

Belgium: How economic crises impact house prices

The Covid-19 crisis clearly has a large impact on the real estate market. In order to judge the impact of the current crisis on house prices, we looked at the impact of previous crises on various market segments. Here, we focus on Belgium



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We studied the evolution of Belgian real estate prices during the 1993 crisis, in which the Belgian economy shrank by 1.0%, and during the 2009 crisis, in which the economy shrank by 2.0%. We examined how real estate prices evolved before, during and after these crises for the overall market and the different segments. All real estate prices quoted in this article are corrected for inflation.

First and foremost, we can conclude that in contrast to some other European countries, the 1993 and 2009 crises had only a minor impact on Belgian real estate prices. Price growth certainly slowed, but it soon started accelerating again the year after the economy contracted. Secondly, it appears that prices in the Brussels-Capital Region, the Flemish and Walloon cities and on the coast were more volatile. The negative impact of the crises was more keenly felt in these locations, but after the crises, prices recovered more quickly.

Finally, the data shows that more expensive real estate is more sensitive to economic cycles.

Impact of crises on Belgian real estate

In 1993, the real median price of Belgian real estate, so corrected for inflation, rose by 3.6%. This figure was significantly lower than the growth of 4.9% recorded the year before, but remained firmly positive. In 1994 (the year after the recession), there was an immediate acceleration in price growth: the real price of real estate rose by 5.6%.

The crisis of 2008-2009 had a more negative impact on the real price of real estate, mainly because the deceleration in growth was more marked than in 1993: economic growth fell from 3.7% in 2007 to 0.4% in 2008 and to -2% in 2009.

All in all, we can conclude that the immediate impact of the economic crises of 1993 and 2008-2009 on real Belgian real estate prices was mild.

Evolution of real GDP growth and the real median house price in Belgium during the 1993 and 2009 crisis years

1993 crisis			2009 crisis		
Year	Real GDP growth (%)	Real Belgian median price (%)	Year	Real GDP growth (%)	Real Belgian median price (%)
1991	1.80	1.10	2007	3.70	6.60
1992	1.50	4.90	2008	0.40	-0.50
1993	-1.00	3.60	2009	-2.00	1.10
1994	3.20	5.60	2010	2.90	2.50
1995	2.40	0.70	2011	1.70	-0.80

Source: Statbel, Refinitiv and ING calculations

Is the impact the same across all regions?

When we repeat this exercise for regional real estate prices, we can see that the crises had a comparable impact on real estate prices in Flanders and Wallonia. However, the impact on prices in the Brussels-Capital Region was much more negative in both 1993 and in 2008-2009. In 1993, for example, prices in Brussels fell by 2.9%, while prices in Flanders and Wallonia rose by 4.9% and 4.3%, respectively.

Is there a difference between price categories?

When we compare the price evolution of the 10th percentile against the 90th percentile, we find that cheaper homes hold their value better than more expensive homes. During the 1993 crisis, prices in the 10th percentile continued to grow by 5%, while growth in the 90th percentile fell from 5% in 1992 to 1% in 1993. A similar pattern is apparent during the 2008-2009 crisis: prices in the 10th percentile grew by 1% and 4%, respectively in 2008 and 2009, while growth in the 90th percentile fell by 3% and 7%, respectively.

Were prices on the coast and in the cities more resistant to the crises?

Our calculations show that the 1993 crisis had little impact on the real price of real estate on the coast. The 2008-2009 crisis had a more negative impact by the coast, however: while real estate prices here grew by 10.9% in 2007, they fell by 3.5% in 2008 before surging once again in 2009 and 2010. As such, while prices recovered relatively quickly, they are certainly more volatile.

The evolution of prices in cities was also more volatile, both during the 1993 crisis and the 2008-2009 crisis. Generally speaking, however, the negative impact was fairly minor, especially in view of the fact that prices recovered more strongly than the Belgian average afterwards.

Evolution of the real price of real estate on the coast and in Flemish and Walloon cities, compared to Belgium (%)

1993 crisis				2009 crisis			
Year	Belgium	Coast ^a	Cities ^b	Year	Belgium	Coast ^a	Cities ^b
1991	1.10	-2.90	3.40	2007	6.60	10.90	7.60
1992	4.90	2.30	5.90	2008	-0.50	-3.50	-0.90
1993	3.60	2.70	0.00	2009	1.10	1.20	2.30
1994	5.60	4.30	7.00	2010	2.50	4.50	2.90
1995	0.70	2.10	2.60	2011	-0.80	-1.10	0.80

^a Real estate prices on the coast have been calculated as a transaction-weighted average of median prices in the coastal municipalities. Prices for Bruges were not included in the analysis, as figures for Bruges are strongly impacted by properties in its urban core.

^b Real estate prices for the cities have been calculated as a transaction-weighted average of median prices in the cities in question. The following cities were included in the figures: Antwerp, Mechelen, Turnhout, Leuven, Bruges, Kortrijk, Ostend, Roeselare, Ghent, Hasselt, Sint-Truiden, Aalst, Charleroi, La Louvière, Liège, Namur, Mouscron, Mons, Torhout, Verviers and Arlon.

Sources: Statbel, Refinitiv and ING calculations

What conclusion can we reach as far as the current crisis is concerned?

As things stand, the negative impact on economic activity of the crises in 1993 and 2009 was much smaller than that of the current crisis. We are currently expecting the Belgian economy to shrink by 7.8% in 2020; almost four times as much as the contraction during the financial crisis of 2009. However, we also expect that the impact on income growth will be much less marked than the impact on GDP, which certainly matters to the stability of the real estate market. This is because the government has taken significant measures to support Belgian incomes.

Our research has shown that cheaper homes held their value better during previous crises. Is that something we will see again during the current crisis? Regrettably, it is difficult to come to a rock-solid conclusion on this point, as contrasting factors are at play. On the one hand, the shock to incomes during the Covid-19 crisis has not exactly been equal: during the lockdown, lower incomes were more badly affected. This may lead to upward price pressure on cheaper homes being lower than normal. On the other hand, investors might be able to generate upward price pressure. Less attractive returns on alternative investments are pushing a large number of investors towards the real estate market — shares remain volatile and are too risky for some people, while the interest rate on bonds is being kept low by the European Central Bank. This factor might result in upward pressure across the market, including in the cheaper segment.

As far as price evolution in the cities (including the Brussels-Capital Region) and on the coast is

concerned, we expect this to be less volatile compared to the previous crises. This is because investors — who have more of a presence in cities and on the coast, relatively speaking — are more active, which may well limit any negative impact on prices in cities and on the coast.