



Press release

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ESRB publishes the Report on vulnerabilities in the EU commercial real estate sector

The European Systemic Risk Board (ESRB) has today published the Report on vulnerabilities in the EU commercial real estate sector. This is the second analysis by the ESRB of the financial stability risks stemming from this sector, following the work of the Expert Group on Real Estate in 2015.

The report identifies several key risks and vulnerabilities in the EU commercial real estate (CRE) sector:

- The low interest rate environment and investors' search for yield have contributed to both historically high CRE prices and low CRE yields.
- The banking sector in some countries remains highly exposed to CRE risks, but non-banks and foreign investors seem to be playing an increasingly important role in many CRE markets.
- While changes in the investor base and funding sources have increased risk sharing, they have also opened up other forms of interconnectedness and potential transmission channels, which could pose a risk to financial stability.

The report also finds that while there are some macroprudential measures available, mainly targeting the banking sector, so far EU countries have implemented few macroprudential measures that directly target CRE vulnerabilities.

The report highlights the need for an appropriate policy response to address current risks and vulnerabilities in EU CRE markets. While borrower-based macroprudential measures could counteract the build-up of financial imbalances, capital-based measures could increase the resilience of the financial sector and influence cyclical developments in CRE markets. Given the rising importance of non-bank and cross-border financing in CRE markets, the report emphasises the need to investigate whether new macroprudential instruments should be made available and also whether they should be implemented in other sectors in addition to the banking sector.

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While it is possible to identify certain common risks and vulnerabilities across EU CRE markets, the scarcity of data makes it difficult to carry out a detailed analysis of vulnerabilities at country level.

Countries with significant data gaps should therefore continue their work to improve data availability, especially in the light of the ESRB Recommendation on closing real estate data gaps (ESRB/2016/14).

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