Characteristics of German foreclosed residential assets, their real values and discounts. An empirical study.

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ABSTRACT

In the year 2011, over 50,000 houses were sold at foreclosure sales in Germany with an estimated value of 6 billion Euros. As the international literature proved in the past, foreclosed real estate assets usually sell at a discount and damage the value of house prices, which implies a vast harm to the national economy. However, the accurate discount rates of German foreclosure sales and their conjunct reasons have not been suspect of any scientific research so far.

Therefore, this article shall estimate the discount rates and examine the default prices by analyzing the foreclosure sales. For this purpose, we merged three unique datasets: One dataset with normal residential market prices (non-foreclosure sales), one dataset of foreclosed real estate residential values and another dataset with regional economic indicators and average residential prices. The aforementioned datasets are divided into the 16 German federal states and include the years from 2008 until 2011. A distinctive feature of the merged dataset is, that it represents the population of all foreclosed real estate assets in Germany during the time between 2008 and 2011, which allows us to identify the main characteristics of foreclosed residential assets and their real values as well as their discounts. Finally, we estimate another (logit)-regression to illustrate the probability of default for German residential real estate assets before placing our results into the context of the international literature.

Key-words: foreclosure sales, hedonic pricing, valuation, distress, Germany