

## The eurozone housing market's 'G-Factor'

As the eurozone housing market slowly finds a new equilibrium, the 'G-Factor' is taking centre stage - the greenness of a home is here to stay as a key factor in price-setting



New built houses with solar panels on the roof of houses in the Netherlands collecting green energy from the sun

### The eurozone housing market continues to recover, but differences remain

The gradual recovery of the eurozone housing market, which started at the beginning of 2024, accelerated in the second quarter of this year and was mainly driven by the improved affordability of purchasing residential real estate. The eurozone interest rate on new mortgage loans to households came down at the beginning of the year on the back of expectations of an aggressive interest rate cutting cycle by the European Central Bank. From March onwards, it has remained stable at around 3.7%, some 30 basis points below the end-2023 level. In addition, wages continued to rise in the second quarter, by 3.6% year-on-year, from 4.7% YoY in the first quarter. As headline inflation continued to come down during the same period, real wage growth remained solid, gradually restoring consumers' purchasing power. As a result, new lending to households for house purchase was up by 14% quarter-on-quarter in the second quarter of 2024.

The eurozone numbers mask important differences across countries. In some parts of the eurozone, such as in the Netherlands and Belgium, the housing market began to rebound last year. In the second quarter of 2024, the rebound in the Netherlands continued, with house prices

increasing by 2.9% QoQ. In Belgium, however, the rebound came to a halt, with house prices falling by 0.2% QoQ in the same quarter. In the eurozone's largest economy, Germany, the tentative recovery of the housing market that had started at the beginning of the year was ultimately reflected in rising house prices in the second quarter of this year. Improved affordability and the resulting increase in demand for residential real estate led to a rise in German house prices by 1.3% QoQ in the second quarter of this year. This marks the first quarterly rise in house prices in Germany since the ECB started to hike interest rates back in 2022.

However, there are more than just regional differences. As the eurozone housing market slowly finds a new equilibrium, things are getting a lot more interesting beneath the surface of the headline figures. The G-Factor", the degree of greenness of a property, continues to play a decisive role in price-setting and looks set to continue to do so in the future.

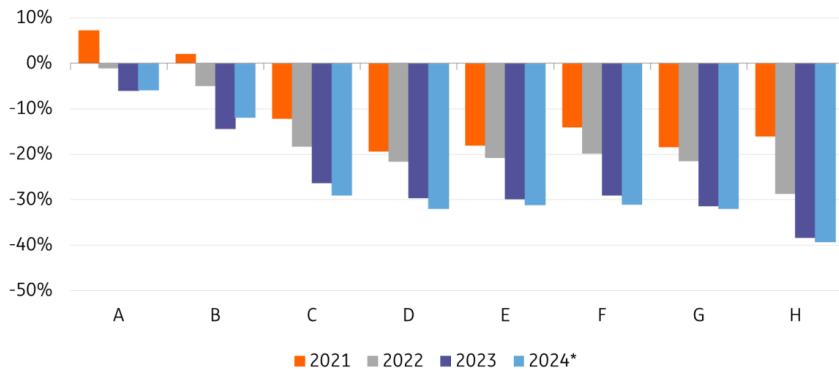
## Added value for energy-efficient homes has increased significantly

The building sector is responsible for some 35% of all energy-related greenhouse gas emissions. Accordingly, the green transition of the housing market plays a crucial role in the green transition of the economy as a whole. The European Commission's revised Energy Performance of Buildings Directive (EPBD) passed in Brussels in April will be translated into national law by the member states within two years. The aim of the directive is to increase the renovation rate of properties, especially energy-inefficient ones. However, it is not yet clear how the national plans for the green transition of the housing market will look in detail. Since many EU member states are likely to adopt tighter fiscal policies in the coming years, uncertainty regarding any potential support for the greening of the housing market is growing. The high level of uncertainty surrounding the green transition of the housing market is also reflected in house prices as the price difference between the most and the least energy-efficient homes has widened considerably recently. The G-Factor" has a price, and it's quite significant.

In Germany, where the scale for measuring the energy efficiency of a home ranges from A+ to H, the price of an energy-inefficient residential property was 16% lower than its highly energy-efficient counterpart back in 2021. In September 2024, the price gap had widened to around 40%. Compared to energy-efficient homes, energy-inefficient properties have become increasingly unattractive over the past three years.

## Deviation in residential property costs per energy efficiency class from energy efficiency class A+ in Germany

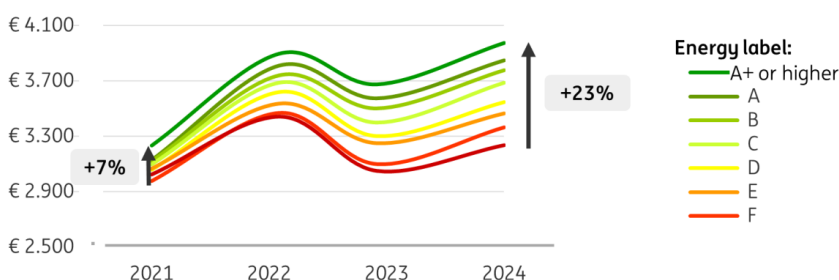
(in %)



Source: ING; \*as of September 2024

The trend towards green living is not only evident in Germany, but also in other parts of the eurozone. In the Netherlands, the added value for energy-efficient homes has increased significantly in recent years. In the first quarter of 2024, the added value of an existing home with an energy label A+ or higher was estimated to be 23% higher compared to a similar home with a G label, according to recent research by Brainbay. This added value is substantially greater than three years ago. In the first quarter of 2021, a home with an A+ label or higher was estimated to be worth 7% more than a similar home with a G label.

## Home value per square meter by energy label, corrected for other home characteristics that also impact the value in the Netherlands

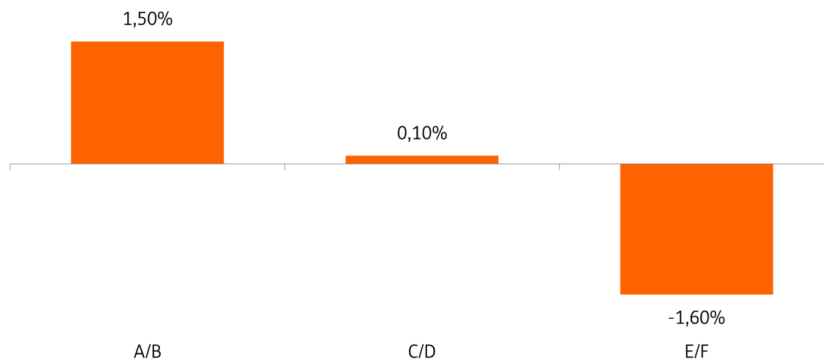


Source: Brainbay/NVM

In Belgium, measurements of the energy efficiency of a property and any obligations to improve it are decided at the regional level. This results in different regulations. Flanders is the region that has so far imposed the strictest rules, including an obligation to renovate the most energy-inefficient

properties. As a result, studies carried out in Flanders show that the price gap between energy-inefficient and energy-efficient housing widened further in 2023 in Flanders.

## Average house price growth in 2023 in Flanders, broken down by EPC score



Source: ERA

The obligation to renovate has a clear impact on demand and therefore on prices. While the prices of energy-inefficient homes have fallen, the prices of the most energy-efficient homes have continued to rise. Furthermore, an analysis coordinated by ING shows that buyers who purchase a home for renovation at current market prices and renovate it to make it fully energy-efficient will make a better financial deal in the long term than buyers who opt for a home that is already energy-efficient and therefore more expensive to buy. However, the gains vary depending on the type of property and its initial energy efficiency, with the greatest savings being made on the most energy-inefficient properties at the outset.

## Energy efficiency is here to stay as a price setter

The fact that the added value for energy-efficient homes has increased significantly over the past years suggests that buyers might be willing to pay a larger premium for an energy-efficient home compared to a few years ago. Uncertainty regarding renovation costs of less energy-efficient homes clearly also plays an important role.

On the one hand, this could be due to the fact that the rise in energy prices has increased households' preference for an energy-efficient home. Despite the recent decline, energy prices are significantly higher than they were three years ago. On the other hand, however, the increasing political pressure to renovate energy-inefficient homes is also a significant factor. A shortage of skilled workers and higher material prices are driving up the cost of renovating an energy-inefficient property and initial purchase price reductions for energy-inefficient homes will not necessarily be able to compensate for these high costs.

As the gradual recovery of the eurozone real estate market continues and the cyclical problems that the market is facing become less pronounced, there will be an even greater focus on structural challenges. The "G-Factor", the degree of greenness of a home, will continue to be one of the key price drivers in the years ahead.

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