

# European real estate: Housing expected to cool further

We expect house price growth will cool further in the eurozone in 2020

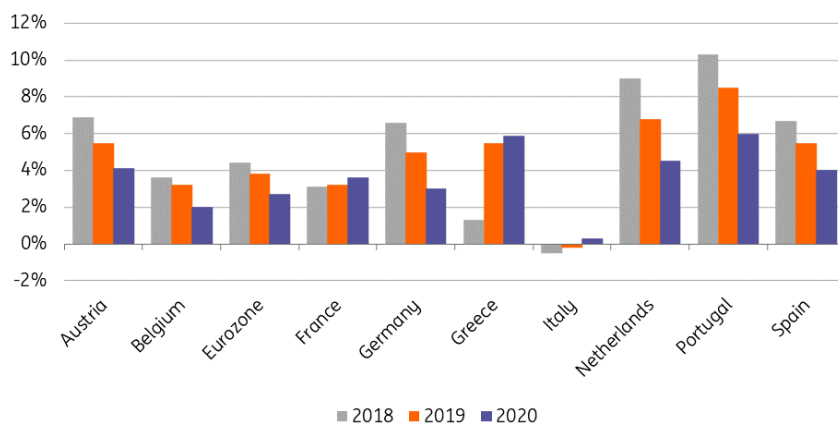


A renovated row of houses in Berlin

## General overview

House price growth slowed somewhat in most eurozone countries in 2019, but still remained strong. Overall, we expect that growth will cool further in 2020. Three countries, however, are the exception to the rule. In France, house price growth is expected to accelerate slightly, while in Italy we think it will continue to hover around 0%. In Greece, there was a clear turnaround in 2019 and we expect that the recovery will continue in 2020.

## ING house price growth forecasts



Source: ING forecasts

### Germany

The boom in the real estate market continues. At the national level, real estate prices have increased by some 5% this year. On the back of record-low interest rates, a strong labour market and relatively low home-ownership ratios, the demand for housing remains strong. This trend should continue in the coming years, albeit at a somewhat slower pace. We currently expect real estate prices to increase by 3% over the next two years. National data, however, masks strong divergences between rural and urban areas.

While prices in rural areas stagnate or even drop, limited supply of real estate has pushed prices in most urban areas to record highs. Affordability will come under pressure, particularly if the economic slowdown leaves its marks on the labour market. In this regards, recent developments in Berlin are remarkable. In October, the Berlin Senate passed the controversial rent cap (*Mietendecke*) bill, effectively meaning that rents will be frozen for the next five years. Rents will also be capped at 9.80 euros per square metre for basic rent. While such a law would benefit tenants, there is the risk that it will further delay investment and the construction of new buildings. Currently, this law has not been implemented as the federal government is opposing it, stating that such a rent cap is a matter for federal rather than state regulation.

### France

In France, the average mortgage rate reached an historic low of 1.1%, 30bp below its level of early 2019. The drop in interest rates is, therefore, slowing down, but rates are staying low, fuelling a household credit boom: credit growth for house purchases reached 6.5% on the year in the third quarter and shows no sign of abating. Consumer confidence took time to recover after the so-called “yellow vest” crisis at the beginning of the year, resulting in lower than expected market dynamics in 1H19.

However, transactions are growing again and this revived demand should continue to support prices in 2020 where we see house price growth accelerating to 3.6%, from 3.2% on average in 2019. However, one should note large disparities between rural areas and major cities where price growth is particularly dynamic (Lyon +11.5% or Paris +8.7% if some official sources are to be believed).

## Italy

Quasi-stagnation is well reflected in house price developments. Notwithstanding extremely soft 0.3% YoY GDP growth, in 3Q19 house transactions expanded at a 5% YoY pace, possibly helped by resilient employment. The moderate tightening in credit standards for mortgages reported over 2Q and Q3 by the BoI Bank Lending Survey has possibly contributed to cap housing credit growth at +1.5% YoY recently and might also partially explain the sharp fall in the share of purchases funded via mortgages recently reported by the BOI-Tecnoborsa survey. That survey also shows lengthened selling times and higher average discounts on sales, possible symptoms of short term softness delaying the return to positive house price growth to 2020.

## Spain

Spanish house price growth cooled down in the first half of 2019 and we expect that the cooling continued for the rest of the year. We forecast 5.5% growth in 2019, compared to 6.7% in 2018. As the labour market developments were less benign in 2019 compared to previous years, it most likely slowed demand. The activity on the housing market started to decline as there were 6.5% fewer transactions in 3Q 2019 compared to 3Q 2018. As we think the situation in the labour market will not improve soon, we believe house price growth is likely to slow further in 2020. We forecast 4% growth in 2020.

## Netherlands

In 2019 the average house price is expected to increase by +6.8%, a more “moderate” price increase compared to 2018 (+9.0%). Home sales remain more or less constant compared to the year before at 218-thousand. For 2020 we expect price increases will continue to decelerate to +4,5% and home sales to slightly decrease to 210-thousand. Although demand for houses will still outpace supply, 2020 might be the first year that the growth of the housing stock outpaces population growth. This will take away some of the upward price pressure and will lessen the price increases. Deteriorating affordability of homes (driven by continuing price increases) also further moderate price increases and has a negative effect on the number of transactions. Since the number of households is expected to grow so pushing push housing transactions up, we expect the number of transactions only to fall slightly.

Note: Estimates for 2019 are based on monthly data up to and including Q3 2019. The Dutch Land registry has not published Q4 results yet.

## Belgium

House price growth in Belgium does not seem to have slowed in the first half of 2019. Moreover, a change in fiscal rules in Flanders (abolition of the “woonbonus” in 2020, a system of tax deductions for people with a mortgage) drove a lot of people towards buying real estate and this temporarily pushed up activity and prices at the end of 2019. Overall, we expect residential house prices to grow by about 3.2% in 2019, after 3.6% in 2018.

At the beginning of 2020 the effect of the policy change in Flanders will reverse and we expect a fall in transactions and house price growth in the first half of 2020. This will be a drag for house price growth in 2020 as a whole. Another issue that will have a downward push on house price growth is the macroprudential measures concerning debt-service and loan-to-value ratios that will be introduced from 2020 onwards. According to the National Bank of Belgium house prices are

about 6.5% overvalued and it's concerned about increasing household debt induced by mortgages loans. All in all, we expect house prices to grow by about 2% in 2020.

## Portugal

House price growth in Portugal slowed in the first half of 2019 but remains very dynamic with growth around 10% year-on-year in the second quarter of 2019. It remains one of the eurozone countries where house prices continue to skyrocket. The residential housing market, however, did become less active as the number of transactions started to decline in the first half of 2019. The growth new-builds also declined. As we expect the economy as a whole, and in particular the labour market, to continue to weaken, we expect that house price growth will edge lower in the coming quarters. But the attraction of international investors, however, will keep price growth elevated. All in all, we expect house price growth to be around 8.5 % in 2019 and 6% in 2020, after a record-high of 10.3% in 2018.

## Austria

The rise in real estate prices is slowly weakening in Austria. Residential property prices increased by 5.2% year-on-year in the third quarter of 2019 compared to 7.3% the quarter before. Strong construction output counteracted excessive demand. Still, with ongoing high demand for housing and financing conditions remaining favourable, real estate prices will remain elevated. With continuously declining building permits – in the first half of 2019 the number of building permits decreased by 3% – there should be a gradual phase-out of construction activity. The increase in residential property prices is already expected to slow to 5.5% this year compared to 6.9% the year before. Overall, housing remains a supportive factor for the Austrian economy.

## Greece

The ongoing economic recovery, if unspectacular, is helping to fuel a housing market which was heavily battered during the crisis years. Consumer confidence, supported by solid employment growth, is now back at 2000 highs, creating a favourable environment for the real estate market. Initiatives like the residence plan for non-EU investors might also be helping, as is the reduction in the ENFIA taxation introduced early in August. The heavy load of NPLs still weighing on Greek banks and pushing them to continue deleveraging is the only notable negative. In perspective, the Greek government's plan to exempt house sales from VAT for the next three years should also help propel the current recovery in house prices also in 2020.

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