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GLOBAL MACRO RESEARCH

THE UNEXPECTED RESILIENCE OF GLOBAL HOUSING MARKETS

FEBRUARY 2024

GLOBAL HOUSING MARKETS HAVE HELD UP BETTER THAN EXPECTED THROUGH THE RATE HIKING CYCLE. THIS STRENGTH COULD MEAN A SLOWER RATE CUTTING CYCLE THAN MARKETS EXPECT.



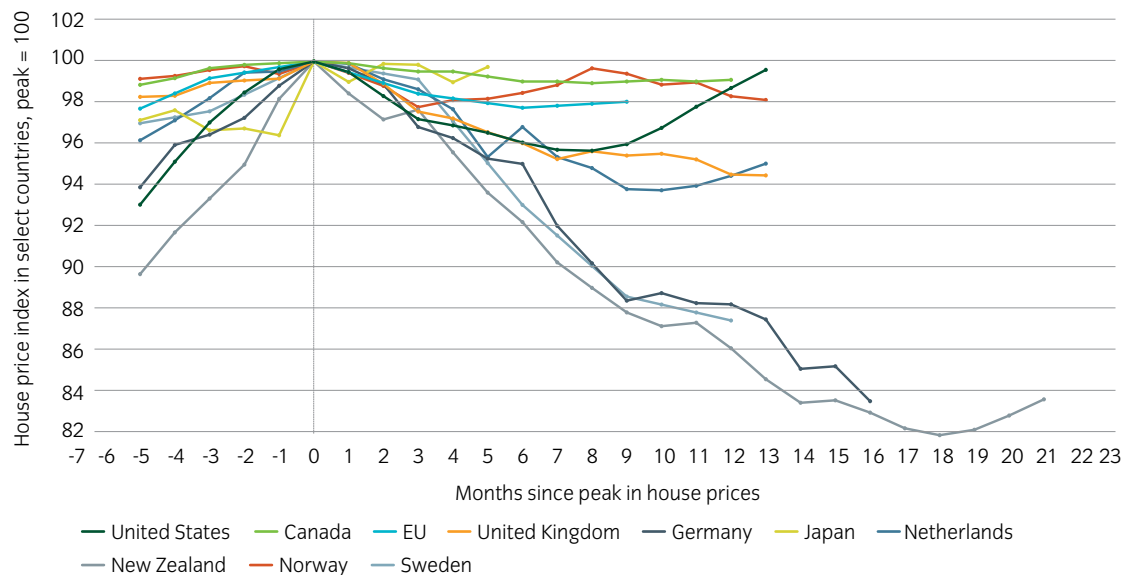
EXECUTIVE SUMMARY

- The global tightening cycle of the past few years has triggered only a moderate correction so far in the global housing market
- Housing has generally held up better than anticipated and is even showing signs of recovery ahead of the global monetary easing cycle
- However, the housing market's resilience amid easing financial conditions may derail the timing of global rate cuts

GLOBAL HOUSING MARKETS MAY HAVE SURVIVED THE HIKING CYCLE WITHOUT TRIGGERING A RECESSION

The interest rate hiking cycle, which appears to have reached its final destination in some countries, has resulted in a moderate correction in global housing markets (Figure 1).

Figure 1: Some housing markets have already started to bottom out



¹ Source: Macrobond, Insight Investment, February 2024.

THE RATES IMPACT ON HOUSING HAS BEEN FAR FROM UNIFORM

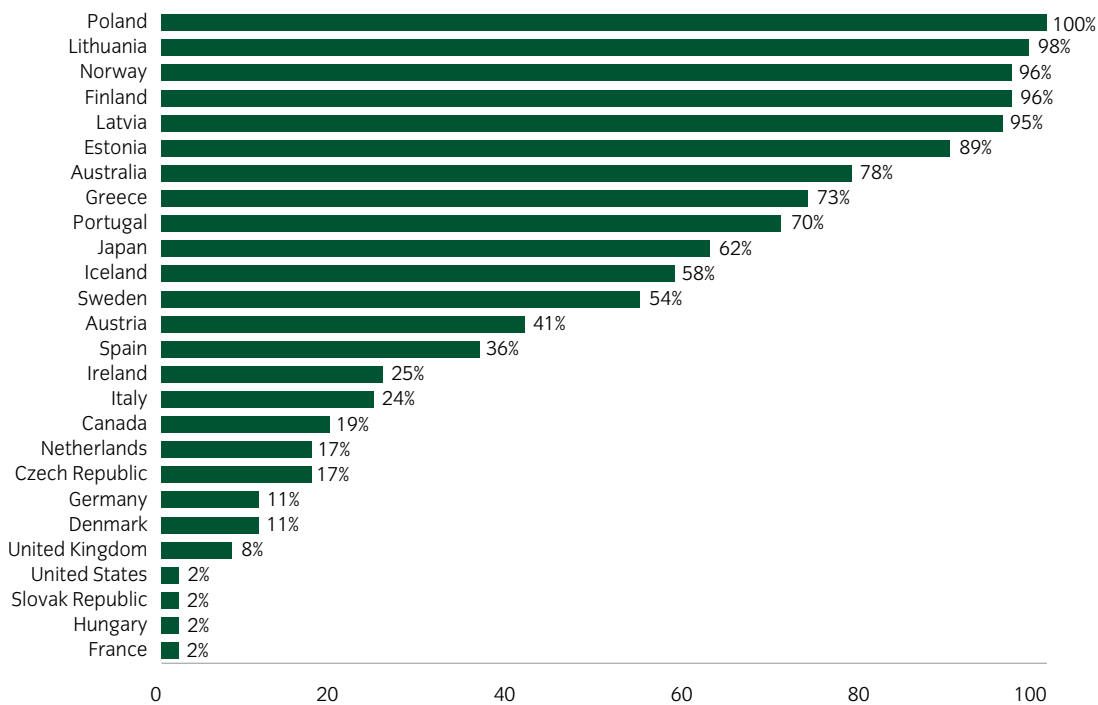
In our opinion, there are three key reasons why various global housing markets have responded differently to the higher interest rate environment.

Adjustable vs. fixed-rate mortgages

One easy test to determine the sensitivity of a particular economy to the rapid increase in interest rates is to look at the prevalence of fixed-rate mortgages in the economy. Fixed-rate mortgages are commonplace in the United States, France, Germany, and Hungary. While in countries such as Poland, Lithuania, Norway, and Finland, adjustable-rate mortgages dominate the landscape.

Mortgages are one of the key elements of the monetary policy transmission mechanism, and a high share of fixed-rate mortgages limits the impact and risks associated with tightening monetary policy (Figure 2).

Figure 2: Share of adjustable-rate mortgages (%)²



Where fixed rate mortgages are common, fixed tenors differ

The US is the only country in the world where 30-year fixed-rate mortgages are dominant products³.

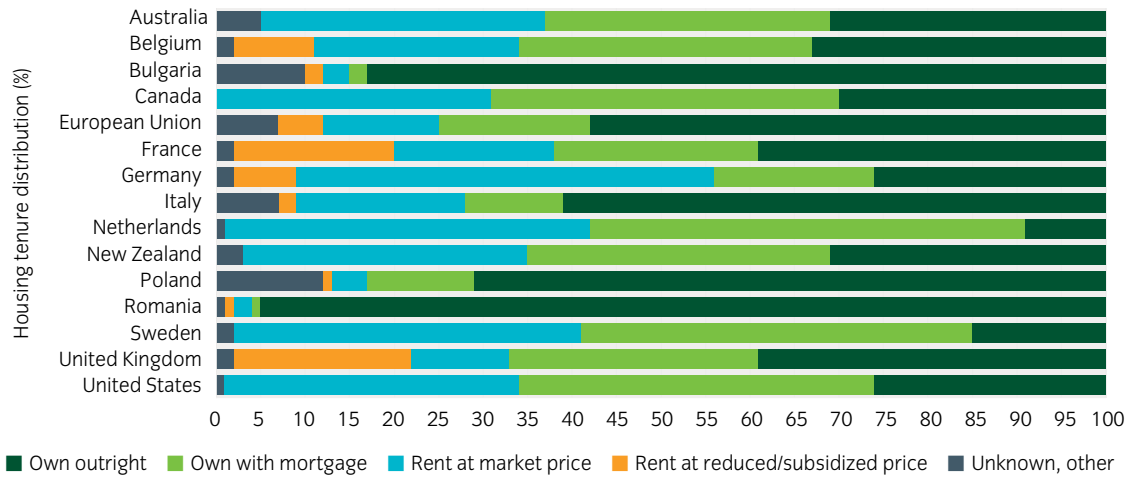
Long-dated fixed-rate loans do not match banks' business models well. They are common in the US because the mortgage market was uniquely shaped by policymakers' response to the Great Depression, where the government created the Federal Housing Administration to insure fixed-rate mortgages, and government agencies like Fannie Mae to purchase them from banks and eventually securitize them into Agency MBS.

In markets like the UK, Canada, and New Zealand, fixed rates typically last up to five years before reverting to floating rate. Fixed rates can be longer in Germany (10-15 years) and twenty years or longer in markets like France, Italy, Luxembourg, and Latvia.

² Bank for International Settlements, OECD Economic Outlook, Insight, February 2024.

³ Richard J. Kish (2022) The Dominance of the U.S. 30-Year Fixed Rate Residential Mortgage, Journal of Real Estate Practice and Education, 24:1, 1-16, <https://doi.org/10.1080/15214842.2020.1757357>

Figure 3: Housing tenure differs markedly across countries⁴



IN GENERAL, DEMAND GROWTH IS STILL OFTEN OUTSTRIPPING SUPPLY GROWTH

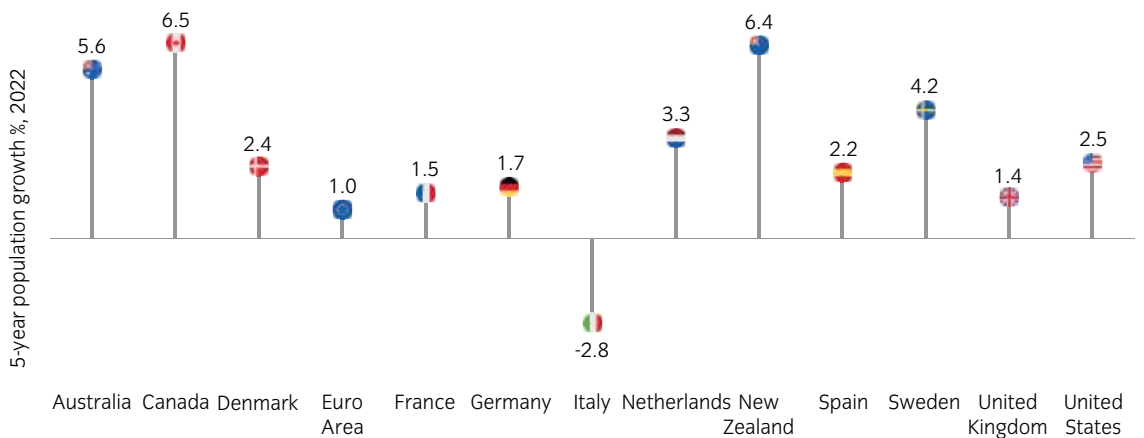


The US is the only country in the world where 30-year fixed-rate mortgages are dominant products.

Demographics has helped prop-up demand

Strong population growth in some countries likely contributed to higher home prices, with demographics-driven demand outstripping supply with an increase in immigration in countries such as Canada, Australia, and New Zealand also contributing to higher housing prices.

Figure 4: Population growth in some countries likely contributed to higher home prices⁵



This trend, however, also brought to light the issue of under-supply of housing in many advanced and developing economies to meet this demand. Planned supply of new housing is often limited compared to the stock.

⁴ OECD, Insight, February 2024.

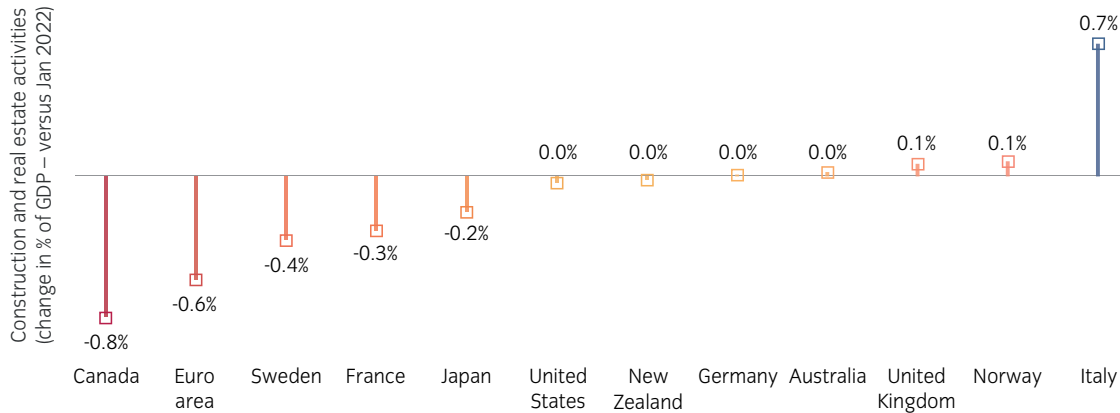
⁵ World Bank, Insight, February 2024.

Construction spending to GDP has largely retreated in response to rising rates

Construction and real estate have corrected across most economies, which has likely helped cushion the fall across a number of home price markets. However, some regions, like Canada and the euro area are further ahead in the correction than others.

Italy stands out as being the most vulnerable. Its construction and real estate activities are still 0.7% higher as a % of GDP than they were before the rate hiking cycle started, indicating potential downside to come.

Figure 5: Italy stands out as having significantly higher real estate construction than before the hiking cycle relative to its GDP⁶



THERE ARE STILL KEY RISKS TO WATCH

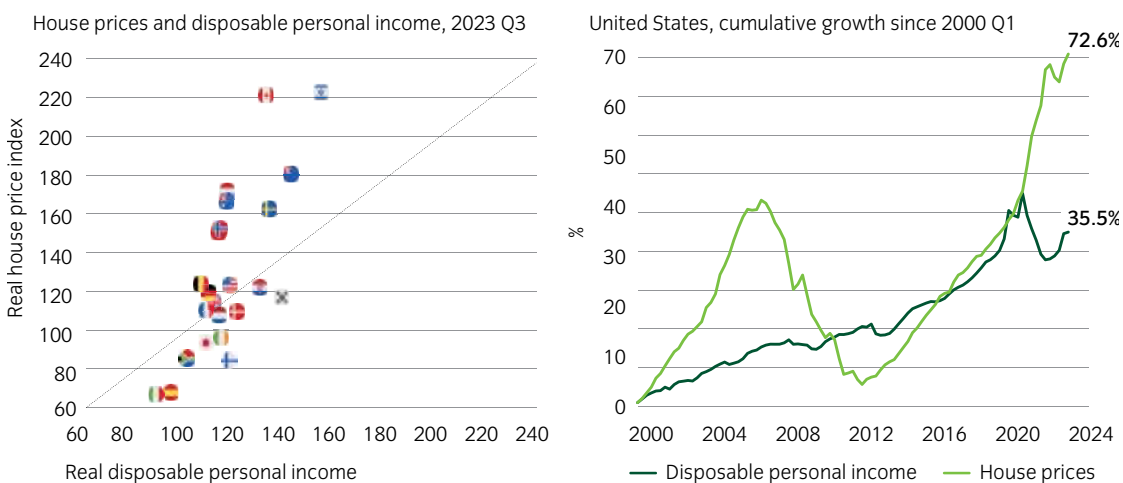
Can we still see a deeper housing market correction?

Although we don't anticipate a housing "bust" in the near term due to the ongoing mismatch between demand and supply, we also cannot rule out the possibility of a more severe correction in the housing market if we were to witness a resurgence of inflation that forces central banks around the world to tighten policy further, thereby stifling growth.

The recent run-up in home prices across some economies has raised the question if the global housing markets have become detached from macro fundamentals to the extent that there is a significant risk of a meaningful price correction.

A related issue here is the deteriorating housing affordability that limits access to homeownership for many millennials of the household formation age and first-time buyers.

Figure 6: Can higher rates trigger a deeper housing correction?⁷



⁶ Source: Macrobond, Insight, February 2024.

⁷ Source: Federal Reserve Bank of Dallas, Insight, February 2024.

CONCLUSION – THE RESILIENCE OF THE GLOBAL HOUSING MARKETS MAY DELAY THE GLOBAL RATE CUTTING CYCLE

The global hiking cycle has had less of an impact on global housing markets than many would have expected.

However, some economies have held up better than others, particularly those with higher share of fixed-rate and longer-term mortgages.

Nonetheless, housing affordability remains challenged in a number of markets, so there may be a risk of some markets not coming out of the rate cycle entirely unscathed.

To the extent strength in the global housing market continues, it bodes well for consumer strength and the economy's resilience against the global rate hiking cycle. However, there is a risk that it causes central banks to delay or slow down their rate cutting plans over the next few years, particularly in markets where housing strength has been particularly pronounced like the US.



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