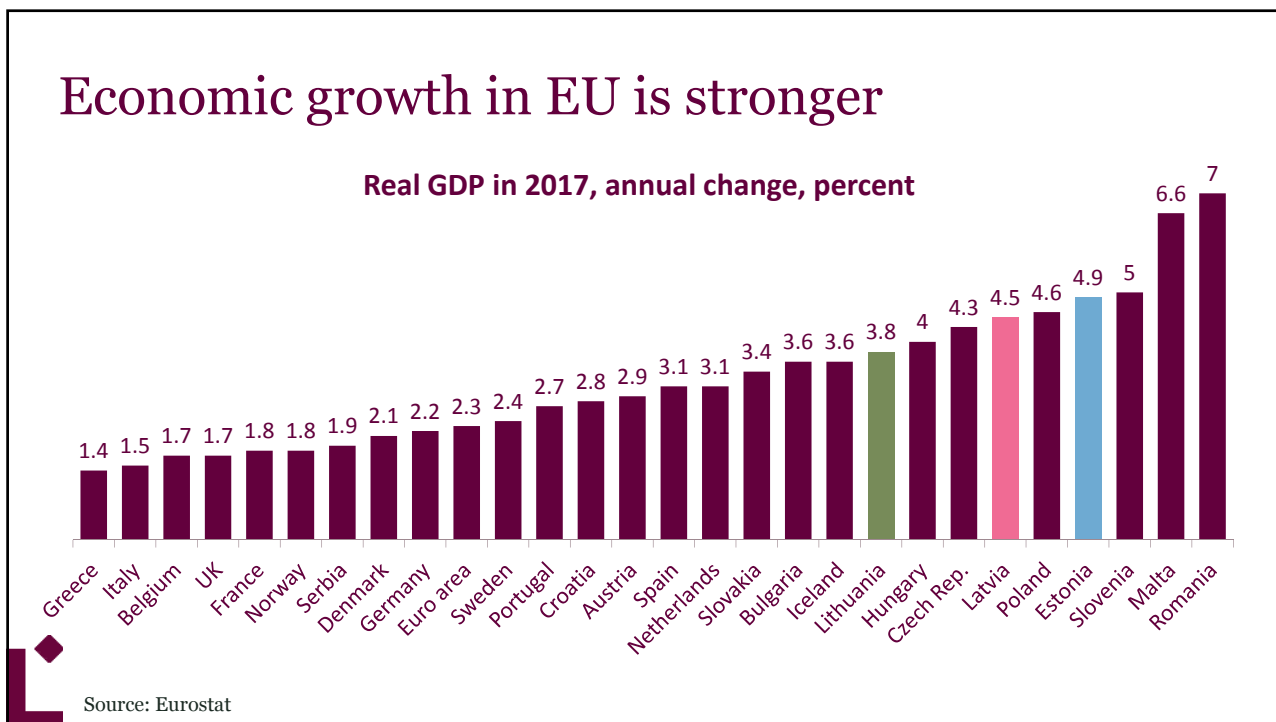




# Real Estate Market: 10 years after crisis. What's next?

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**Luminor**

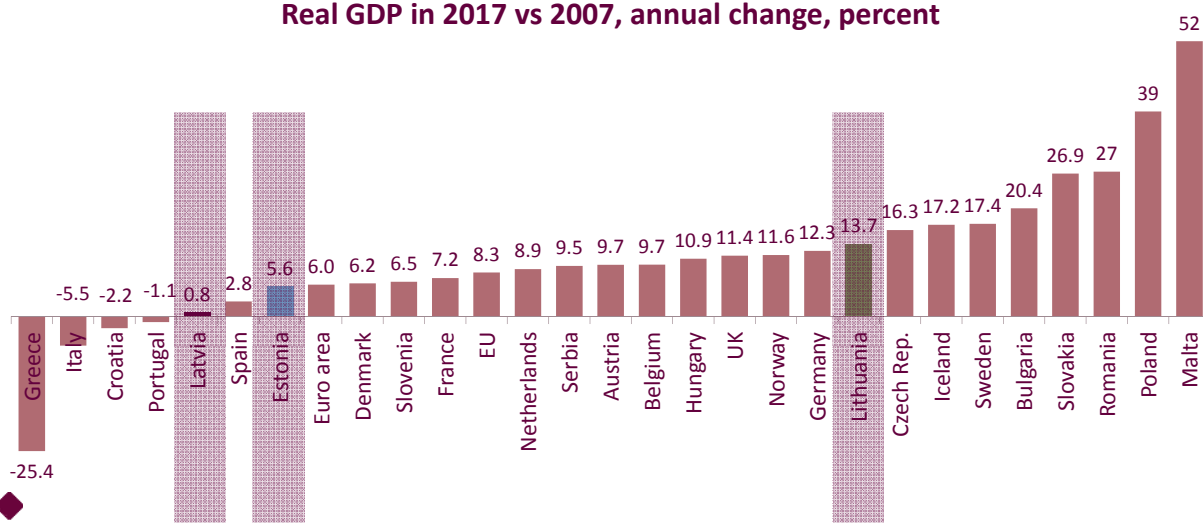
23<sup>rd</sup> March, 2018



# 10 years

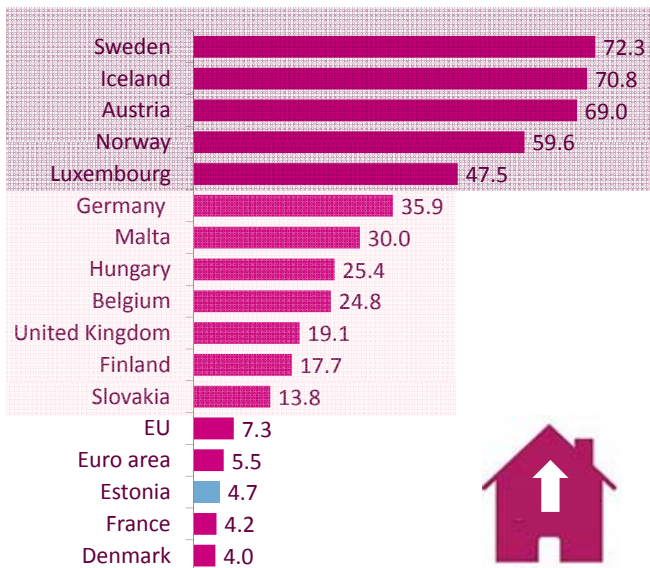
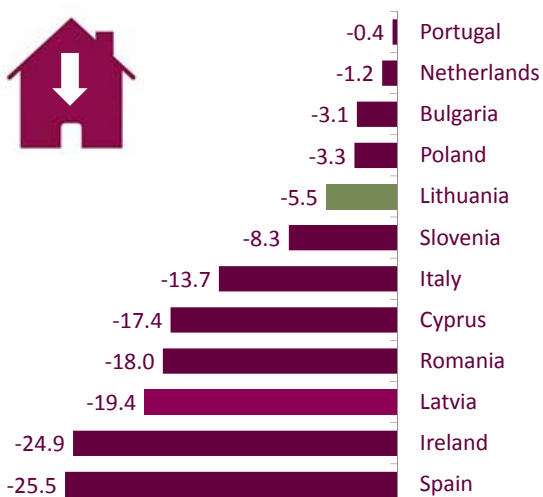
## Over a decade, EU economy increased by 8%

Real GDP in 2017 vs 2007, annual change, percent



Source: Eurostat

## Prices of dwellings, 2017 vs 2007, percent



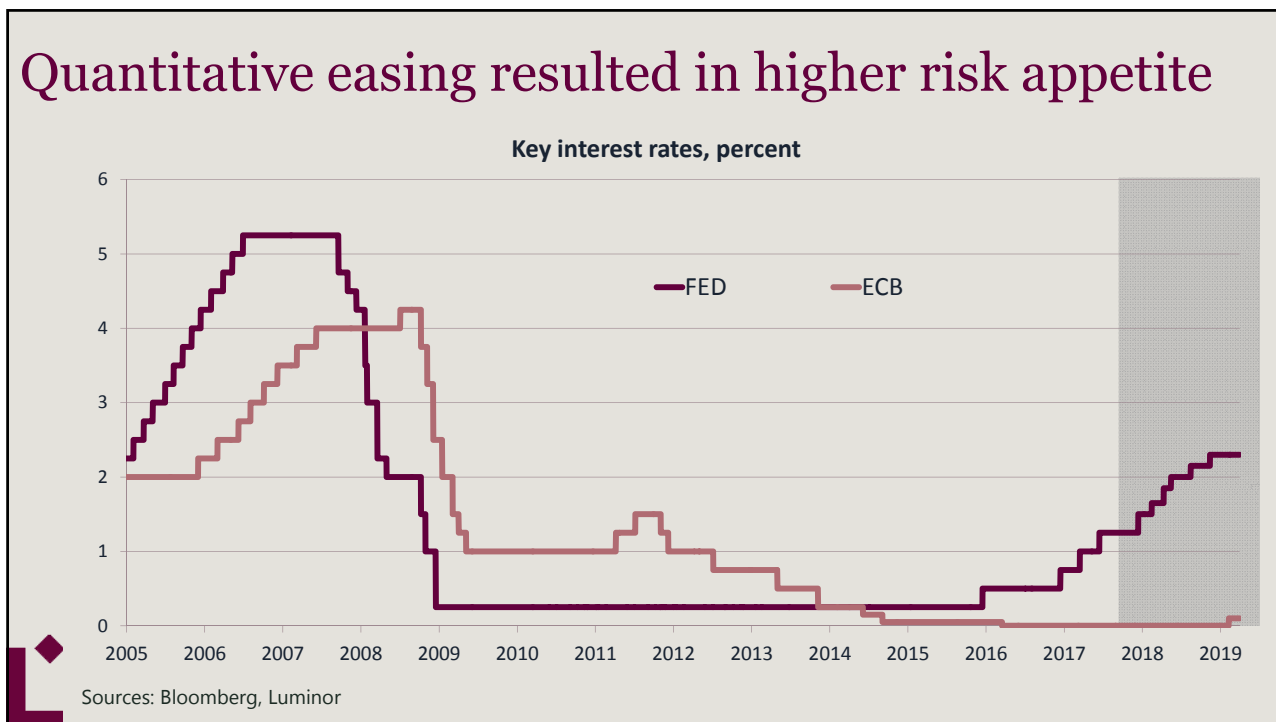
Sources: Eurostat, national RE agencies, Luminor

## Rental market – investment or a burden?



Sources: Euromonitor International, Deloitte

## Quantitative easing resulted in higher risk appetite

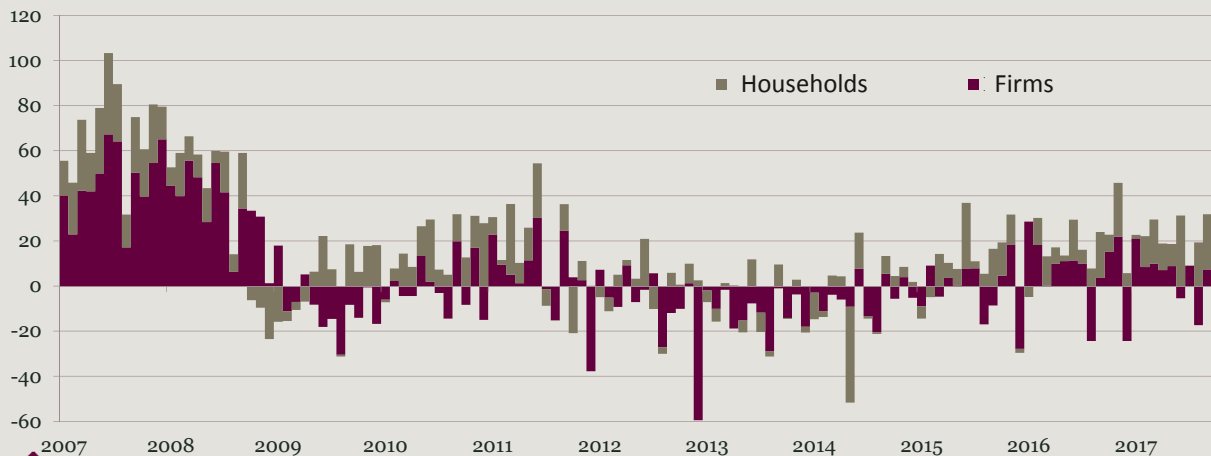


## Investors are taking on more risk to achieve target returns



# Private sector's borrowing in Europe regains momentum

Loans to private sector in the Euro area, Eur bn.



Sources: ECB, Luminor



Source: Peter Schrank, The Economist

## Long-term yields point at the end of cheap money

10-year government bond yields, percent



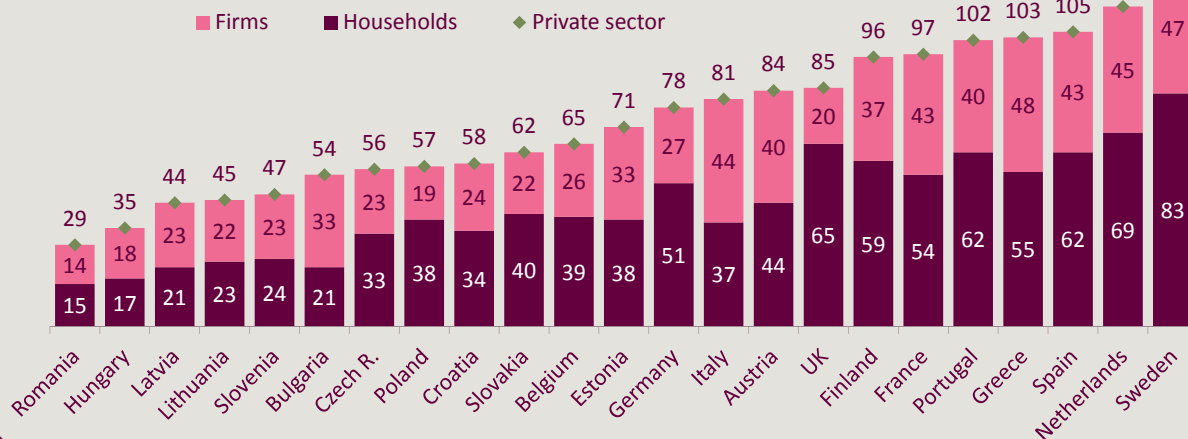
Source: Bloomberg, CBRE Research

## Key macro aspects behind real estate outlook in the Baltics

- ◆ Economic growth
- ◆ Financial markets: interest rates, risk appetite, investments
- ◆ Demographics: population and its structure
- ◆ New trends – rethinking RE

## Private sector's debt in the Baltics is relatively low

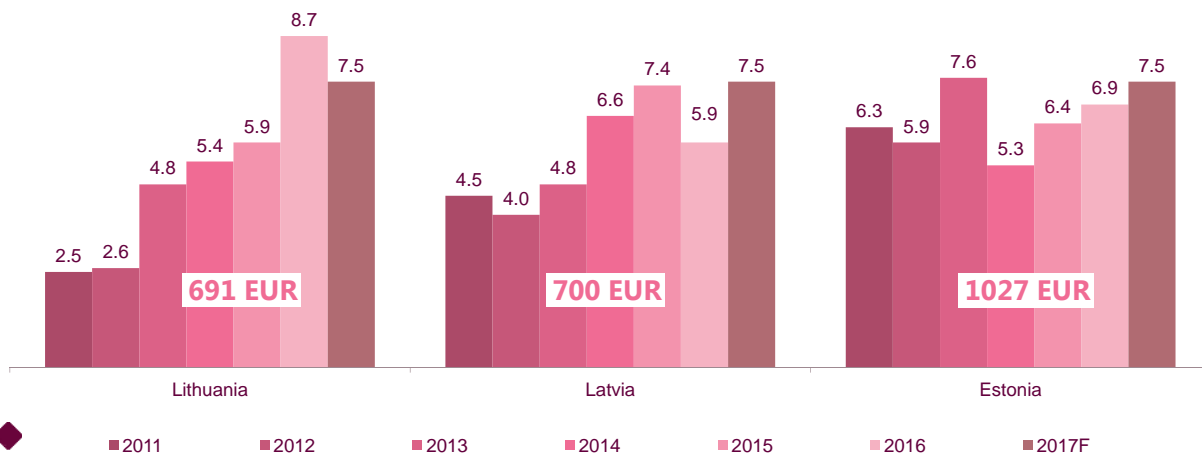
Loans to private sector, percent of GDP



Šaltinis: Eurostat, ECB, Luminor

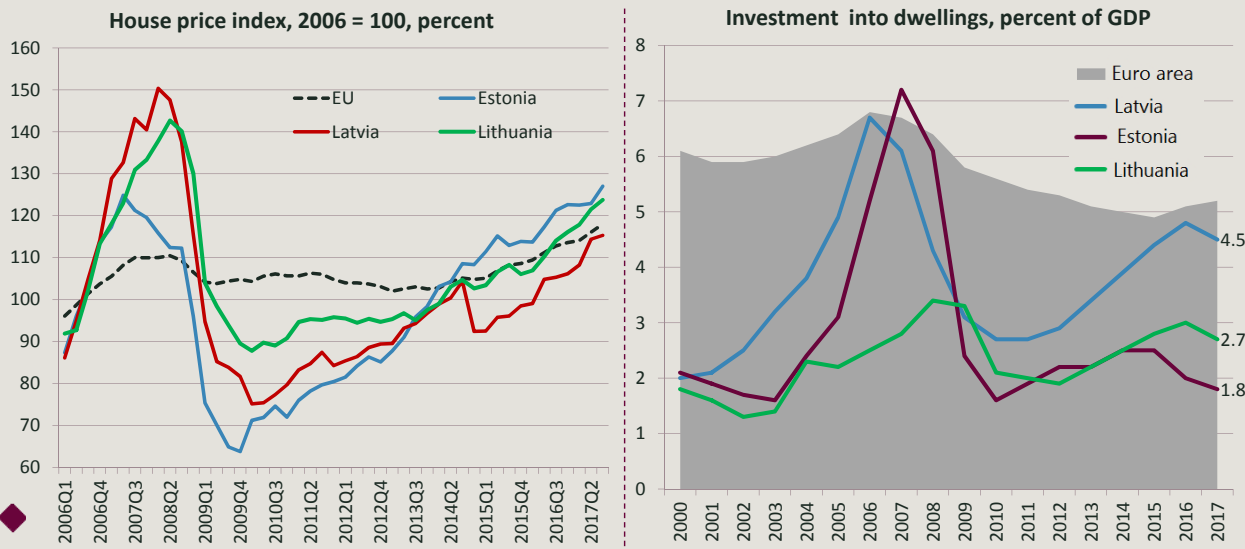
## Escalating wages add to higher labour costs and inflation

Annual change of gross wages and net wages, eop, percent



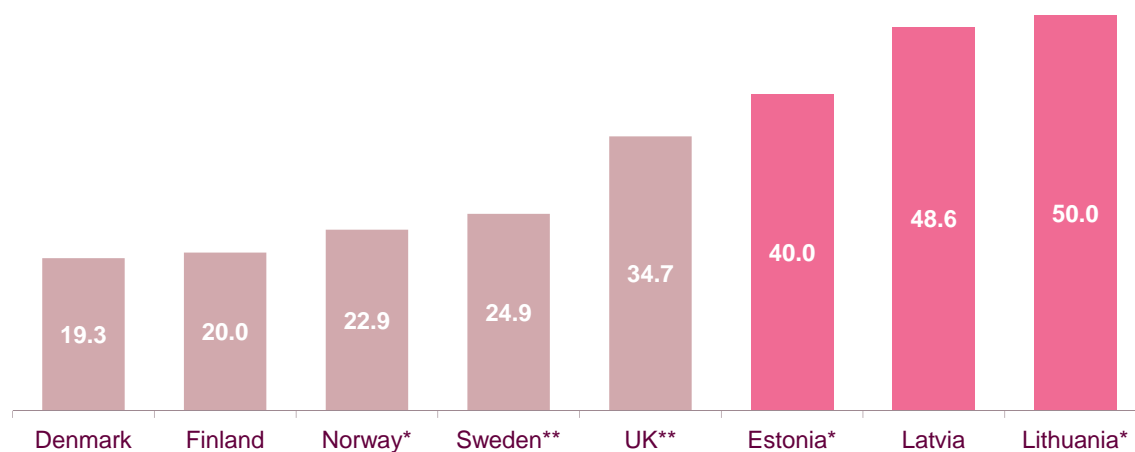
Source: national statistics offices, Luminor

## Housing investments are below the peak



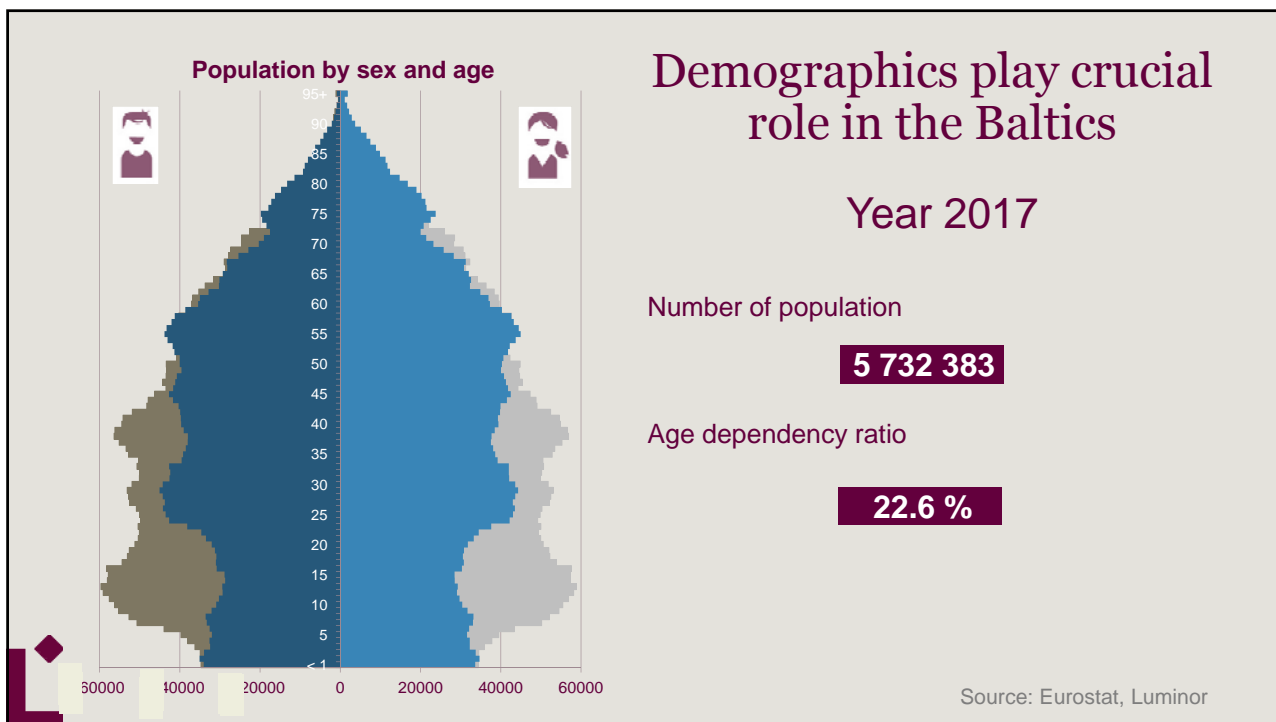
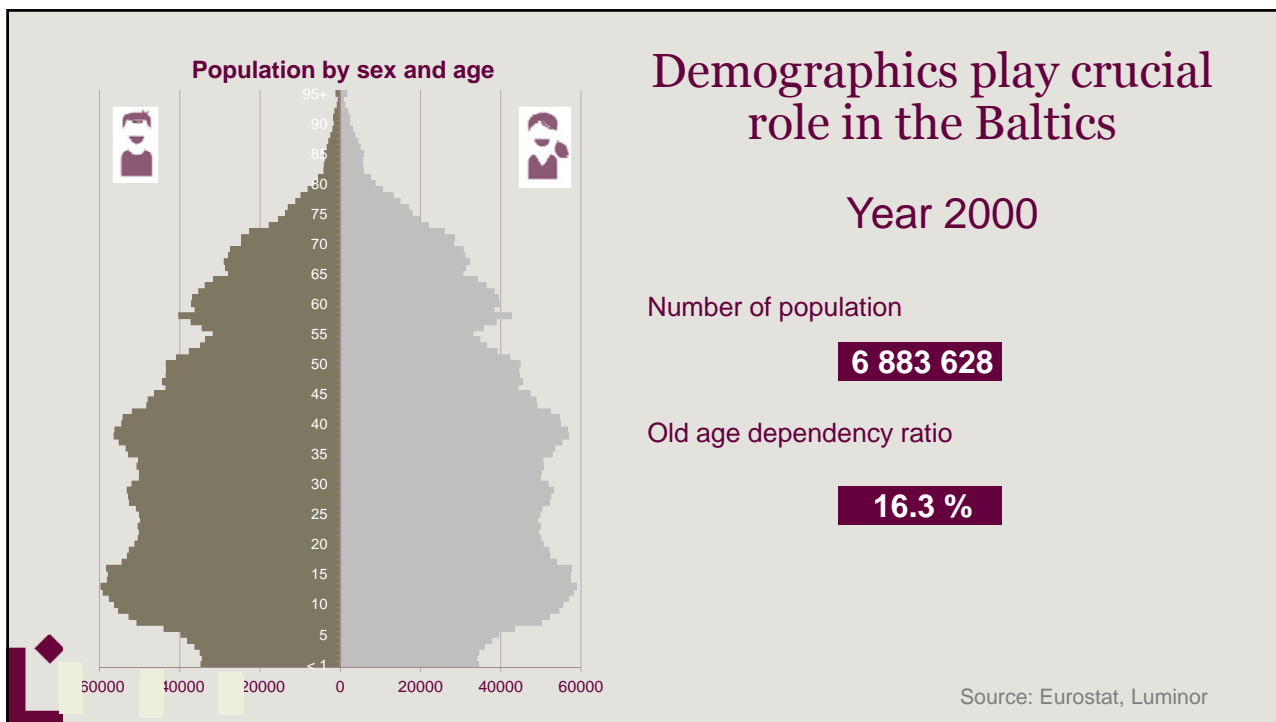
## The Baltics still have a lot of housing potential

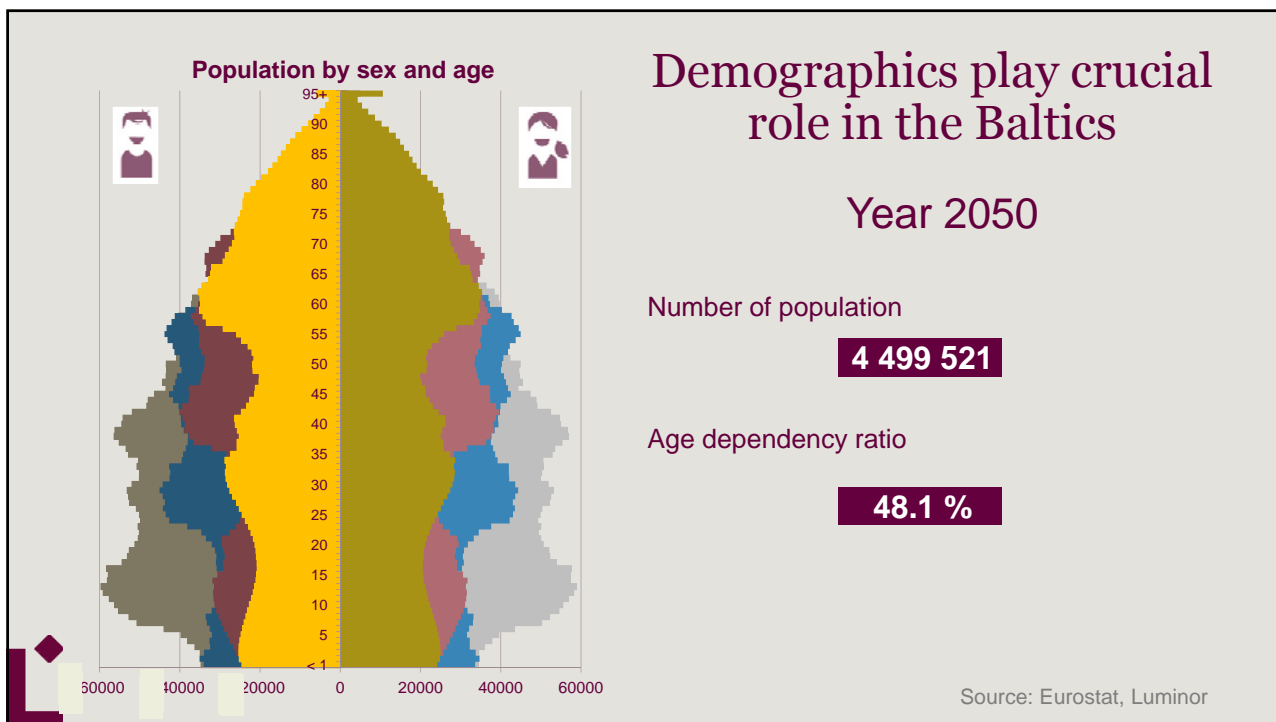
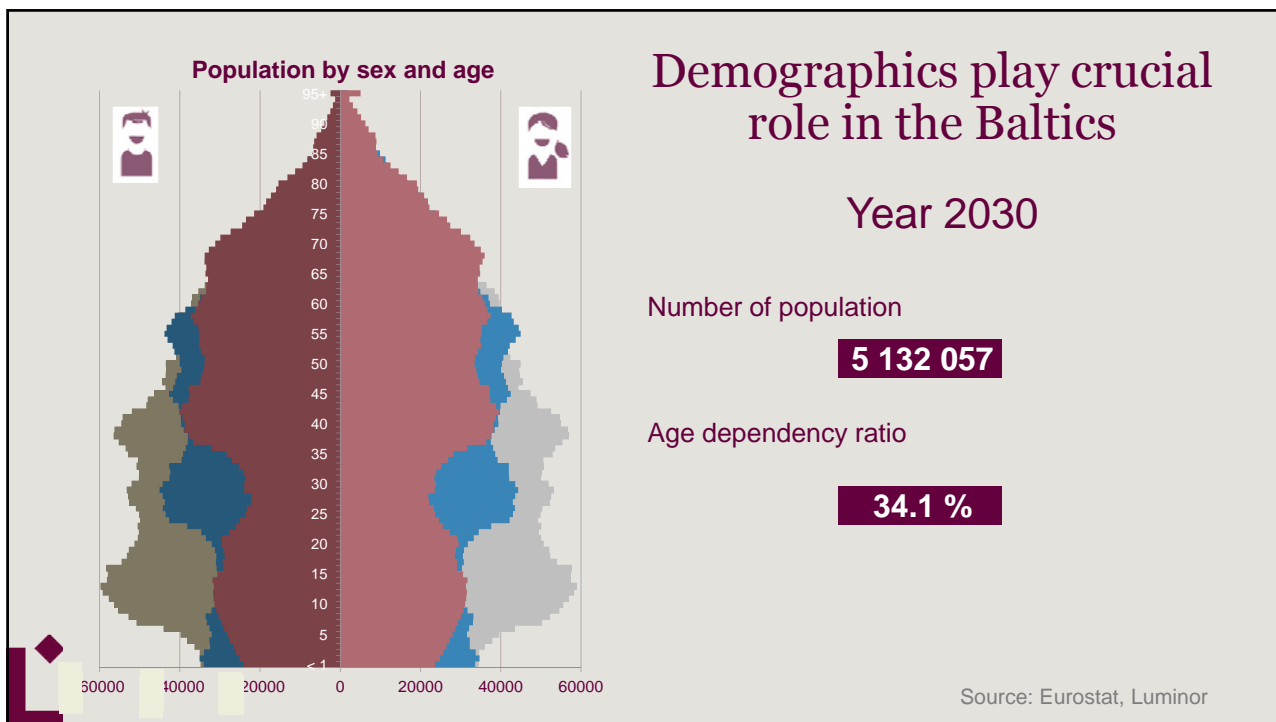
Young adults aged 18-34 years living with parents in 2017, percent



Source: Eurostat \* Estimate \*\* 2016









## Demographics is a ticking time bomb for the Baltics

- Pressure on pension system
- Slower growth potential, limited consumption
- “Silver tsunami” will provoke substantial changes in consumer preferences for real estate.
- Moore’s law

## Changes ahead – reshaping RE market

- ◆ Losing jobs in the  
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WORLD ECONOMIC FORUM  
COMMITTED TO IMPROVING THE STATE OF THE WORLD

“Buildings use 40% of raw materials globally.”

World Economic Forum report on the Real Estate Industry

Sources: Oxford university, Deloitte, PWC

people can live and work

## What's for real estate market?

- ◆ Economic environment is benign in the near future. The Baltics will outperform the euro area by growth rates. Although, higher dependence on EU investments may put the economies on roller-coaster ride.
- ◆ Subdued global inflation and low policy rates add to real estate potential. However, the era of ultra-cheap money is over, and some asset classes are overpriced.
- ◆ The most important component for RE is the countries' appeal for investments, international hubs and ability to retain talents.
- ◆ Demographics is an important factor behind the demand for real estate in the future. The Baltics will face further shift from rural to urban living, with dynamic centers benefiting. The focus is expected to shift to retirement/assisted living, healthcare and affordable living.

Thank you