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News Release

UBS Global Real Estate Bubble Index 2023: Deflating bubbles

According to this year's edition of the UBS Global Real Estate Bubble Index, imbalances in housing markets declined sharply. Only Zurich and Tokyo remain in the housing bubble risk category. For the study, UBS analyzed residential property prices in 25 major cities around the world. From mid-2022 to mid-2023, real house prices in the cities fell by 5% on average. More downside in prices is likely.

Zurich, 20 September 2023 – The global surge in inflation and interest rates over the past two years has led to a sharp decline in imbalances in the housing markets of global financial centers on average, according to the *UBS Global Real Estate Bubble Index 2023*. In this year's edition, only two cities – Zurich and Tokyo – remain in the bubble risk category, down from nine cities a year ago. Formerly in the bubble risk zone, Toronto, Frankfurt, Munich, Hong Kong, Vancouver, Amsterdam, and Tel Aviv, are now all in the overvalued territory. Unchanged from the previous year, housing markets in Miami, Geneva, Los Angeles, London, Stockholm, Paris, and Sydney also continue to be overvalued.

Similarly, New York, Boston, San Francisco, and Madrid have experienced a drop in imbalances. These housing markets are now fairly valued, according to the index, as are Milan, São Paulo, and Warsaw. This also applies to Singapore and Dubai, even though their reputation as geopolitical safe havens has recently triggered a surge in demand for both renting and buying.

Price corrections across the board

House price growth has suffered due to rising financing costs as average mortgage rates have roughly tripled since 2021 in most markets. Annual nominal price growth in the 25 cities analyzed came to a standstill after a buoyant 10% rise a year ago. **Claudio Saputelli, Head of Real Estate at UBS Global Wealth Management's Chief Investment Office,** adds: "In inflation-adjusted terms, prices are actually 5% lower now than in mid-2022. On average the cities lost most of the real price gains made during the pandemic and are now close to mid-2020 levels again."

In Frankfurt and Toronto – the two cities with the highest risk scores in last year's edition – real prices tumbled by 15% in the last four quarters. A combination of high market valuations and relatively short mortgage terms also put prices under strong pressure in Stockholm and to a lesser degree in Sydney, London, and Vancouver. In contrast, in Madrid, New York, and São Paulo – cities with moderate risk valuations so far – real home prices have continued to rise at a moderate pace.

Inflation reduces bubble risk

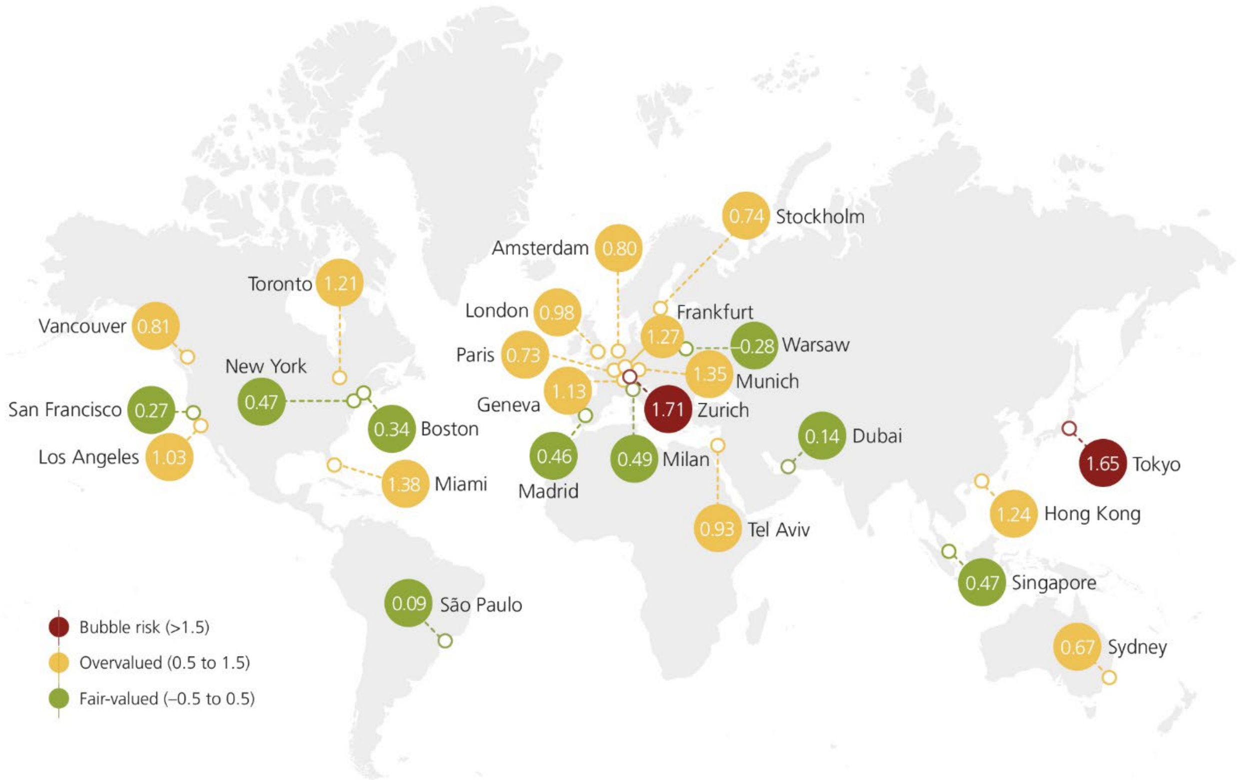
The sharp drop in imbalances was not only driven by declining house prices but also by inflation-driven income and rental growth. As mortgage lending growth has halved since mid-2022, household debt to income has been declining, especially in Europe. And – apart from the US – nominal rental growth has accelerated markedly and has been positive in all locations analyzed.

However, inflation-driven income growth, as well as price corrections, have not been enough to meaningfully improve affordability. On average, the amount of living space that is financially affordable for a skilled service worker is still 40% lower than before the pandemic began. More downside in prices – at least in real terms – is likely if interest rates remain at their current elevated levels.

Demand shows green shoots

In some cities, however, the seeds for the next property price boom have already been sowed. Hybrid working has not weakened demand for city-living in a sustained manner and the housing shortage will likely intensify as fewer building permits have been issued recently – most notably in European urban centers. **Matthias Holzhey, lead author of the study at UBS Global Wealth Management,** concludes: "Housing demand continues to accumulate and prices may rebound as soon as financial conditions for households improve."

1: UBS Global Real Estate Bubble Index: Overview, 2023



Regional Perspectives

Switzerland

Real home prices in **Zurich** continued to rise in 2023, albeit at a slower pace than in previous years. Rental growth has accelerated sharply and finally surpassed house price growth. As the supply of available housing has climbed back to pre-pandemic levels amidst rising financing costs, we do not expect to see further price upside.

House prices in **Geneva** are less than 20% higher than ten years ago and stagnated between mid-2022 and mid-2023. Although the Rhone-city benefits from its international status, the economic outlook is mixed, and population growth remains subdued as out-migration to more affordable regions is significant.

Europe

The inflation-adjusted house price level in both the German cities analyzed, **Frankfurt** and **Munich**, doubled between 2012 and 2022 – the strongest growth of all cities included in the study. But prices were overshooting, in our view and rate hikes as well as high inflation triggered a revaluation. Peaking in early 2022, real prices in Frankfurt have corrected by almost 20% since then, and by 15% in Munich. The correction is still ongoing.

Real prices in **London**'s housing market have been on a downward path since Brexit in 2016. Despite structural supply shortages, prices have lagged behind the nationwide average. In the absence of strong international demand, house prices remain under pressure as local affordability is at its worst since 2007, due to high mortgage rates. In **Warsaw** real home prices increased by almost 40% between 2012 and 2022. Strong employment prospects, a subway network expansion, and modern housing developments kept the market attractive. However, against a backdrop of strong and persistent inflation, mortgage rates spiked, reducing households' willingness to pay for homes. This has led inflation-adjusted prices to decline about 10% since mid-2022 and has moved demand to the rental sector, which has seen strong growth. However, new mortgage subsidies have triggered a buying frenzy. Excessive housing valuations in **Stockholm** and a high reliance on variable-rate mortgages turned out to be a volatile mix. Currently, affordability is stretched and as a result, between mid-2022 and mid-2023, inflation-adjusted prices corrected by over 20% – more than in any other city analyzed.

Real prices in **Amsterdam** have fallen by 14% – the strongest annual correction since the 1980s. Worsening financing conditions, inflation diminishing household purchasing power, and regulatory changes simultaneously weighed on demand. In **Paris** house prices already started falling in 2021. The decline accelerated in recent quarters among diminishing affordability, lending restrictions and a property tax hike.

Madrid's housing market has remained affordable as measured by the price-to-income ratio. After a three-year period of stagnation, prices increased by 3% in inflation-adjusted terms over the last four quarters. In **Milan** real prices dropped by 2%, in line with local rental and income growth. But solid prospects for the local economy, an extension of the underground railway, and the upcoming 2026 Olympic Winter Games all contribute to maintaining valuations in nominal terms.

Middle East

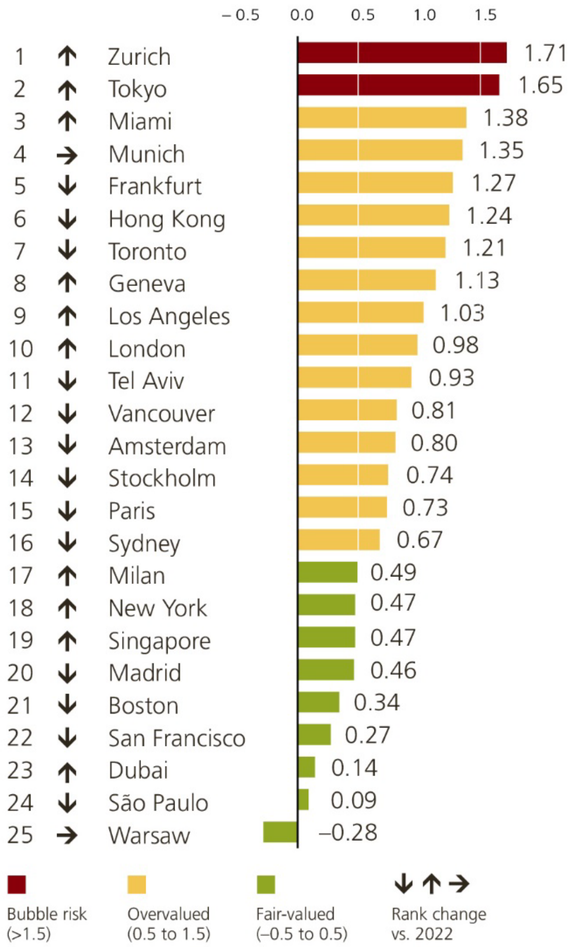
In **Dubai** real housing prices continued to increase by a double-digit rate. Given strong income growth and a red-hot rental market, with rental growth even surpassing owner-occupied price growth, we see the market as fairly valued. While Dubai is highly cyclical and prone to overdevelopment, price momentum should remain strong in the coming quarters. Between 2002 and 2022, real house prices in **Tel Aviv** tripled, the highest growth of all cities we analyzed. Rising mortgage rates during 2022 put an abrupt end to this boom. Mortgage volume growth has more than halved since last year and real price growth was negative in the first half of 2023. This moderate easing of prices will likely continue as there are no signs of a demand rebound and unsold inventories have been piling up amid a full construction pipeline.

APAC

Housing market imbalances in **Tokyo** have increased continuously, resulting in the city gradually moving from undervalued into bubble risk territory over the past 20 years, in stark contrast to the rest of the country. Despite declining net immigration and moderately increasing mortgage rates, nominal house price dynamics have not weakened. **Hong Kong** has constantly been at bubble risk levels since the first edition of this study. After declining 7% between mid-2022 and mid-2023, inflation-adjusted house prices in Hong Kong are back to levels last seen in 2017. Overall, we now see the city in overvalued territory. **Singapore**'s housing supply could not keep up with strong local and international demand. Real prices have risen by 15% since 2018.

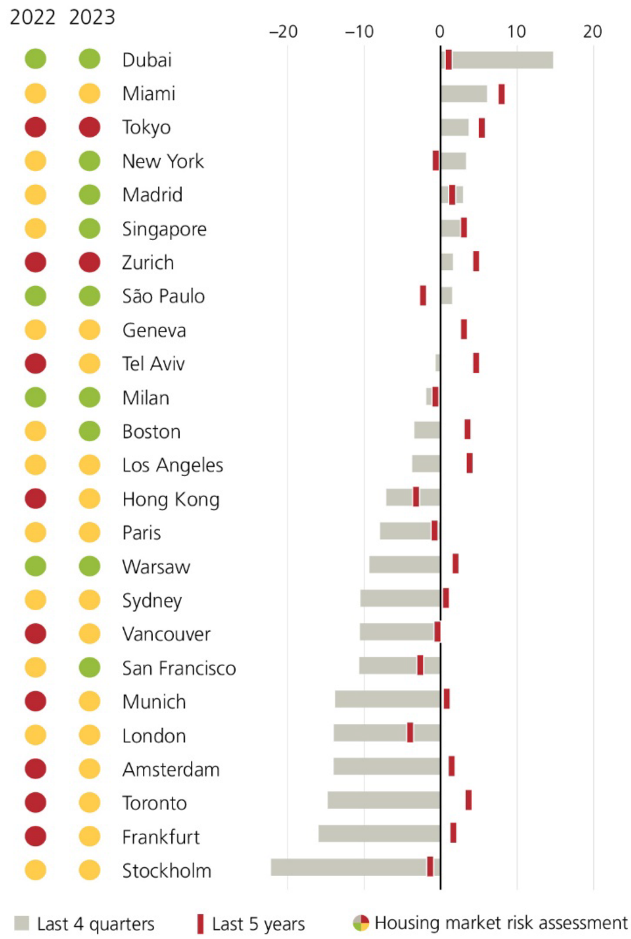
However, this has been put into perspective by rents, which have shot up by roughly 40% in the same period. The housing market in **Sydney** has been very volatile in recent years, moving in and out of bubble risk territory. Aggressive rate hikes by the Reserve Bank of Australia more recently triggered a new sharp price correction. Inflation-adjusted prices are back to 2018 levels. Chances of further downside are limited, as foreign demand has been improving.

2: Index scores for the housing markets of select cities, 2023



Source: UBS
For an explanation, see the section on Methodology & data on page 22.

3: Residential real price growth rates as of 2Q 2023, annualized (%)



Sources: see page 24.

Americas

Inflation-adjusted housing price growth in **São Paulo** has consistently remained in negative territory and only stabilized in recent quarters at roughly 25% below its peak in 2014. Double-digit mortgage rates have suffocated demand for owner-occupied housing. But the tide might be turning. Although economic growth will likely slow down, gradually improving financing conditions could boost the housing market in the coming quarters.

Between mid-2019 and mid-2022, real prices in **Vancouver** increased by 25% and by almost 35% in **Toronto**, while household leverage rose at a fast pace. A mix of increasing financing costs and higher mortgage stress test rates tipped the scales, and prices in Vancouver and Toronto have corrected by more than 10% in inflation-adjusted terms since mid-2022. But demand for living space in these cities is rising steadily and the pressure is shifting to the rental market.

Housing prices in **Miami** continued to increase faster than the nationwide average. The price level has more than doubled over the last 10 years. Miami is the main beneficiary of the increased attractivity of sun belt cities in the US. **New York** is in the middle of a strong comeback following the market's significant weakness during the pandemic. After multiple years of eroding values, real prices in the city's housing market increased by 3% between mid-2022 and mid-2023. Conversely, **Boston**'s housing market dynamics have weakened. Inflation-adjusted prices corrected slightly between mid-2022 and mid-2023. The rebound on the **San Francisco** real estate market was short-lived. Since mid-2022, prices have fallen 10% and rents dropped 3% in inflation-adjusted terms. Building permits are at their lowest in a decade, but vacancy rates have remained elevated. **Los Angeles** is also suffering from a broad loss of economic competitiveness . As income growth disappointed and housing affordability deteriorated, inventory levels have begun to climb.

Links
https://www.ubs.com/global/en/wealth-management/insights/2023/global-real-estate-bubble-index.html

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