

## Eurozone house prices back at their peak, but pace of growth will slow in 2025

While the eurozone housing market should still benefit from the delayed impact of falling interest rates at the end of last year, the pace of recovery is likely to be hindered by a weakening labour market and minimal improvements in affordability



A 'For Sale' sign in France

### House prices rise again...

The European Central Bank's shift in interest rates during 2022 and 2023, from ultra-low levels to the highest since the start of the monetary union, also triggered a turnaround in the eurozone housing market. A bleak mix comprising a sharp rise in the cost of living, which wage growth couldn't offset, high house prices, and significantly increased financing costs led to a steep decline in demand. Consequently, home sellers had to lower their price expectations. According to Eurostat, house prices fell by 1.2% in 2023 after nearly a decade of annual increases. At the country level, the eurozone figure hides notable differences: Germany saw an 8.5% drop in prices, the Netherlands experienced a 1.9% decline, while prices in Belgium and Spain actually rose by 2.3% and 4%, respectively.

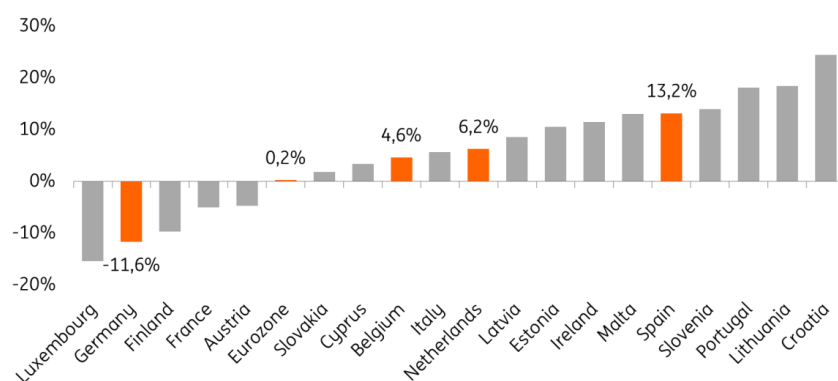
Expectations of an interest rate turnaround 2.0, which the ECB eventually engaged in last summer, turned the tables for the eurozone housing market. For mortgage rates, there has only been one

direction since the beginning of 2024: lower. At 3.72%, the eurozone interest rate on new mortgage loans to households reached its lowest level since spring 2023 in November. Furthermore, higher real wages and the fall in house prices helped to improve the affordability of purchasing a home. Accordingly, demand for housing loans started to pick up again. As ECB data shows, by November, new lending to households for house purchases was up by 4% YoY in 2024, yet some 30% below its 2022 and 2021 levels.

House prices rose as demand increased. After stagnating in the first quarter of 2024, eurozone house prices grew strongly by 1.9% quarter-on-quarter in the second quarter. Quarterly growth slowed slightly to 1.4% in the third quarter, but this was still sufficient to push house prices back to their 2022 highs. Beneath the surface, however, there are substantial differences between member states and property prices.

## House prices in 3Q24 vs their peak in 2Q/3Q22

(%)



Source: Eurostat; ING

In Germany, improved affordability and the corresponding increase in demand resulted in house price growth of 1.5% and 0.3% in 2Q and 3Q 2024 respectively. However, house prices were still almost 12% below their peak levels reached in the second quarter of 2022.

In Spain, on the other hand, house price growth has continued at an almost unabated pace in recent years. At the end of 3Q 2024, house prices were up by more than 13% compared to the same quarter two years ago.

The Belgian and Dutch housing markets quickly rebounded from the interest rate shock, too. Structural factors, such as the mismatch between supply and demand, outweighed the impact of high financing costs, leading to a recovery in house prices.

### ...yet the upswing looks set to slow

Looking ahead, the eurozone housing market upswing is likely to decelerate somewhat before gaining momentum again next year. In the fourth quarter of 2024, the housing market should still have been supported by relatively low interest rates and continued strong real wage growth. Since the end of December, however, eurozone bond yields have risen by more than 50bp and it is difficult to see how mortgage rates will not follow suit.

Furthermore, wage growth is likely to slow substantially. While wage growth accelerated again in the third quarter of 2024, the ECB's Wage Tracker suggests that eurozone wage growth is likely to have slowed in the final quarter of 2024. This slowdown is not only likely to continue, but to intensify as a result of the turning labour market. The affordability of purchasing a home, which is additionally negatively impacted by the fact that real incomes have not yet returned to their 2020 levels, is therefore unlikely to improve significantly throughout 2025.

Add to this subdued consumer confidence on the back of labour market fears and ongoing reports of business insolvencies and the prospect of a slowing recovery is almost certain.

## Structural factors and regulatory changes are a major topic for 2025

In addition to cyclical factors, structural issues will shape developments in the housing market too. One of these structural issues is the mismatch between supply and demand. In Spain, for example, supply is starting to catch up with demand, easing upward pressure on prices. In other eurozone countries, however, the mismatch between supply and demand is expected to intensify, exerting upward pressure on prices.

In the Netherlands, the construction sector, which faces various bottlenecks such as a lack of building land and lengthy permit procedures, is struggling to meet persistently high demand. In Germany, demand is recovering slowly, but given the increasing number of insolvencies, depleted order books and a lack of financing, residential construction activity is not expected to accelerate significantly in 2025. The situation is similar in Belgium, where demand remains the main limiting factor in the construction sector and finding skilled workers is becoming increasingly difficult.

Furthermore, existing and possibly new regulations will impact price developments in 2025. In the Netherlands, recently implemented government measures, including rental price regulation, have reduced the return on rental properties, making them less attractive. As a result, investors are increasingly selling off their property portfolio, slowing down price growth.

In Spain, the regulatory environment remains uncertain. Recent, not-yet-approved government proposals aim to stabilise house prices by increasing investment in public housing, altering the taxation of real estate companies, and raising taxes on non-EU residential investors. In Belgium, the relaxation of renovation obligations may lead to stronger price increases for energy-consuming homes. However, this effect will be tempered by eliminating reduced registration fees and additional incentives for homes with poor energy scores.

In Germany, political uncertainty will likely slow the housing market recovery somewhat. Yet, it remains to be seen what new opportunities and challenges the housing market will meet, particularly in terms of the green transition, following the federal elections in February.

Given all these different drivers, we expect eurozone house prices to rise by around 3% this year, still short of the growth rates seen between 2016 and 2022.

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