

Teddy Pham

On the Factors Causing a Boomlet Across Different Countries. A Case Study of the German Mortgage Market

Thesis (M.A.)

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A Case Study of the German Mortgage Market.

International Master Management (IMM)

Abstract

In any financial crisis, mortgage boom has been buoyed by the housing boomlet. When that spiral inverted, falling house prices lead to widespread failures and debt overhang. The purpose of this paper is to define the whether or not the German mortgage market occurs housing bubble as well as find out factors that prevent housing bubble in Germany. The methods are to analyze secondary data from prestigious financial institutes. The result is that there is no housing bubble in Germany at the national level, but there has been a housing bubble in several cities. Fusions of macroprudential policy (loan-to-value), monetary policy (interest rate) and other housing financial characteristics (term to maturity, cost of registering property, and tax deduction) are buffers to stop housing boomlet. In conclusion, the German mortgage market has not been affected by the United States housing bubble is due to the difference in manipulating macroprudential policy and housing financial characteristics.

Preface

To my family and my friends who have motivated me to finish this thesis

To a person, I will never forget in my life

And to unforgettable memories in Germany

Executive summary

The goal of the paper is to find and analyse factors that ignited housing bubble cross countries and apply in Germany mortgage market. The reason for research is that the global financial crisis emphasized the risks associated with real-estate booms. In any great financial crisis, mortgage boom was buoyed by the housing rise and economic activity. When that spiral inverted, falling house prices make tightened lending standards, which bring to widespread failures and debt overhang. The consequence is recessions and high surges in public debt.

The thesis is composed of four chapters, each of them dealing with different perspectives of housing boomlet and macro financial factors.

Chapter One is introductory the reason, research aim, research questions and defines methodology used in the thesis. The chapter is subdivided into three parts. Part one is the rationale for the topic. Part two deals with research aim. Part three handles methodology.

Chapter Two examines literature review relevant housing bubble. The chapter consists of seven parts. Part one focuses on monetary policy of European Central Bank (ECB). Part two addresses macroprudential policies. Part three explains a housing bubble and the consequence. Part four makes recommendation for the case study of Spanish housing bubble. Part five presents case study of “housing finance and real-estate booms”. Part six reviews “case study of speculative price bubble in Urban housing market in Germany”. Part seven reports based on “Empirica-Blasenindex I/2014”.

Chapter Three is the discussions and subdivided into five parts. Part one considers analysis of housing markets in two biggest economies: the United States & China. Part two compares Spanish housing bubble causes with German housing bubble causes. Part three and four discuss “housing finance and real-estate boom”, “Speculative Price Bubbles in Urban housing markets in German” & “Empirica Blasenindex I/2014”. Part five shifts the focus on ECB’s monetary policy & macroprudential policy and includes a new point of view.

Conclusions are drawn in Chapter Four. The main aim of the paper is to rebut and prove the initial hypothesis has been reached. I suggest that fusion of macroprudential policy (loan-to-