

Real estate prices have fallen substantially since the beginning of 2008. Turnover has been at its lowest point for years, and housing swaps agreements account for a large share of total turnover. According to the Iceland Property Registry (IPR) index, house prices in the greater Reykjavík area have declined by over 15% from their January 2008 peak. In real terms, prices have declined by nearly 35% since peaking in October 2007. In March 2010, the number of registered purchase agreements was 80% lower than in October 2004, when they peaked just after the commercial banks entered the mortgage lending market. As was discussed in the November 2009 *Monetary Bulletin*, measuring house prices is more uncertain than usual due to the small number of purchase agreements. As a result, it is likely that the indices used as a basis for real estate price measurements do not give an accurate view of actual price developments.

The Central Bank's baseline forecast assumes that house prices will continue to fall through 2011. A part of this decline has probably emerged already, although for a variety of reasons, house price indices do not yet show this. The price of real estate is still high in swap agreements, where the actual transfer payment agreed upon by the parties appears to matter more than the price of the property involved. Because of the small number of purchase agreements concluded, the IPR has had to use agreements that are several months old for some categories of housing, delaying the emergence of the actual price decrease in the index. While turnover is still very low in historical terms, it has recovered slightly in the recent term. Over the past three months, 38% more purchase agreements were registered in the greater Reykjavík area than during the same period a year ago. Price indices will probably reflect market price decreases more accurately as turnover rises

Real estate market turnover will probably not increase to any marked degree until households become more certain about their financial position, and until labour market conditions and income prospects improve. Government policy actions and measures adopted by the banks to assist households have somewhat lessened the prevailing uncertainty.

Box III-1

Real estate market developments

Chart 1
Turnover in the housing market
Relative to purchase day

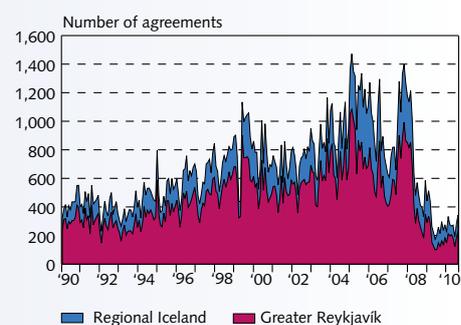


Chart 2
Housing swaps as a portion of total turnover
Residential housing in greater Reykjavik

