

## Mapping housing-market risk in the eurozone

	Eurozone	DE	FR	IT	ES	NL	BE	AT	IE	FI
House prices to disposable income	2.1	2.4	1.1	-1.1	0.0	1.6	2.1	2.3	-0.1	-1.3
Exposure to floating rates	17.1	10.8	2.5	26.7	32.4	14.9	7.0	41.1	27.2	97.7
Household debt	94.7	87.6	103.9	63.1	87.8	179.5	105.5	83.7	93.9	118.9

Notes: White shading indicates lowest vulnerability, dark red highest vulnerability. House prices to disposable income is shown as number of standard deviations from the long-term average (computed from 2005). Exposure to floating rates is computed as the 5-year average of the ratio of new floating-rate mortgages to total new mortgages, in percentage. Household debt is the ratio of household debt to disposable income, in percentage (as of 3Q22).

Source: ECB, Eurostat, UniCredit Research

- With the ECB on a steep tightening trajectory and the Bank Lending Survey for 4Q22 showing a substantial deterioration in demand for mortgages, the eurozone housing market deserves monitoring. Our *Chart of the Week* provides a simple heat map to spot potential vulnerabilities across countries.
- We focus on three variables: **1.** a measure of affordability, which we proxy with a (normalized) ratio of house prices to disposable income; **2.** a gauge of exposure to floating-rate mortgages, represented by the share of floating-rate new mortgages out of total new mortgages (over a five-year period); **3.** an indicator of household indebtedness. While the combined message from these variables cannot cover the complexity of housing markets in the eurozone, we think it provides a reasonably good indication of where risks might lie.
- The picture that emerges is one characterized by pockets of vulnerability, but no clear case for a severe downturn. In our sample of countries, Germany and Austria record the most stretched valuations, which, however, is mitigated by generally low household indebtedness and, in the case of Germany, low exposure to floating-rate mortgages. France and Spain do not display clear vulnerabilities, and risk seems to be rather contained in Italy amid low valuations and indebtedness. Finland features very high exposure to floating rates and elevated indebtedness, but the lowest valuation-to-income ratio in our sample.
- These indications should be taken with a pinch of salt, as several other factors contribute to determining the vulnerability of housing markets to rising rates and tighter financial conditions. Among these factors, we point out the speed of change in valuations and indebtedness in recent years (especially after the pandemic), loan-to-value and home-ownership ratios, the relative exposure to real estate of the low-income part of the population, the relevance of the buy-to-let market, the extent of government measures to support households during the energy crisis and the tax treatment of interest expenditure.
- Overall, any correction in house prices across the eurozone would have implications for the economic outlook but is unlikely to have major effects on financial stability, also thanks to banks' comfortable capital buffers.

**Marco Valli**, Global Head of Research, Chief European Economist (UniCredit Bank, Milan)  
 +39 02 8862-0537  
[marco.valli@unicredit.eu](mailto:marco.valli@unicredit.eu)

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## UniCredit Research\*

## Macro Research



**Marco Valli**  
 Global Head of Research,  
 Chief European Economist  
 +39 02 8862-0537  
 marco.valli@unicredit.eu



**Dr. Ingo Heimig**  
 Head of Research Operations  
 & Regulatory Controls  
 +49 89 378-13952  
 ingo.heimig@unicredit.de

## Head of Macro Research



**Marco Valli**  
 Global Head of Research,  
 Chief European Economist  
 +39 02 8862-0537  
 marco.valli@unicredit.eu

## European Economics Research



**Dr. Andreas Rees**  
 Chief German Economist  
 +49 69 2717-2074  
 andreas.rees@unicredit.de



**Dr. Loredana Federico**  
 Chief Italian Economist  
 +39 02 8862-0534  
 loredanamaría.federico@unicredit.eu



**Stefan Bruckbauer**  
 Chief Austrian Economist  
 +43 50505-41951  
 stefan.bruckbauer@unicreditgroup.at



**Tullia Bucco**  
 Economist  
 +39 02 8862-0532  
 tullia.bucco@unicredit.eu



**Edoardo Campanella**  
 Economist  
 +39 02 8862-0522  
 edoardo.campanella@unicredit.eu



**Walter Pudschedl**  
 Economist  
 +43 50505-41957  
 walter.pudschedl@unicreditgroup.at



**Chiara Silvestre**  
 Economist  
 chiara.silvestre@unicredit.eu

## International Economics Research



**Daniel Vernazza, Ph.D.**  
 Chief International Economist  
 +44 207 826-7805  
 daniel.vernazza@unicredit.eu

## EEMEA Economics Research



**Dan Bucsa**  
 Chief CEE Economist  
 +44 207 826-7954  
 dan.bucsa@unicredit.eu



**Gökçe Çelik**  
 Senior CEE Economist  
 +44 207 826-6077  
 gokce.celik@unicredit.eu



**Mauro Giorgio Marrano**  
 Senior CEE Economist  
 +43 50505-82712  
 mauro.giorgiomarrano@unicredit.de



**Artem Arkhipov**  
 Head, Macroeconomic Analysis  
 and Research, Russia  
 +7 495 258-7258  
 artem.arkhipov@unicredit.ru



**Hrvoje Dolenc**  
 Chief Economist, Croatia  
 +385 1 6006-678  
 hrvoje.dolenc@unicreditgroup.zaba.hr



**Pavel Sobišek**  
 Chief Economist, Czech Republic  
 +420 955 960-716  
 pavel.sobisek@unicreditgroup.cz



**Ľubomír Koršňák**  
 Chief Economist, Slovakia  
 +421 2 4950 2427  
 lubomir.korsnak@unicreditgroup.sk



**Anca Maria Negrescu**  
 Senior Economist, Romania  
 +40 21 200-1377  
 anca.negrescu@unicredit.ro



**Kristofor Pavlov**  
 Chief Economist, Bulgaria  
 +359 2 923-2192  
 kristofor.pavlov@unicreditgroup.bg

UniCredit Research, UniCredit Bank AG, Arabellastraße 12, D-81925 Munich, globalresearch@unicredit.de  
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