In Jornal Económico, January 22nd, 2018

Fitch forecasts increases of 5% per year in house prices in Portugal in 2018 and 2019

For Fitch, this expected growth is dubbed "moderate." The above-average rises should occur in larger cities such as Lisbon and Porto, as well as in the Algarve region, "places with stronger markets".

For Portugal, Fitch expects house prices to register moderate increases in 2018 and 2019, at around 5% per year. This is due to the limited supply of real estate, along with a more sustained demand supported by a better macroeconomic environment.

"Higher-than-average prices are expected in large cities such as Lisbon and Porto, and in the Algarve, as they are places that have stronger labour markets and are heavily influenced by corporate real estate investors (companies and funds) seeking to capitalize on market opportunities "Says Fitch.

"While housebuilding activity in Portugal remains fragile, recovery is starting to occur," the agency said in its report "Global House Prices Will Rise, but Ideal Conditions to End."

Official statistics show that construction permits, and real estate rehabilitation grow for the second consecutive year, albeit starting from a very low base. For example, the annualized count of new building permits for housing is growing 30% since the second quarter of 2017, although this represents only 25% of the maximum value reached in 2006/2007.

The recovery in house prices is supported by a 4% -5% increase per year since the end of 2015, supported by an improved macroeconomic outlook, improved consumer confidence and a limited supply of real estate, Fitch says. However, despite the rise, average house prices are approximately 10% cheaper than in 2007. The price drop peaked in 2013 when it fell by 25% in prices.

On the other hand, nominal available income per capita is expected to increase by 3.5% and 3.7% in 2017-18, Fitch predicts, which also expects unemployment to continue to fall, as has been the case since 2013, driven by the increase particularly in the services sector.

The agency says that the national average indicator of the accessibility of housing has remained stable in the last 18 months in the 7.8x price of housing per income per capita (*house price-to-income per capita).*

First-time Buyers' accessibility is expected to decline over the next two years as household house prices grow faster than the daily household income available to these borrowers, "Fitch predicts. On the other hand, accessibility for mortgage customers (old mortgage loans) is expected to remain stable, as interest rates are not expected to rise substantially over the next two years, he said.

Bad credit on mortgages tends to fall

The prevailing environment of low interest rates continues to support compliance with mortgage payments. ECB data suggest that the average mortgage borrower pays an interest rate of 1.2% per year on August 2017 compared to 1.7% -2.0% paid by new mortgage borrowers (new mortgage loans).

The proportion of housing loans overdue for more than 30 days, as defined by the rules of the Bank of Portugal, decreased to 5.0% -5.5% in 2017, compared with the average of 6.5% in 2014-2016. This ratio compares well, also, with mortgage loans overdue for more than 90 days.

Fitch expects the quality of the mortgage loan portfolio to "improve gradually over the next two years, thanks to mitigation [reduction] of credit portfolio and stable payment history, and thanks to the improved economic outlook and low interest rates."

New mortgage lending is likely to continue to expand in the coming years as GDP growth is projected to be 2.5% in 2017 and 1.9% in 2018. And also, because unemployment is expected to decline to 8.5% in 2018 compared to the peak of 17.5% in January 2013, and interest rates should not change materially.

The ratio of non-performing housing loans continues to decline gradually. Reduced by about 2.5% in one year, compared to the first half of 2017, resulting in a total drop of 18% from the bad credit high.

The pace of new home bank lending has been strong since 2014, according to ECB data, Fitch says, growing 44% in 2016 and with prospects of growing 35% by 2017.

The new origination of mortgage credit in 2017 is expected to be around 35% -40% of the 2007/2008 peak, the analysis says.

Fitch expects new gross lending volumes to offset mortgage loan amortizations before 2019, provided that financing conditions for Portuguese banks remain essentially comparable to current ones.

However, the agency expects the growth rate of new bank lending for housing to "soften in 2018 and 2019 regarding the past two years," mainly due to a prediction of smoother GDP growth and persistent accessibility in the purchase of the first dwelling.

Finally, Fitch talks about legislative changes in Portugal. The changes in the insolvency framework were introduced with the aim of accelerating and promoting non-judicial overdue debt restructuring solutions that help improve mortgage lending activity.

In addition, Fitch says, online real estate auctions (rather than physical auctions) are now allowed when the court foreclosure process is initiated to ease the bidding process and increase efficiency.

Global market

The Fitch report looks at the global real estate and mortgage trends in the world. It is expected that home prices will increase at a slower rate in 2018 than in recent years in most countries. Fitch has a stable / positive outlook for most real estate markets.

"We expect prices in 2018 to stabilize or decline modestly in overheated markets (in several cities), but if price correction is limited after several years of high price rises, the risk of major price depression in future recessions remains, "said the rating agency.

In the market analysis, Fitch addresses the peripheral eurozone countries for which it expects "strong increases in gross mortgage credit: In addition to Italy, new mortgage loans on the periphery of the euro zone will record double-digit increases. Portugal will see the biggest increase (40%), but the stock of mortgage credit will fall until 2019 (at least) since the repayments that will occur until then compensate the amount of new loans. In Ireland, central bank proposals can encourage competition between banks, "the rating agency says.