Commercial real estate and financial stability

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FI’s assignment

Financial stability
- capital requirements
- liquidity

Consumer protection
- mortgage cap
- interest rate information

Counteract financial imbalances
- amortisation requirement
Commercial real estate and financial stability

- Financial stability risks
- Cyclical
- Banks have extensive lending to the sector
- Large role in financial crises
Large Swedish market

Note: The market’s size is calculated by estimating the value of the commercial real estate market owned by professional real estate investors.
Source: MSCI.
Economic boom

- Economic boom
- High growth
- Rising property prices
- Low interest rates
- Greater demand
- Low vacancies
- Higher rents
- Low interest rates
- High growth
Stable economy

Annual change in per cent and per cent, respectively

Note: Office rental growth and degree of vacancies refers to Stockholm CBD (Central Business District).
Source: Strateg and Statistics Sweden
Record-high construction

Note: Commercial real estate includes offices, stores, hotels, restaurants, industrial property and warehouses.
Source: Statistics Sweden
Economic downturn

- Lower growth
- Reduced demand
- Higher vacancies
- Lower rents
- Lower property prices
- Interest rates?
Strong economy

Note: The GDP gap refers to the GDP’s deviation from estimated GDP as a per cent.
Source: Konjunkturinstitutet
What does FI do?

- Supervision of credit risk management – FI’s core activity
- Banks’ capital requirements
- Risk weights
Higher risk weights

Average risk weight for lending for commercial real estate, per cent
Summary

- 60 per cent of the major banks’ lending is for real estate – private and commercial
- Initial buffers, create resilience
- Unique interest rate level creates risks
- Cause to be vigilant