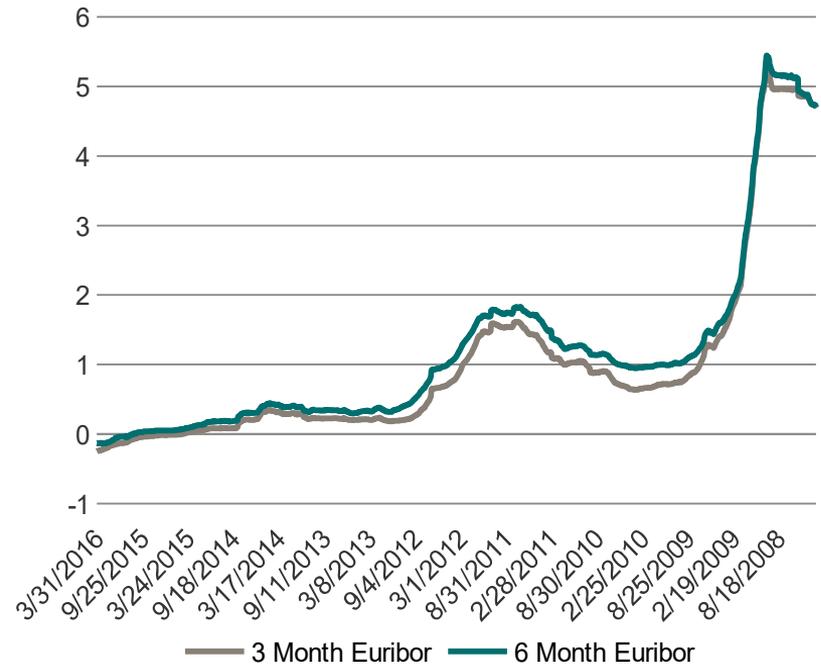


Effects to the Baltic Housing Market

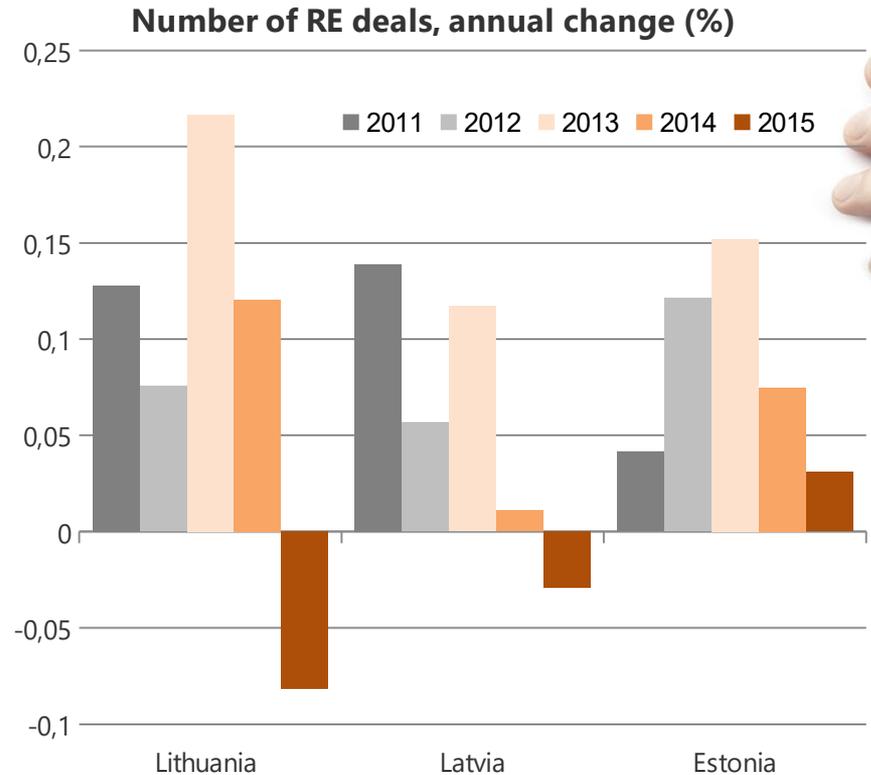
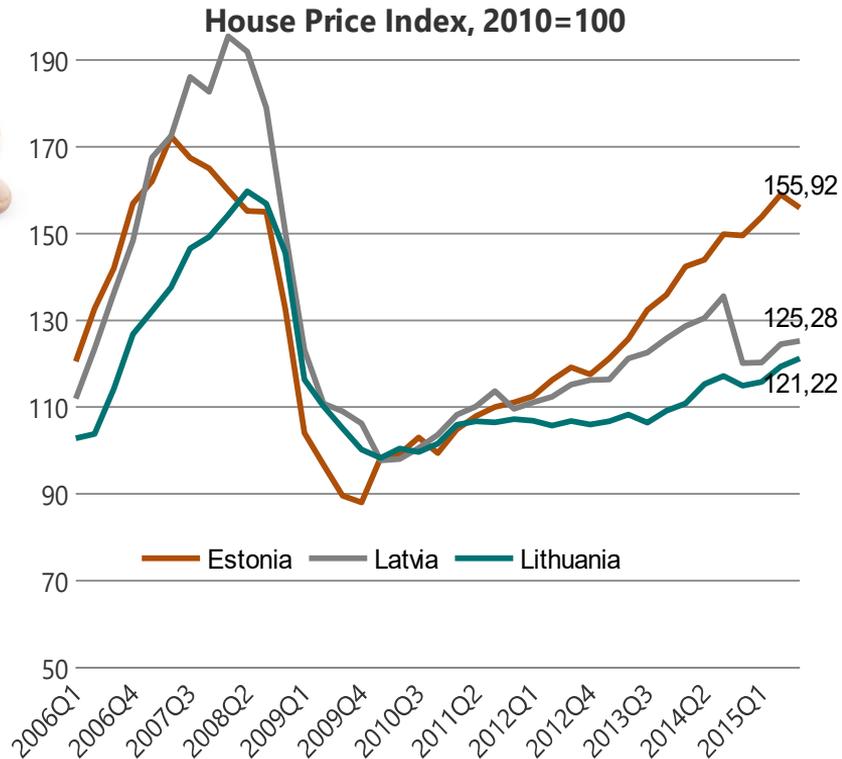
New Real Estate Loans to Households, million EUR



EURIBOR Rates, percent



Credit conditions fail to boost Real Estate



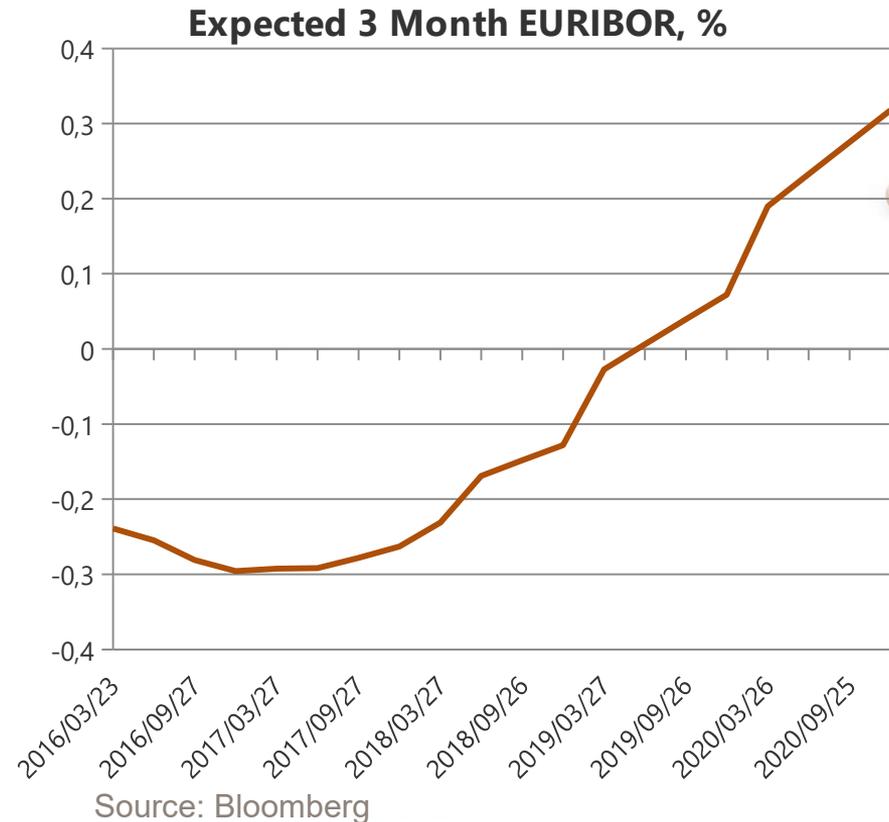
Source: Eurostat, Land registers

Still an Opportunity for Consumers

Monetary policy is disturbed by:

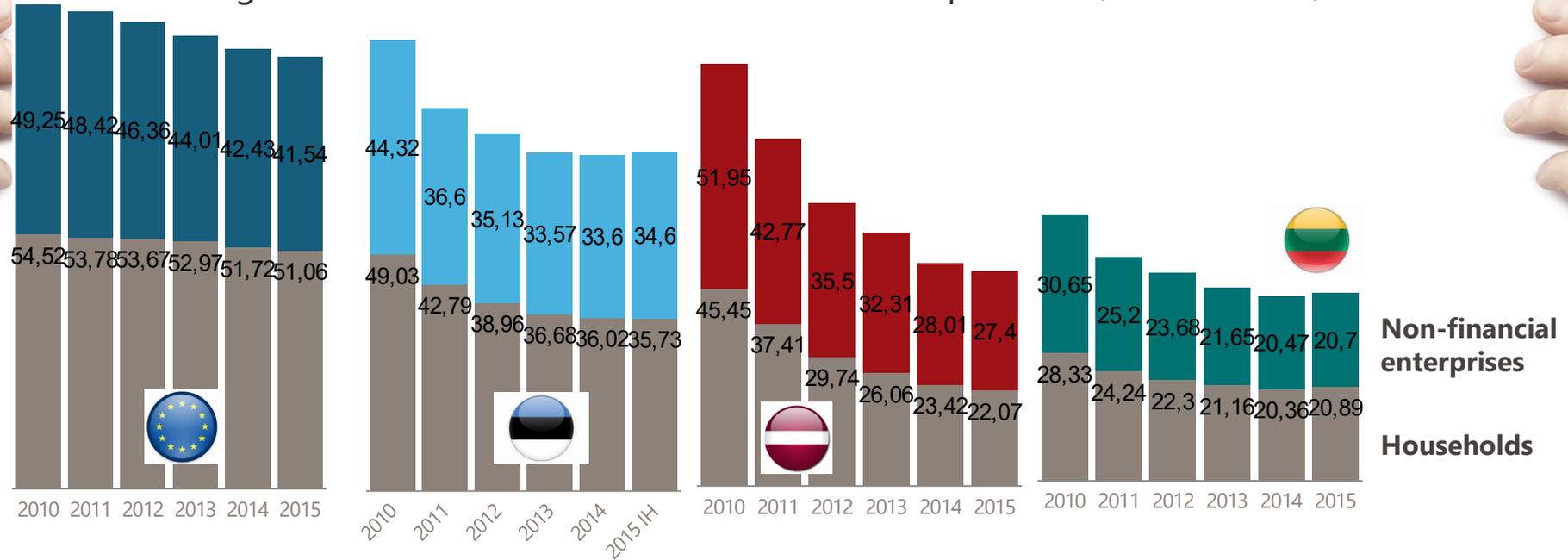
- **Geopolitical uncertainty**
- **Slow to improve consumer and investor confidence**
- **Slower GDP growth due to export reorientation**

Low interest rates from continued ECB action, combined with **rising salaries** present **opportunities** for consumers.



Deleveraging in the Baltics have created a lot of opportunities for investment

Banking loans to households and non-financial corporations, ratio to GDP, %





Brexit

SO...

UK

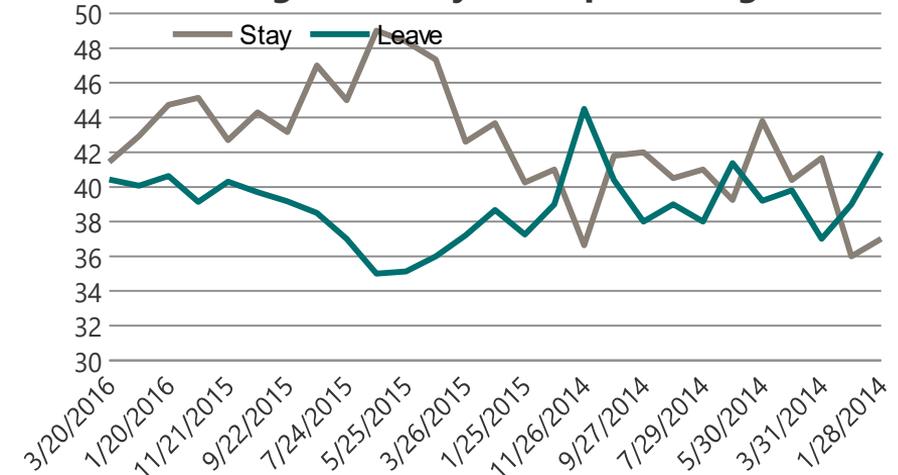
EXIT

Current Concerns

- Voting date: 23rd June, 2016
- Last poll results by the financial times:
Stay – 45%, Leave – 40%
- **A part of money, earned elsewhere comes back to the Baltic countries in a form of employee compensation and international transfers.**

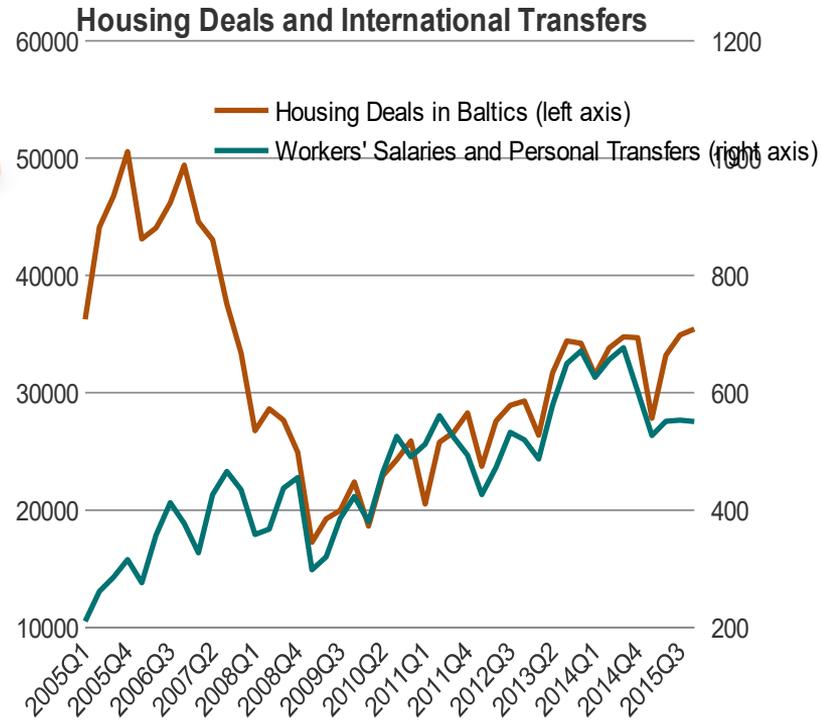


Average Monthly Polls, percentage

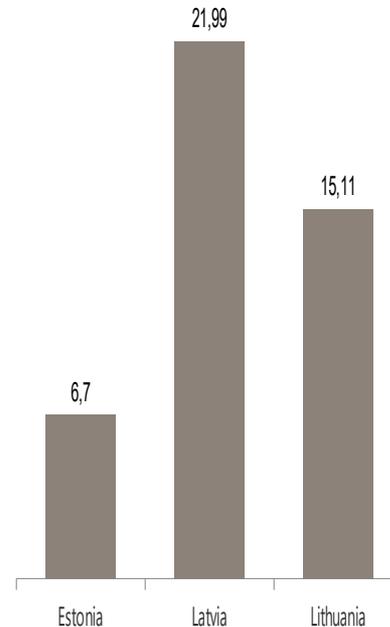


Source: Financial Times

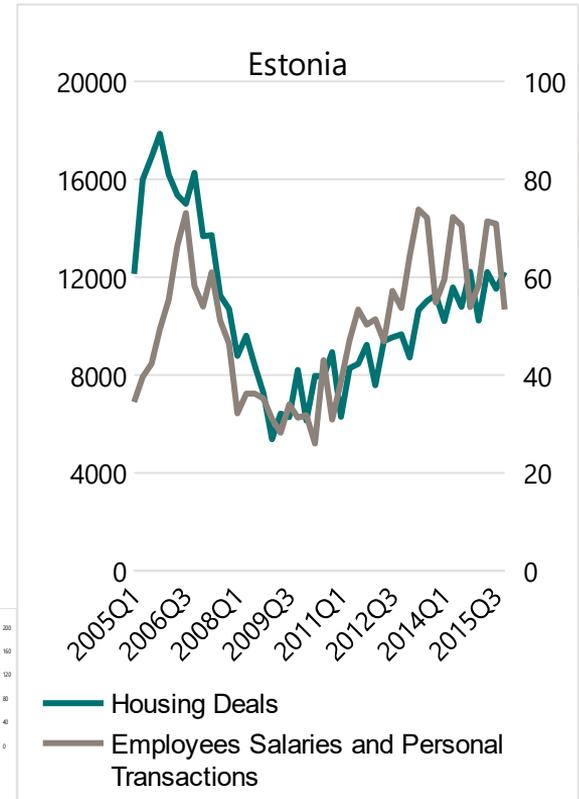
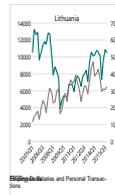
A Risk for Baltic Real Estate?



Personal transfers, compensation of employees in 2014, UK/Rest of the World, %



A Risk for Baltic Real Estate?



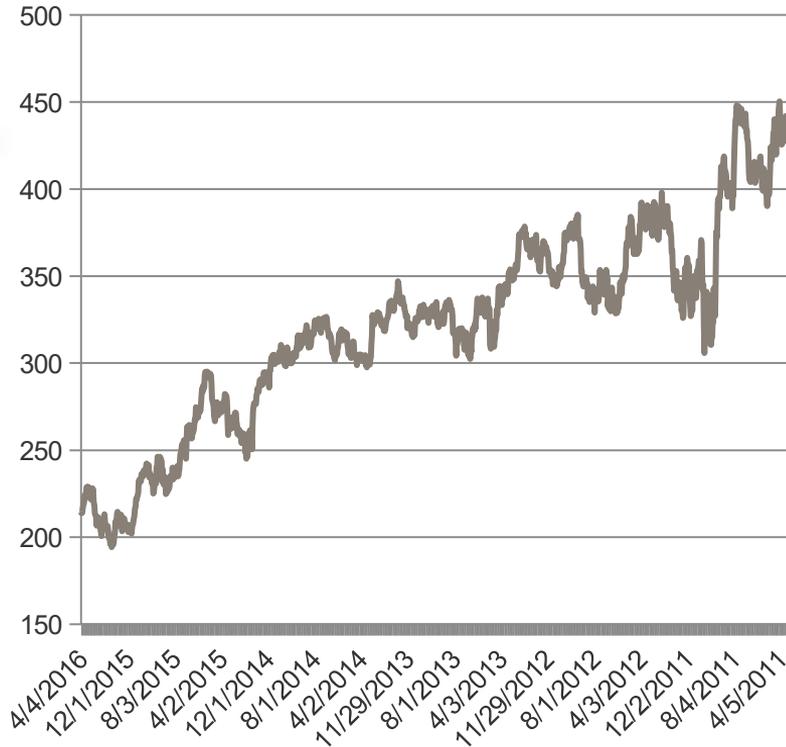
Commodities



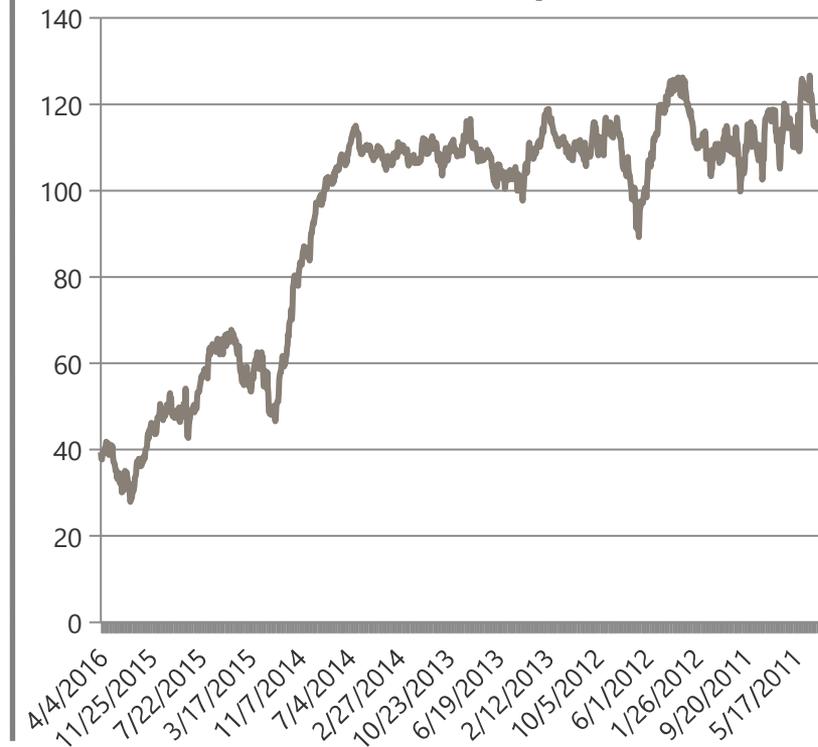
DNB

Commodities

Copper USD per lb.



Brent Crude Oil, USD per barrel

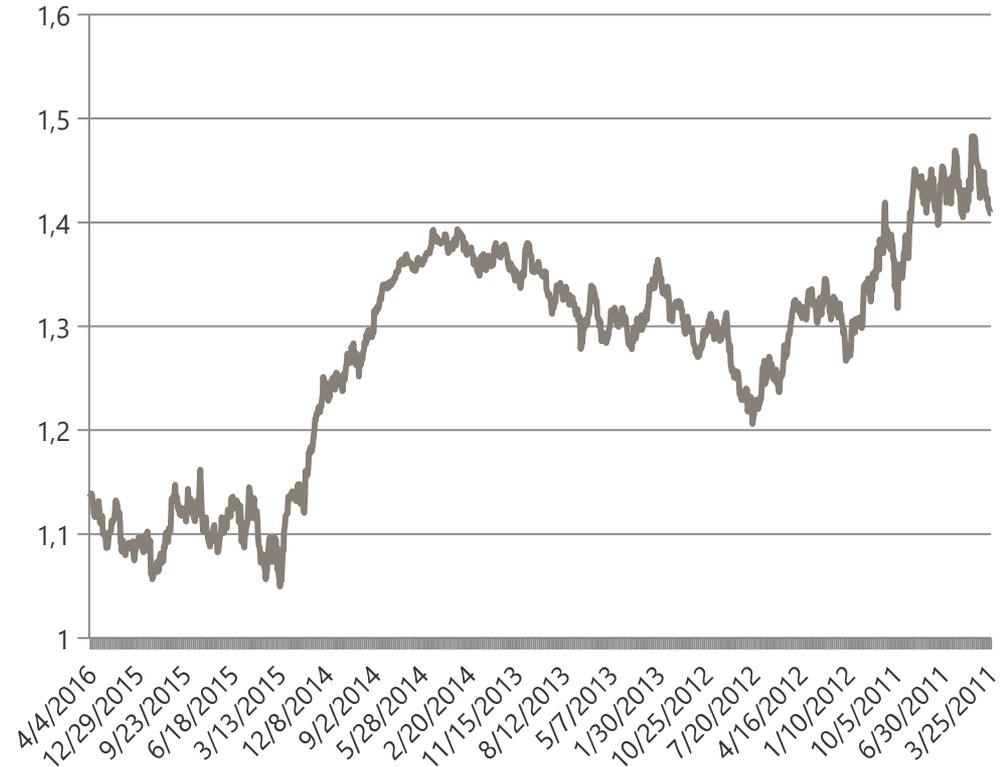


Commodities

Falling commodity prices:

- Slower demand in China
- Large oversupply in the market
- The effect of rising US dollar

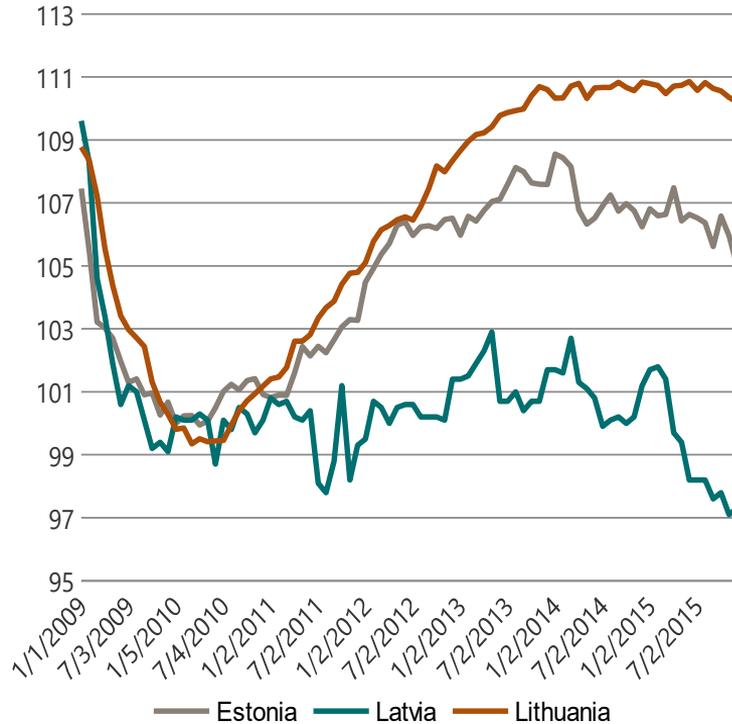
EUR/USD Exchange Rate



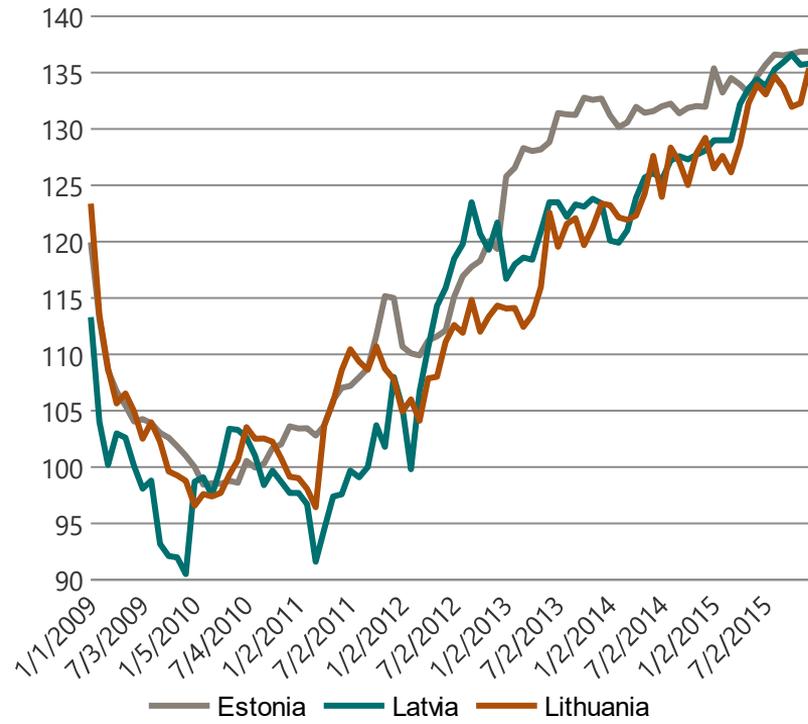
Source: Bloomberg

Low Prices Contributed to Stagnant Construction Costs

Construction Costs – Building Materials, 2010=100



Construction Costs – Labour, 2010=100



Source: National Statistics Offices

Further Outlook

Construction costs start to accelerate

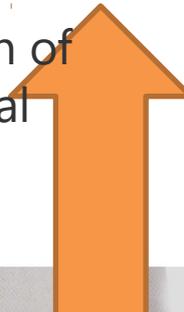
Rising wages
in the Baltic
countries



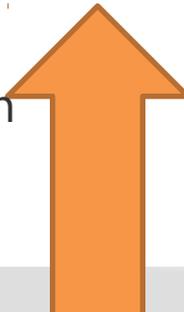
Commodity
prices
bottoming out



Speculation of
OPEC deal



No hard
landing in
China



Source:

