

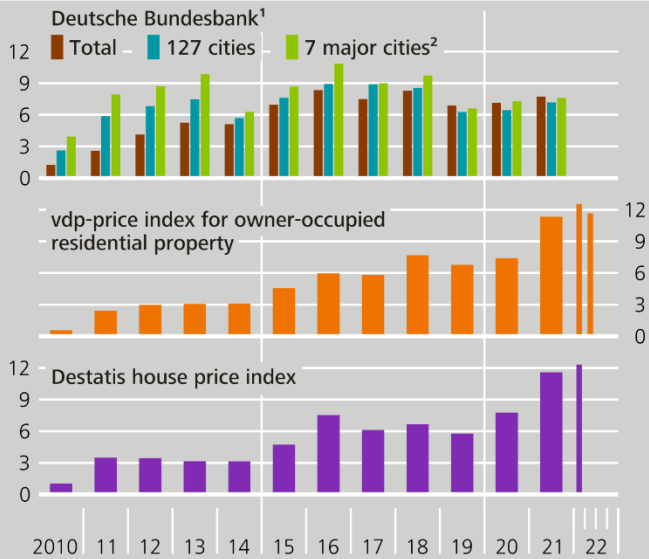
# How overheated is the German real estate market?

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# Growth rates of exceptionally high residential property prices stabilised

## Prices of residential property in Germany

Year-on-year percentage change



**1** Transaction-weighted. Bundesbank calculations based on data provided by bulwiengesa AG. **2** Berlin, Düsseldorf, Frankfurt am Main, Hamburg, Cologne, Munich and Stuttgart.

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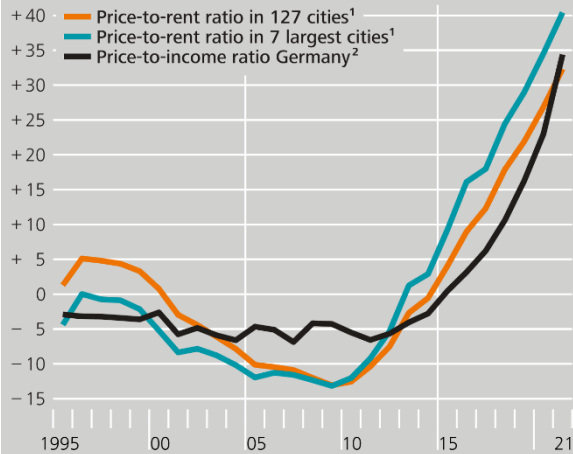
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- **House price growth** in 2nd quarter 2022 still exceptionally high, but did not increase.
  - Costs for material and labor elevated, but large contribution of price increases of building land.
- **Overvaluations in cities and in Germany** overall rose **2021** to between 15 % and 40 %.
- **More indications of price bubbles 2021** than before pandemic (BOP-HH).

# Valuation methods: Standard indicators show overvaluations in cities and Germany overall

## Standard indicators to evaluate residential property prices in Germany

Deviation from long-run mean in %



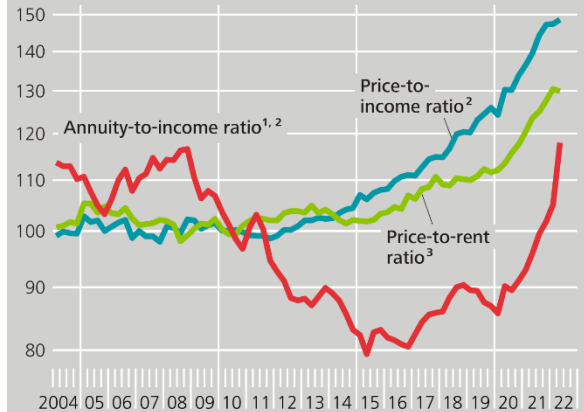
**1** Bundesbank calculations based on data provided by bulwiengesa AG.  
**2** Bundesbank calculations. Income and number of households: Federal Statistical Office.

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## Standard indicators to evaluate residential property prices in Germany\*

2010 = 100, quarterly, log scale

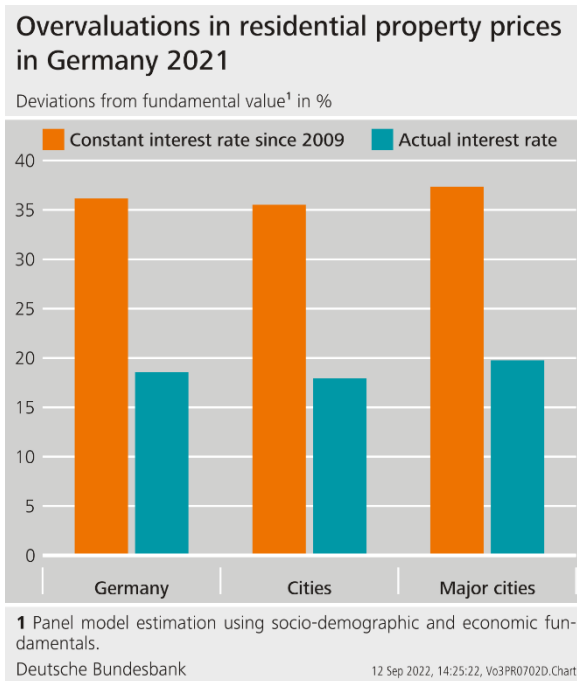


\* Bundesbank calculations based on data provided by the Association of German Pfandbrief Banks (vdp). **1** Annuity of a mortgage loan with a fixed interest rate (between five and ten years) and a hypothetical term of 30 years in relation to household income. **2** Disposable income per household in Germany, nominal. **3** Prices and rents of apartments.

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# Econometric valuation models: Overvaluations increased especially outside of large cities

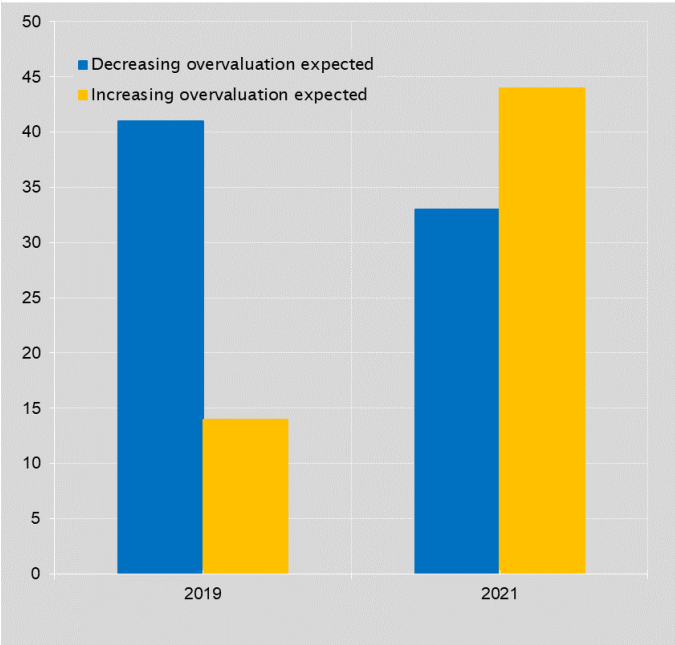


- **Overvaluations** 2021 particularly increased outside of cities, still considerable overvaluations in cities.
- **Widely spread overvaluations** in Germany overall **between 15% and 40%**.
- **Special effects** (pandemic induced weak development of income, additional savings in pandemic, regional relocation of housing demand...) **without noteworthy effects on overvaluation results**.
- However, **overoptimistic expectations** of households became **more important than before**.

# Risk of destabilising price developments increased in 2021

## Expected development of overvaluations

% of overvalued regions



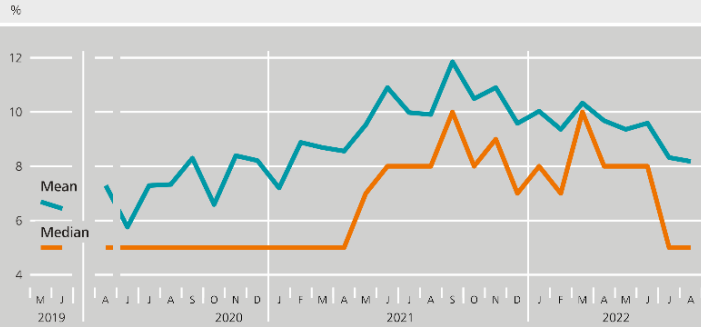
Source: Bundesbank calculations.  
Deutsche Bundesbank

– **Risk of self-reinforcing price developments increased in 2021** in comparison to 2019.

- Number of regions with overvaluations and overoptimistic expectations in regard to future price developments (relative to rent expectations) considerably increased.
- Thereby **increased optimism of private households** concerning future price development **crucial**.

# Is the boom in residential housing market in Germany abating?

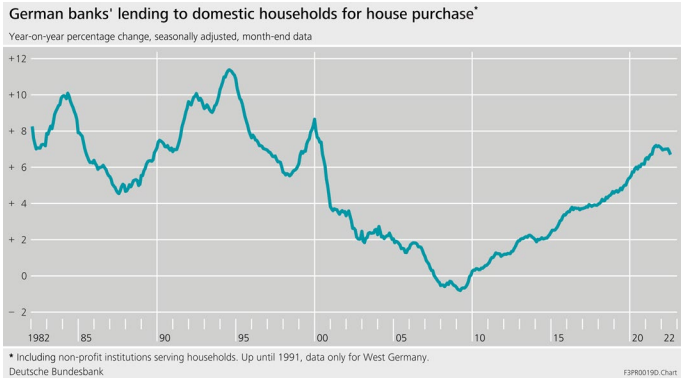
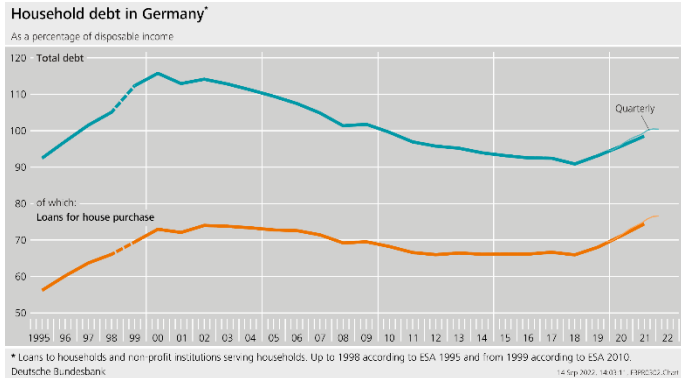
Expectations of Individuals about Changes in Real Estate Prices\*  
next 12 months



Source: Deutsche Bundesbank Online Panel Households (BOP-HH). \* Question: By what percentage do you think property prices in your area will change over the next twelve months?  
Deutsche Bundesbank

- **Households expect considerable reduction of price growth rate** in the next 12 months (BOP-HH).
- Scarcely price decreases expected.
- **Weaker demand for residential real estate**, e.g. because of inferior income perspectives and increasing mortgage rates.
- **Expansion of supply subdued**, too, especially due to material shortages. Slowdown of construction permits since April 2022.
- **High demand for residential mortgages**, caused by e.g. considerably increased construction and restructuring costs plus motives for interest hedging.
  - Banks in BLS expect a distinct decline of credit demand in the third quarter 2022.

# Dynamic lending increased household indebtedness while rising interest rates may have created incentives to frontload borrowing

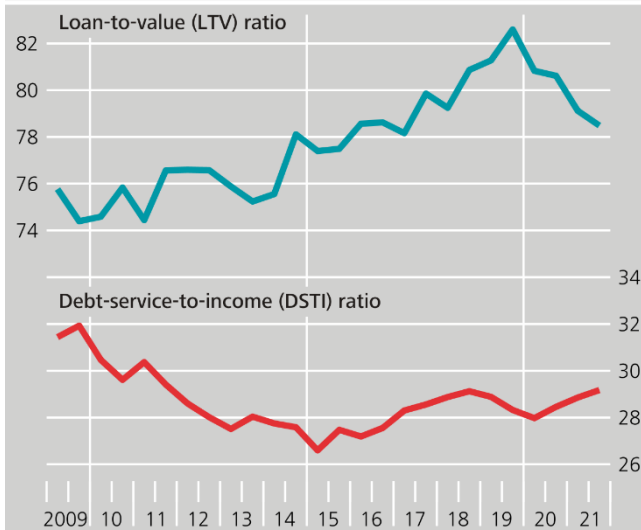


- Increasing household indebtedness **because of dynamic lending over the past decade.**
  - Expectations **of rising interest rates may have** created incentives to frontload borrowing.
  - New lending still dynamic, some weakening more recently.
- **Long interest rate fixation periods** of housing loans shield borrowers from immediate exposure to rising interest rates.
  - Loans with interest rates fixed for  $\geq 5$  ( $\geq 10$ ) years account for 80% (50%) of new lending volume (Source: MFI interest rate statistics).
- **Rising unemployment may pose more significant risks.**

# Lending standards displayed heterogeneous dynamics while outlook is uncertain

## Lending standards for new loans for house purchase in Germany

%, volume-weighted averages



Source: Bundesbank calculations based on Interhyp Gruppe data, weighted by Socio-Economic Panel (SOEP) data.

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- **No substantial loosening of lending standards** for housing loans during the boom.
  - LTV: trending upward until the outbreak of the pandemic and falling since then.
  - DSTI: falling interest rates more than compensated increasing prices before 2015; since then trend reversal.
- **Further development of lending standards is uncertain**, even though rising debt service and living costs may discourage would-be buyers from entering the market.
- **Conservative income based lending standards (DTI/DSTI) will be key** to keep risk in the flow of mortgages limited.



## Summary and conclusions

- Exceptionally high **rates of house price growth not further intensified recently.**
- **Overvaluations rose in 2021 to between 15 % and 40 %** in cities and in Germany overall.
- **Risk of destabilising price development increased** in 2021.
- Recent survey results show **considerable reduction of expected house price growth rate,** but scarcely price decreases.
- **Large share of long interest rate fixation periods** of housing loans shields borrowers somewhat from rising interest rates.

# Appendix

