

Belgian housing market to see weaker demand and price correction

The Belgian housing market is cooling due to higher interest rates, with 45% fewer mortgages granted in January 2023 than in the same month last year. Prices are expected to correct by 0.5% this year and rise by only 1% next year, while the real price correction could reach 11% between 2022 and 2024



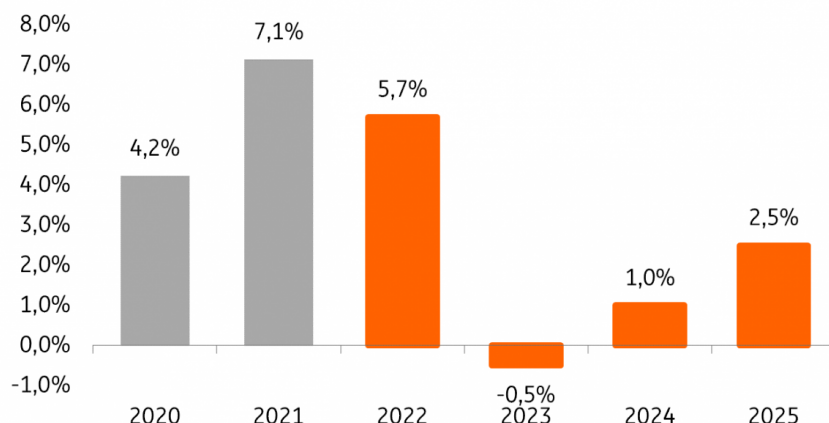
Real price correction may reach up to 11% between 2022 and 2024

Despite sharply higher interest rates and economic uncertainty, house prices have continued to rise sharply in 2022. Although official figures for the fourth quarter are yet to be released, growth is likely to be between 5% and 6% for all of 2022. However, this is largely due to a strong first half of the year. As we will only feel the full impact of higher interest rates this year, we forecast a slight 0.5% decline in house prices this year. The effect of higher interest rates will still be felt next year as well, making a strong rebound in 2024 unlikely. Therefore, we expect house prices to rise by only 1% in 2024.

It will probably take until 2025 for house prices to rise faster than inflation again. This is a rather

exceptional situation. Although there have been some years in the past when house prices did not rise as much as inflation, these were exceptions. We have to go back as far as the early 1980s to find a period when house price growth remained below inflation for three years in a row. In recent years, declining interest rates were one of the major drivers of the sharp rise in house prices, but this trend has reversed since early 2022, with interest rates rising. This does increase the real price correction further. So while we do not expect a large (nominal) price fall in the Belgian property market, the real price fall (adjusted for inflation) from 2022 to 2024 could reach around 11%.

Evolution of average house prices

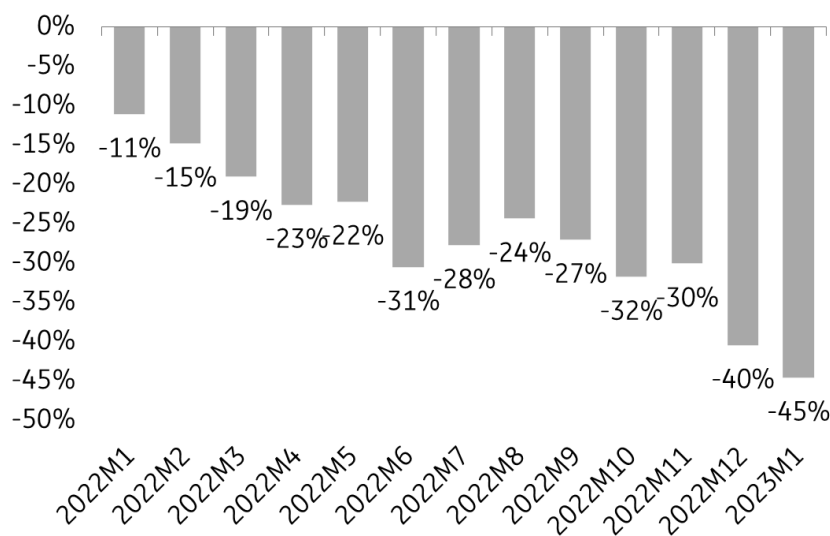


Source: Eurostat, ING forecasts

Mortgage production drops to lowest level in 17 years

Due to the sharp rise in mortgage rates, demand for credit has fallen sharply in recent months. The number of mortgages granted, after falling sharply in 2022, declined further in January. In January this year, 45% fewer mortgage loans were granted than in the same month last year. This figure is the weakest month in more than 17 years and demand for credit is currently even lower than during the 2009 financial crisis. Moreover, the European Central Bank's latest Bank Lending Survey, a quarterly survey of banks, shows that they expect a further weakening in demand for home loans in the first quarter of this year. The only bright spot in the survey is that the number of rejected home loans rose sharply in other eurozone countries, but not in Belgium. The automatic indexation of wages ensured that the purchasing power of Belgian households held up much better than in other countries.

Year-on-year change in number of mortgage loans granted

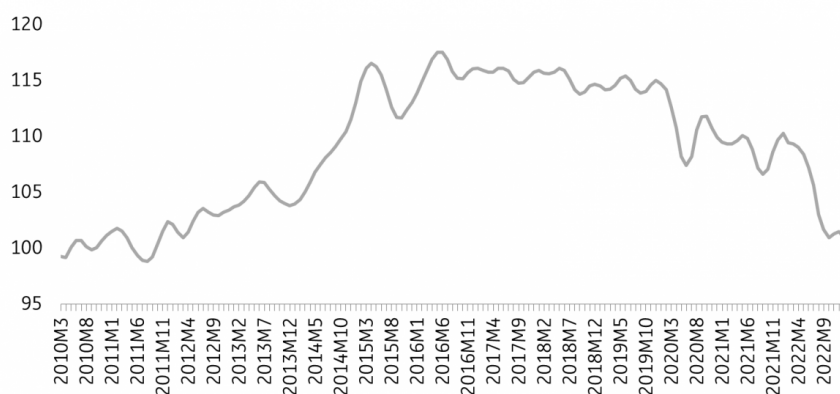


Source: NBB

Affordability at lowest level in 10 years

The sharp rise in mortgage interest rates last year, combined with the steep rise in house prices, has put strong pressure on property affordability. In January, our affordability index, which is based on both the repayment burden relative to income and the loan-to-value ratio, reached its lowest level in more than a decade. Affordability may deteriorate further in the coming months as interest rates rise (slightly) again, but we expect affordability to improve later in the year as interest rates stabilise.

ING's affordability index for Belgian real estate



Source: ING's own calculations

Mortgage rates possibly a little higher by summer

Mortgage rates have stabilised since the beginning of this year after rising sharply last year. In the first weeks of 2023, the 20-year fixed mortgage rate hovered between 3.2% and 3.4%. It could still go slightly higher in the coming months. A key reason for this is persistently high inflation, which means the European Central Bank is likely to raise interest rates further. Although lower gas prices

help slow inflation, core inflation, excluding food and energy, is still rising.

With the eurozone economy also proving very resilient, inflation will also cool off less quickly as companies can more easily implement new price increases. Several ECB board members have recently stressed their determination to keep raising interest rates and keep them high. Isabel Schnabel, an ECB executive board member, recently warned that financial markets underestimate the risk of persistently high inflation, indicating that the ECB plans to raise interest rates further in the coming months.

If the expected (though limited) rise in interest rates continues, affordability will deteriorate further this year. Although wages, which track inflation thanks to automatic wage indexation, are likely to rise more than house prices this year, this effect is expected to be offset by rising interest rates. Indeed, a jump in interest rates has a much greater effect on affordability than a rise in wages.

Supporting factors for the Belgian housing market

A sharp (nominal) price correction is quite unlikely in Belgium. Our real estate market is historically more stable than other European countries, partly due to the large proportion of private homeowners and the more cautious lending policy of Belgian banks. Moreover, purchasing power held up much better in Belgium last year than in neighbouring countries, thanks in part to the automatic indexation of wages.

Moreover, there are other factors that will support the Belgian real estate market this year. The supply of new homes on the market will slow down in the coming years, which, combined with a growing number of households, will lead to increasing scarcity and higher prices. According to the Planning Bureau's latest projections, the number of Belgian households will increase by nearly 200,000 between now and 2030, meaning that demand for additional housing will remain high. At the same time, growth in the supply of new housing is slowing down. In the first ten months of 2022, the number of licensed housing units fell 8.3% compared to the same period in 2021. During the pandemic, many projects were delayed because building materials could not be delivered on time. Last year, the sharp increase in mortgage interest rates and the higher cost of building materials caused the price of new construction projects to rise sharply, causing many projects to be postponed or cancelled. This increasing scarcity in the real estate market will put upward pressure on home prices in the coming years.

Another factor is the slightly improved economic outlook. The expected winter recession did not materialise, thanks in part to lower gas prices. As a result, consumer confidence has risen slightly from its recent low. Also, the ECB's latest February consumer expectations survey showed that Belgians still expect house prices to rise further next year. Compared to neighbouring countries, Belgians are a lot more optimistic, which will help the dynamics of the real estate market.