

Review of the sector-specific systemic risk buffer

6 October 2025

On 3 October 2023, the Systemic Risk Council, the Council, recommended the Minister for Industry, Business and Financial Affairs to activate a sector-specific systemic risk buffer for exposures to real estate companies at a rate of 7 per cent from 30 June 2024, see box 1. On 26 April 2024, the Minister's decision to follow the Council's recommendation was published, except for exposures secured by real estate in the 0 to 15 per cent loan-to-value range. The Minister also decided that the buffer should be evaluated after one year. In June 2024, the Council assessed that the activation of the sector-specific systemic risk buffer by the Minister for Industry, Business and Financial Affairs adequately addressed the systemic risks identified.

The Council has reviewed the sector-specific systemic risk buffer. The Council finds that there are still systemic risks associated with commercial real estate that are not adequately addressed by other requirements. The Council also finds that the improvement in some cyclical conditions since the original recommendation in October 2023, particularly interest rates, may justify easing the current requirement.

The Council therefore recommends easing the measure by exempting exposures secured by real estate in the 0 to 30 per cent LTV range, while maintaining the buffer rate at 7 per cent. The exemption of exposures in the 0 to 30 per cent LTV range means that the most secure part of the exposures will be exempted.

If the recommendation is followed, the total capital provision is estimated to be approximately kr. 9 billion. In comparison, an unchanged continuation of the current measure would imply a capital provision of kr. 11.6 billion due to higher exposures today than in 2023.¹

In connection with the review, the Secretariat of the Systemic Risk Council conducted a dialogue with several institutions and Finance Denmark (FiDa). The analysis has been updated with new and more detailed data. The dialogue also led to the easing of some of the assumptions in the analysis.

Institutions regularly conduct stress tests, which are used to assess each institution's resilience to adverse macroeconomic scenarios. However, these stress tests do not account for the interaction and self-reinforcing effects that arise when systemic risks materialise, nor do they consider the sector's overall exposures. Systemic risks imply that a shock can have severe negative consequences for everyone - even for customers and institutions that appeared robust before the shock. Therefore, the Council's assessment of the measure includes a series of sensitivity analyses that are independent of the institutions' stress tests.

The assessment of the level of the sector-specific systemic risk buffer takes explicitly into account any capital provisions based on a stress test in the capital adequacy target. A

¹ The effect is estimated based on the institutions' reporting to the Danish Financial Supervisory Authority, including the relevant risk-weighted exposures, which also form the basis for the estimated capital reservation of kr. 9 billion. If the actual risk-weighted exposures are higher than stated in the reports, this will also increase the required capital reservation.

general stress scenario may result in losses for institutions' property exposures. Capital reserved by virtue of the capital adequacy target is therefore offset against the potential impairment charges and losses estimated based on the sensitivity analyses. This ensures there is no overlap between the risks that the sector-specific buffer must cover and those that the capital adequacy target must cover.

In its review, the Council placed particular emphasis on the fact that the solvency, debt expenses, and profits of real estate companies continue to indicate an elevated risk that some of them will be unable to service their debt in the event of a shock. A significant portion of real estate company debt is interest rate sensitive, which can be attributed to limited use of fixed-rate loans and a low degree of interest rate hedging. At the same time, the solvency of real estate companies has generally not improved, and a significant proportion of lending is to companies with low solvency. The Council finds it positive that there are signs of increasing trading activity in commercial real estate and stabilisation of prices, while credit growth, especially among medium-sized institutions, has slowed. Continued positive and stable market development will reduce cyclical risks; however, the current high level of geopolitical uncertainty may give rise to new shocks to economic activity, interest rates, and thus commercial real estate.

The purpose of the sector-specific systemic risk buffer is to increase the capitalisation of credit institutions so that they are better able to withstand impairment charges and losses on their loans to real estate companies. This will help ensure financial stability by ensuring that credit institutions, despite any impairment charges and losses, continue to have the lending capacity to lend to creditworthy individuals and businesses.

The buffer, including the rate, must be reviewed at least every two years based on developments in systemic risks related to the commercial real estate segment. The buffer may be further reduced if the Council assesses that there has been a significant improvement in the risk outlook, for example due to higher solvency or strengthened debt-servicing capacity among property companies. This assessment also includes any mitigating measures, such as the sector's credit policies, which may be reflected in, for instance, lower loan-to-value ratios, improved equity ratios, or reduced interest rate sensitivity of the debt. The Council will take the impact of these mitigating measures into account in its assessment. The buffer may be fully released if the identified systemic risks materialise.

The final outcome of the measure, as presented in the Council's recommendation, is a discretionary decision based on full assessment. The buffer rate is not set mechanically, partly due to the uncertainty of measuring systemic risk. The Council's recommendations on the buffer rate are therefore based on an assessment based on various analyses and other relevant data.

Summary

The Council finds that systemic risks related to commercial real estate remain, although a number of the cyclical conditions identified by the Council in its October 2023 recommendation have improved.

- **A number of the cyclical conditions identified by the Council in its October 2023 recommendation have changed.** Interest rates have decreased as inflation has come down. Employment has been high and unemployment low. Overall, this has reduced the likelihood of systemic risks related to commercial real estate materialising in the short term. However, the Council also finds that risks related to global economic policy, a changing political environment, and military conflicts increase uncertainty about macroeconomic developments, thereby increasing the risk that unexpected shocks could result in significant losses.
- **Interest rates are higher today than they were before the surge in inflation, and the increased interest costs have led to a larger proportion of companies being unable**

to cover the current instalments on their loans with their operating income. However, this has not led to higher impairment charges and arrears in the institutions. This should be seen in light of the improving economy and low unemployment, which has contributed to an increase in operating income for companies due to higher rent levels and low vacancy rates.

- **The systemic risks of a predominantly structural nature have not changed significantly since October 2023.** They relate to the significant exposures of credit institutions to real estate companies and their business model, which is sensitive to changes in interest rates and economic cycles. Historically, developments in the commercial real estate sector have contributed to an amplification of cyclical fluctuations, for example via their effect on construction activity. Problems in the real estate sector can therefore lead to losses on loans to other industries and among households.

The Council finds that the sector-specific systemic risk buffer has not had a negative effect on lending:

- **There has been a modest increase in administration margins on mortgage loans, which account for 90 per cent of all loans to the sector.** Analysis based on institution loan-level data indicates an average increase of 0.07 percentage points in the administration margins of mortgage credit institutions for all loans covered by the buffer. For loans to real estate companies that have received a new administration margin since mid-2023, including new loans, the average increase was 0.13 percentage points. This should be compared to the fact that loans to other businesses, with a new administration margin, have seen an average increase in the administration margin of 0.17 percentage points. In comparison, short-term interest rates have decreased by 1.80 percentage points since October 2023.
- **There is no evidence of adverse effects on access to credit for real estate companies.** Lending to real estate companies continues to grow moderately, although growth rates have slowed. Lending to real estate companies grew by 6.3 per cent year-on-year in Q2 2025, while the annual growth rate was almost 8 per cent in Q2 2023. In comparison, lending to other non-financial companies grew by around 6 per cent year-over-year in Q2 2025. According to Statistics Denmark's business tendency survey, only a small proportion of companies in the "Construction" industry experience financial constraints to output. That proportion is broadly unchanged compared to the end of 2022, when interest rates started to rise.
- **Institutions have adequate capacity to meet loan demand.** The largest institutions currently have total excess capital adequacy relative to their capital adequacy target exceeding kr. 40 billion, which gives them plenty of room for new lending. The purpose of the sector-specific systemic risk buffer is to ensure that in the event of an adverse shock to the property market, institutions have enough capital to cover potential losses and continue providing credit to sound projects.

The Council finds that a systemic risk buffer is still needed to address the systemic risks identified, which are not sufficiently addressed by existing requirements.

- **The other capital requirements do not address the identified systemic risks.** Micro-prudential capital requirements, such as the individual pillar II requirements, are not used to address systemic risks. The O-SII buffer covers risks related to an institution's size and importance to the economy and the financial sector. The assessment of the level of the sector-specific systemic risk buffer considers the capital provisions made by institutions in relation to their capital adequacy target under a severe macroeconomic scenario.
- **Guidelines on granting credit to rental properties and real estate projects** provides clarification of existing provisions in the Executive Order on Management and Control of Banks, etc. The guideline is intended to ensure robust credit standards and is thus

microprudential in nature. The rules in the guideline help ensure sound credit standards and limit credit risk when taking out new loans. They help reduce the overall credit risk on individual customers. However, customer finances may deteriorate after the loan is authorised. Nor does the guide inherently address the risk of existing loans or ensure additional capitalisation in institutions. Neither does it take into account such factors as contagion and self-reinforcing effects. The guideline is therefore insufficient to address the systemic risks identified related to commercial real estate.

Based on the development of systemic risks and the sector's input, the Council recommends the following easing of the measure:

- **Exposures in the 0 to 30 per cent LTV range are exempt from the requirement.**
- **Exposures to the sectors "Real estate management", "Owner associations", "Real estate agencies, holiday home rental, etc." and "Real estate agents" are excluded from the measure.** These companies have the same business model as housing cooperatives and non-profit housing associations, and therefore a different risk profile than traditional real estate companies. The Council thus considers that they can be exempted from the measure.
- **Credit institutions calculate the capital requirement based on risk-weighted exposures to real estate companies, including model-related add-ons.** Some credit institutions use internal models to calculate their capital requirements (IRB models). If the models insufficiently address a risk area (e.g. if they do not fulfil applicable guidelines), an add-on to the risk-weighted exposures can be given. These add-ons should be included in the calculation of risk-weighted exposures when calculating the capital provision under the sector-specific systemic risk buffer.

The sector-specific systemic risk buffer in Denmark

Box 1

The sector-specific systemic risk buffer aims to ensure that in the event of a crisis in commercial real estate, credit institutions are sufficiently capitalised to maintain market confidence despite losses and impairment charges and continue to provide financial services that are central to the economy, including credit to sound customers. A systemic risk buffer can be used to address systemic risks or risks related to a subset of the sector's exposures that are not addressed by the countercyclical capital buffer or the SIFI buffer.

The existing sector-specific systemic risk buffer includes exposures to real estate companies in Denmark. Real estate companies are companies whose primary business is to own and rent out properties, whether residential or commercial, and to undertake construction projects with a view to later sale or rental. The exposures consist mainly of loans and guarantees. The part of the exposure that lies in the LTV range of up to 15 per cent is excluded from the buffer.

The sector-specific systemic risk buffer applies to standardised and internal ratings-based (IRB) exposures. As with the other risk-based capital requirements, the same rate is applied to the institutions' exposures, regardless of whether it is calculated using the standardised approach or the IRB approach. A single buffer rate means that the design of the measure is simpler, while the nominal capital requirement varies with risk across institution portfolios, as reflected in the risk weighting.

Source: The Systemic Risk Council, Ministry of Industry, Business and Financial Affairs.

The Council's recommendation is in compliance with current legislation.

[Signature]

Christian Kettel Thomsen, Chairman of the Systemic Risk Council

Statements from the representatives of the ministries on the Council

"According to the legislation on the Systemic Risk Council, recommendations addressed to the Government must include a statement from the representatives of the ministries on the Council. The representatives of the ministries and the Danish Financial Supervisory Authority do not have the right to vote on recommendations to the government.

The government notes the Council's recommendation that the sector-specific systemic risk buffer of 7 per cent for exposures to commercial real estate be eased by exempting exposures secured by real estate within the loan-to-value range of 0 to 30 per cent, while maintaining the buffer rate at 7 per cent.

The government notes the Council's recommendation to the government and will within 3 months make a decision regarding the recommendation from the Systemic Risk Council."

1. The evolution of systemic risks in commercial real estate

In its October 2023 recommendation, the Council identified a number of systemic risks. Some were related to cyclical conditions, while others were structural in nature. The cyclical conditions affect the likelihood of risks materialising. The size of losses if risks materialise depends on both cyclical and structural conditions. Overall, the Council finds that:

- The development of some cyclical conditions suggests a reduced likelihood of risks materialising in the short term.
- However, the systemic risks of a predominantly structural nature have not changed since October 2023.
- A shock, given the size of the exposures and the importance of the property sector to the economy, could result in significant losses for institutions.

Development in cyclical conditions

The Council's recommendation in October 2023 highlighted a number of cyclical conditions.

The prospect of higher interest rates and lower economic activity increased the risk that the systemic risks identified could materialise in the very short term. This increased the risk of loan defaults. It was therefore crucial that institutions had sufficient capital within a relatively short timeframe to handle losses if risks materialised.

The period since the Council's recommendation has seen a soft landing in the Danish economy, with very low unemployment. As inflation has decreased, interest rates have also fallen, see chart 1, left. Overall, this has supported the finances of real estate companies. This has reduced the likelihood of risks related to commercial real estate materialising in the very short term.

However, there is increased uncertainty about macroeconomic developments in light of the uncertainty surrounding global economic policy and international relations and thus the risk of shocks. According to Danmarks Nationalbank's latest forecast, the Danish economy is currently considered to be in a neutral economic situation, and the main scenario is a balanced growth path. However, the outlook for the Danish economy is subject to significant risks. Trade conflicts, geopolitical unrest and weaker global growth can derail the growth of the global and Danish economy.² Although the main scenario appears balanced, there is a risk of new economic shocks, which could mean that risks materialise.

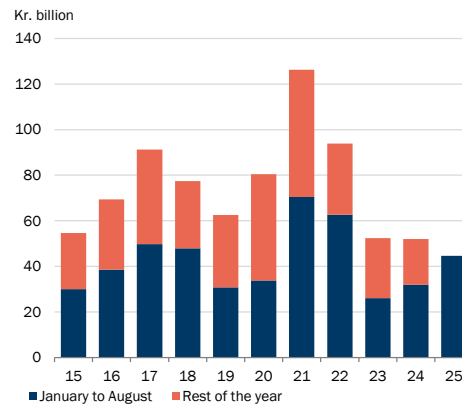
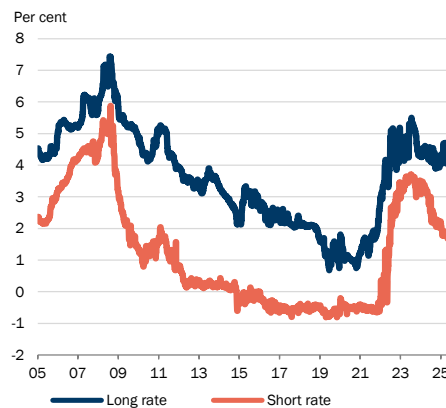
Trading activity in commercial real estate in 2024 was similar to 2023 in terms of transaction volume, see chart 1, right. Trading activity was low in 2023 and 2024 compared to previous years. Real estate transaction volumes in the first six months of 2025 were higher than in the same period in 2023 and 2024, indicating a rise in activity.

Short-term interest rates in particular have decreased, while commercial real estate trading activity is increasing in H1 2025

Chart 1

Interest rates on variable-rate mortgages in particular have dropped in the last two years

Increasing trading activity for commercial real estate in 2025



Note: Left: Weekly frequency. Seven-day moving average. The chart shows the average yield to maturity for 30-year, fixed-rate, callable bonds (the long-term rate) and non-callable bonds with a remaining maturity of less than two years, which is behind the granting of adjustable-rate loans (the short-term rate). The latest observation was on 29 September 2025. Right: Latest data: August 2025.

Source: Refinitiv, ReData and Erhvervsmæglerenes Branchedata.

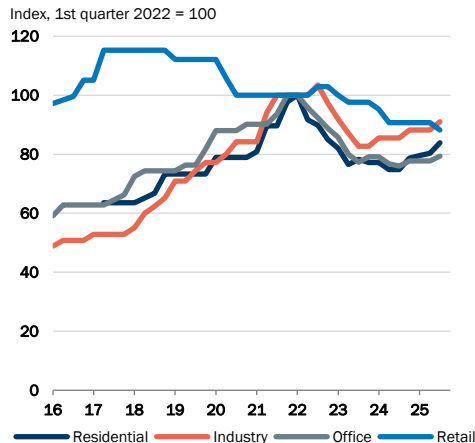
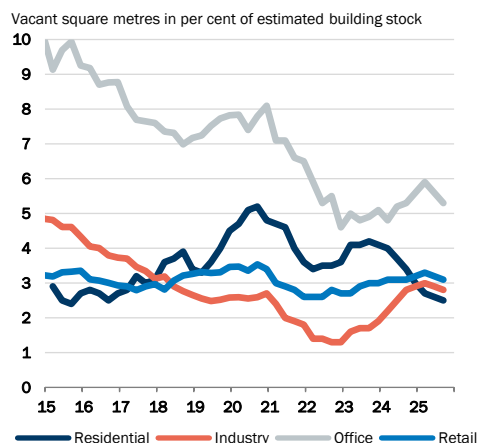
Vacancies have increased slightly in parts of the commercial real estate market. The vacancy rate for office and industrial properties, as well as retail space, has increased slightly over the past few years, see chart 2, left. The increased vacancy rate can contribute to reduced profits for real estate companies due to lower rental income. However, vacancies remain low compared to the pre-covid pandemic period. For residential rental properties, vacancy rates have decreased and are at their lowest level in 10 years.

Higher vacancy rates in parts of commercial real estate and a significant drop in property values in Copenhagen since the peak

Chart 2

Vacancy rates for office, retail and industrial properties have increased

Indicator points to significant drops in property values in Copenhagen since the peak in 2022



Note: Left: Vacant space across the country. Latest observation: Q3 2025. Right: The chart shows the value indicator for primary properties in Copenhagen. Around 33 per cent of the property stock in terms of value is concentrated in the city of Copenhagen, while around 20 per cent is in the Copenhagen area. Approx. 30 per cent of loans made by the institutions to real estate companies are secured on properties in Copenhagen. The value indicator is calculated as rental income over the required rate of return, see Mikkelsen and Vestergaard, Commercial real estate in Denmark, *Danmarks Nationalbank Economic Memo*, no. 10, November 2024 ([link](#)). The value indicator is based on aggregated series from Colliers for average rent and yield requirements for prime properties in Copenhagen. The rent levels are not adjusted for operating costs, etc. Increased yield requirements lead to lower property values, whereas increased rent levels tend to increase property values. Latest observation is Q3 2025.

Source: EjendomsTorvet, EjendomDanmark and own calculations.

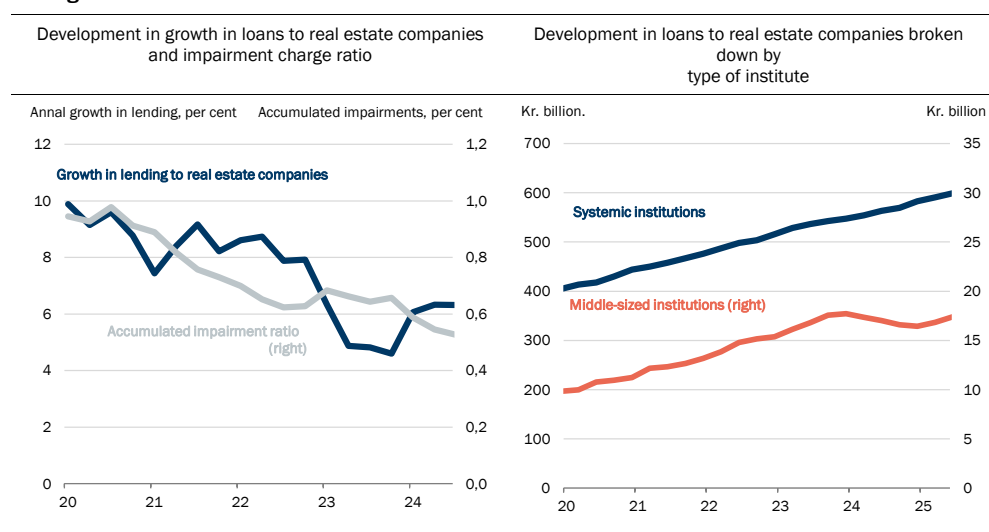
The commercial real estate value indicator suggests significant decreases in Copenhagen property values since their peak in 2022, see chart 2, right. The value indicator points to

declines in the valuation of prime office and residential rental properties in Copenhagen of around 20 per cent and 16 per cent, respectively, since the peak in early 2022. The development of the value indicator in 2022 and 2023 reflected increasing yield requirements due to higher interest rates, which were, to some extent, offset by increased rental income. Over the past year, rising rent levels have contributed to increased property values for both residential and office properties.

There is moderate growth in lending to real estate companies. The growth in total loans to real estate companies was slightly up at 6.3 per cent year-on-year in Q2 2025. In comparison, the growth in total lending, excluding loans to real estate companies, was approximately 6 per cent. Lending has increased by 11.5 per cent in the period from Q2 2023 to Q2 2025. The development covers significant differences across institutes, see chart 3, right.

Moderate growth in lending to real estate companies and decreasing impairment charge ratio

Chart 3



Note: Left: Latest observation is Q2 2025.

Right: Development in lending to real estate companies. Latest observation is Q2 2025.

Source: Danmarks Nationalbank.

Lending from systemic institutions grew by 6.4 per cent annually in Q2 2025. Growth is therefore lower than in the period between 2022 and 2023, but higher than in 2024. Systemic institutions account for 97 per cent of lending to real estate companies.

Credit growth among medium-sized banks levelled off during 2023 and 2024. Lending by medium-sized banks increased by 2.4 per cent year-on-year in Q2 2025. Compared to Q2 of 2023, lending by medium-sized institutions grew by 3.6 per cent, which should be seen in the context of lower construction activity and the limited inflow of new construction projects during the period, which are typically bank-financed. The development reflects the period of higher interest rates and the expectation of a deteriorating economic outlook.

Historically, periods with high lending growth have often been followed by rising impairment charges and losses. This reflects the tendency for credit quality to deteriorate in periods with high lending growth. Small and medium-sized institutions in particular have experienced significant losses in previous crises.³

The impairment charge ratio for all exposures has decreased, see chart 3, left. A long period of favourable conditions and low impairment charge ratios can increase the risk of losses if risks materialise. In previous crises, adverse shocks to the property market have led to significant increases in impairment charges for banks. A large proportion of institutions with

³ The financial crisis in Denmark – causes, consequences and lessons ([link](#)).

significant exposures to real estate companies became distressed during the financial crisis, despite relatively good capital ratios at the start of the financial crisis.⁴

A significant share of the lending is to real estate companies with a low debt servicing capacity, see chart 4, left. Real estate companies with low debt servicing capacity (i.e. debt servicing costs exceed operating income) accounted for approximately 18 per cent of total lending to real estate companies in Q2 2025. The continued increase in 2024 should be seen in the context that some of the loans with 1- to 5-year fixed interest rates have a new (and higher) interest rate. There is a significant spread across institutions. Medium-sized institutions, in particular, have loans to companies with low debt servicing capacity. As far as possible, the estimates are based on the companies' own consolidated financial statements. This method takes into account any balances between the individual companies in a group, for example, if there are guarantees or sureties. This also takes into account the fact that a company with poor liquidity can receive funds from its parent company. However, this approach can potentially underestimate the risk of loss as it is possible that the group or its lenders may choose to allow a subsidiary to go bankrupt in the event of a severe shock to the property market.

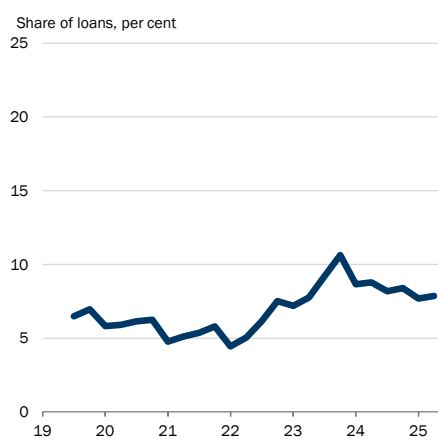
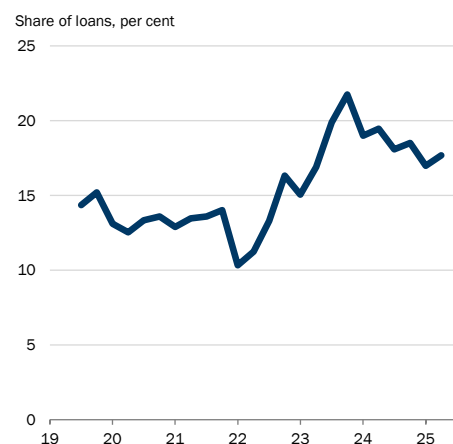
The share of loans to companies with both low debt servicing capacity and low solvency (below 20 per cent) remains high, see chart 4, right. Solvency is an expression of companies' net capital in relation to their total balance sheet. Companies with low profits can continue to service their debt for a period of time if they have net capital to draw on. However, it should be noted that only a small proportion of real estate companies' net capital is invested in liquid assets that can be used directly for debt servicing.

A significant proportion of loans are to companies with low debt servicing capacity and/or low solvency

Chart 4

Development in proportion of lending to real estate companies with low debt servicing capacity (debt service burden <100 per cent)

Development in share of lending to real estate companies with low debt servicing capacity and solvency (debt service burden <100 per cent and solvency <20 per cent)



Note: Left: The chart shows the share of loans to companies that cannot cover payments on their loans from current profits (i.e. with a debt service coverage ratio below 100 per cent). Based on consolidated financial statements from real estate companies. Latest observation: Q2 2025. Right: The chart shows the share of loans to companies that cannot cover payments on their loans from current profits (i.e. with a debt servicing ratio of less than 100 per cent) and a solvency ratio of less than 20 per cent. Based on consolidated financial statements. Latest observation: Q2 2025. In both charts, real estate companies are companies in the industries "Engaged in construction projects", "Renting of commercial real estate", "Other residential rental" and "Purchase and sale of own real estate".

Source: Bisnode, Danmarks Nationalbank and own calculations.

Property price drops can erode net capital during a crisis. For example, real estate companies may try to sell off properties in a situation where it is difficult to service debt due to rising interest rates. However, rising interest rates also have a negative impact on property values, which in turn affects loan-to-value ratios. The development in the solvency of real

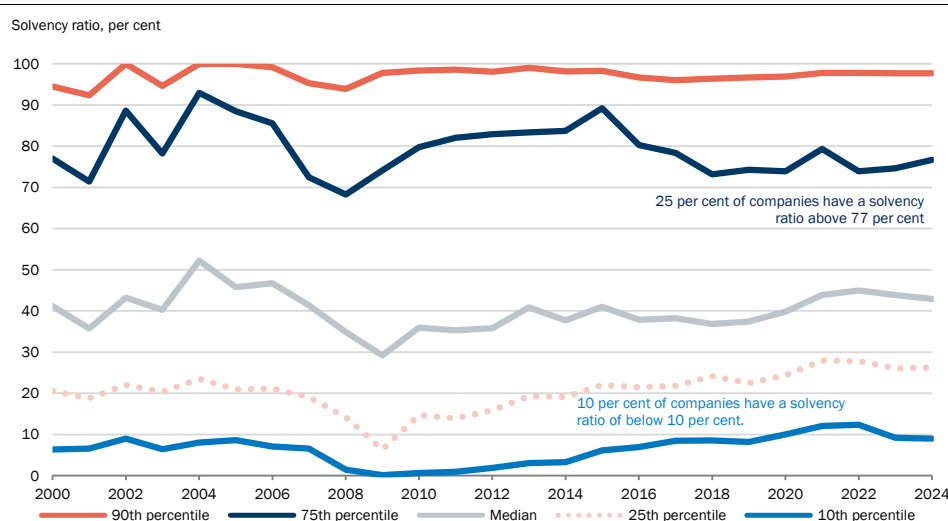
⁴ The financial crisis in Denmark – causes, consequences and lessons ([link](#)).

estate companies does not reflect the property value declines indicated by the development in the value indicator since 2022, see chart 5.

The solvency of real estate companies has only marginally improved compared to the period leading up to the financial crisis, see chart 5. However, the weakest capitalised companies, shown by the 10th percentile, are slightly better capitalised in 2024 than the weakest in 2006 and 2007. Their solvency was approximately 7 per cent in 2006, compared to 9 per cent in 2024. For 25 per cent of the companies with the poorest solvency, there has been an increase of 5 percentage points. However, the development in the solvency of real estate companies does not reflect the property value declines indicated by the development in the value indicator since 2022. Falling property values also affect the liabilities side. Declining property values due to higher interest rates reduce solvency by lowering asset values. However, there will not necessarily be a one-to-one reduction in net capital when property prices fall, as other balance sheet items are also likely to change. For example, higher interest rates affect the value of fixed-rate mortgage debt through a lower fair value, which reduces the value of the debt (liabilities) and, in isolation, contributes to higher solvency.⁵

Development in the solvency ratio of real estate companies

Chart 5



Note: The solvency ratio is calculated as book net capital over total assets and is weighted by the balance sheet. Latest observation: 2024.

Source: Experian, Bisnode.

Development in structural conditions

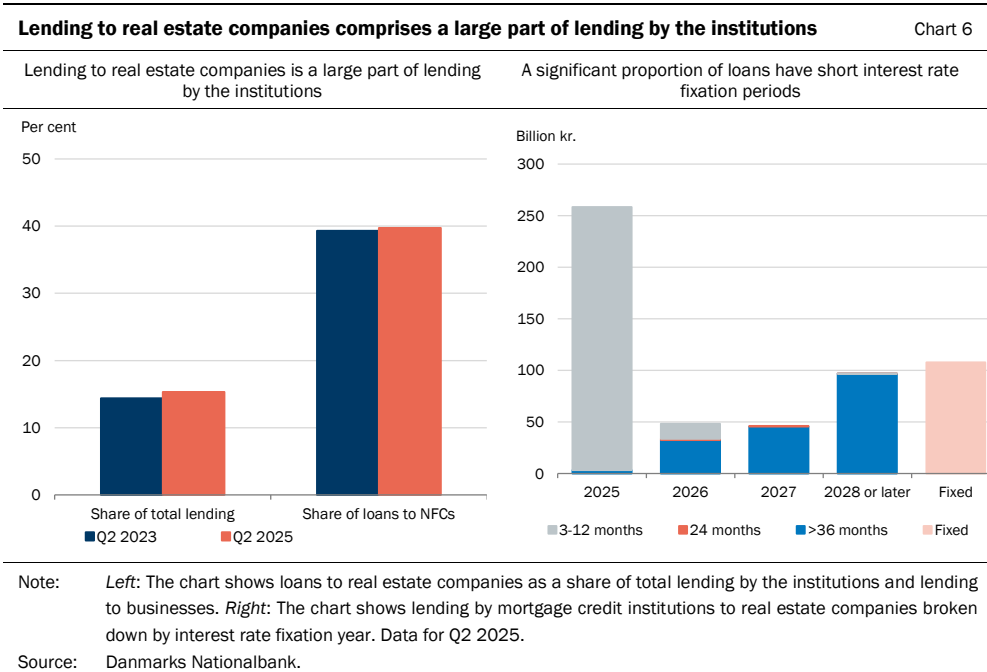
In addition to systemic risks associated with cyclical conditions, there are a number of systemic risks related to structural conditions.⁶ The Council finds that there are systemic risks of a predominantly structural nature that have remained relatively unchanged in the recent period. The Council finds that the structural systemic risks are primarily related to:

- Credit institutions' significant exposures to commercial real estate.
- The business model of real estate companies, which is structurally sensitive to changes in interest rates and economic cycles.
- A high degree of interconnectedness that increases the risk of contagion and self-reinforcing effects.

⁵ For real estate companies that hedge interest rates through derivatives, changes in interest rates will affect the value of the derivatives on the balance sheet, which in turn impacts solvency. Real estate companies can defer the tax payment of property appreciation until the property is sold. When property is sold in a corporate transaction, the buyer assumes the deferred tax liability. If the property is sold as an asset deal, the tax payment is due, and the deferred tax payment appears as a liability item on the real estate company's balance sheet. When property values fall, the value of the deferred tax payment will also fall, which in isolation contributes to higher solvency.

⁶ According to [the Systemic Risk Council, Activation of a sector-specific systemic risk buffer for corporate exposures to real estate companies](#).

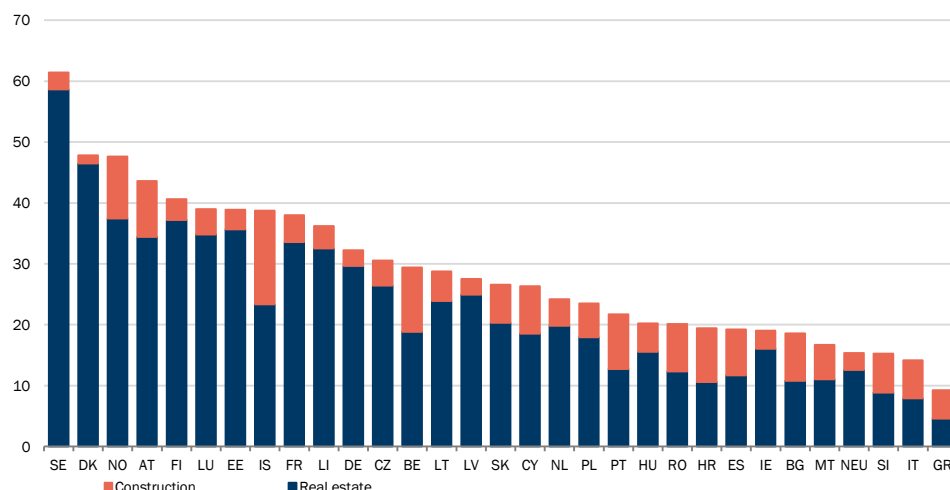
Credit institutions have significant exposures to real estate companies, see chart 6, left. At the end of Q2 2025, loans to real estate companies accounted for approximately 15 per cent of total loans and 40 per cent of loans to non-financial corporates. The proportion is thus approximately the same as in Q2 2023.



Danish institutions are among the most exposed to the industry compared to institutions in other European countries, see chart 7. In Finland, Norway and Sweden, banks also have significant exposures to commercial real estate. In these countries, authorities also have increased attention to systemic risks related to the segment. Sweden and Norway, for example, have introduced risk weight floors for the commercial real estate segment. Systemic risks related to commercial real estate are also part of the rationale for introducing a systemic risk buffer in Finland and Norway.⁷ Given the size of the exposures, there is a risk of significant losses in the event of an adverse economic shock. Real estate companies in particular have caused significant losses in previous financial crises. These are also some of the systemic risks identified by the ESRB, which have formed the basis for a recommendation in this area, see page 14.

⁷ The buffers are intended to cover systemic risks associated with commercial real estate, among other things. Finland has a systemic risk buffer of 1 per cent for all exposures. Norway has a systemic risk buffer for Norwegian exposures of 4.5 per cent. Sweden has a systemic risk buffer of 3 per cent for all exposures.

Share of loans to NFCs, per cent



Note: The chart shows bank lending to the sectors "Real estate" and "Building and construction" as a proportion of corporate lending. The real estate industry in Denmark includes loans to housing cooperatives and social housing associations. The chart is based on FINREP reports from individual institutions in the countries in question. The proportion of lending to the sectors "Real estate" and "Building and construction" in this chart, therefore, differs from the calculation in other charts where all Danish banks are included. Data for Q2 2025.

Source: EBA Risk Dashboard.

The risk profile of the exposures entails systemic risks. Almost half of the mortgage lending to real estate companies has an interest rate fixation period of between three and six months, see chart 6, right. Almost half of the loans are also with variable-rate and interest-only loans. A high proportion of loans with short interest rate fixation periods means that real estate companies are vulnerable to interest rate increases. This could mean that their finances are quickly squeezed by an adverse shock to the property market if they face a new and higher interest rate. The high proportion of interest-only loans means that over their term, the loans have higher loan-to-value ratios than would be the case with loans with amortisation. This means increased losses for institutions in event of default. It takes time to reduce debt and thus the size of potential losses in the event of default. By contrast, companies with fixed-rate loans are more robust as rising interest rates will result in lower property values, but also a decreasing value of the remaining debt.

The business model of real estate companies is structurally vulnerable to fluctuations in interest rates and economic cycles. Fluctuations in activity and interest rates can negatively affect the value of the net capital and assets of such companies. As their assets consist primarily of property, their value is affected by both interest rates and economic activity, which in turn impact rent levels, vacancy rates, and demand. Their profits and expenses are also affected. Revenue for real estate companies can come under pressure in the event of weaker economic activity, partly due to increased vacancy rates. This can increase the risk of real estate companies being unable to service their loans with current profits.

The uniform business model of real estate companies means that an adverse shock will affect them similarly across different property segments, increasing the risk of losses. In addition, self-reinforcing effects can occur when many people change their behaviour at the same time, for example, if they sell properties or reduce rents for new rentals. The market is also relatively heterogeneous, making it difficult to accurately price the properties.

A high degree of interconnectedness between the commercial real estate sector and the rest of the economy can contribute to systemic risks in the economy. A negative development in the property market can quickly spread to the rest of the economy, as the commercial real estate sector is a significant part of the Danish economy, see chart 8, left. The sector is also the only one that accounts for a significant proportion of lending by the

institutions.⁸ Historically, developments in the commercial real estate sector have contributed to an amplification of cyclical fluctuations, for example via their effect on construction activity.⁹ Problems in the real estate sector can thus lead to problems in other industries and among households, see chart 8, right. For example, a decrease in demand in the property sector of kr. 1 million will lead to a decrease in output of almost kr. 0.25 million in the construction industry. The trade and financial sectors will also be significantly affected.

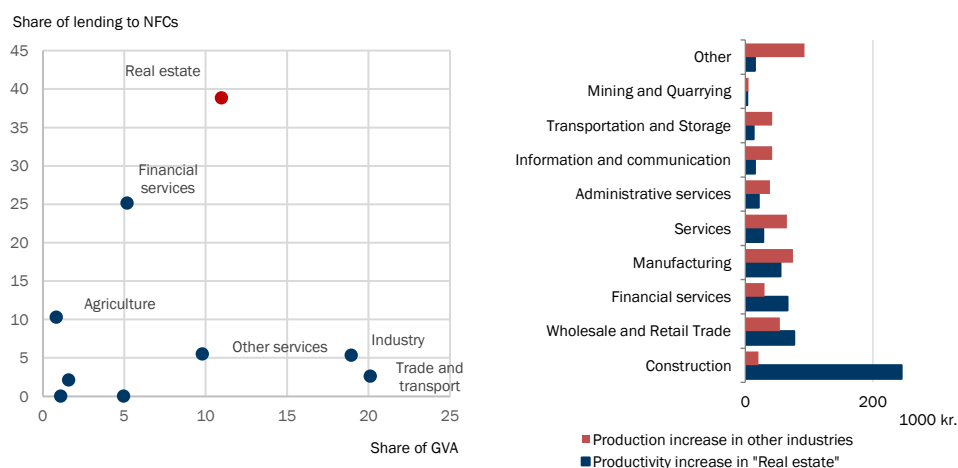
In addition, close **links between credit institutions, e.g. in the form of direct loans or loss guarantees (high degree of interconnectedness), increase the potential channels for contagion.** A shock can thus hit the system more broadly and quickly, weakening trust in individual institutions. More capital in the institutions with the highest risk in respect of commercial real estate makes them more resilient, which also increases overall confidence, including among depositors, bank investors and lenders. This applies to losses on loans to real estate companies, as well as to losses on other types of loans.

The real estate sector is a big part of the economy and lending from credit institutions

Chart 8

The real estate sector is a big part of the economy and credit institutions' balance sheets

Simple effect in different industries by increase in output of kr. 1 million.



Note: Left: The chart shows the contribution by industries to GVA vs. their share of lending to businesses by the institutions. The real estate sector is listed here as the sectors "Real estate" and "Building and construction". Data for lending is from the end of December 2024. GVA data is for 2024. Right: Effect on other industries of a kr. 1 million shock to the property sector (blue bars). Red bars indicate the average effect of a general shock to the economy of kr. 1 million, where the shock is distributed proportionally to the industries' share of total output. Based on the multiplier tables' "simple multiplier", which takes into account value chains but does not include derived effects on employment and private consumption.

Source: Statistics Denmark, Danmarks Nationalbank and own calculations.

Developments in the rest of the economy also affect the property market. An adverse shock to economic activity can amplify an economic downturn in the real estate sector, such as through decreased demand for properties and leases. For example, the property sector is highly influenced by developments in retail, as retail businesses often rent their premises through real estate companies. Higher unemployment and lower activity can also lead to lower demand for office space. More vacancies and thus lower rental income mean lower revenue for real estate companies.

These correlations imply a number of self-reinforcing feedback effects between the real estate market and the rest of the economy. In a market affected by uncertainty, even companies with otherwise robust finances can struggle to refinance loans or obtain liquidity. Some of their finances may be so strained that they have to sell one or more properties to cover loan payments. If many people sell at the same time, it can put downward pressure on property prices and amplify a price drop. If some real estate companies get into trouble, it can affect the value of the collateral behind loans to other industries (and thus their resilience).

⁸ See Rangvid (2013).

⁹ See Rangvid (2013).

Measures that limit the risk of loss in individual institutions can to some extent limit the risk of loss in the financial sector. However, self-reinforcing and derivative effects mean that systemic risks can increase the risk of impairment charges and losses and their magnitude beyond what individual institutions can account for in their risk assessments and credit policies. Systemic risks can thus arise even if risks at the institution level are addressed.

Higher credit risk, impairment charges and losses on financially stressed customers can put a strain on institutions' capital. If there is uncertainty about the economy's development, institutions may be reluctant to extend credit to maintain a certain distance from capital requirements. Overall, this can reduce the capacity and willingness of credit institutions to offer loans, not just to the commercial real estate segment, but in general. A lower supply of credit can lead to lower consumption and investment activity, amplifying an economic downturn.

The European Systemic Risk Board, ESRB, has identified systemic risks related to the commercial real estate sector through recommendations in both 2022 and 2023.¹⁰ The ESRB points to structural systemic risks related to the commercial real estate sector (high degree of heterogeneity and non-transparent property pricing) and its importance to the economy. In addition to the ESRB, the International Monetary Fund, IMF, has also highlighted systemic risks related to the commercial real estate market and recommended that Denmark maintain its sector-specific systemic risk buffer.¹¹

2. Significance of other regulation

The impact of other capital requirements, as well as existing and new regulations, is included in the review of the buffer. The Council finds that none of the other requirements sufficiently address the systemic risks identified. It is therefore the Council's conclusion that a sector-specific systemic risk buffer is necessary.

Other capital requirements

Micro-prudential capital requirements, such as the individual pillar II requirements, cannot be used to address systemic risks:

- **Minimum capital requirement (8 per cent):** This is a pan-European minimum requirement that all institutions must fulfil in order to operate as a bank. The requirement is independent of the institution's portfolio composition.
- **Pillar II requirements:** The pillar II add-on addresses risks that are specific to the individual institution. The Pillar II add-on does thus not address systemic risks.

The existing macroprudential capital buffer requirements address other types of systemic risk:

- **Capital conservation buffer:** Should generally ensure that institutions are adequately capitalised. The buffer is not targeted at specific risks. The buffer rate is the same across all EU countries and thus independent of the institution's portfolio composition
- **SIFI buffer:** Should generally cover risks related to an institution's size and importance to the economy and financial sector. The size of the buffer is determined based on a number of indicators of the institutions' own systemic risk. Indicators specifically related to the commercial real estate market are not included in the base.
- **Countercyclical capital buffer:** The countercyclical capital buffer aims to address cyclical systemic risks. In the institutions' capital planning and capital target

¹⁰ [Recommendation of the European Systemic Risk Board of 8 December 2023 amending Recommendation ESRB/2015/2 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures \(ESRB/2023/13\).](#)

¹¹ See IMF (2025), Article IV, Concluding Statement, [IMF Executive Board Concludes 2025 Article IV Consultation with Denmark](#).

setting, it is assumed that the buffer is released in times of severe stress. The approach to assessing the level of sector-specific systemic risk buffer takes into account capital provisions in accordance with the capital adequacy target (and thus also the countercyclical capital buffer).

Transition to the new Capital Requirements Regulation, CRR

The transition to the new Capital Requirements Regulation, CRR3, involves a number of adjustments to the calculation of risk weights and thus risk-weighted exposures. The Council has included considerations on the impact of the changes in CRR3 in its assessment.

The capital requirements package, which is the EU's implementation of the final part of Basel III, came into force at the beginning of 2025. The capital requirements package contains a number of changes:

- **Output floor.** The floor sets a limit on how low the risk-weighted exposures can be when the institutions estimate the risk exposure amount when using the internal ratings-based approach, compared to the estimate according to the standardised approach. The floor requirement will be implemented gradually in the period up to 2033 and is not expected to take effect for individual Danish institutions until 2033 when the various transitional arrangements expire.
- For **institutions using the internal ratings-based approach**, IRB, all risk weights are generally reduced by approximately 5.5 per cent.¹² For institutions using the *advanced* internal ratings-based approach (A-IRB), a minimum loss given default, LGD, of 10 per cent has been introduced, which in isolation can mean that the total risk-weighted exposures increase.¹³ Furthermore, exposures to large companies can no longer be calculated according to A-IRB. LGDs no longer need to be estimated; instead, they are replaced by using LGDs as specified in the CRR, which will generally result in higher risk-weighted exposures. The combined effect of the various changes can lead to an increase or decrease in institutions' risk weights.
- For **institutions using the standardised approach**, there are also changes in the risk weighting of exposures secured by mortgages on real estate, including against real estate companies. The impact of the changes will vary across institutions, depending on the institution's portfolio, the loan-to-value ratio of the loans and whether collateral has been pre-arranged. For loans to *real estate companies secured by residential property*, the transition to CRR3 has resulted in a significantly lower risk weight for the part of the exposure with a loan-to-value ratio below 55 per cent. By contrast, the risk weight is higher for the part of the loan with a loan-to-value ratio of between 55 and 80 per cent, which is particularly important for banks with post-financing. For loans to real estate companies secured by *commercial real estate (commercial rental)*, the transition to CRR3 has meant a higher risk weight for the part of the exposure with a loan-to-value ratio of up to 55 per cent and a largely unchanged risk weight for loan-to-value ratios above 55 per cent.

Stress test

Institutions use stress tests for their capital planning, and thus the add-on for solvency and the combined capital buffer requirements included in their capital adequacy targets. The aim is to ensure that institutions have planned with sufficient capital to avoid having to dip into capital buffers in the event of a severe economic downturn. Capital buffers can thus be used to cover a capital requirement in the event of unforeseen events. A general stress scenario may result in losses for institutions' property exposures.

The assessment of the sector-specific systemic risk buffer explicitly takes into account any capital provisions based on a stress test in the capital adequacy target. A general stress scenario may result in losses for institutions' property exposures. Capital reserved by virtue

¹² This is due to removing the multiplication factor of 1.06 in the risk formula.

¹³ This is included in the risk weight formula and in determining the expected loss.

of the capital adequacy target of 4 per cent of risk-weighted exposures to real estate companies is therefore offset against the potential impairment charges and losses estimated based on the sensitivity analyses. This ensures that there is no overlap between the risks covered by the sector-specific buffer and the risks covered by the capital adequacy target.

Guidelines on lending to rental properties and real estate projects

The guidelines on lending to rental properties and real estate projects clarifies existing provisions in the Executive Order on Management and Control of Banks, etc. to ensure sound credit standards when granting credit to individual customers. It contains several requirements for real estate companies' liquidity and solvency, including down payments. The guide provides guidelines for the appropriate financing of rental properties, including loan-to-value ratios, customer solvency, and further guidelines on the positive liquidity requirement for property financing.

The positive liquidity requirement means, for example, that the financed property must generate positive liquidity at the time of the loan authorisation, assuming traditional fixed interest rates and repayment of the loan.

Overall, the guide helps to reduce risky lending, especially in situations when the required return is very low. For example, the positive liquidity requirement affects the loan-to-value ratio that a company can achieve when taking out a loan. With mortgage financing, the customer must be able to cover the costs of a 30-year fixed-rate loan with instalments from the property's current profits. This means that the customer is generally only allowed to take out a smaller loan in relation to the value of the property than would be the case with, for example, a variable rate loan or a variable rate loan without instalments.

The rules in the guide primarily reduce the risk of new lending. However, the macroeconomic environment and customer finances can deteriorate in a negative direction after the loan is authorised.

Furthermore, the guide is microprudential and therefore insufficient to address the systemic risks identified in commercial real estate. It does not, therefore, take into account contagion effects and self-reinforcing effects, among other things.

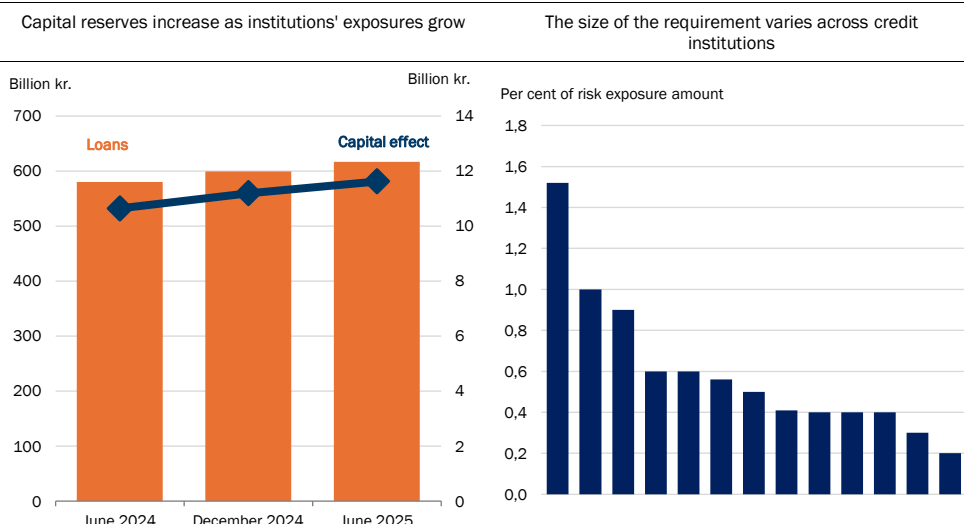
3. Economic effects of activating the sector-specific systemic risk buffer

As part of the evaluation, the Council assessed the effects of the measure on institutions' capital reserves, real estate companies' financing costs, credit development and the institutions' overall lending capacity. In summary, the Council finds that:

- Capital reserves increase as exposures grow.
- Capital requirements have a minimal impact on the financing costs of real estate companies.
- Higher capital requirements have had a limited effect on loan demand.
- Institutions have a good capacity to grant new loans despite increasing capital requirements.

Capital provisions have increased as exposures have grown

The sector-specific systemic risk buffer is a targeted instrument, as it can be applied to the exposures that are the source of the identified systemic risks. Institutions with higher exposures to real estate companies will thus have a higher nominal requirement compared to institutions with fewer or no exposures to real estate companies. As the institutions' total exposures have grown, so have the capital provisions, see chart 9, left. The size of the requirement will also vary depending on the size of the institutions' exposures to real estate companies, see chart 9, right.



Note: Left: The chart illustrates the development of capital provisions made by institutions due to the sector-specific systemic risk buffer, based on the institutions' reporting. Right: The chart shows the systemic credit institutions and the largest non-systemic banks.

Source: The Danish Financial Supervisory Authority and own calculations.

Increase in capital requirements and effect on prices charged by the institutions

In its review of the sector-specific systemic risk buffer, the Council considered the impact of activating the sector-specific systemic risk buffer on lending margins charged by the institutions. Credit institutions expect to earn a higher return on net capital than on debt capital. A higher capital requirement will therefore lead to credit institutions wanting to increase their prices on covered loans to maintain the return on net capital associated with these loans. However, the higher capital requirement also makes credit institutions less risky, which will counteract the need to raise prices.

The following section examines the impact of activating the sector-specific systemic risk buffer on mortgage loan administration margins. Mortgage lending accounts for 90 per cent of the exposures.¹⁴ Administration margins for corporates are typically negotiated individually when a loan is taken out. In many cases, there would also be an annual renegotiation of the administration margins. For loans to corporates, there are very few regulatory restrictions on raising administration margins on an ongoing basis. Typically, loan terms require that changes be notified at least one month in advance of their effective date. There can therefore be a price effect on new and existing loans.

Since mid-2023, the average administration margin for all mortgage lending covered by the buffer has increased on average by 7 basis points to 84 basis points. In total, 46 per cent of mortgage lending covered by the buffer have had their administration margins adjusted, see chart 10. The average increase in the contribution rate was 13 basis points in Q2 2025 for loans with a new administration margins. In comparison, 15 per cent of loans to other businesses have had their administration margins adjusted since mid-2023, with an average increase of 17 basis points. In the same period, short-term interest rates have fallen by 180 basis points. The most vulnerable companies among real estate and other companies (with a high probability of default) have seen the most significant increases. Overall, there is no indication that there has been a significant difference in the increases in administration margins for mortgage loans covered by the buffer and those for other businesses.

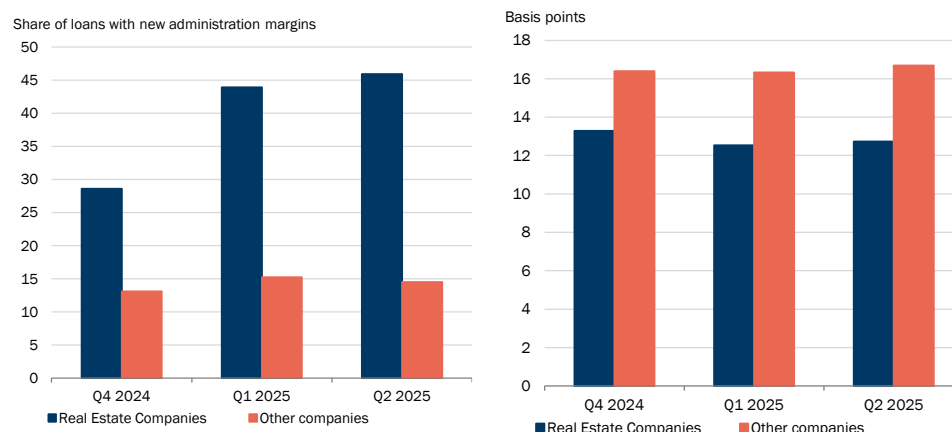
¹⁴ Contribution rates are also observable, and their effect is simpler to identify than the interest margin on bank loans, which is composed of several factors.

Change in administration margins for loans with new administration margins

Chart 10

Cumulative proportion of loans with new administration margins since mid 2023

Average change in the administration margin for loans with new administration margins since mid-2023



Note: Loans to other businesses are mortgage loans to businesses, excluding loans to the "Real estate", "Agriculture", "Energy plants", "Water supply" and "Waste management" sectors. The SDRC published its recommendation on the systemic risk buffer in autumn 2023, and the Minister decided to introduce the buffer in April 2024. The assessment of the buffer's effect is based on changes in administration margins compared to the rates in mid-2023.

Source: Danmarks Nationalbank and own calculations.

Limited effect of buffer on loan demand from real estate companies

There are two sources of loan demand for commercial real estate: financing the existing property stock and financing new construction. Lending to real estate companies (property trading and new construction) grew in both 2023 and 2024.

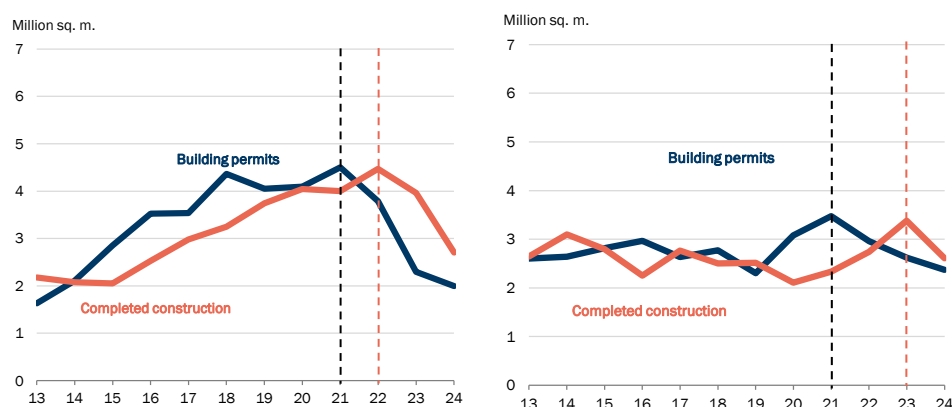
Loan demand related to the existing property stock occurs in connection with building improvements and by mortgaging increases in property value, either through additional mortgages or in connection with sales. Commercial real estate trading was at a lower level in 2023 and 2024 than in previous years. The subdued price development that began before the introduction of the sector-specific systemic risk buffer should be seen in the light of interest rate increases and uncertainty about economic developments.

Development in building permits and new construction

Chart 11

Development in residential construction

Development in commercial construction



Note: Residential buildings are defined as buildings used primarily for year-round habitation. Commercial buildings are the remaining building stock minus buildings mainly used for cultural and leisure purposes and small buildings (carports, outbuildings, etc.). The lines indicate the peak point of the different time series. Annual frequency. Latest observation: 2024.

Source: Statistics Denmark.

Both improvement projects and new builds have a long planning horizon, and their scale had started to decrease before the introduction of the buffer in 2024, see chart 11. It

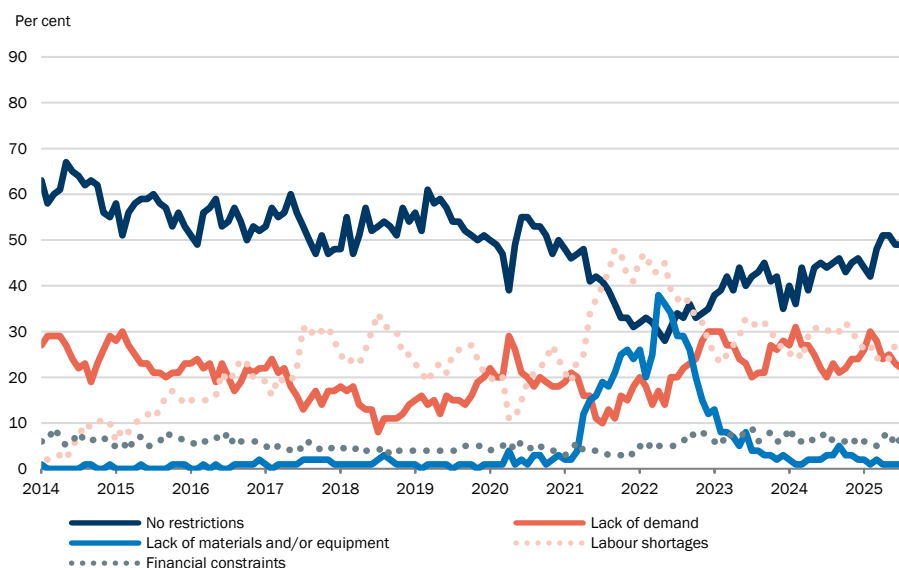
cannot, therefore, be concluded that the introduction of the sector-specific systemic risk buffer has had a significant effect on loan demand one year after the buffer came into effect. The increase in financing costs due to the buffer is also very limited, see above.

According to Statistics Denmark's business tendency survey, only a small proportion of companies report financial limitations in output in the "Construction and civil engineering" industry, see chart 12. This proportion is at the same level as in the latter part of 2022, when interest rates started to rise.

The Council therefore believes overall that the introduction of the sector-specific systemic risk buffer has not significantly affected property financing to creditworthy customers.

Construction companies do not find there are financial constraints

Chart 12



Note: Production limitations in construction by industry (DB07), type and time. Monthly frequency. Latest observation: August 2025.
Source: Statistics Denmark.

Credit institutions have room to meet loan demand

Loan supply is not deemed to have been limited by the sector-specific systemic risk buffer. The largest Danish banks have excess capital adequacy relative to their capital adequacy targets exceeds kr. 40 billion, which is estimated to correspond to a lending capacity of above kr. 600 billion. This is approximately the same level as the sector's total current exposure to real estate companies.

4. Level of the buffer rate and identification of relevant exposures

The Council has reviewed the level of the buffer rate and the relevant exposures based on its analytical approach described in *Considerations when setting a sector-specific systemic risk buffer for commercial real estate companies* (The Systemic Risk Council (2023)). The Council finds that developments in some of the cyclical conditions since the original recommendation in October 2023, particularly the level of interest rates, may justify easing the current requirement.

The buffer is not set mechanically, partly due to the uncertainty of measuring systemic risks. The Council's recommendations on the buffer are based on an assessment that incorporates various analyses, several sensitivity analyses, and other relevant information. The measure presented in the Council recommendation is a discretionary decision based on a holistic assessment.

During the review of the buffer, the sector noted that any losses incurred on loans to real estate companies are covered in the institutions' stress tests. Institutions use stress tests in

their capital planning and set their capital adequacy targets based on, among other things, losses in a severe recession.

The stress tests and sensitivity analyses included in the Council's assessment are two distinct tools with different purposes, designed to address different types of risks and employ different methodologies. However, a severe recession can cause losses on loans to real estate companies. Capital reserved based on a stress test is therefore out of precaution offset in the assessment of the sector-specific systemic risk buffer. This avoids the same risks being capitalised twice.

The sensitivity analyses are updated with the latest data from the real estate companies' financial statements and information about their loans with Danish credit institutions. In its evaluation, the Council also took into account the sector's input and updated the analysis on the level and limit of the buffer. The most significant adjustments include an adjusted definition of vulnerable companies and an adjusted degree of interest rate hedging. Based on the sector's input, the Council has also chosen to put more emphasis on the improved cyclical conditions in its assessment.

Basis for assessing the buffer rate

The purpose of the sensitivity analyses is to assess how much capital is needed for institutions to be able to bear losses and maintain lending to creditworthy customers if the identified systemic risks materialise.

Systemic risks involve self-reinforcing and contagion effects. Commercial real estate companies make up a significant part of the institutions' exposures and are particularly sensitive to economic fluctuations, have broadly similar business models and are highly interconnected with other sectors. Historically, the segment has caused significant losses and contagion effects to other parts of the economy.

Systemic risks in the commercial real estate market can materialise due to interest rate increases, falls in income, or property price decreases, or a combination of these factors. For example, a significant rise in interest rates can cause problems for some real estate companies leading them to sell off properties to raise cash. A rising supply of properties will lead to lower rent levels and falling property prices, which in turn can lead to more companies facing financial difficulties. This can create a self-reinforcing adverse effect when many companies act alike. Among other things, this can increase the risk and size of losses for individual institutions beyond what they take into account in their own risk assessments and capital reserves.

These types of effects are not included in the stress tests conducted by the institutions. A stress test does not account for the fact that an interest and income shock to real estate companies will lead to self-reinforcing income losses and property price declines, resulting in higher losses. Therefore, when systemic risks are present, additional capital is required to counter the higher losses resulting from the self-reinforcing and contagion effects.

To illustrate the effects of systemic risks, several sensitivity analyses are used, focusing on loans to the commercial real estate segment, where systemic risks have been identified. The choice and design of shocks reflect the possible interactions within the sector and between the sector and the real economy.

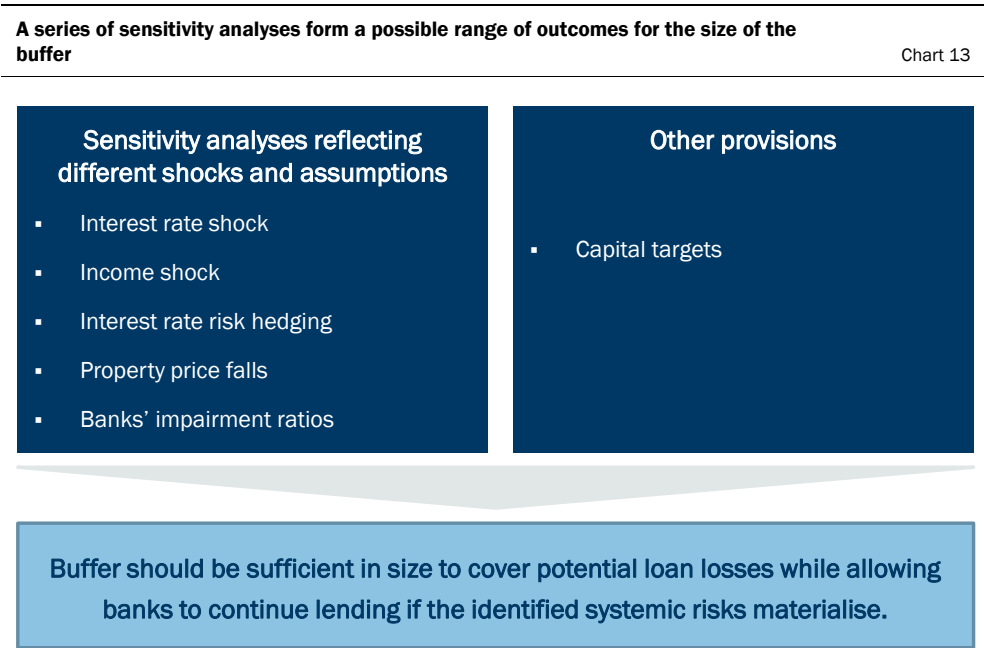
Systemic risks related to commercial real estate can materialise at the same time as an economic downturn, but can also happen independently. To avoid any overlap between the sector-specific systemic risk buffer and the capital reserved based on stress tests performed by the institutions, capital reserved in accordance with the capital adequacy target of 4 per cent of the risk-weighted exposures to real estate companies is offset against potential impairment charges and losses estimated based on sensitivity analyses. The same approach is followed for any impairment charges and management provisions, which are also offset.

The sector-specific systemic risk buffer, including the methodology, was approved by the European Commission in 2023 based on assessments by the European Systemic Risk Board, ESRB, and the European Banking Authority, EBA, which had thoroughly assessed the measure, the rationale for activating the buffer and the level and boundaries of the buffer. All three authorities found that the sector-specific systemic risk buffer was effective and proportionate to the identified risks, addressing them effectively without overlapping with other measures.

The purpose of sensitivity analyses

The purpose of sensitivity analyses is to examine the impact of changes in various factors on the debt servicing capacity of real estate companies and the potential impairment charges and losses of the institutions, see chart 13. That makes it possible to look at the effects of, for example, a change in the interest rate and a fall in real estate company income, which can be combined with different assumptions about how much real estate companies use interest rate hedging for their floating-rate loans.

It is also possible to assess the magnitude of the potential losses under different assumptions of falling commercial real estate prices if the identified systemic risks materialise. It should be noted that the various sensitivity analyses are not a forecast for the Danish economy. The various sensitivity analyses are intended to illustrate the impact of different shocks on the debt servicing capacity of real estate companies and the potential impairment charges and losses that may arise for the institutions.



Note: Illustrative chart.

Sensitivity analyses are based on detailed data from multiple sources

Sensitivity analyses are based on detailed data from several different sources. We use accounting data regarding real estate companies at company and consolidated level, data from the Credit Register on individual loans, special reports to the Danish Financial Supervisory Authority and the institutions' internal reporting.

Sensitivity analyses are used to assess systemic risks and the size of potential impairment charges and losses

The aim is to assess the magnitude of the institutions' potential impairment charges and losses under a range of different shocks and assumptions. They are based on sensitivity analyses of the resilience of real estate companies under different combinations of interest rate shocks, income shocks and interest rate hedging ratios. The various sensitivity

analyses give an impression of how large a proportion of the loan portfolio could potentially be at risk of default in the event of the various shocks.

Based on input from the sector, the assumptions of the analysis have been updated in a number of areas and the analysis has been expanded:

- **Definition of vulnerable companies.** In the October 2023 analysis, the definition of vulnerable companies was: 'companies that cannot cover the payments on their loans with current operating earnings after the various shocks', i.e. companies with a debt servicing ratio below 100 per cent. In this analysis, the definition is adjusted so that, in addition to their debt servicing capacity, the net capital ratio, i.e. their net capital in relation to the total balance sheet, is also considered. Analyses are conducted with different solvency ratios (including one below 20 per cent).¹⁵ Companies with low operating income can continue to service their debt for a period if they have sufficient net capital to draw on. All companies that fulfil both criteria are included in the analysis. This delimitation of vulnerable companies means that fewer companies are classified as vulnerable compared to previously.

The improved cyclical conditions, including lower interest rates, mean that there are fewer companies with a low debt servicing capacity (and a low solvency ratio) to begin with. However, the share of vulnerable companies remains high compared to the situation before the rate hikes.

Based on input from the sector, resilience analyses are also conducted for lower solvency ratios in combination with different levels of property price drops. The calculation is based on the consolidated financial statements of real estate companies. This calculation method takes into account any balances between individual companies within a group, such as guarantees or sureties, as well as subordinated loans.¹⁶

- **Shock to the interest rate level.** Sensitivity analyses are carried out with an increase in interest rates on real estate company loans of up to 2 percentage points. This is the same level of shocks as in the 2023 analysis.
- **Decline in the earnings of real estate companies.** Higher interest rates and weaker economic activity can have a negative impact on the finances of real estate companies due to more vacant properties and lower rental rates. Therefore, the impact of a drop in profits is estimated from 0 to 20 per cent, which is the same level as in the 2023 analysis.
- **Degree of hedging of interest rate risk.** Sensitivity analyses are performed for different degrees of interest rate hedging. The higher the level of interest rate hedging, the less a company's interest expenses will initially be affected by higher interest rates. The October 2023 analysis assumed a relatively high level of interest rate hedging among real estate companies. It was assumed that 75 per cent of all lending is not affected by interest rate changes, either because the loan had a fixed or variable interest rate that was fixed after the shock, or because the loan was hedged during the period when the shock occurred.

¹⁵ This level corresponds to the lowest level specified in the Danish Financial Supervisory Authority's guidelines on financing rental properties and property projects, allowing for a certain price drop before net capital is exhausted. However, it should be noted that only a small proportion of real estate companies' net capital can be used directly for debt servicing. Net capital can be used as collateral to obtain financing that, in turn, can be used to service the debt. In such a situation, an institution will likely charge higher prices (interest rates or fees), which can put further pressure on the real estate company's finances. Property price drops can also erode net capital.

¹⁶ If consolidated financial statements are not available, company-level financial statements are used. It is not possible to adjust for subordinated loans, for example. However, there are a number of other factors that are also not corrected for, which contribute to underestimating the level. For example, it is based on a group's total profits, while debt servicing costs are based on the group's real estate company loans from credit institutions. For example, interest payments on debt raised elsewhere than in Danish credit institutions, including subordinated loans, are therefore not taken into account. Similarly, interest expenses incurred by other parts of the group are not taken into account. Both factors contribute to the group's actual interest expenses being underestimated. The analysis does not account for the impact of any property price drops on the net capital ratio. Property price declines in a severe shock to commercial real estate can be expected to erode solvency. The shocks made in the sensitivity analyses affect the debt servicing capacity.

In the context of the evaluation, the Council has collected information from institutions on the level of interest rate hedging they apply. Against this background, a lower degree of interest rate hedging is assumed, corresponding to 50 per cent of all lending not being affected by interest rate changes. However, the adjustment has only a minor impact on the share of vulnerable companies after shocks when using a delineation with both debt servicing and solvency. This is because it is only the level of interest expenses, and thus debt servicing capacity, that is affected. The solvency of real estate companies is not affected.

- **Property price drops.** Based on the sensitivity analyses, the potential losses for the institutions are estimated for several different property price drops. Rising interest rates not only increase the risk of default, but also the risk of higher losses for the credit institution in the event of default. This is because interest rates and general economic activity affect the value of the properties that are pledged as collateral for the loans.
- **Impairment charges.** Based on the sensitivity analyses, the extent to which more companies and thus loans may be at risk of default if the shocks materialise is identified. Impairment charges on loans to vulnerable real estate companies that may be at risk of default due to the various shocks are taken into account in the sensitivity analysis.
- **The capital adequacy target.** To avoid the same risks being potentially capitalised twice, the buffer rate takes into account existing provisions based on a stress test, as per the capital adequacy target, i.e., capital provisions beyond the solvency needs of institutions and combined capital buffer requirements. Institutions use stress tests to organise their capital planning, and thus the add-on for solvency and the combined capital buffer requirements included in their capital adequacy targets. A general stress scenario may result in losses for institutions' property exposures. Capital reserved by virtue of the capital adequacy target of 4 per cent of risk-weighted exposures to real estate companies are therefore offset. By taking the capital adequacy target into account, the countercyclical capital buffer is also taken into account, as it is released in stress and thus included in the capital adequacy target.

Different interest rate and income shocks give rise to different outcomes for the potential impairment charges and losses of institutions

Overall, the various sensitivity analyses, based on different combinations of interest rate shocks, income shocks, interest rate hedging and price declines, form a possible range of possible outcomes for the size of the institutions' potential impairment charges and losses in the event of a shock to commercial real estate. These can be translated into different buffer rates.

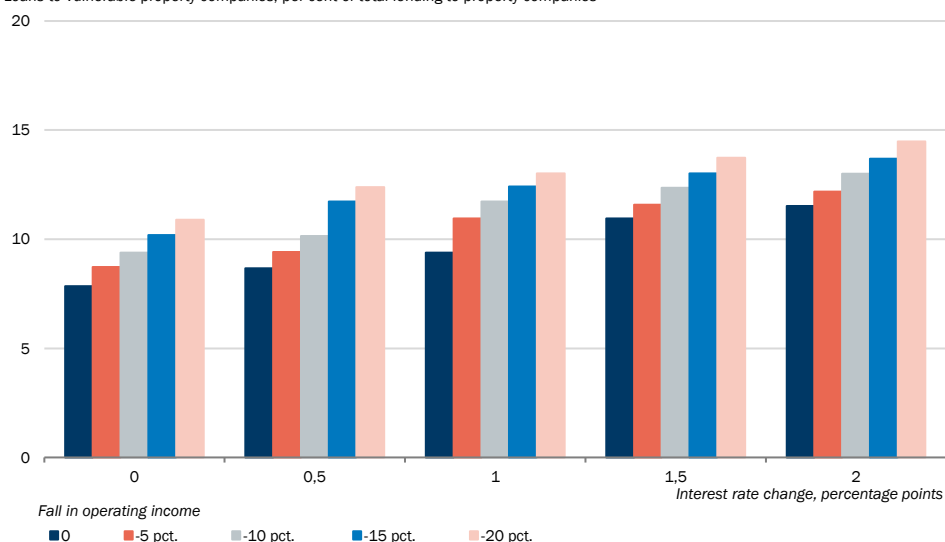
The various sensitivity analyses give an impression of how large a proportion of the loan portfolio could potentially be at risk of default in the event of the various shocks. The analysis covers all companies that do not have sufficient revenue to meet their financial obligations at different solvency ratios (e.g. below 20 per cent). This approach is chosen as the institutions have significant exposures to companies with low debt servicing capacity and solvency *before* the shocks, while impairment charges are at a low level. Therefore, increased impairment charges can be expected on existing loans to vulnerable companies and on loans to companies that become vulnerable (have a debt service burden ratio of <100 and, e.g. a net capital ratio of <20) *after* a shock.

There are several different combinations of interest rate increases, interest rate hedging, revenue decreases, and price decreases that fall within a loss range. For example, the loss from the combination of a 50 bp interest rate shock and a 20 per cent drop in income is in the range, as is a medium degree of interest rate hedging, a 2-percentage point interest rate shock, a 5 per cent drop in income and a medium price drop. Overall, this results in a range of outcomes for the buffer rate of between 5 per cent and 7 per cent (except exposures in the 0-15 per cent LTV range).

Different interest rate and income shocks lead to different outcomes
(Proportion of loans to real estate companies with low debt servicing capacity and low solvency after shock)

Chart 14

Loans to vulnerable property companies, per cent of total lending to property companies



Note: The analysis includes approximately 22,000 real estate companies, i.e. companies in the industries Buying and selling of property (681000), Other letting of dwellings (682030), Letting of commercial real estate (682040). Only the interest rate level for floating rate loans fixed in the period up to and including December 2027 is shocked. It does not take into account any property price decreases that could erode the value of net capital.

Source: Danmarks Nationalbank and own calculations.

Resilience analysis based on sector input

The industry has highlighted that the Council's approach does not account for potential losses that will materialise over time, when current profits can be used to cover them, and that a more dynamic approach should be taken. This is a relevant consideration and the Council has therefore included further resilience analyses in its assessment.

If profits are added to the model, the institutions' loss capacity becomes larger, all else being equal. However, with such a dynamic approach, other parts of the credit institution's balance sheets will also be affected in a severe stress scenario. The risk for the portfolio will increase, which will be reflected in higher risk weights and impairment charges. The positive effect from current profits is largely offset by the fact that problems in commercial real estate will lead to an increase in risk-weighted exposures on the entire portfolio for IRB institutions and an increase in impairment charges on the healthy portfolio over time, resulting in a higher capital requirement. Overall, the two effects will broadly offset each other, and the increasing risk weights will generally have a dominant effect on them. In the resilience analysis, a time horizon corresponding to the time horizon of the shocks given in the sensitivity analysis has been used (looking both two years and three years ahead).

Delimitation of exposures

In addition to the buffer rate, the boundaries of the sector-specific systemic risk buffer must also be evaluated. Based on the evaluation, the Council recommends the following adjustments to the delimitation:

- Exposures to companies in the sub-sectors "Real estate management", "Real estate agencies, holiday home rental, etc." and "Real estate agents", which are excluded from the measure.
- The institutions' IRB add-ons for calculating risk-weighted exposures are included in the basis for calculating the capital requirement.

Delimitation of exposures

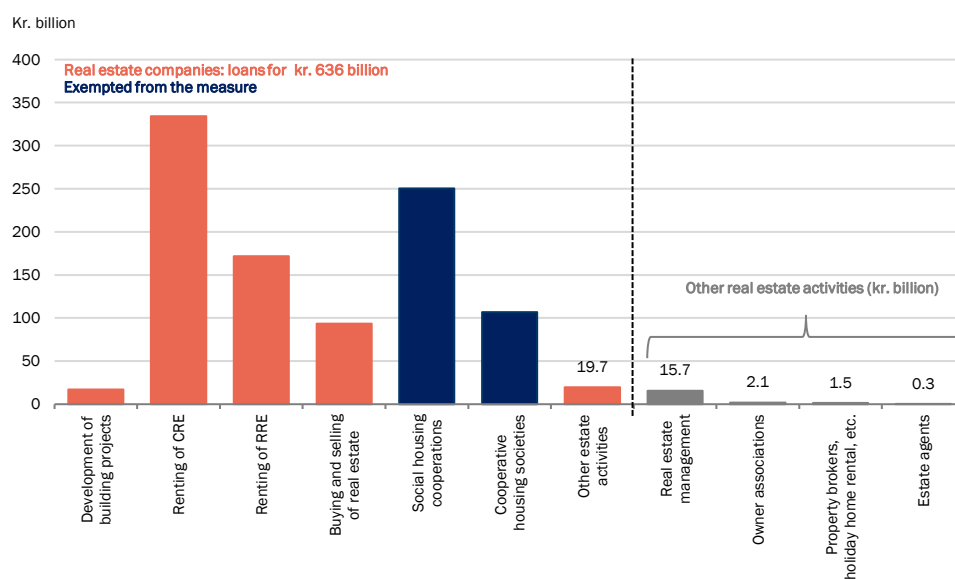
The current scope encompasses all companies in the "Real estate" industry, excluding non-profit housing associations and housing cooperatives. This also includes a variety of businesses, grouped under "Other real estate", see chart 15.

Some institutions have argued that owner associations should be exempt from the measure as they have the same business model as housing cooperatives and therefore do not contribute to systemic risk in the same way as companies in the "commercial real estate rental" sector. The same applies to companies in the sub-sectors "Real estate management", "Real estate agencies, holiday home rental, etc." and "Real estate agents".

Against this background, the Council considers that these companies can be exempted from the measure.

Commercial real estate exposures make up a large part of bank lending

Chart 15



Note: "Real estate companies" encompasses the "Real estate" sector, excluding non-profit housing associations and housing cooperatives, as well as "Execution of construction projects" in the "Construction" sector. Real estate companies are here identified solely based on economic activity codes. "Other real estate" includes, for example, owner associations, real estate agents, and housing agencies. Data for Q2 2025.

Source: Danmarks Nationalbank (Credit Register) and own calculations.

Model add-ons when calculating risk-weighted exposures

The sector-specific systemic risk buffer is calculated as a percentage of risk-weighted exposures. According to the current definition of the buffer, model-related add-ons in Pillar I and II are excluded from the calculation of risk-weighted exposures for institutions using internal models.¹⁷ As institutions adapt the IRB models, model-related add-ons will be included directly in the calculation of risk weights and thus the risk-weighted exposures. In addition, there are different ways IRB add-ons are handled.

The Council believes that model-related add-ons should be included in the calculation of risk-weighted exposures in the future when institutions determine the size of their requirements. This will lead to a more consistent treatment of risk-weighted exposures across institutions. It will also ensure that the effect of the buffer does not increase unintentionally as shortcomings in the models are corrected. This will align the calculation of the requirement

¹⁷Capital add-ons related to the institution's IRB model may be applied in cases where the model insufficiently addresses a risk area, e.g. by not meeting the EBA guidelines for IRB models. The additional capital requirement can either be realised as a Pillar I or Pillar II add-on. See e.g. EBA Guidelines on PD and LGD Estimation, and the Treatment of Defaulted Exposures (EBA/GL/2017/16), EBA Guidelines for the estimation of LGD appropriate for an economic downturn ('Downturn LGD estimation') (EBA/GL/2019/03), EBA Guidelines on Credit Risk Mitigation for institutions applying the IRB approach with own estimates of LGDs (EBA/GL/2020/05).

with the calculation of other risk-based capital requirements that include these add-ons. It also most accurately reflects the portfolio's risks, so higher risks and thus higher risk weights also result in a higher nominal capital requirement. Institutions allocate more capital for the same rate. A reduced rate can therefore cover the same capital requirement.

5. Dialogue with the sector

In connection with the evaluation of the sector-specific systemic risk buffer, the Secretariat of the Systemic Risk Council held dialogue meetings with individual systemic institutions and medium-sized banks between February and September 2025.

The purpose of the meetings was to hear the views of the institutions on risks in the market for real estate companies, their lending practices for such customers, and how the buffer has affected lending and capitalisation. Furthermore, the floor was open for institutions to share their views on the sector-specific systemic risk buffer. The Secretariat has also been in dialogue with Finance Denmark, the credit institutions' trade association.

The chair of the Systemic Risk Council and representatives of Danmarks Nationalbank and the Danish Financial Supervisory Authority in the Council have also met with FiDa's chairmanship. Several meetings have also been held at the technician level on specific topics, and the institutes have had the opportunity to contact us with relevant information.

The sector's input, observations and views have been presented to the Council and have fed into the Council's evaluation of the sector-specific systemic risk buffer.