

Article | 8 December 2022

REAL ESTATE

Our 3 calls for eurozone real estate

Eurozone real estate is set for a correction on higher rates



New homes under construction in Rotterdam, the Netherlands

1 Expect a housing market correction in 2023

Eurozone housing markets saw dramatic price rises over the course of the pandemic, though there are major differences between countries. Overall, prices have increased by 20% since the fourth quarter of 2019. Interest rates have, of course, been rising rapidly. And this will be the main driver of housing market activity next year, and we have already started to see a peak in prices in some of the larger eurozone markets.

As this rate hike cycle from the European Central Bank is particularly aggressive, the housing market is likely to see a prolonged slowdown. However, long-term interest rates seem to have peaked earlier this year and as such, we do expect prices to stabilise at the end of next year.

2 Don't expect a freefall in prices

A number of mitigating factors will dampen the housing market decline and the drop in sales and prices is therefore expected to be limited. Firstly, we expect the unemployment rate to be only modestly affected by the recession this winter. That stabilises incomes and reduces the risk of forced sales. Secondly, in many countries, more people have moved to longer-term fixed-rate mortgage contracts, reducing the direct effect of interest rate swings on homeowners' mortgage costs. Lastly, many countries still face housing shortages to some

degree, which also has a moderating effect on the size of the correction. At the moment, we expect prices in the eurozone to correct by about 5-10% on average over the course of the year. This would still leave prices well above the pre-pandemic level.

3 Supply remains the bottleneck for green renovation in 2023

The green transformation in the housing market is in full swing at the moment. Regulatory drivers and government investment are pulling in that direction and now we see that high energy prices are adding to insulation drives from consumers as well. Demand for renovating homes is so large that fulfilling demand will prove challenging in 2023. Construction companies in the eurozone not only lack the material to fill orders, but there is also a structural labour shortage.

Looking ahead, we do not expect to see a significant easing in the situation next year. Despite the strong appetite and need to transform the housing market, the transition should be more dragged out than demand and investment plans would suggest. Because of impaired supply, we also expect differences in price developments between new and existing houses to occur, with new houses experiencing upward pressure on prices from higher building costs.

Author

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Franziska Biehl

Senior Economist, Germany

Franziska.Marie.Biehl@ing.de

Mirjam Bani

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

mirjam.bani@ing.com

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