

## Belgians more open to buying homes in need of renovation

Rising interest rates and stricter regulations around energy efficiency have put strong pressure on the affordability of Belgian real estate. New survey results show that a change in mentality is underway in the country's real estate market: more people are open to buying a property in need of renovation



Homes with good energy performance scores are generally more expensive, notably in Flanders

### Affordability has improved, but it's still worse than before 2022

The recent rise in interest rates over the past couple of years, a steady growth in house prices and stricter regulations around energy efficiency are putting intense pressure on affordability in Belgium's property market. In early 2022, an average-income couple borrowing 90% of the price over a 25-year term had to set aside 29% of its net taxable income each month to repay the loan. By the end of last year, this had already risen to 36%. Deteriorating affordability is forcing many young people to stay in the rental market for longer. 64% of renters in our survey say they want to buy their own home but do not have sufficient equity.

The steady growth in house prices in Belgium is striking. Usually, there's a close link between the availability of loans and house prices; when people can borrow more from the bank, the demand for housing increases, thus driving up prices. Although borrowing capacity fell by 11% for well over

a year from the start of 2022, house prices continued to rise steadily. The longer average loan maturity is a key explanation for why we have not seen a correction in the Belgian property market: a 3-year extension of the average maturity almost completely offsets the negative impact of increased interest rates on borrowing capacity. So, extending the average maturity has played an important role, but this is obviously not a sustainable story.

## Weak growth in house prices expected in 2024

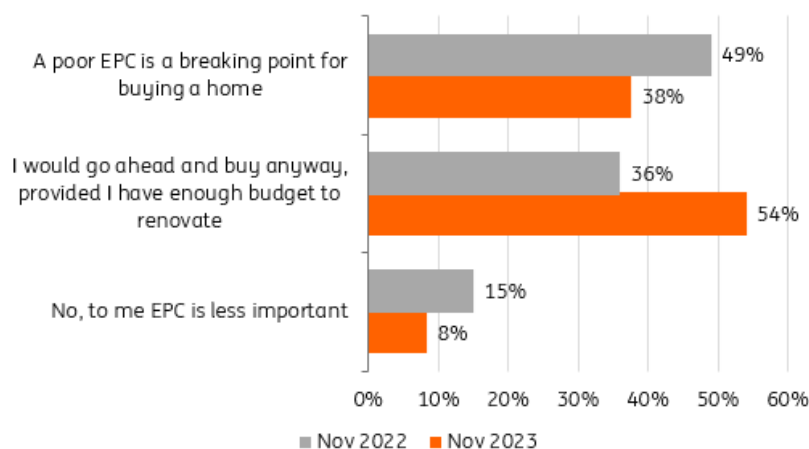
Although interest rates have fallen recently, we do not expect a strong recovery in 2024. Despite lower rates, affordability is still worse compared to pre-2022. We're not expecting mortgage rates to fall much further this year, either. Therefore, we expect modest house price growth of 1.5% for this year, which is a de facto decline in real terms, given that inflation is still likely to exceed 3%.

## Poor EPC score deters buyers less

A survey conducted in November by IPSOS on behalf of ING shows that a change in mentality is underway in the Belgian real estate market, with increasing numbers of people open to buying a home in need of renovation compared to a year ago. Due to the high prices of building materials and the time investment required for a thorough energy renovation, many families preferred a ready-to-build home. Thus, we got a sharp dichotomy in the property market, where there was still a lot of interest in move-in-ready homes while the market of energy-consuming properties had a much weaker dynamic.

Here, however, things are starting to change. More and more families are opening up to renovation housing. While a year ago, 49% of respondents said a poor Energy Performance Certificate (EPC) score was a breaking point when buying a house, only 38% do today. Many families are starting to broaden their horizons out of financial necessity. With rising interest rates, it is no longer feasible for some to buy another energy-efficient home. Moreover, the prices of houses with low EPC scores are currently under pressure, making them increasingly interesting financially.

## If you were buying a house, would you still buy a house with a poor EPC score?



Source: ING Consumer survey

## 86% of Belgians think climate targets for real estate are unachievable

According to the European Union's ambitious climate plans, every home in Belgium will have to have an EPC label A by 2050. Fewer than 5% of homes already meet this target today. An ING survey shows that almost 9 in 10 Belgians do not believe we will achieve these targets. The biggest stumbling block is the financial picture. 56% think the cost of an energy renovation will be too high for many homeowners.

## Energy efficiency has increasing influence on price

A home's energy efficiency is becoming increasingly decisive as far as price is concerned. Since the beginning of 2023, in Flanders, the largest region accounting for about 63% of the number of real estate transactions, a renovation obligation has been in place where buyers of a home with an EPC score of E or F are obliged to renovate it to at least label D within five years.

This is leading to a dichotomy in the real estate market, with energy-efficient homes rising in price much faster than energy-guzzling homes. The real estate barometer by ERA, the country's largest estate agent, showed last Friday that Flemish homes with a good EPC score (A or B) became 1.5% more expensive on average in 2023, while the average prices of homes with a poor EPC score (E or F) fell by 1.6%. This price difference based on energy efficiency is expected to widen in the coming years.