



# **Housing Finance Market Integration: Setting the Scene**

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# From “location, location, location” to the epicenter of a global financial crisis

Historically, real estate was a local phenomenon

As a result, discussions of global economic and financial integration often ignored real estate

Builders, brokerage firms, consulting and services firms, real estate finance firms, and investors went global in the 2000s

Technological changes, market liberalization, and financial innovation all played a role

Global imbalances (including through cross-border financing of real estate investment) one culprit paving the way to a global crisis

# State of knowledge on how global real estate markets are

Linkages between capital flows and housing booms, through bank credit, widely documented

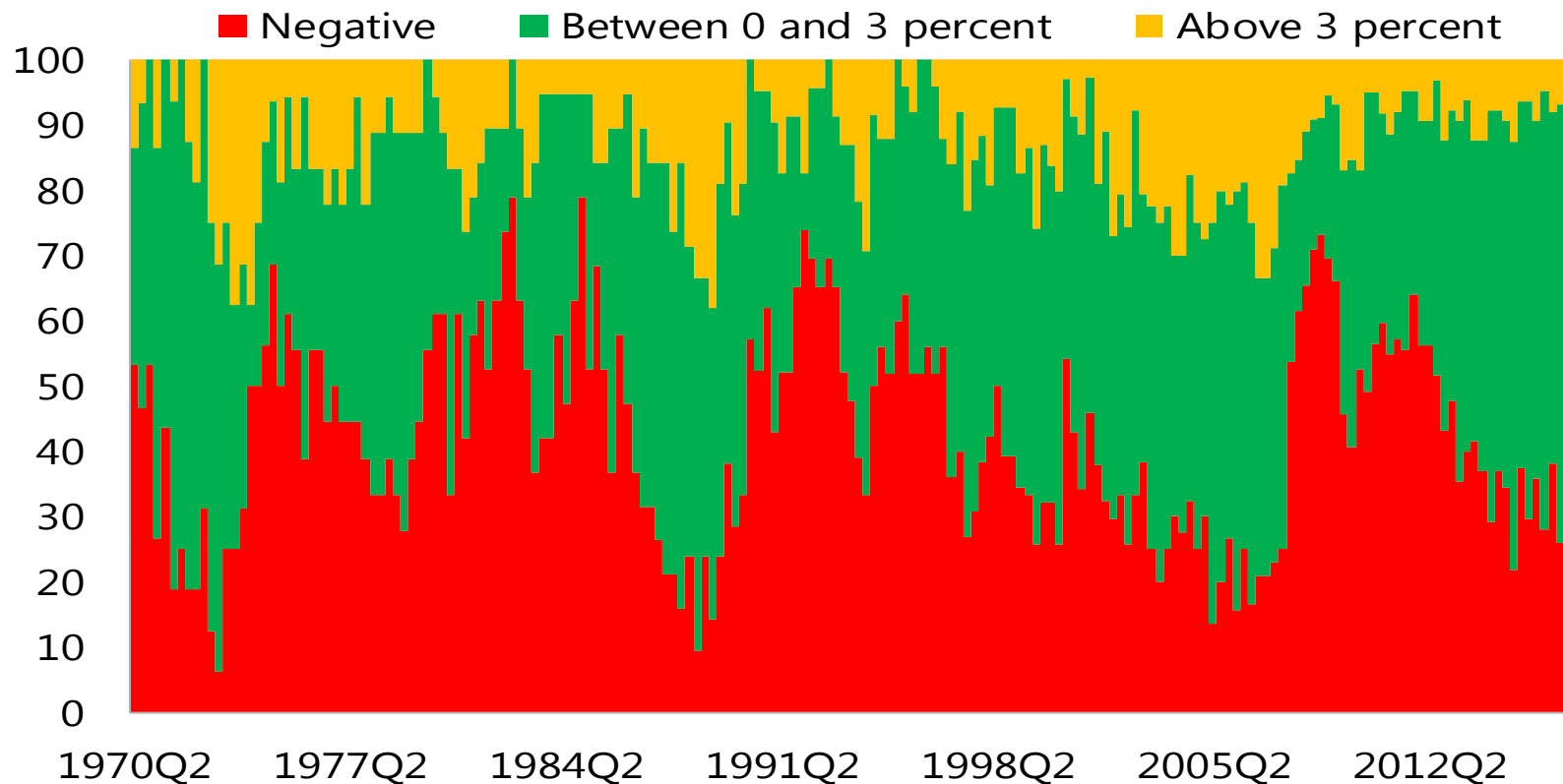
A common factor driving cycles across countries is reported but synchronization is not as prevalent as the last episode may suggest

Differences across advanced economies and emerging markets, role of supply constraints, rate of urbanization

# Synchronization in global house prices

## Share of countries by real house price growth

(in percent)

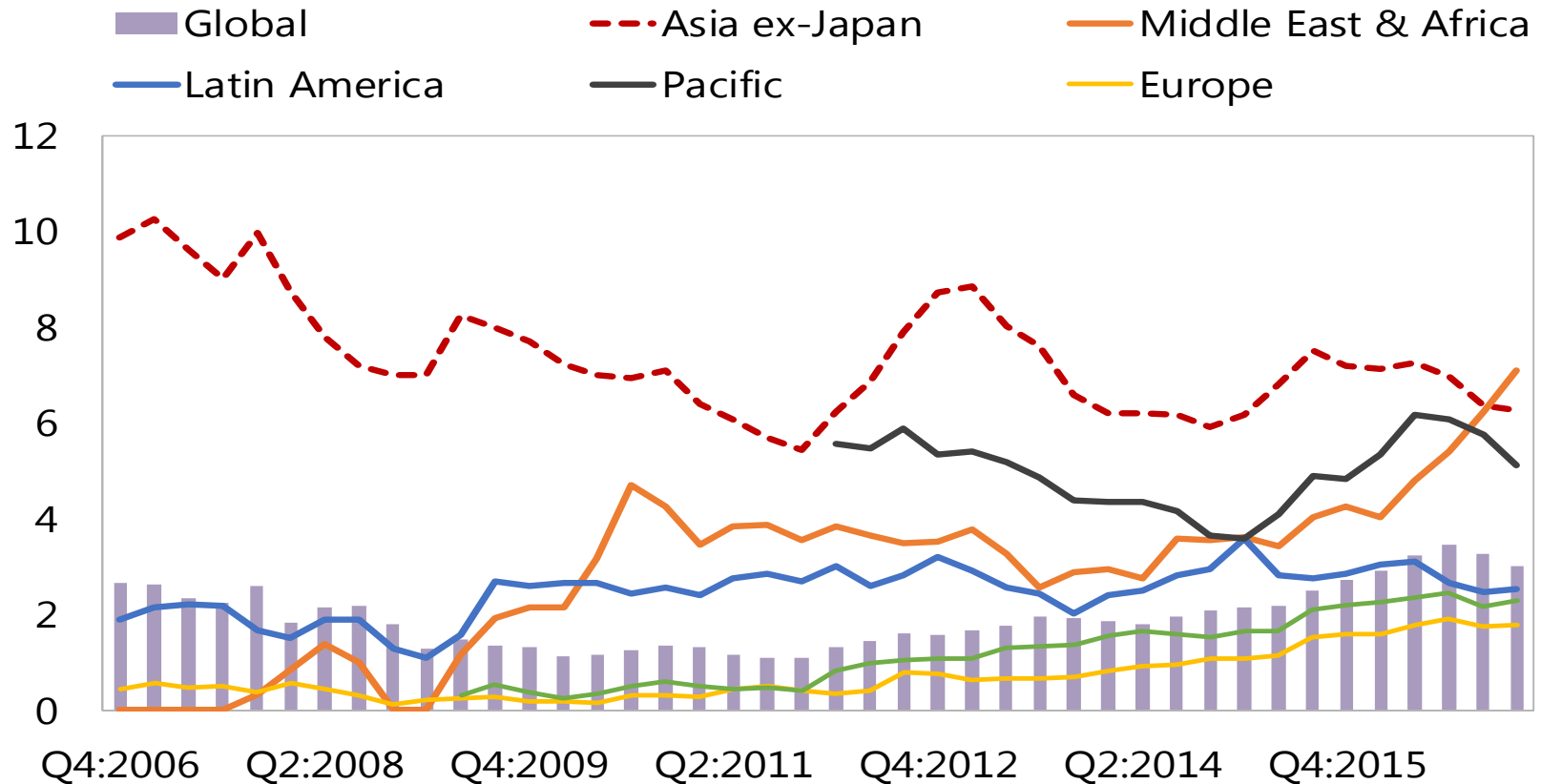


Sources: OECD, BIS, IMF staff calculations.

# Weight of real estate in global equity funds

## Global Equity Fund Allocations to Real Estate

(in percent of total)



Sources: EPFR Global/Haver Analytics.

# Harnessing the benefits from globalization and market integration

New economic geography: interplay between cities, urban agglomerations, and international trade

Portfolio diversification: mixed evidence on the magnitudes and significance of potential benefits

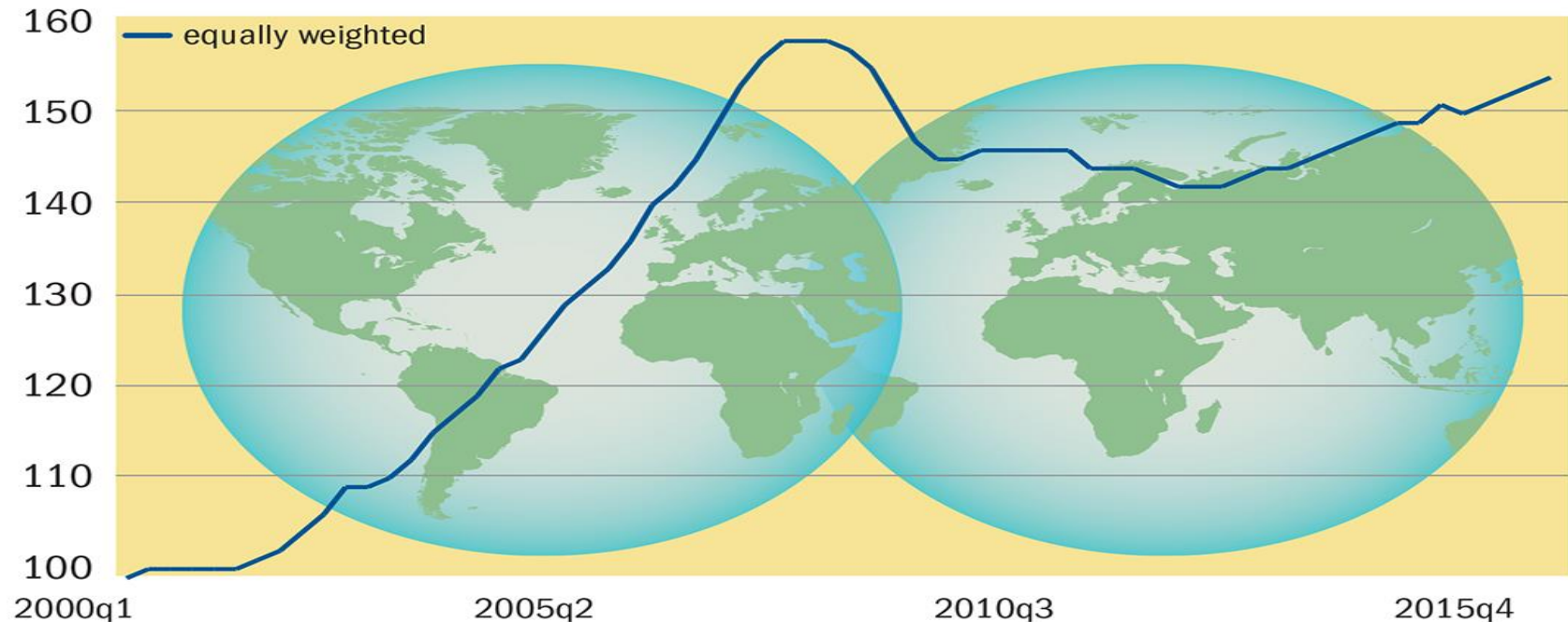
Economies of scale: local institutional features often an impediment

Dispersion of know-how: mortgage products, appraisal standards, secondary markets, mortgage insurance, affordable housing

# Almost a decade gone since the crisis, what is to come next?

## Global Real House Price Index

Global housing markets continue a slow recovery.



Sources: Bank of International Settlements, European Central Bank, Federal Reserve Bank of Dallas, Savills, and national sources



[www.imf.org/housing](http://www.imf.org/housing) | #HousingWatch

# Time to worry again?

Answer: A guarded “no” for five reasons

## *Lack of synchronicity*

- 1) Not a synchronized global boom across countries
- 2) Booms localized to a few cities in many countries

## *Not an ‘excessive credit’-driven boom*

- 3) Some booms due to supply constraints
- 4) Low interest rates driving some of the appreciation

## *No more ‘benign neglect’*

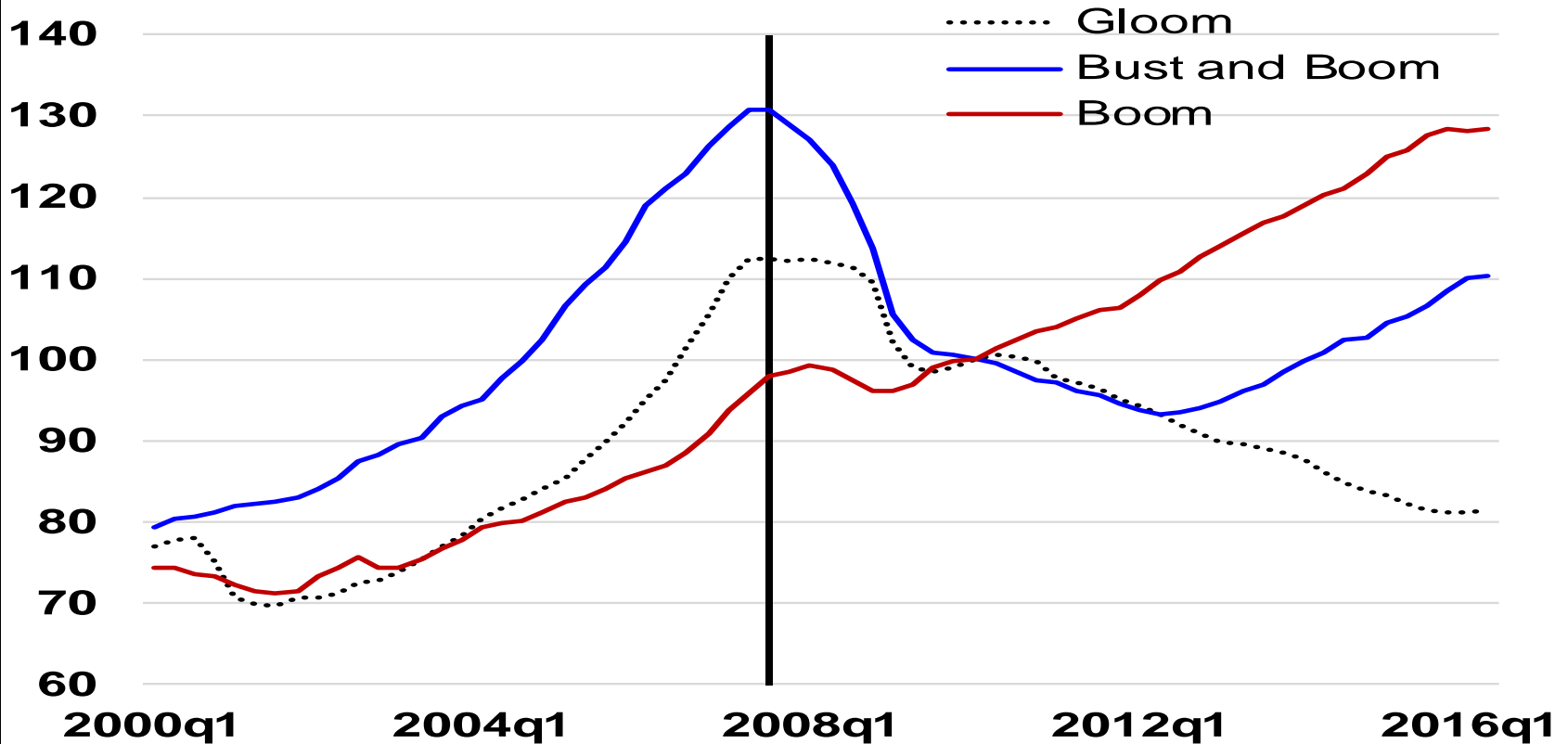
- 5) Active use of macroprudential policies to tame booms



# Three-track recovery

## Real House Price Index

2010Q1=100

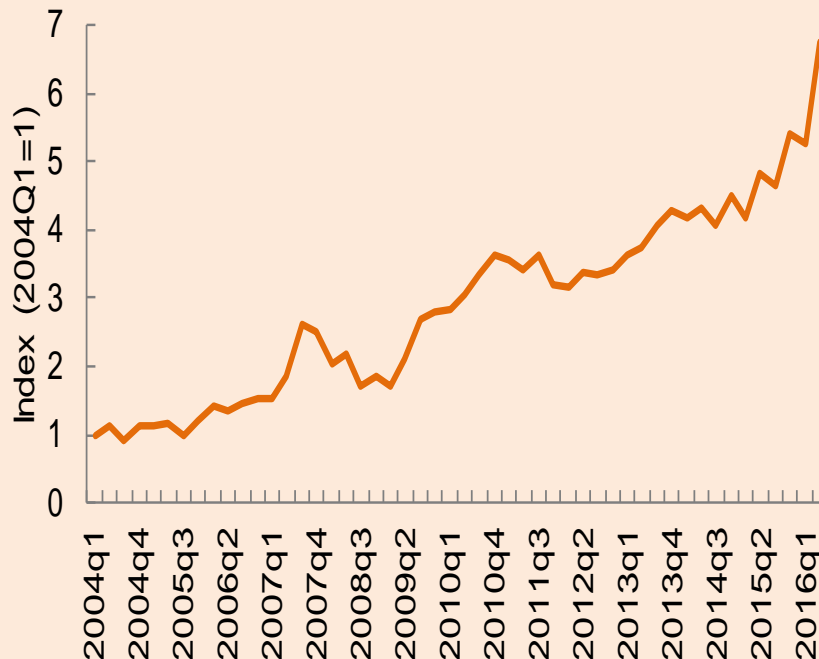


Source: Bank for International Settlements, European Central Bank, Federal Reserve Bank of Dallas, Savills, and national sources

# China: boom or gloom?

## A long upward march

Land prices, major drivers of house prices, have increased steadily over the past 15 years.



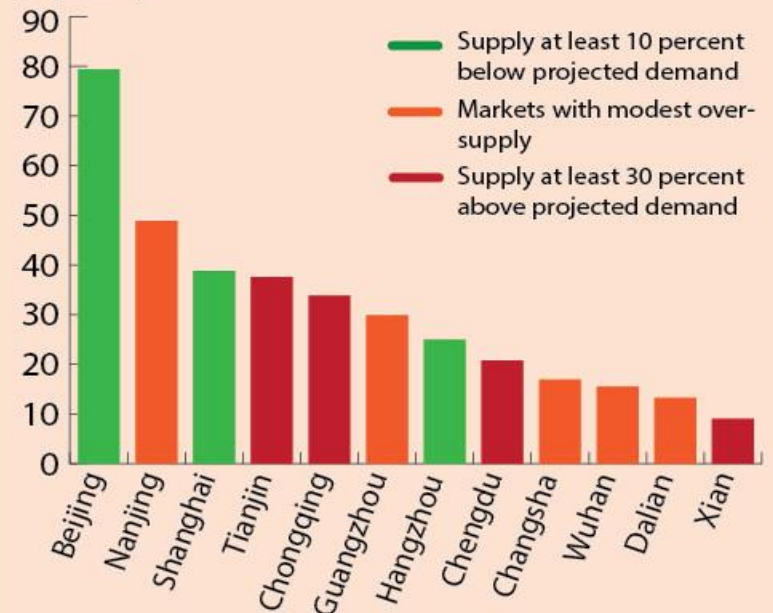
Source: Deng Yongheng, Joe Gyourko, and Jin Wu (2015), "Chinese Housing Market: What We Know and What We Need to Know"

Chart 2

## Location, location, location

Land prices appreciation and demand/supply imbalances differ vastly across cities.

(in percent)



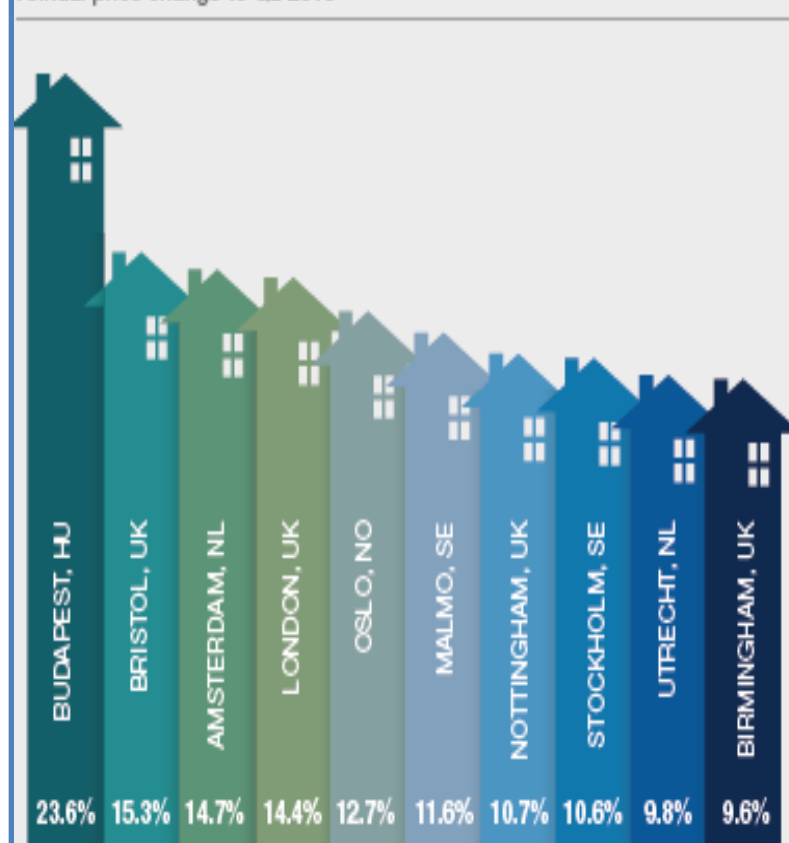
Source: Deng Yongheng, Joe Gyourko, and Jin Wu (2015), "Chinese Housing Market: What We Know and What We Need to Know."

# Knight Frank's top cities

Rank	City	12-month % change (Q2 2015-Q2 2016)
1	Shenzhen, CN	47.4%
2	Shanghai, CN	33.8%
3	Nanjing, CN	31.5%
4	Budapest, HU	23.6%
5	Vancouver, CA	23.4%
6	Beijing, CN	22.3%
7	Guangzhou, CN	19.4%
8	Hangzhou, CN	17.4%
9	Istanbul, TR	17.2%
10	Haifa, IL	16.3%
11	Izmir, TR	16.2%
12	Bristol, UK	15.3%
13	Amsterdam, NL	14.7%
14	Tianjin, CN	14.6%
15	Auckland, NZ	14.6%
16	London, UK	14.4%
17	Wuhan, CN	13.8%
18	Hamilton, CA	13.8%
19	Oslo, NO	12.7%
20	Portland, US	12.6%
21	Victoria, CA	12.5%
22	Toronto, CA	12.4%
23	Chennai, IN	12.1%
24	Malmo, SE	11.6%
25	Seattle, US	11.1%

## Europe's top ten urban housing markets

Annual price change to Q2 2016



# The role of foreign investors in real estate markets

## **“My fix for the [London] housing crisis: ban ownership by foreign non-residents”**

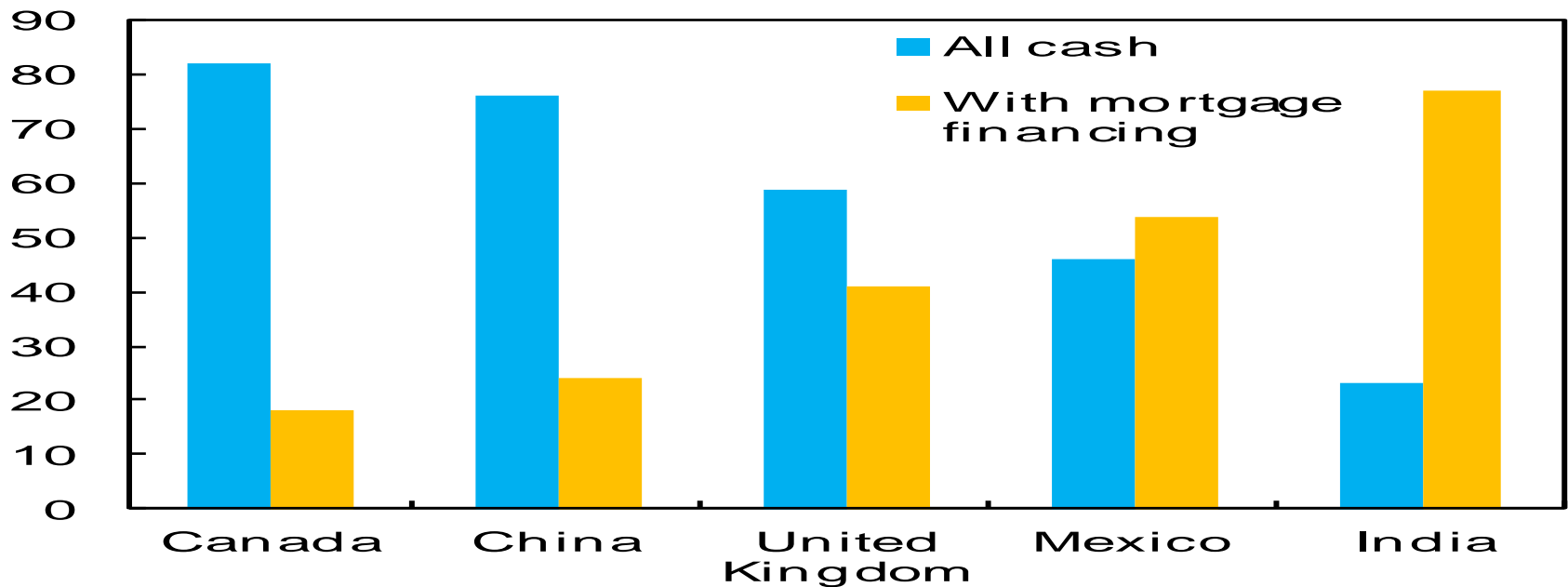
– Zoe Williams in *The Guardian* (June 22, 2015)



- “What we have seen over three decades is a rise in house prices far beyond what people can afford.”
- [“75% of inner London housing is never shown on the UK market](#), going straight to mainly Asian investors.”
- “It has become so normal for housing to be sold abroad that to complain about it sounds old-fashioned, almost racist. However, when anybody from anywhere can buy a flat in your city, sooner or later the people who live and work in it won’t be able to afford to.”
- “The solution could not be easier: we could [ban the ownership of housing by foreign non-residents](#), as they do in Norway and Australia.”

# Top foreign buyers of U.S. real estate, by type of financing (percent of total)

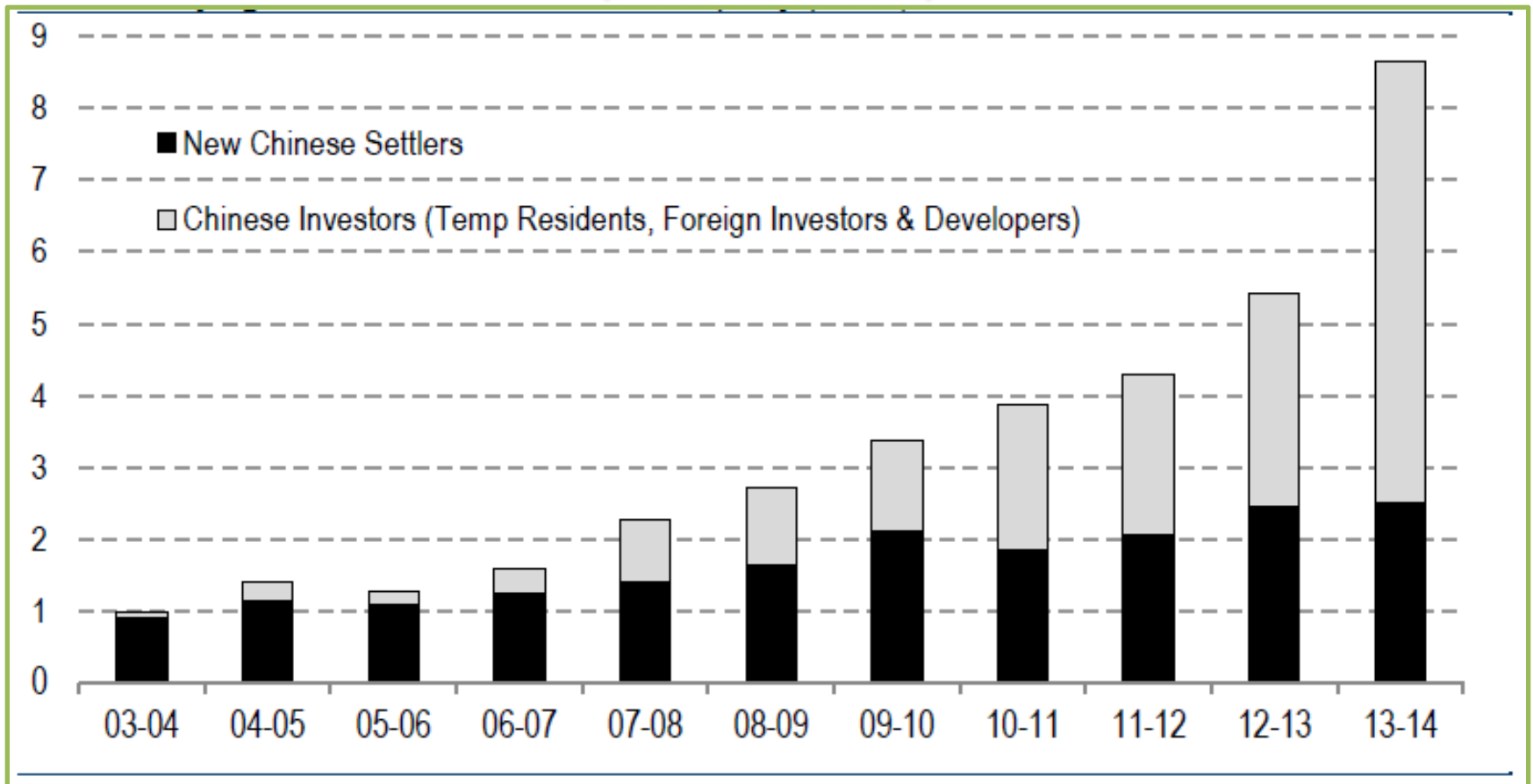
**Type of Financing by Top 5 Buyers**



Source: National Association of Realtors

# Chinese purchases of Australian residential property

(billions of Australian dollars)



# What could explain the increase?

Immense increase in wealth, particularly in emerging market economies

Historically low interest rates, prompting a search for yield

Increased geo-political risk

# What are the possible risks?

Winners and losers (as in other forms of international trade): a transnational class of super-rich making housing less affordable for the others

Effectiveness of macroprudential policies: bypassing credit-based measures with cash-only purchases (in addition to possible unintended consequences and cross-border spillovers)



# Innovations to watch

Monetary policy normalization

Regulatory reform implementation

3-D printing construction and stackable units

“Incremental housing”, BoKlok, and other solutions for lower-end of the residential market

Live-work-play concept → public-private partnerships

Fintech to expand access to financial services

Big data to create comprehensive, real-time real estate databases for entire cities & countries

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# Countries in each cluster

## **Gloom**

Brazil, China,  
Croatia, Cyprus,  
Finland, France,  
Greece, Italy,  
Macedonia, Morocco,  
Netherlands, Poland,  
Russia, Serbia,  
Singapore, Slovenia,  
Spain, and Ukraine

## **Bust and Boom**

Bulgaria, Denmark,  
Estonia, Germany,  
Hungary, Iceland,  
Indonesia, Ireland,  
Japan, Latvia,  
Lithuania, Malta,  
New Zealand,  
Portugal, South  
Africa, Thailand,  
United Kingdom, and  
United States

## **Boom**

Australia, Austria,  
Belgium, Canada,  
Chile, Colombia,  
Czech Republic,  
Hong Kong SAR,  
India, Israel,  
Kazakhstan, Korea,  
Malaysia, Mexico,  
Norway, Peru,  
Philippines, Slovak  
Republic, Sweden,  
Switzerland, and  
Taiwan POC