UBS Global Real Estate Bubble Index

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Content

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Editorial

Dear reader,

You'd be forgiven for thinking that global housing markets currently seem like the playground of central banks. Since the financial crisis in 2008, money supply has expanded rapidly and interest rates have been lowered—often into negative territory—as the merest whiff of economic turmoil appeared on the horizon. When the economy was running smoothly again, interest rates were hardly raised. Consequently, the price development of residential real estate was often a one-way street. As a result, housing bubble risk reached record highs in many global metropolitan areas.

The rise in interest rates, for a long time considered unlikely, came with the post-pandemic inflation spike. Housing prices reset where high imbalances had accumulated. Homes in major European cities lost up to a quarter of their value in real terms and imbalances corrected rapidly. Real estate bubble risk has also fallen considerably in cities where home values have shown relative stability during the interest rate turnaround like Sydney and Vancouver, since extreme housing shortages and rising rents helped stabilize markets there.

Unintentionally, central banks have meanwhile laid the foundation for the next price boom. Since the sharp rise in interest rates thwarted the plans of many real estate developers, new construction has nosedived in many cities and looks set to exacerbate the housing shortage, thereby leading to upward price pressure in the future. In this edition of the *UBS Global Real Estate Bubble Index*, discover more about growing, existing, and deflating bubble risks and where interest rate cuts should help revitalize the housing market.

We wish you an engaging read.

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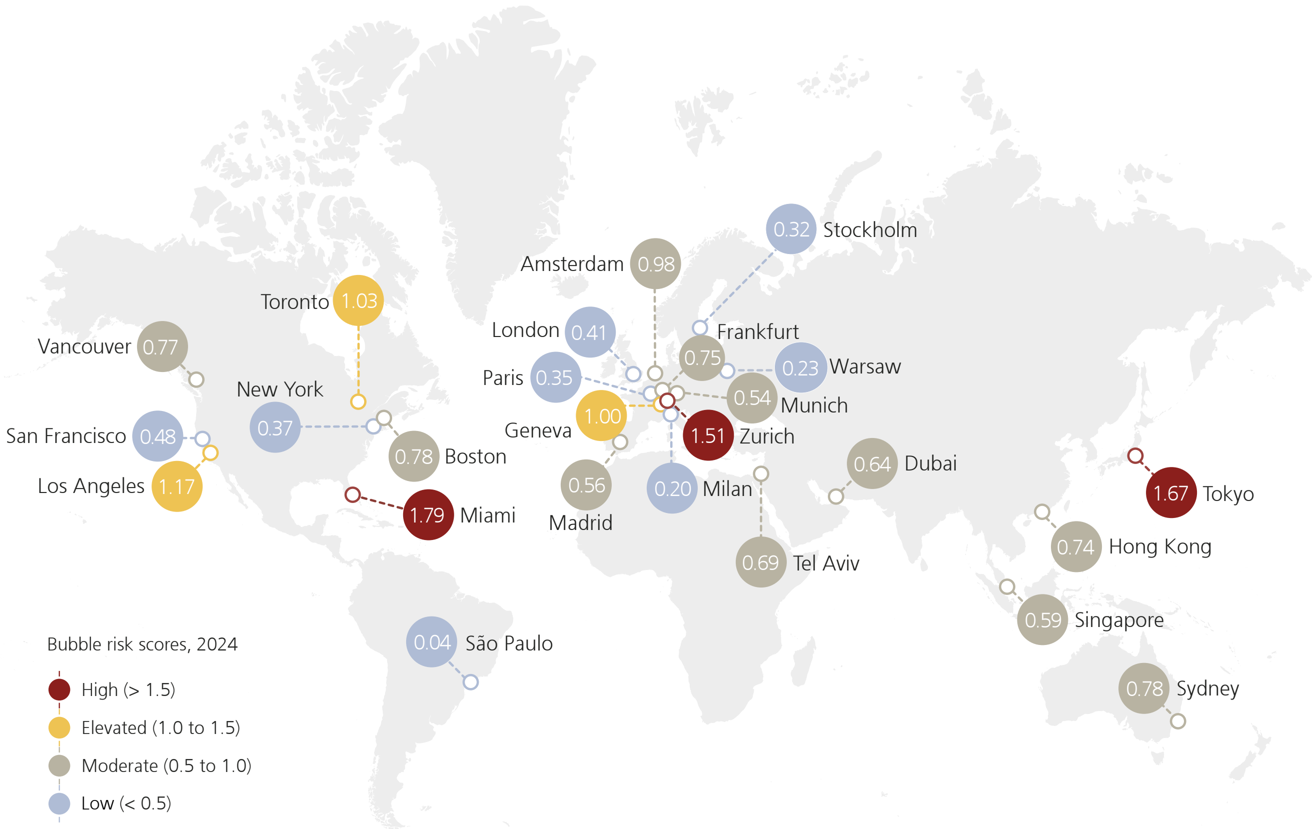
Key results



Reshuffling of risks

Imbalances have declined in Europe, remained stable in Asia-Pacific, and increased in the US. While Miami tops the bubble risk ranking this year, Dubai has recorded the highest risk increase since mid-2023.

Bursting bubbles

Where high imbalances accumulated, real house prices have shed 20% since mid-2021. This compares to a correction of 2% on average for all other cities in the study.

Correction over

Average real house prices increased by 2% compared to last summer. But, price changes were uneven: While real prices in Paris and Hong Kong fell by 10%, Warsaw and Dubai recorded double-digit increases.

Housing shortage

Building permits have been declining in most cities amid deteriorating financing conditions. Real rents have accelerated in a majority of cities and increased by more than 5% on average over the last two years.

Market freeze

Buyers can afford 40% less living space than in 2021, before interest rates increased. As a result, fewer properties are being bought, apparent in sharply lower growth of outstanding mortgage volumes.

The tide is turning

With financing costs set to become more attractive, housing demand is bottoming out and prices should accelerate. Economic growth will be crucial in determining the price dynamics.

Catching breath

The risks of housing bubbles in the cities analyzed in the *UBS Global Real Estate Bubble Index* have, on average, decreased slightly for the second consecutive year. From a regional perspective, the picture is more nuanced: Imbalances have generally declined further in Europe, remained stable in Asia-Pacific, and increased in the US.

Miami now shows the highest bubble risk among the cities in this study. *High* bubble risk can also be seen in Tokyo and, despite a significant decline in the score compared to last year, Zurich. An *elevated* risk of a housing price bubble is evident in Los Angeles, Toronto, and Geneva.

Only a *moderate* risk is recorded in Amsterdam, Sydney, and Boston. In the same risk category are, after very strong reductions in imbalances, Frankfurt, Munich, Tel Aviv, and Hong Kong. Vancouver, Dubai, Singapore, and Madrid complete this group of moderate-bubble-risk cities. Dubai recorded the strongest increase in the risk score of all the cities analyzed.

According to the Index, a *low* risk of a real estate bubble is evident in San Francisco and New York. In Europe, after further declines in the index score, London, Paris, Stockholm, and Milan fall into this low-risk category too. Bubble risk in Warsaw remains low as well. São Paulo shows the lowest bubble risk among the cities analyzed.

Boom and bust

Inflation-adjusted housing prices in the cities analyzed are now, on average, roughly 15% lower than in mid-2022, when interest rates started to surge globally. The cities recording the strongest price corrections are those that displayed a high risk of a real estate bubble in previous years. Real prices in Frankfurt, Munich, Stockholm, Hong Kong, and Paris are 20% or more below their post-pandemic peaks. Vancouver, Toronto, and Amsterdam recorded significant price declines of around 10% in real terms.

Overall, the last four quarters were characterized by muted house price growth. But strong corrections continued in Paris and Hong Kong. In contrast, in the sought-after locations of Dubai and Miami, home prices continued to surge. Also, in some cities with pronounced housing shortages, like Vancouver, Sydney, and Madrid, real prices have increased by more than 5% compared to last year.

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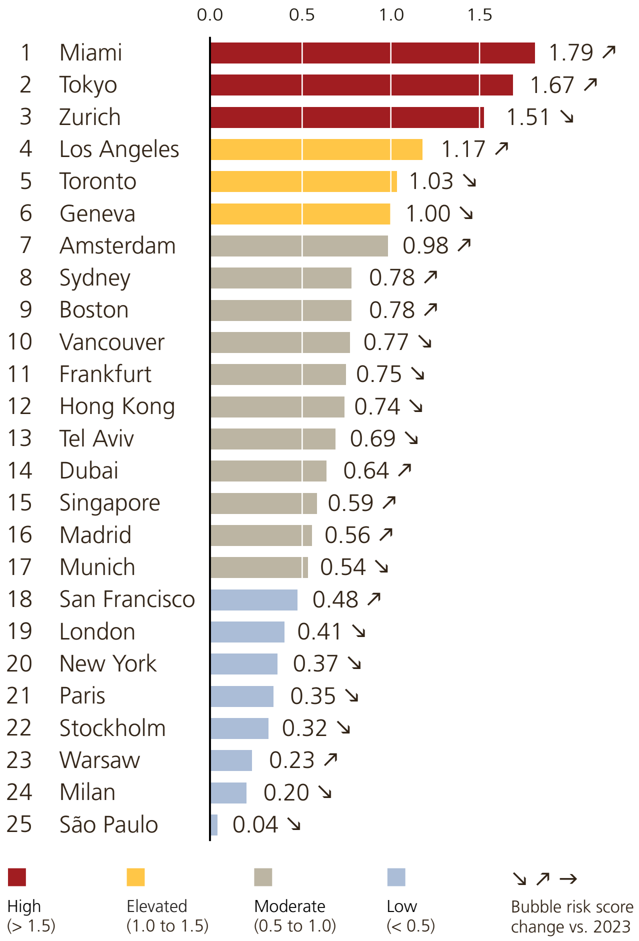
Bubble risk scores for the housing markets of select cities, 2024



Source: UBS
For an explanation, see the section on Methodology & data on page 23.

Identifying a bubble

Price bubbles are a recurring phenomenon in property markets. The term "bubble" refers to a substantial and sustained mispricing of an asset, the existence of which cannot be proved unless it bursts. But historical data reveals patterns of property market excesses. Typical signs include a decoupling of prices from local incomes and rents, and imbalances in the real economy, such as excessive lending and construction activity. The *UBS Global Real Estate Bubble Index* gauges the risk of a property bubble on the basis of such patterns. The index does not predict whether and when a correction will set in. A change in macroeconomic momentum, a shift in investor sentiment, or a major supply increase could trigger a decline in house prices.