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News Release

UBS Global Real Estate Bubble Index: At the tipping point

According to the UBS Global Real Estate Bubble Index, Toronto and Frankfurt exhibit the most elevated risk levels on housing markets. For the study, UBS analyzed residential property prices in 25 major cities around the world. From mid-2021 to mid-2022, nominal house price growth in the cities analyzed accelerated to 10% on average. But the global housing boom is coming to an end.

Zurich, 12 October 2022 – The *UBS Global Real Estate Bubble Index 2022*, a yearly study by UBS Global Wealth Management's Chief Investment Office, indicates that imbalances in global metropolitan housing markets are highly elevated and prices are out of sync with rising interest rates. Toronto and Frankfurt top this year's index, with both markets exhibiting pronounced price bubble characteristics. Risks are also elevated in Zurich, Munich, Hong Kong, Vancouver, Amsterdam, Tel Aviv, and Tokyo.

In the US, all five analyzed cities are in overvalued territory with the imbalance more distinct in Miami and Los Angeles than in San Francisco, Boston, and New York. Housing markets in Stockholm, Paris, and Sydney remain overvalued despite some cooling trends. Other housing markets with signs of overvaluation include Geneva, London, Madrid, and Singapore. Sao Paulo – an addition to this year's index – is fairly valued alongside Milan and Warsaw. Despite a buoyant year, Dubai's housing market is in fair-value territory too.

Valuations at peak level

Nominal house price growth in the 25 cities analyzed accelerated to almost 10% on average from mid-2021 to mid-2022, the highest yearly growth rate since 2007. In fact, all but three cities – Paris, Hong Kong, and Stockholm – saw their house prices climb. On top of this, an acceleration in the growth of outstanding mortgages was evident in virtually all cities, and for the second year in a row, household debt grew significantly faster than the long-term average.

Index scores have not increased on average compared to last year. Strong income and rental growth have mitigated the further rise of imbalances. Housing prices in non-urban areas have increased faster than in cities for the second consecutive year. Additionally, price growth has slowed remarkably in inflation-adjusted terms. But current valuations are highly elevated.

Rising rates bring imbalance to the fore

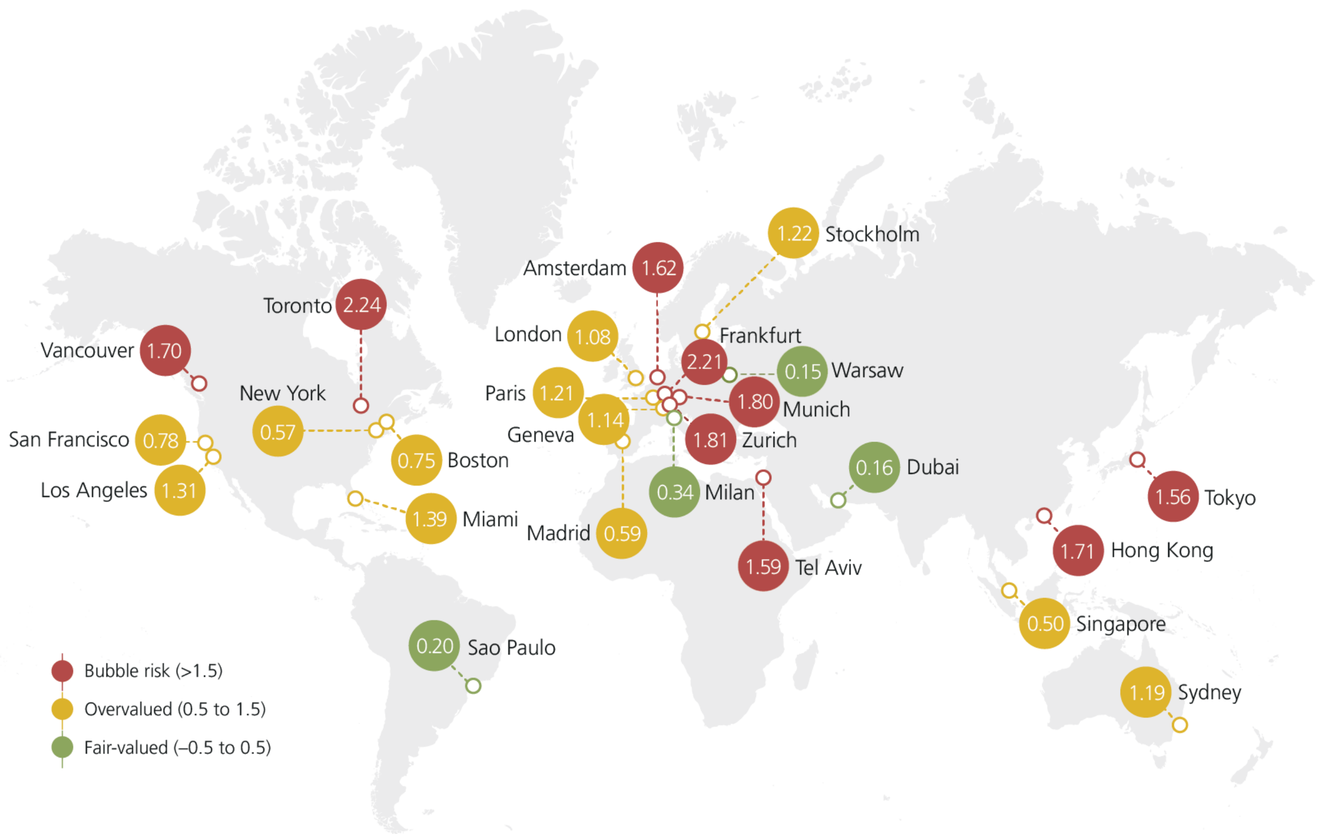
As a result of low interest rates, home prices have continuously drifted apart from incomes and rents over the past decade. Cities in today's bubble risk territory, have experienced price ascents by an average of 60% in inflation-adjusted terms during this period, while real incomes and rents have increased by only about 12%.

Mortgage rates have almost doubled on average across all cities analyzed since their lowest point in mid-2021. Combined with notably increased real estate prices, the amount of living space that is financially affordable for a highly-skilled service worker is, on average, one-third lower than it was right before the pandemic. **Claudio Saputelli, Head of Real Estate at UBS Global Wealth Management's Chief Investment Office,** adds: "Inflation and asset losses due to current turmoil in the financial markets are reducing household purchasing power, which curbs demand for additional living space. Housing is thus also becoming less attractive as an investment, as borrowing costs in many cities increasingly exceed the yields of buy-to-let investments."

Game over

The (still) robust labor market has therefore become the last pillar of support for the owner-occupied housing market in most cities. With a deterioration of economic conditions, this too is at risk of faltering. **Matthias Holzhey, lead author of the study at UBS Global Wealth Management,** concludes: "Indeed, we are witnessing the owner-occupied housing boom finally under pressure globally, and in a majority of the highly-valued cities, significant price corrections are to be expected in the coming quarters."

UBS Global Real Estate Bubble Index: Overview, 2022



Regional Perspectives

Switzerland

The continued strong investment demand in a negative-rate environment was a main driver of the price trend in **Zurich**. Home prices in the region have gained roughly 20% since the start of the pandemic. Overall, the relationship between purchase prices and rents is out of balance and the market is in the bubble risk zone. The high purchase prices will be subjected to a reality check by the interest rate hikes of the Swiss National Bank. But thanks to the continued strong population growth in the Zurich economic area, a price adjustment may take place over time without a short-term sharp correction in nominal prices. In

Geneva, price-to-rent ratio has reached elevated levels that are out of sync with interest rates firmly in positive territory, too, and the market is overvalued. The city has lagged behind Zurich both in terms of price and population growth as people in Geneva move to more affordable regions.

Europe

Frankfurt and **Munich** exhibit the biggest risks of a housing bubble among the Eurozone markets covered in this report. Both German cities have seen property prices more than double in nominal terms over the last decade, though current growth has cooled to around 5% between mid-2021 and mid-2022 from double-digit levels. The combination of rising financing costs and little economic growth perspective in 2023 should deflate some of the market exuberance, despite historically very low vacancy rates.

Amsterdam's housing market saw the strongest price growth among Eurozone markets at 17% in nominal terms and the city ranks now in bubble risk territory. Strong economic fundamentals will not prevent a correction if mortgage rates increase further. In **Madrid**, price growth has accelerated since the onset of the pandemic, too. The Spanish capital is now in overvalued territory, though on average a skilled service-sector worker can still afford there the most living space among all Eurozone markets in the study. Alongside the post-pandemic economic recovery and lower interest rates, fiscal incentives to renovate buildings have supported price growth in **Milan** after a decade of stagnating prices. Housing in **Paris**, however, is an outlier among the Eurozone markets covered. Nominal property prices stagnated between mid-2021 and mid-2022 and consequently the French capital has abandoned the bubble risk territory. But Paris remains the least affordable Eurozone market in the study.

London's housing market is in overvalued territory. Prices are 6% higher than a year ago, supported by a structural shortage of housing amid increasing post-pandemic demand. Rents have surged as would-be buyers face difficulties finding appropriate properties. However, rising mortgage rates, the ending of stamp duty holidays and the uncertain economic outlook deteriorate the price outlook. **Warsaw** has had one of the strongest job markets in Eastern Europe, with the boom luring new citizens and buy-to-let investors. The market has remained fairly-valued, but housing has become increasingly unaffordable given the high prices and rapidly rising mortgage rates. On the contrary, tighter monetary policy has had an immediate effect on **Stockholm's** housing market. A price slump of more than 10% in the second quarter of this year followed, bringing the index score out of the bubble zone and into overvalued territory.

Middle East

House prices in **Tel Aviv** have roughly tripled between 2001 and 2017. Rents almost kept pace with the price increases, reflecting a fundamental housing shortage. After a brief period of correction in 2018, the market was back in another explosive phase of price growth. Between mid-2021 and mid-2022 alone, prices climbed by 18%, the highest rate since 2010. And outstanding loan volumes shot up by 18% as well, the fastest pace in 25 years. Consequently, the market ranks in bubble risk territory for the first time. **Dubai's** housing market has been a roller coaster ride over the past two decades as demand is highly correlated to the development of oil prices. Surging oil prices and a pick-up in immigration revived the market last year. Housing prices have risen by 10% between mid-2021 and mid-2022. Rents have even outpaced home price growth over the last four quarters. Accordingly, the market remains fairly-valued.

APAC

Housing prices in **Tokyo** have increased almost continuously for over two decades bolstered by attractive financing conditions and population growth. Imbalances have reached the bubble risk threshold as affordability has continued to deteriorate. But signs of weakening have emerged of late: price growth halved to 5% in year-over-year terms and lagged the nationwide average for the first time since a decade. In **Sydney** prices surged altogether by more than 30% in 2020 and 2021 before the tightening of lending standards last year and aggressive interest rate hikes this year sharply reduced affordability. Consequently, prices have already dropped by more than 5% during the second quarter of 2022. The market still remains highly overvalued. **Hong Kong's** market recorded a nominal price correction of roughly 4% between mid-2021 and

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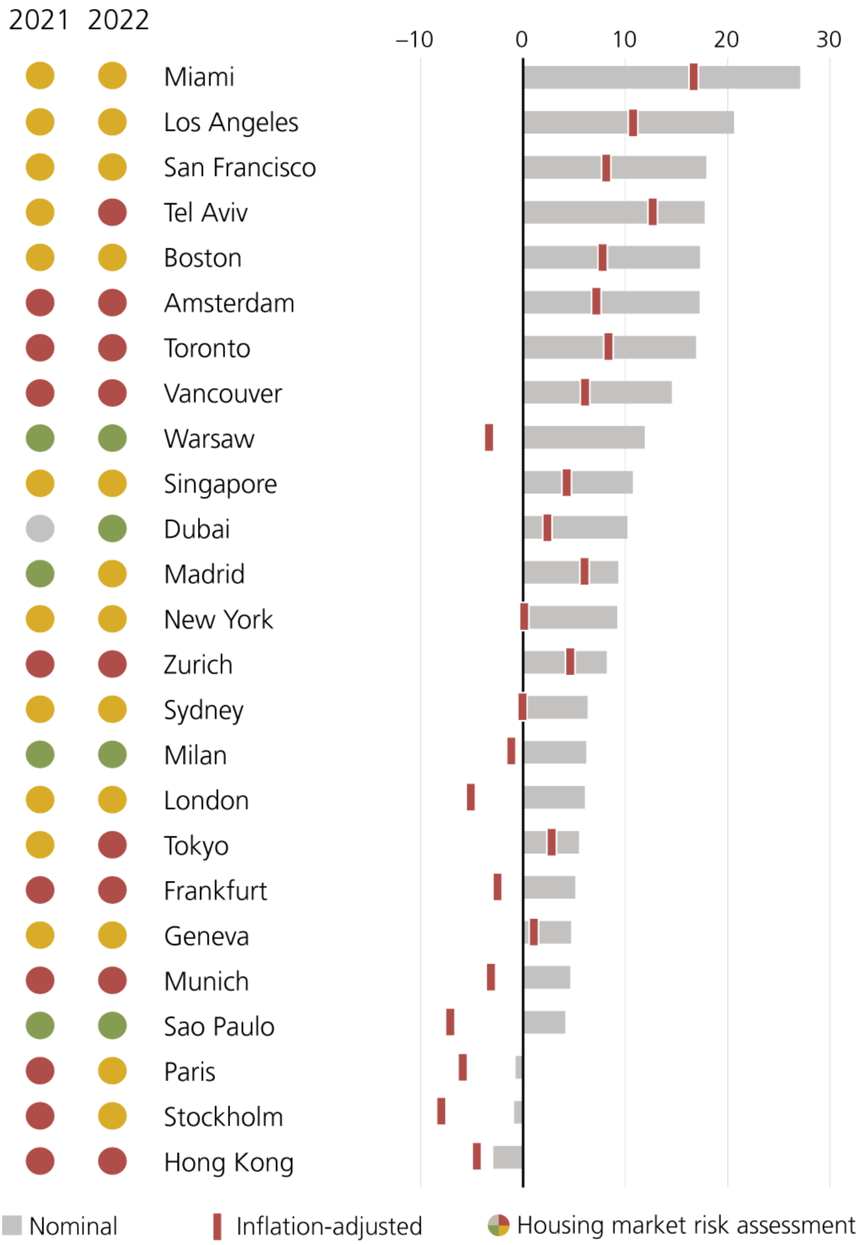
mid-2022—the weakest growth rate of all analyzed cities. Nevertheless, the market has not left bubble risk territory yet. **Singapore** enjoys a strong international position as a business hub and house prices added another 11% to their gains between mid-2021 and mid-2022.

Rising prices in most cities: Inflation-adjusted price growth rates, in %



Americas
US cities analyzed have seen much stronger price growth since the onset of the pandemic compared to previous years. **Miami** continues to benefit from substantial inward migration and strong foreign investor interest. It recorded the strongest annual house price and rental growth rates, pushing the city further into overvalued territory. **San Francisco** recorded strong price increases, too. Considering subdued hiring in the tech industry and the prospect of continued remote and hybrid work models, the outlook for house prices in San Francisco is gloomy. In **Los Angeles** imbalances were already high and have increased further since last year with unaffordability reaching near all-time peaks. **Boston** benefited from the highest income growth of

all cities in the study on the back of its strong and diverse economy. Imbalances remained roughly unchanged compared to last year. **New York**, on the contrary, exhibited the weakest price growth since mid-2021 of all US cities analyzed. It continues to trail more affordable tax-, business-, and regulatory-friendly cities and states.

Real house price levels in **Vancouver** and **Toronto** have more than tripled in the last 25 years. The index has been flashing warning signals in the last couple of years. The latest price surge of another 35% since the pandemic is not sustainable. The recent rate hikes by the Bank of Canada will likely be the last straw that broke the camel's back. Price correction is already in the making.

After a long period of stagnation, price growth has picked up slightly in **Sao Paulo** but the market remains fairly-valued. And despite the recent sharp rise in interest rates, demand for new mortgages has stayed robust. More upside for real estate could be in the cards as the end of the monetary tightening cycle nears and the economic outlook remains solid.

Links
www.ubs.com/global-real-estate-bubble-index

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