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# Financial innovation and European housing and mortgage markets

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## Abstract

In this paper we assess the recent history of house prices and of mortgage lending across Europe. We develop a simple economic framework to estimate the likely contributions of fundamental factors, such as changes in real incomes and population growth, to house price appreciation. We also try to quantify how much of price rises might have been driven by rising expectations of future capital gains. We estimate that this might have played a significant role in several countries, including Spain, Sweden, Belgium, and the UK. We then consider what different types of mortgage arrangement might become attractive in a world of higher house prices, analysing types of indexed mortgage that have advantages where prices are higher relative to incomes and where house prices may be volatile and cannot be assumed to carry on rising.

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