

# Belgian housing market to see imminent price correction

Belgian house price growth came to a standstill in the second half of 2022. In 2023, the housing market will cool down further. We expect prices to fall by half a percentage point this year. A new ING survey also shows that energy is becoming increasingly important when purchasing a home. Half of Belgians would no longer buy a home with a poor energy score



## House price growth stalled in the second half of last year

The largest network of real estate agents, the ERA, last week published its latest price barometer which revealed that property prices increased by only 0.5% in the second half of last year. The index corrects for changes in the quality and location of homes sold and measures the price evolution of similar homes over time. The cooling is expected to continue in the coming months. Rising mortgage rates, in combination with high inflation and the energy crisis, will further slow down the housing market in 2023, according to our analysis.

## Half of Belgians would no longer buy a home with a poor energy label

A new ING survey on a representative panel shows that the energy label is becoming increasingly important when purchasing a home. Half of Belgians indicate that they would no longer buy an energy-intensive home. 36% would still purchase, provided there is enough budget left for an energy renovation. For the remaining 15%, the energy label is not a determining factor.

From 1 January 2023, new owners of energy-guzzling homes (with label E or F) in the northern part of Belgium, Flanders, will be obliged to thoroughly renovate their purchased home to at least energy label D within five years of purchase. In addition, high energy prices and sharply increased costs of energy renovations make energy-efficient homes more attractive. Renovation costs in Belgium have risen sharply due to the higher prices of building materials, but also sharply increased wages of construction workers due to automatic wage indexation.

## Energy-efficient homes 18% more expensive, but effect has not increased since the start of the energy crisis

There is a significant price difference between homes based on energy efficiency. According to research by ERA and the University of Antwerp, homes with the best energy label A are 18% more expensive than comparable homes with an average energy label D. However, the effect of a better EPC label on the sales price is in line with previous years and has not increased since the energy crisis.

## Affordability sharply deteriorated in 2022, but improvement expected

Since the start of the pandemic, Belgian house prices have risen by 18%. This growth, combined with rising mortgage rates, has seriously affected real estate purchasing power. In 2022 alone, purchasing power decreased by approximately 6% due to the rise in interest rates. This also takes into account automatic wage indexation. Due to higher interest rates and prices, the affordability of real estate has deteriorated considerably in recent years.

We expect affordability to improve again in 2023 thanks to below-inflation house price developments and stabilising mortgage rates. As a result, overvaluations will also decrease. ☒ We expect average inflation to fall from an average of 9.6% last year to 5.8%. If house prices fall by 0.5% according to our forecast, this equates to a drop in real prices of more than 6%. This reduces overvaluation and improves affordability.

## Demand for mortgage loans at lowest level since 2013

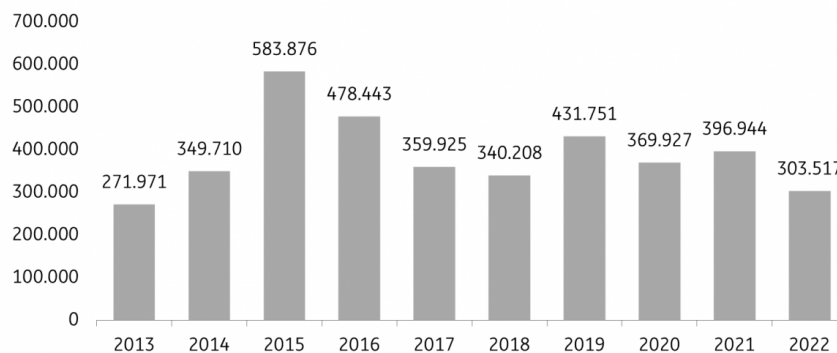
The number of new mortgage loans will fall sharply in 2022. In the first 11 months of the year, the number of new loans was 24% lower than in 2021. It may not be fair to compare this with recent years. 2020 and 2021 were exceptionally strong years due to the real estate boom during the pandemic. 2019 was also a good year due to the abolition of the housing bonus in Flanders. But also compared to 2018, the number of new loans in 2022 was 11% lower. We have to go back to 2013 to find an even weaker year.

The main reason is of course the sharp increase in mortgage interest rates. For example, market

interest rates have risen from 1.4% a year ago to 3.4% at the beginning of 2023 on a 20-year term. However, most of this increase is already behind us. Mortgage rates could still rise at the beginning of the year, but we expect them to stabilise around the current level later this year.

## Mortgage production at lowest level since 2013

The number of mortgage loans granted during the first 11 months of each year



Source: NBB

The number of mortgage loans granted during the first 11 months of each year

## Outlook for 2023: Slight price correction coming

We expect prices to fall somewhat in the first half of the year but to recover from the summer onwards. For the whole of 2023, we expect house prices to fall mildly by 0.5%. Moreover, the fall will be slightly larger for energy-hungry homes. We expect the price differential based on the EPC score to increase in 2023 for two reasons. On the one hand, higher energy prices and stricter regulations are increasing the popularity of energy-efficient living. On the other hand, it has also become much more expensive to renovate a house.