



EUROPEAN CENTRAL BANK

EUROSYSTEM

The Impact of COVID-19 on Residential Real Estate markets in the euro area

JVI Webinar

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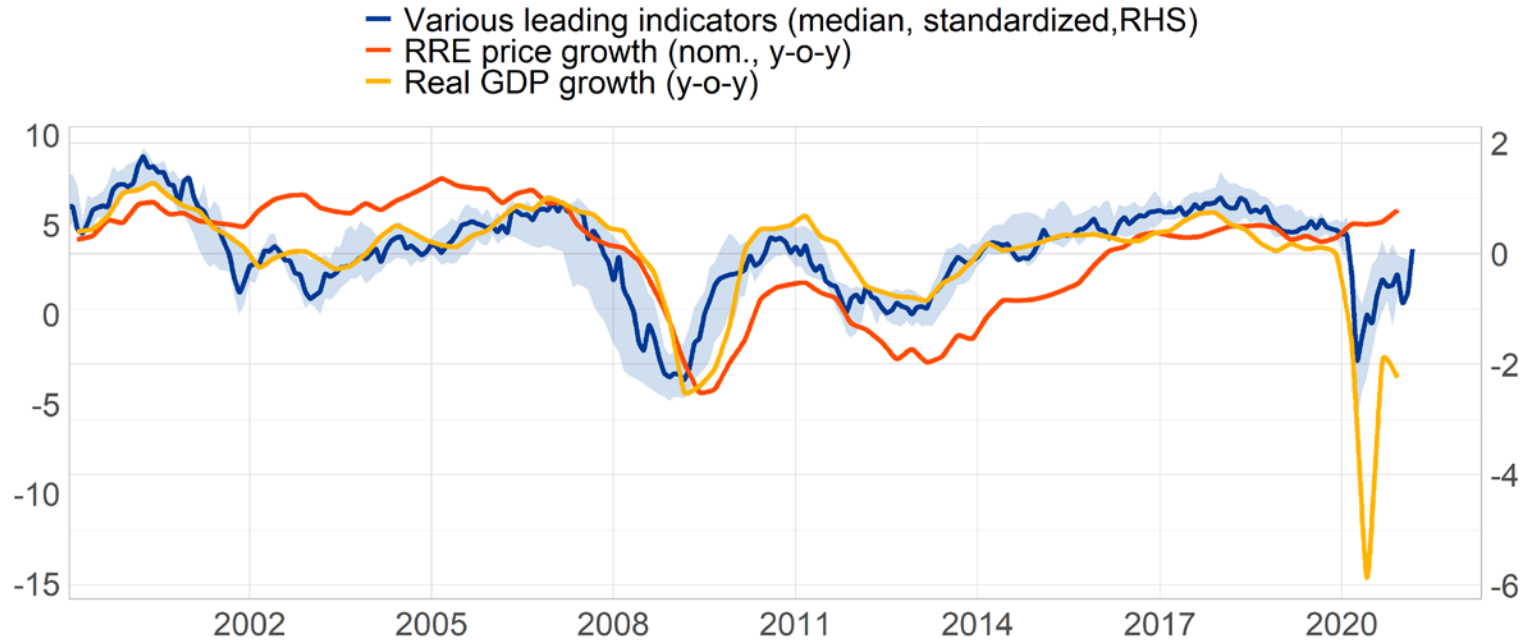
Outline

- **Developments in residential real estate markets**
- **Drivers of developments**
- **Risks**

Disclaimer: *The views expressed are those of the authors and do not necessarily reflect those of the ECB*

Euro area residential real estate markets resilient so far despite the negative economic impact of the pandemic

RRE prices, real GDP and various RRE related leading indicators in the euro area
(Left axis: percentage, Right axis: standardized value)

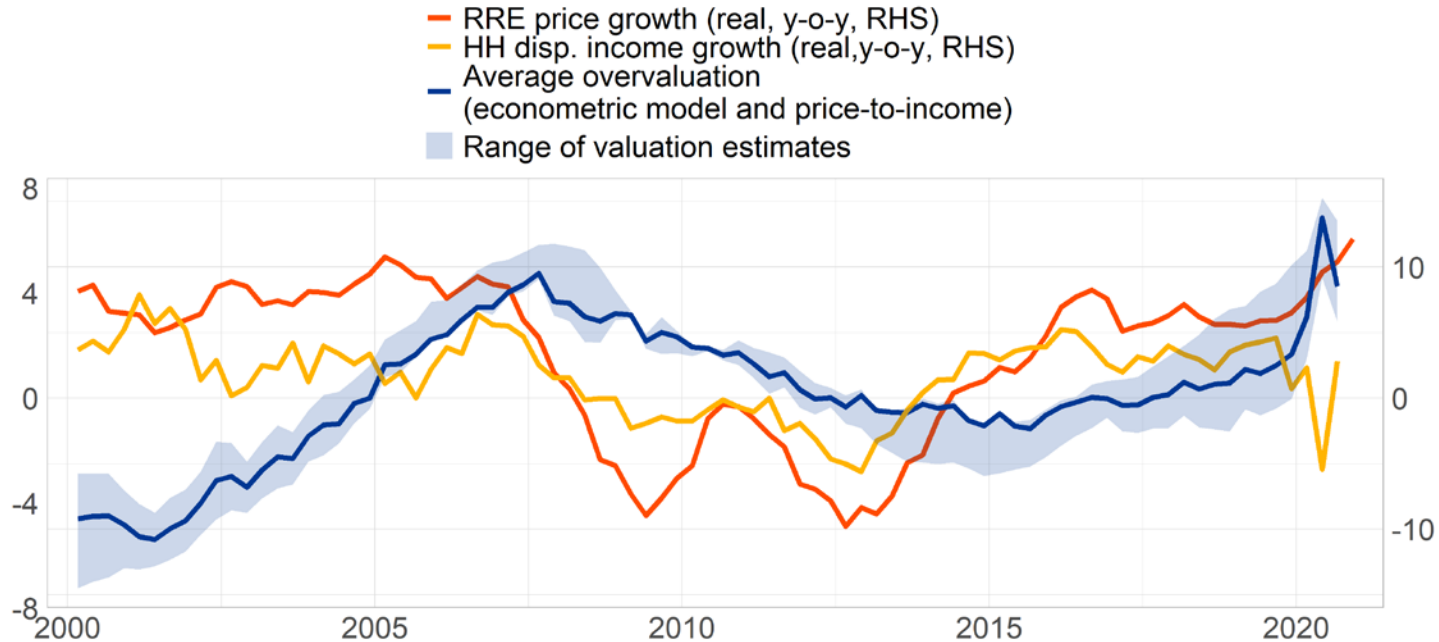


Sources: ECB and ECB calculations.

Notes: The shaded area denotes the interquartile range of various leading indicators. Data as of 8 April 2021.

Disconnect between RRE prices and economic environment implies rising overvaluation and risks of price corrections

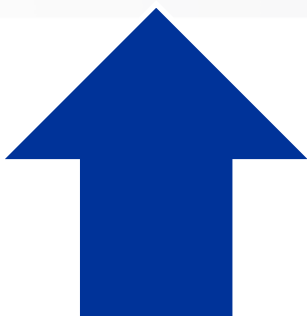
RRE valuations, real RRE prices, and HH disposable income in the euro area (Percentage)



Sources: ECB and ECB calculations.

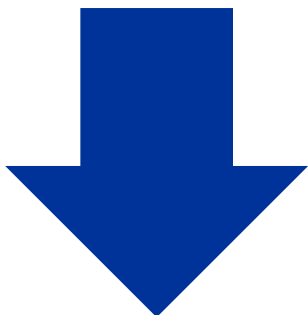
Notes: Shaded area denotes range of four measures. Last obs. 2020 Q3 (2020 Q4 for RRE prices).

Drivers of RRE market resilience and downside risks



Resilience of RRE

- Continued demand for housing amid favourable financing conditions
- Support measures: loan moratoria and job protection schemes
- Increased savings and the continued perception of housing as a safe investment in an environment of high uncertainty
- Drop in construction activity weighing on housing supply

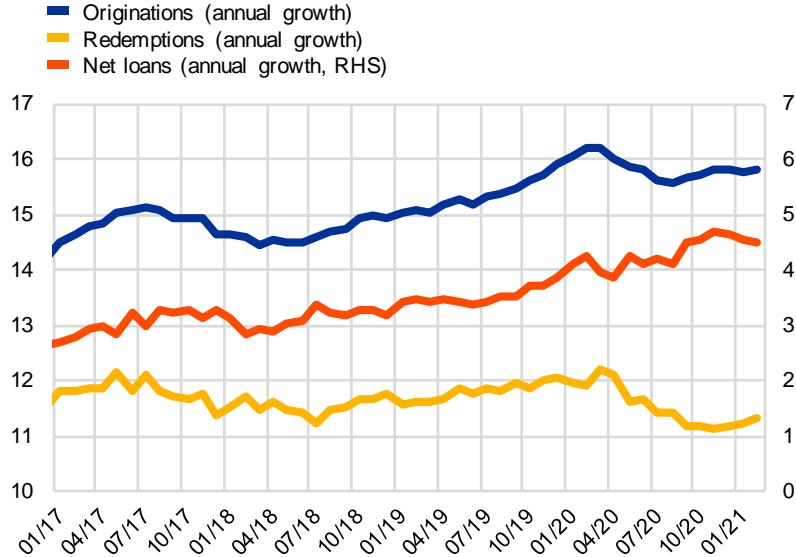


Downside risks to RRE

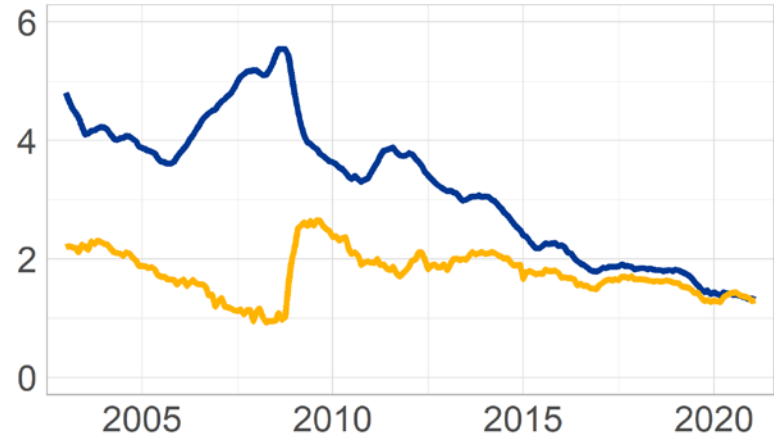
- Challenging macroeconomic environment
- Continued build-up of RRE vulnerabilities (overvaluation and HH indebtedness)
- Expiration of support schemes

Favourable lending conditions supported housing demand

Lending for house purchase in the euro area (Percentage)



Cost of borrowing for house purchase Lending margins - loans for house purchase



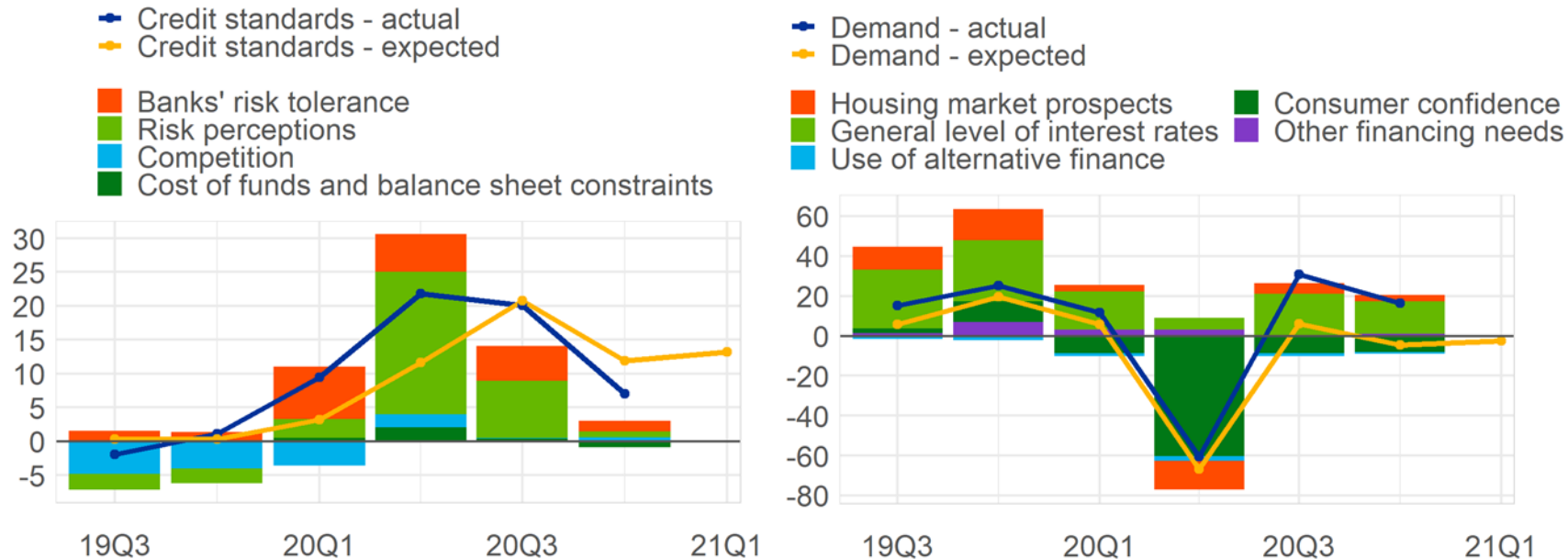
Sources: ECB and ECB calculations

Note: Last observation: Feb 2021. Originations = sum of pure new loans over 12 months relative to stock t-12, redemptions = difference between pure new loans and stock flows to stock in t-12.

Demand for loans held up but lending standards tightened

BLS standards and demand - lending for house purchase

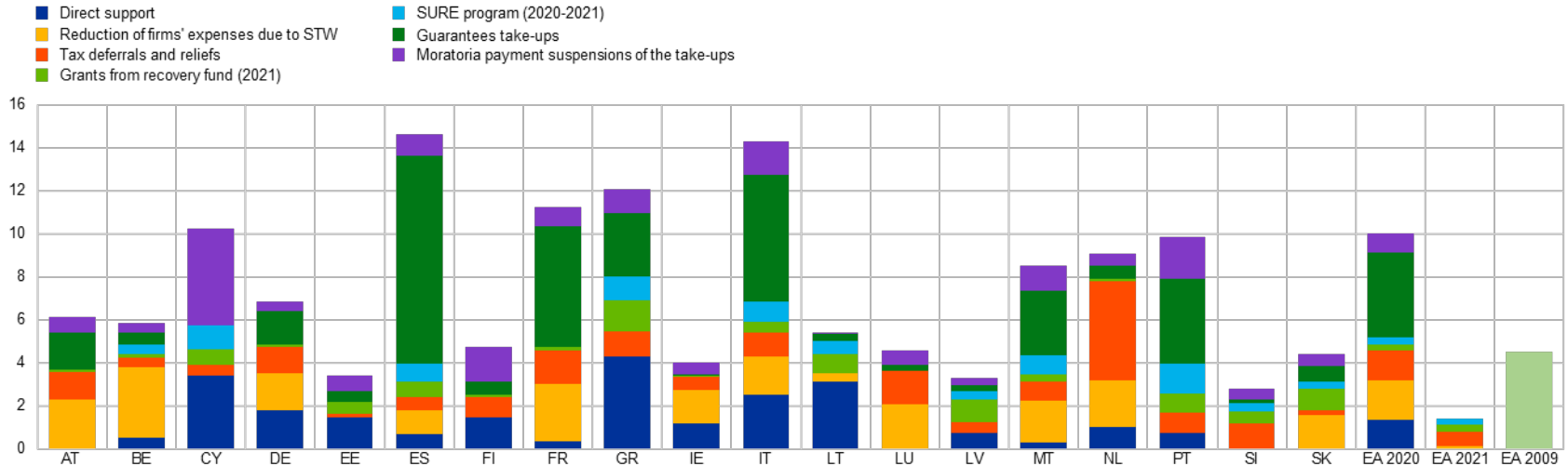
(Percentage)



Sources: ECB and ECB calculations
 Note: Reference date: 2020 Q4.

Substantial policy action supported households and firms

Transfers to the real economy (Percentages of 2019 nominal GDP)

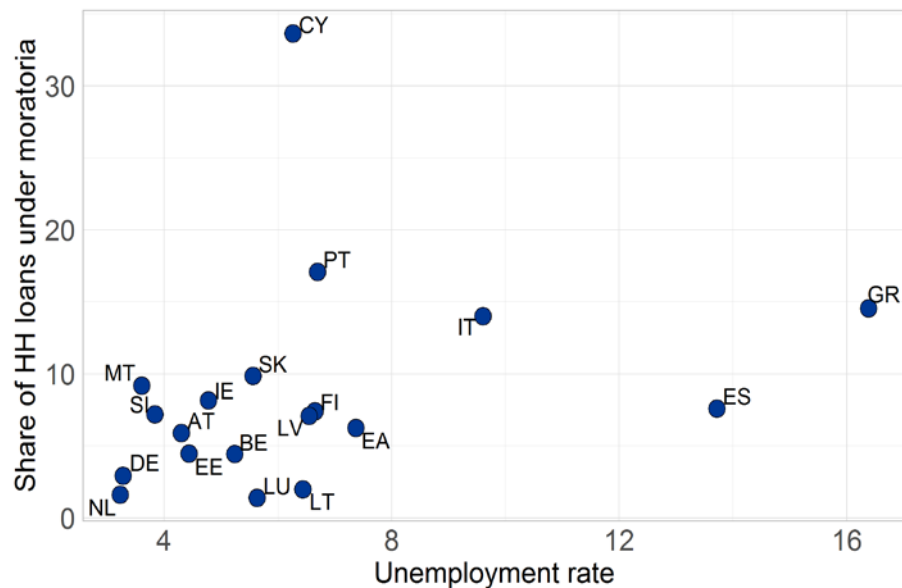


Source: ECB, European Commission, Bruegel, national authorities, EBA-covid templates and ECB calculations.

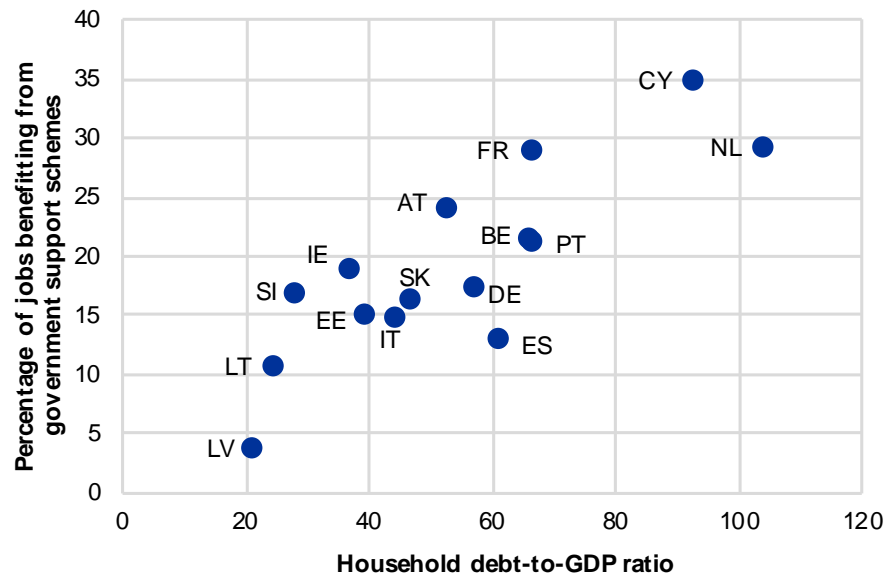
Notes: The chart reports the transfers/estimated avoided expenses for households and non-financial corporations. The “reduction of firms’ expenses due to STW” are an estimate obtained multiplying the number of people under the schemes, the average wage of people under the schemes and the coverage of the salary of the scheme. “Tax deferrals” are estimates either published by governments or produced by other Central banks or by Bruegel (with cut-off 2020q4 and 2021q1). Guarantees take-ups and moratoria are based on data with cut-off 2021q1. “Guarantees take-ups” correspond to the gross carrying amount of the granted loans. The “moratoria payments suspensions of the take-ups” are the payment suspensions estimated based on the types of moratoria scheme (e.g. suspension of principal and or interest rate payments). The distribution of the SURE program over time is estimated based on EU commission documents published online ([https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52020SC0098\(01\)&qid=1591607109918&from=IT](https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52020SC0098(01)&qid=1591607109918&from=IT))

Support measures shielded households from the impact of pandemic but households vulnerable to policy withdrawal

Share of HH loans under moratoria and change in unemployment rate since 2019 Q4 (Percentage)



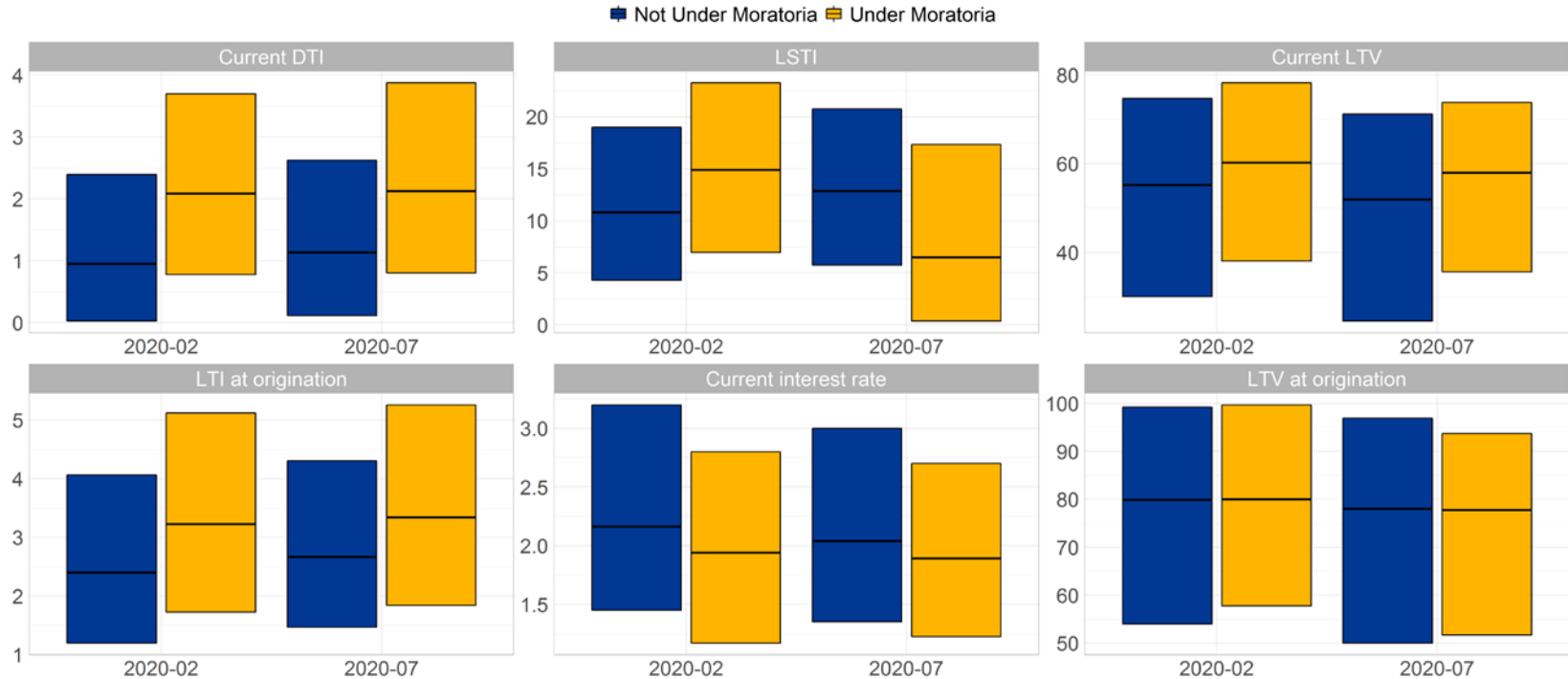
Household indebtedness and share of jobs benefitting from government support (Percentage, 2020 Q2)



Sources: National authorities, ECB and ECB calculations.

Notes: Left: Last observation: Sep 2020 – share of loans under moratoria, Nov 2020 – unemployment rate.

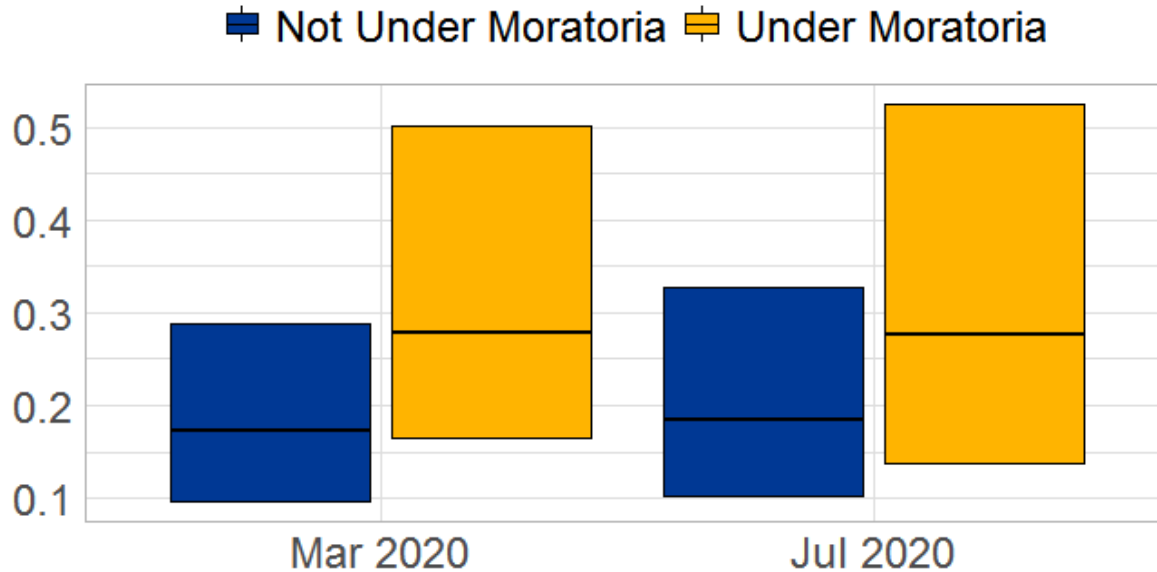
A number of characteristics suggests that loans under moratoria are more risky



Sources: European Datawarehouse and ECB calculations.
Note: Bars denote interquartile range, while the middle line denotes median.

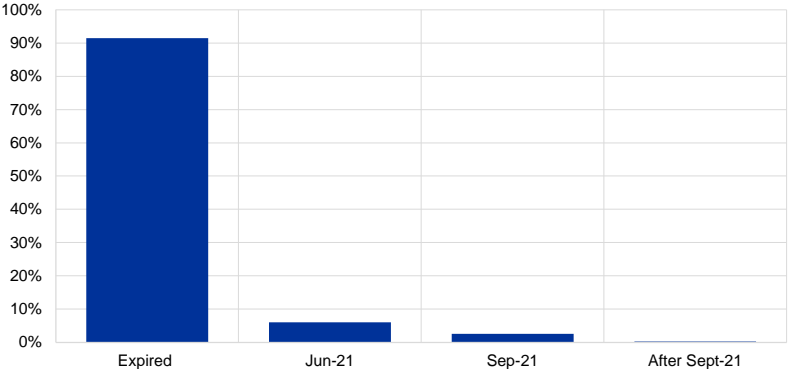
Loans under moratoria have higher default probabilities

Probability of default on mortgage loans (%)



Most of moratoria payment suspensions have expired, other policies are scheduled to phase out soon

HH loans under moratoria for which the moratoria expired or will expire in the next quarters
(Share of total HH loans under moratoria)



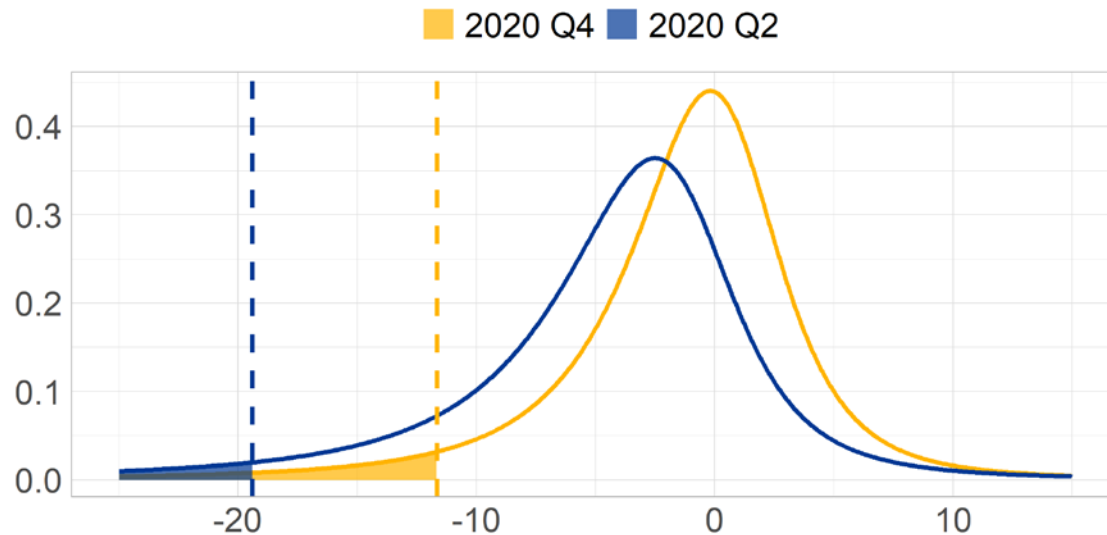
Sources: EBA- Covid templates, ECB calculations

Expiration of other policies
(Timeline)

	Before May	May	Jun	Jul	Aug	After Sept
Short-time working schemes	CY, FI	EE, ES, LT	AT, BE, FR, IE, LU, LV, NL, SI, SK	GR		DE, IT, PT
Prohibition of lay-offs		ES	IT	EE		

Downside risks to residential real estate prices...

One year ahead real RRE price-at-risk predictions (Forecast density)



Prob. of neg. growth 4q-ahead (2020 Q2): 0.80 5th percentile: -19.4
Prob. of neg. growth 4q-ahead (2020 Q4): 0.59 5th percentile: -11.6

Source: ECB and ECB calculation

Note: Results from house price-at-risk model based on a panel quantile regression on a sample of 19 euro area countries. Explanatory variables: lag of house price growth, overvaluation (average of deviation of house price-to-income ratio from long-term average and econometric model), systemic risk indicator, consumer confidence indicator, financial market conditions index, and an interaction of overvaluation and a financial conditions index. The vertical dashed lines indicate the fifth quantile of the respective probability densities.

Conclusions

- Residential real estate markets resilient so far
- Demand held up and low defaults as households benefited from policy support
- Growing risks:
 - disconnect between macro environment and RRE prices
 - Too early withdrawal of policy support

More on property markets in the forthcoming May 2021 ECB Financial Stability Review

- publication date 19 May