

30 September 2019

# News Release

## UBS Global Real Estate Bubble Index 2019

### **Munich is the most overvalued housing market globally as low rates fuel Eurozone bubble risk, UBS study finds**

- The UBS Global Real Estate Bubble Index 2019 analyzes residential property prices in 24 major cities around the world.
- London moves out of bubble risk territory while rivals Paris and Frankfurt enter risk zone for the first time.
- House prices in previous hotspots Vancouver and Sydney have fallen sharply.

Zurich, 30 September 2019 – The UBS Global Real Estate Bubble Index 2019, a yearly study by UBS Global Wealth Management's Chief Investment Office, indicates bubble risk or a significant overvaluation of housing markets in half of all evaluated cities.

Bubble risk appears greatest in Munich, followed by Toronto, Hong Kong and Amsterdam. Frankfurt, Vancouver and Paris are in bubble risk territory as well, while major imbalances characterize Zurich, London, San Francisco, Tokyo and Stockholm. Valuations are stretched in Los Angeles, Sydney, Geneva and New York. By contrast, property markets in Singapore, Boston and Milan seem fairly valued while Chicago remains undervalued.

Included for the first time in this year's edition of the index, Madrid, Moscow and Tel Aviv are in overvalued territory while Dubai is fairly priced.

Over the last four quarters, imbalances have soared particularly in the Eurozone, with Frankfurt and Paris the two most prominent new additions to the bubble risk zone when compared with last year. By contrast, valuations in Vancouver, San Francisco, Stockholm and Sydney have fallen sharply. London's property market has cooled down considerably, moving the financial hub out of bubble risk territory for the first time in four years. On the other hand, index scores in New York and Los Angeles are slightly lower than last year while Tokyo and Singapore remain almost unchanged.

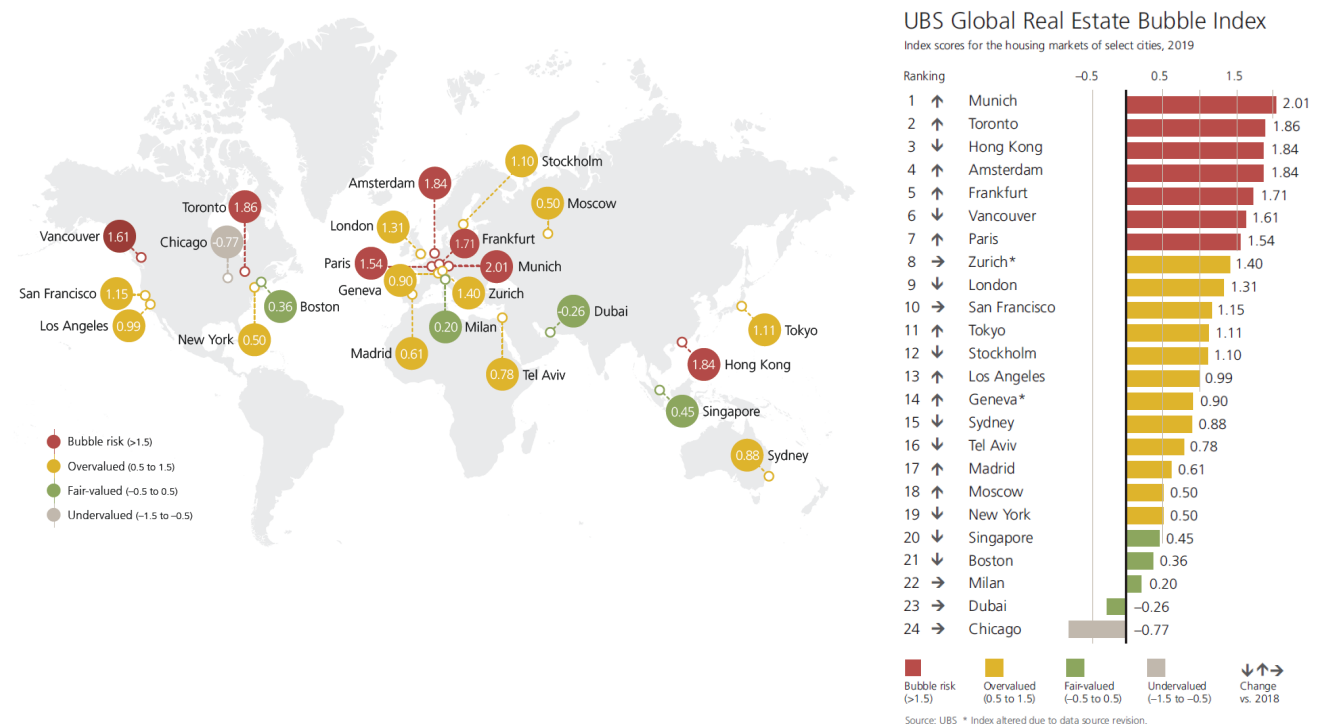
**Mark Haefele, Chief Investment Officer at UBS Global Wealth Management**, said: "On a global level, economic uncertainty is outweighing the effect of falling interest rates on urban housing demand. However, in parts of the Eurozone, low rates have still helped to push real estate valuations into bubble risk territory."

On average, in cities analyzed, inflation-adjusted price increases have practically come to a standstill in the last four quarters. Residential property only appreciated markedly in Moscow, Boston and Eurozone cities. Frankfurt was the only city to see double-digit price increases, which were common globally in previous years. By contrast, there were corrections of over 5 percent over the previous year in Sydney, Vancouver and Dubai.

**Claudio Saputelli, Head of Real Estate at UBS Global Wealth Management**, said: "The worldwide collapse in interest rates will not come to the housing markets' rescue. Mortgage interest rates in many cities aren't the major challenge for house buyers anymore. Many households simply lack the funds required to meet the banks' financing criteria, which we believe poses one of the biggest risks to property values in urban centers."

**Matthias Holzhey, lead author of the study and Head of Swiss Real Estate Investments at UBS Global Wealth Management**, said: "Investors should remain cautious when considering housing markets in bubble risk territory. Regulatory measures to curb further appreciation have already triggered market corrections in some of the most overheated cities. Real prices in all four top-ranking cities in the 2016 edition of the UBS Global Real Estate Bubble Index have fallen, for instance. On average they are down by 10% from their respective peaks and we don't see this trend reversing."

Owning residential property in global cities has been a sure road to wealth accumulation. However, the absence of economic viability leads to a deterioration in many cities' attractiveness and favors a shift in jobs to the suburbs. Even though, the underlying factors favoring city properties, including urbanization, the digital revolution and artificial supply constraints, still hold good, real price appreciation can no longer be taken for granted.



## Regional perspectives

### Pivotal negative rates in Switzerland

In Zurich, ultra-low and still-falling financing costs have underpinned demand, as has robust economic growth in the area. Home prices decoupled further from the countrywide average but the strong local economy mitigated a rise in imbalances. Nonetheless, the market is in highly overvalued territory and Zurich exhibits the lowest rental yield of any of the cities in this report. Hence, negative interest rates are key to maintaining the willingness of buyers to pay for property at current levels.

Zurich has now surpassed Geneva both on its price and index score. After a high single digit correction between 2013 and 2016, real prices in Geneva have stagnated since then and remain below the last peak at the end of 2012. Geneva is overvalued, but as the market is undersupplied the high price level is supported well over the medium term. Geneva also continues to benefit from its international status and its stability in light of elevated political tensions across the world.

## **Europe**

Index scores have increased in all cities within the Eurozone, driven by low interest rates. Paris and Frankfurt are now in bubble risk territory. In Madrid and Milan the housing market is recovering, but still appears to be at an earlier stage of the cycle. In contrast to their Eurozone counterparts, London and Stockholm's index scores have declined over the last year. London's housing market has left bubble risk territory as inflation-adjusted prices have been trending downwards since their mid-2016 peak.

## **US**

Index scores have not risen in any of the US cities in our study for the first time since 2011. Regulatory changes and affordability issues have caused home prices in New York to lag the countrywide average. Similarly, affordability issues, trade tensions and diminishing foreign demand have capped price growth in San Francisco and Los Angeles for now. Boston is still in fair value territory and benefits from the appeal of the region for businesses and high income earners. Chicago is undervalued but continues to lag far behind given its increasing fiscal challenges.

## **Middle East**

Over the last 30 years, Tel Aviv has seen some of highest price growth among the cities we cover in this report. Prices rose nearly constantly between 2003 and 2017. An increase in mortgage rates triggered a correction. Recently, prices have mostly stabilized, but the city is still in overvalued territory. Dubai's house prices are highly volatile. Since the last peak in 2014, prices have fallen by almost 35% and the index value has declined sharply. Prices are expected to find a bottom soon. The market is in fair value territory.

## **APAC**

The momentum in Hong Kong's red-hot property market has stalled. The weaker economic outlook has cooled residential buyer sentiment. However, the market remains firmly in bubble risk territory. By the end of the first quarter of 2019, prices in Sydney were 15% lower than at the peak, and credit growth for housing had reached an all-time low. Singapore's brief housing boom between mid-2017 and mid-2018 is over. Regulatory measures cap price growth expectations and keep the market in fair-valued territory.

## **More information**

- [UBS Global Real Estate Bubble Index 2019](#)

**Links**

- UBS Global Real Estate Bubble Index: [www.ubs.com/global-real-estate-bubble-index](http://www.ubs.com/global-real-estate-bubble-index)
- Further information on UBS Global Wealth Management's Chief Investment Office: [www.ubs.com/cio](http://www.ubs.com/cio)

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