

Paris, 17 April 2008

**“Property and construction: no end to the crisis for the United States,
Spain and France before 2009-2010”**

A report by Euler Hermes, the world’s leading credit insurer

In their report entitled “Property and construction: when will the crisis end?”, economic and risk industry experts from Euler Hermes, the world’s leading credit insurer, review the sector’s prospects both internationally and for France. The Euler Hermes indicator for property risks highlights the following countries for 2008: the UK, Ireland, Spain and the United States. Additionally, the construction sector in France is seeing a decline in profitability, as well as an increase in the number of bankruptcies.

1. The Euler Hermes indicator for property risks in 2008 highlights the same countries as in 2007: with the UK, Ireland, and Spain at the top, followed by the United States

- **Average house prices** are very high in Ireland (€279,000) and the UK (€274,000).

- Price rises: Ireland, the UK and Spain have the highest rises

In Ireland’s case, prices have been spiralling upwards: +234% between 1996 and 2008. They have also risen sharply in the UK (+148%) and in Spain (118%). Although prices had risen by 45% in the United States, they have been falling since the end of 2007, a decline which accelerated at the start of 2008. On the other hand, in Germany, an 18% fall in prices over the whole period has been seen.

In addition, **the price/GDP ratio (corresponding to purchasing power per inhabitant) shows that Spain has an exceptionally high ratio of 5.2**, followed by the UK (4.4), Italy (4.4) and Germany (4.3).

- Very high debt levels in the UK, Ireland, the United States and Spain

Debt levels significantly higher than 100% of gross disposable income can be seen in the following countries: the UK (167%), Ireland (143%), the United States (140%) and Spain (135%).

- The Euler Hermes indicator for property risks in 2008 highlights the same countries as in 2007

The situation continues to be particularly worrying with high risk indexes in the UK (8.9), Ireland (7.8) and Spain (4.8). The United States is in 4th place with a risk index of 1.4.

2. Construction: its impact on national economies varies

The contribution of the construction sector to GDP is on average around 6% as is the case in France (6%), the United States (5%) and the UK (7%). By contrast, in Spain it stands at 13% with 2,697,000 people employed in the sector. That is a million more than in France, even though Spain’s population (45 million) is a third less than that of France. *“This is why the building sector recession in Spain is a much more marked factor in economic slowdown,”* notes **Laurent Bonhoure, Sector Consultant at Euler Hermes SFAC.**

- United States: after three years of crisis, growth is expected to resume in 2009

Euler Hermes SFAC highlights the meltdown in construction in the United States since 2006: between 2005 and 2007, the number of housing starts declined from 2,068,100 to 1,353,800. In addition, there was a sizeable increase in the stock of new houses. In terms of months of sale, the stock of houses went from 4 to 10 months in two years. House prices had consequently dropped by 7.8% at the end of February 2008, adding to the continuing decline in American consumer confidence. *“The financial, real estate and new construction crises have pushed the United States into recession. However, after three very difficult years, we expect a return to growth in 2009 with a return to positive rates of change in the construction sector,”* sums up **Laurent Bonhoure.**

- Spain: deep crisis began in 2007, no end before 2010

Spain saw a real boom in construction up to the end of 2006 with 865,561 housing starts that year. Spain had quadrupled the number of houses under construction since 1992, benefiting from an exceptionally high house ownership rate of over 80%. After 7 years of sharp price rises since 2000 (+123%), we are now seeing prices stabilise and a much faster rise in the cost of credit (93% at variable rates).

"The Spanish economy is marking time, bankruptcy filings increased very rapidly at the beginning of 2008 and the construction sector accounted for 18.8% of bankruptcies in 2007. Furthermore, Euler Hermes Credito, our Spanish subsidiary, has observed a 140% rise in bankruptcies in the building sector in the 1st quarter of 2008. Having entered a deep crisis in 2007, we are expecting prices to fall in 2008 and the crisis in Spain to come to an end, but not before 2010," comments **Laurent Bonhoure**.

- The UK: a market under pressure from the construction slowdown but not in crisis

In the UK, the credit insurer has seen a slowdown in the number of houses under construction and notes that the UK market is more a market for renovation than construction. Until 2007, the market remained under pressure but with a slowdown in price rises. Over the past few years, construction has hardly increased in the UK, and prices are now stabilising. The construction sector will therefore only play a small part in economic decline.

3. France: decline in profitability and increase in bankruptcies in construction in 2007; end to crisis envisaged early 2010

- Decline in building permits heralds decline in housing starts

The fundamental reasons for this decline are well known: deindustrialisation of certain areas, lack of availability of affordable building land, higher prices, and interest rate rises. Regarding housing starts, experts at Euler Hermes SFAC point to the variations between different French departments ranging from -25% to +11%. There has been an increase in housing starts of more than 3.1% in 25 French departments. By contrast, the decline in housing starts is more than 16.3% in 24 French departments.

- Housing stocks have more than doubled

New housing availability exceeded 100,000 in 2007. The number of housing units for sale was very low in 2003 and 2004 but has risen sharply since. *"There are too many units in places where fiscally advantageous Robien and Borloo programmes have been recklessly constructed,"* claims **Nicolas de Buttet, underwriter and head of the underwriting department of Euler Hermes SFAC**.

- Higher interest rates and decreasing housing loans in France

The financial context is considerably less favourable: loan refusal rates have gone from 3% to 8% in six months. Also, average interest rates currently stand at more than 4.5% whereas they have fluctuated in the 3.4% to 4% band since the end of 2003. In addition, having reached €155 billion in 2007, new housing loans have fallen significantly.

- Construction: costs increasing faster than activity affect the sector's profitability

"Given the tensions that have prevailed in 2007 on labour costs and to a lesser extent on the price of materials, we forecast a higher increase in costs than in activity. The increase in labour costs in France is due to the shortage of labour, especially skilled workers," explains **Nicolas de Buttet**.

- Bankruptcies up 12% in 2007

The 22% increase in payment defaults in construction in France between April 2007 and April 2008 has led Euler Hermes SFAC to forecast approximately 13,000 bankruptcies in 2008 in this sector. The increase in bankruptcies is also a result of the decrease in volume expected from the second half of 2008 onwards. *"Small scale and recent formation are the principal factors in the fragility of building firms: 50% disappear within five years of starting up,"* concludes **Nicolas de Buttet**.

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