

Publication

## A Novel Housing Price Misalignment Indicator for Germany

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From 2014 until present, housing prices in Germany have been rising faster than consumer prices in all quarters except one, raising concerns about an excessive overheating of the housing market. To assess the vulnerability of the German housing market to a future realignment of prices or even a housing bust, this paper develops a housing price misalignment indicator that is composed of seven indicators, which are commonly associated with the fundamental value of residential property. An empirical application to the most recent data suggests that the German housing market exhibits an overvaluation of approximately 11%, where interest rate risk and a relatively advanced stage of the housing cycle are identified as the main factors fueling these imbalances, while a rather solid debt servicing capacity mitigates these imbalances since end2009.

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