

## Press Release 28/2022

Halle (Saale), 30 November 2022

### **Stricter rules for banks can relieve real estate markets**

Exuberant price levels in the German real estate market could further exacerbate an economic crisis. Fiscal instruments exert too little influence to contain this danger, shows a study by the Halle Institute for Economic Research (IWH).

More company bankruptcies and inflationary pressure render it more likely that private individuals will default on their home loans. This can weaken financial stability, which in turn can create or deepen an economic crisis: Housing loans account for a large part of both the credits of German banks and private debt. So far, the German state has not been able to take sufficient action against overvaluations on the real estate market. This is shown by an analysis of the Halle Institute for Economic Research (IWH) using the example of real estate transaction tax, in German: Grunderwerbsteuer.

It is true that a one percentage point increase in this tax in Germany causes residential property prices to fall by 1.2%. As a consequence, mortgage lending by regional banks is also reduced by 1.4%. However, the economists were able to prove these effects mainly in rural areas, but hardly and only with a delay in cities. "It is precisely where the overheating on the real estate market is greatest that the tax lets us down," says Michael Koetter, Vice President and Head of the Financial Markets Department at the Halle Institute. For the study, Koetter, together with his colleagues Philipp Marek and Antonios Mavropoulos, analysed 33 million housing advertisements that appeared on the portal Immobilienscout24 between 2007 and 2017. Since the real estate transaction tax was increased to different degrees at different times in the individual federal states, the economists were able to identify their effects.

According to financial economist Koetter, it is risky if too many banks have too many credits for overvalued real estate on their balance sheets. He argues that real estate markets should be fairly valued in order to prevent price bubbles and thus possible financial crises. However, this goal could hardly be achieved with tax policy alone. "We need instruments that directly target the banks," says Koetter. These instruments, such as lending restrictions, should be further developed at the European level. To this end, the competences of European institutions should be strengthened and the European Banking Union completed.

#### **Publication:**

*Michael Koetter, Philipp Marek, Antonios Mavropoulos: Real Estate Transaction Taxes and Credit Supply. IWH Discussion Papers 26/2022. Halle (Saale) 2022.*

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## Further publications and data on the topic of real estate markets:

*Michael Koetter, Felix Noth*: European Real Estate Markets During the Pandemic: Is COVID-19 also a Case for House Price Concerns? [IWH Policy Notes 3/2022](#). Halle (Saale) 2022.

*Michael Koetter, Felix Noth*: European Real Estate Prices. Collection and Processing of Sale and Rental Prices in 18 European Countries. [IWH Technical Reports 3/2022](#). Halle (Saale) 2022.

IWH European Real Estate Index (EREI): [www.iwh-halle.de/erei](http://www.iwh-halle.de/erei)

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