



aviv group —

AVIV Housing market report

Q4 2022

GRUPE **SeLoger**

 **Meilleurs
Agents**

IMMOWEB

immowelt

Housing market report

01

2022

Overview p3

a. Economic outlook p3

b. A new era of
housing credit p5

c. Housing markets
in 2022 p7

02

What should we expect for 2023 p7

a. Economic
perspective p14

b. Will housing
markets collapse in
2023? p15

01 2022 Overview

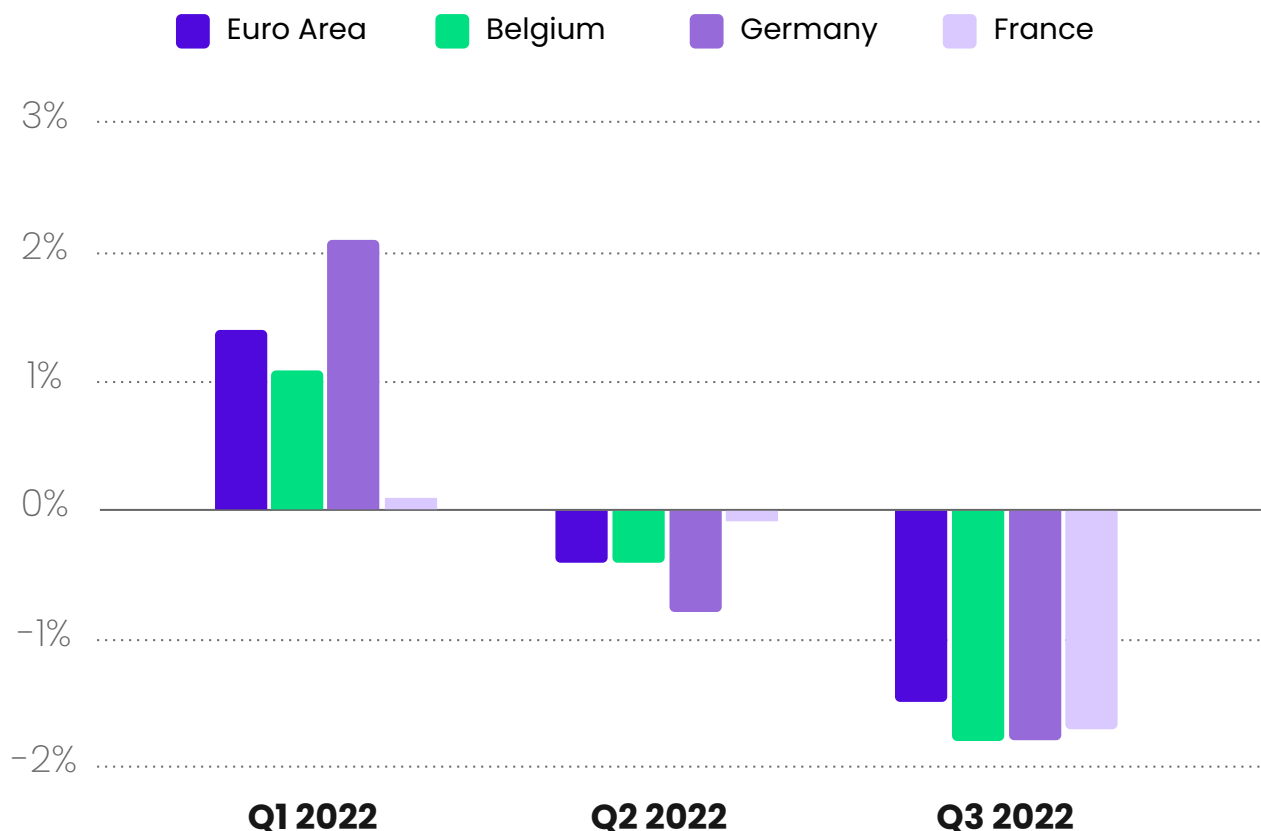
A. Economic outlook

The Euro Area economic situation has deteriorated during 2022. Ever since the post-COVID reopening of the economy, growth has been remarkably high (due to governments support measures and expansionary monetary policy)

Starting in Q1 2022, **economic growth has been stalling globally.** In the third quarter of 2022, European institutions report a particularly sharp downturn of real GDP growth

Quarterly GDP growth difference

(pp) vs same quarter in 2021



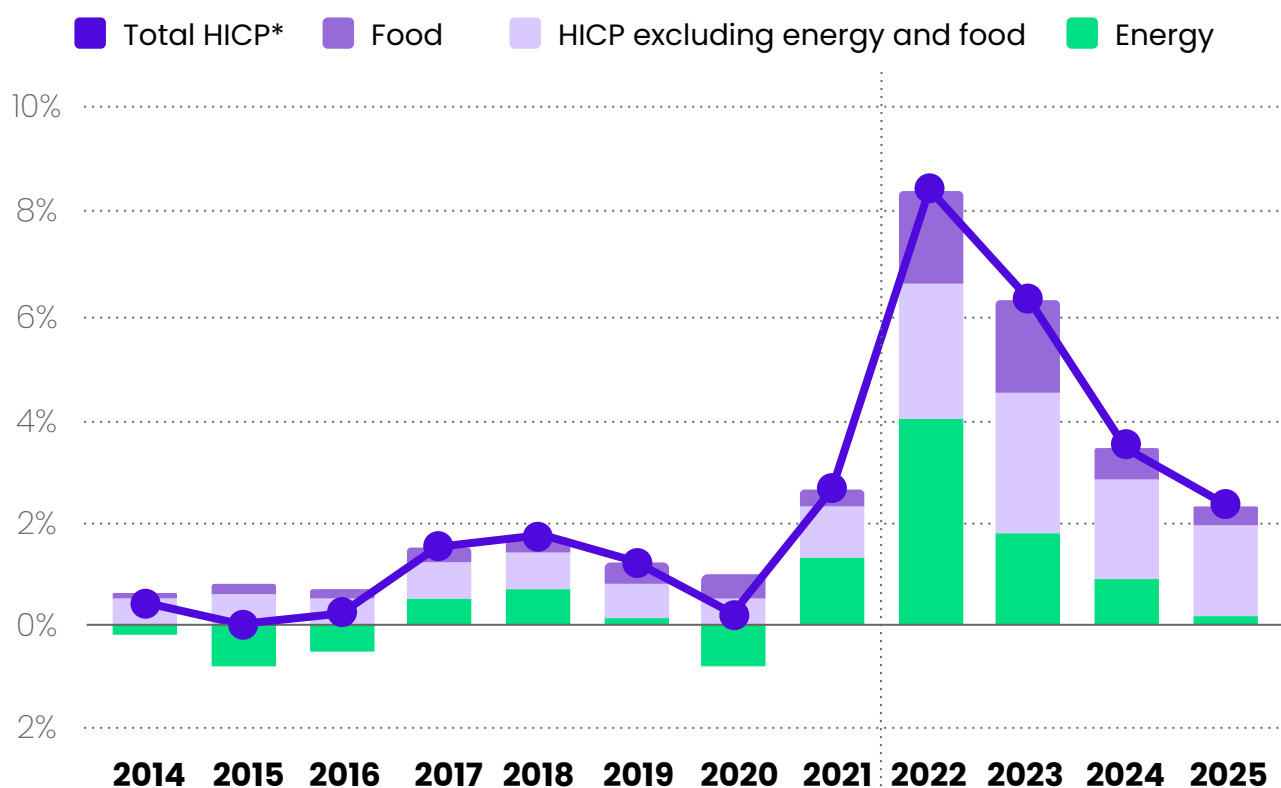
The ongoing energy crisis, higher-than-expected inflation, tighter financing conditions, and market uncertainty explain the global slowdown in economic activity.

While prices have appreciated since 2021, inflation has especially become an issue in 2022 for all advanced economies. In 2022, the ECB expects inflation to reach 8.4% on average, its highest level in the last two decades. The war in Ukraine has severely impacted (European) energy markets, rapidly driving up prices since the start of the year. As a result, the energy component accounts for almost 50% of total inflation in

the Euro Area. **Furthermore, global inflation sharply increased in 2022** due to supply chain disruptions and the pass-through of energy costs, reflected in producer prices, coupled with the remaining upward effects from post-covid high demand. Thus, inflation, excluding energy, also remains extremely high compared to previous years, especially for food.

Euro area inflation by component

(annual percentage change)



**In the Euro Area, the Harmonised Index of Consumer Prices is used to measure consumer price inflation*

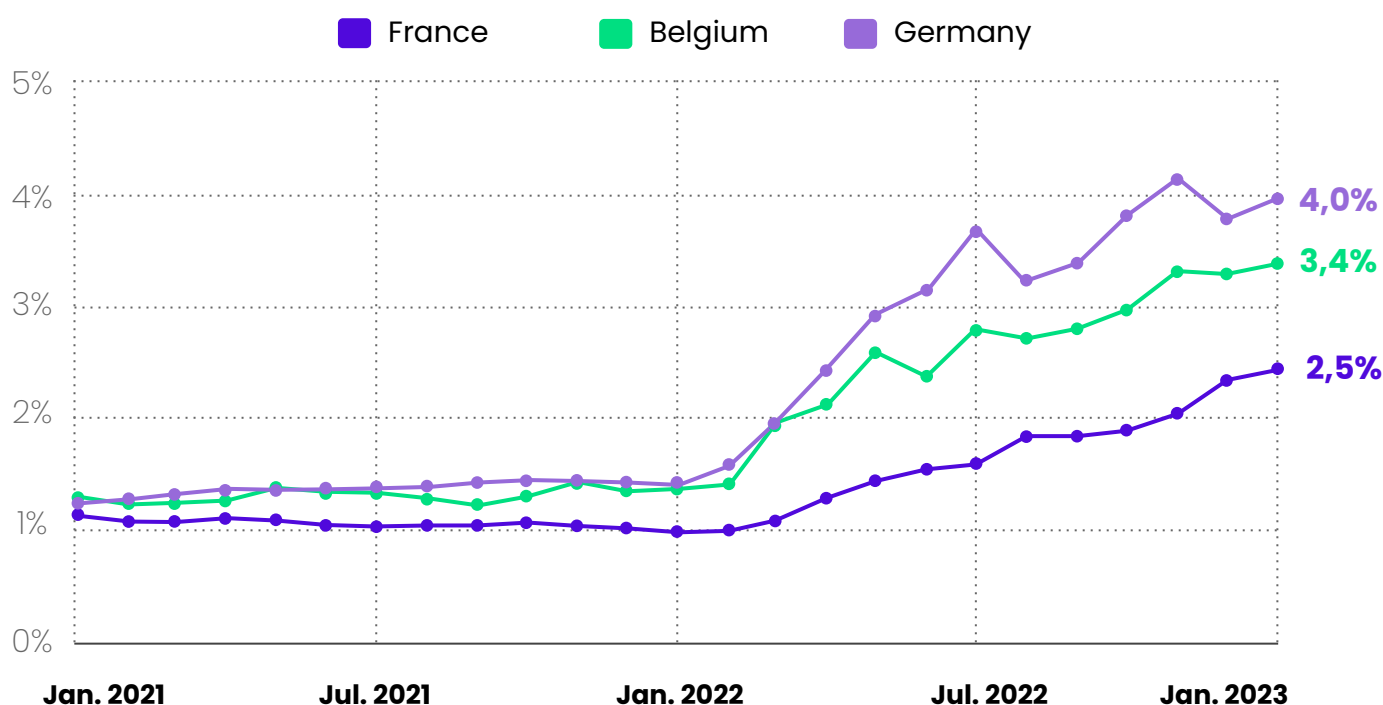
forecast start date

B. A new era of housing credit

In response to the high inflation, the ECB drastically modified the direction of the European monetary policy in 2022. Key interest rates have risen by 2.5 percentage points in 1 year, and the injection of money into the economy reduced progressively. With last policy decisions, the ECB has dampened demand and reduced the risk of persistent upward inflation expectations. Nevertheless, inflation remained high in 2022.

As a result of this change in monetary policy and economic uncertainty, credit standards for housing loans have substantially tightened. Throughout this year, housing loan interest rates have significantly increased in all AVIV countries. They have reached an average¹ of 2.5%, 3.4%, and 4% in France, Belgium, and Germany, respectively at the end of 2022. Financial markets in AVIV countries reacted differently to changes in monetary policy. While in France, housing loan interest rates increased by only +1.5pp during the previous 12 months, German and Belgian households have suffered a rise of +2.5pp and +2pp, respectively.

Interest rates for housing loans to households by country (20 years length)



Source : Empruntis, Immothekerfinotheker, Interhyp.

¹ Interest rates for 20 years length housing loans to households – Empruntis, Immothekerfinotheker and Interhyp.

The lower sensitivity of French banks to the economic environment is partially explained by the existence of a policy tool implemented by the country's central bank: usury rates.

The latter aims at protecting economic agents from sharp and fast changes in borrowing costs. For such a purpose, the Bank of France establishes an upper limit of interest rate levels for different maturities and types of loans every quarter. As a result, banks' interest rates cannot go beyond this limit.

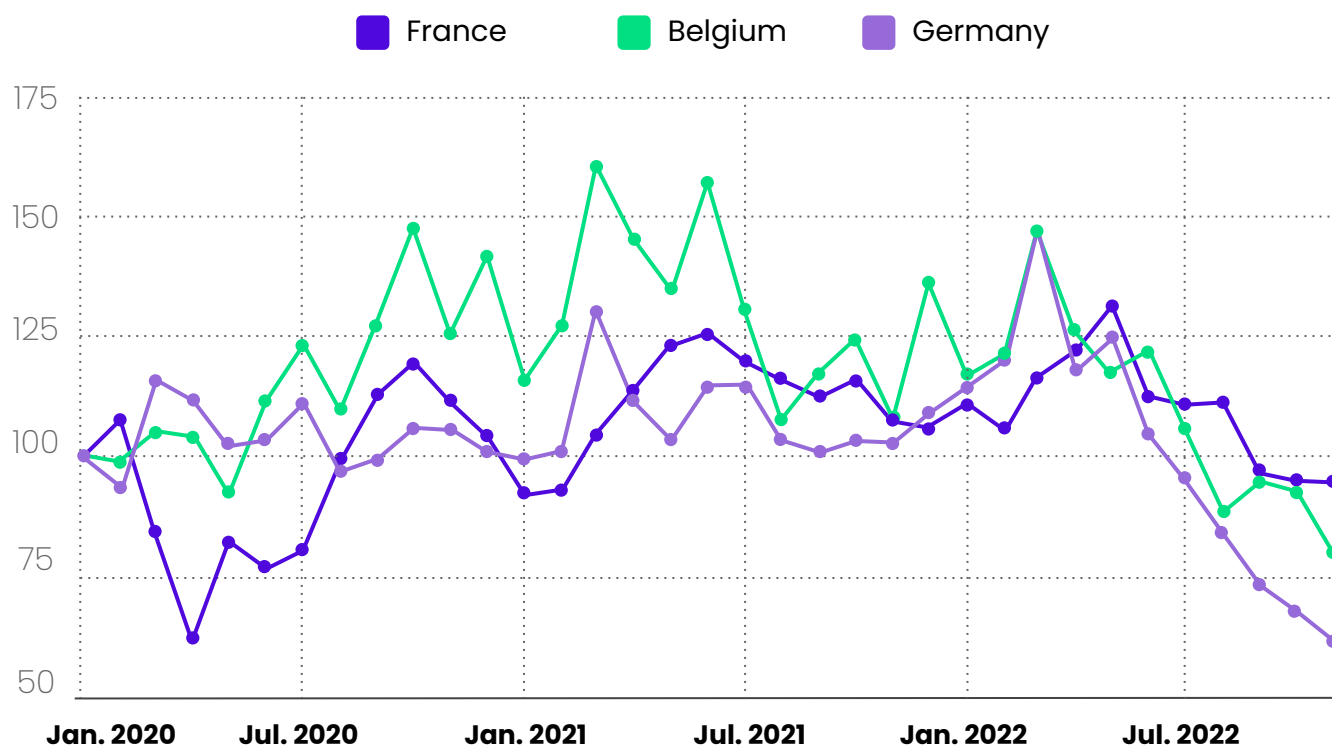
This protection mechanism has important consequences on banks' behavior. Changes on financing costs are only partially absorbed by banks in the very short run. Thus, french banks take substantially more time to fully pass-through the rise of interest rates as they get blocked by the upper limit. As a result of this system, the number of granted loans is significantly reduced at the end of each quarter, as market interest rates approach upper limits of usury rates. **Unsurprisingly, banks reduce their credit production when margins are too tight.**

Under this context, **the volume of credit for housing granted per month dropped by -12% between November 2021 and November 2022 in France.** Even though this is the lowest fall across the AVIV countries, Germany and Belgium have also experienced drops in the volume of credits granted. Households are borrowing less due to tighter credit conditions, coupled with a worsening outlook for the housing market in Europe.

The total amount of new loans granted monthly for housing purchase in Belgium has fallen by -26% between November 2021 and November 2022. The biggest drop concerns Germany, with a contraction of monthly credit production for housing purchase by -40% during the same period.

New credits for housing purchase to households

Monthly production (100 = 1st January 2020)



Source : Bank of France, National Bank of Belgium, Bundesbank.

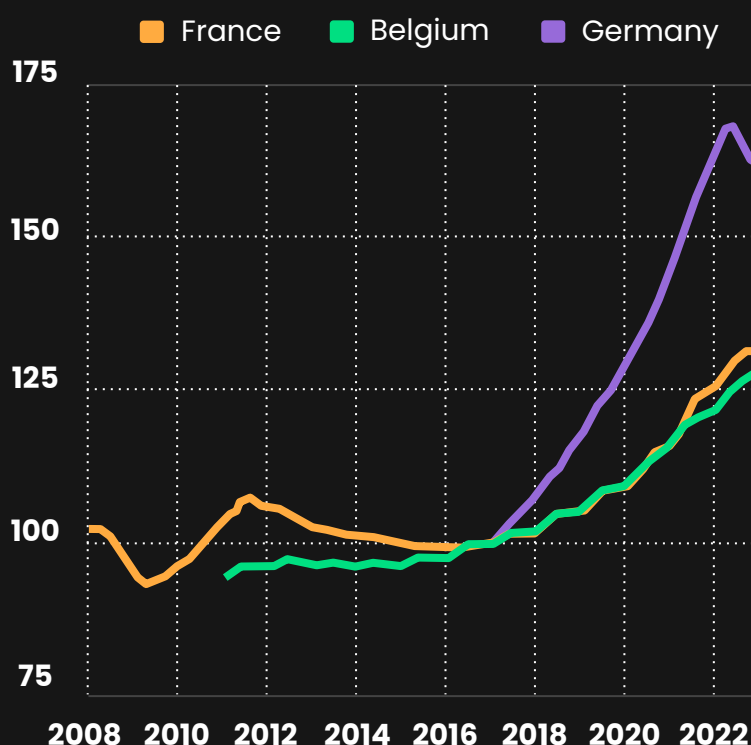
C. Housing markets in 2022

AVIV Housing Indices (AHI)

(100 = January 2017)

Despite the economic conditions, the housing market has been dynamic in 2022 in France and Belgium. In Germany, the prices have started to decrease.

Source : AVIV - Immowelt, Immoweb and Meilleurs Agents.





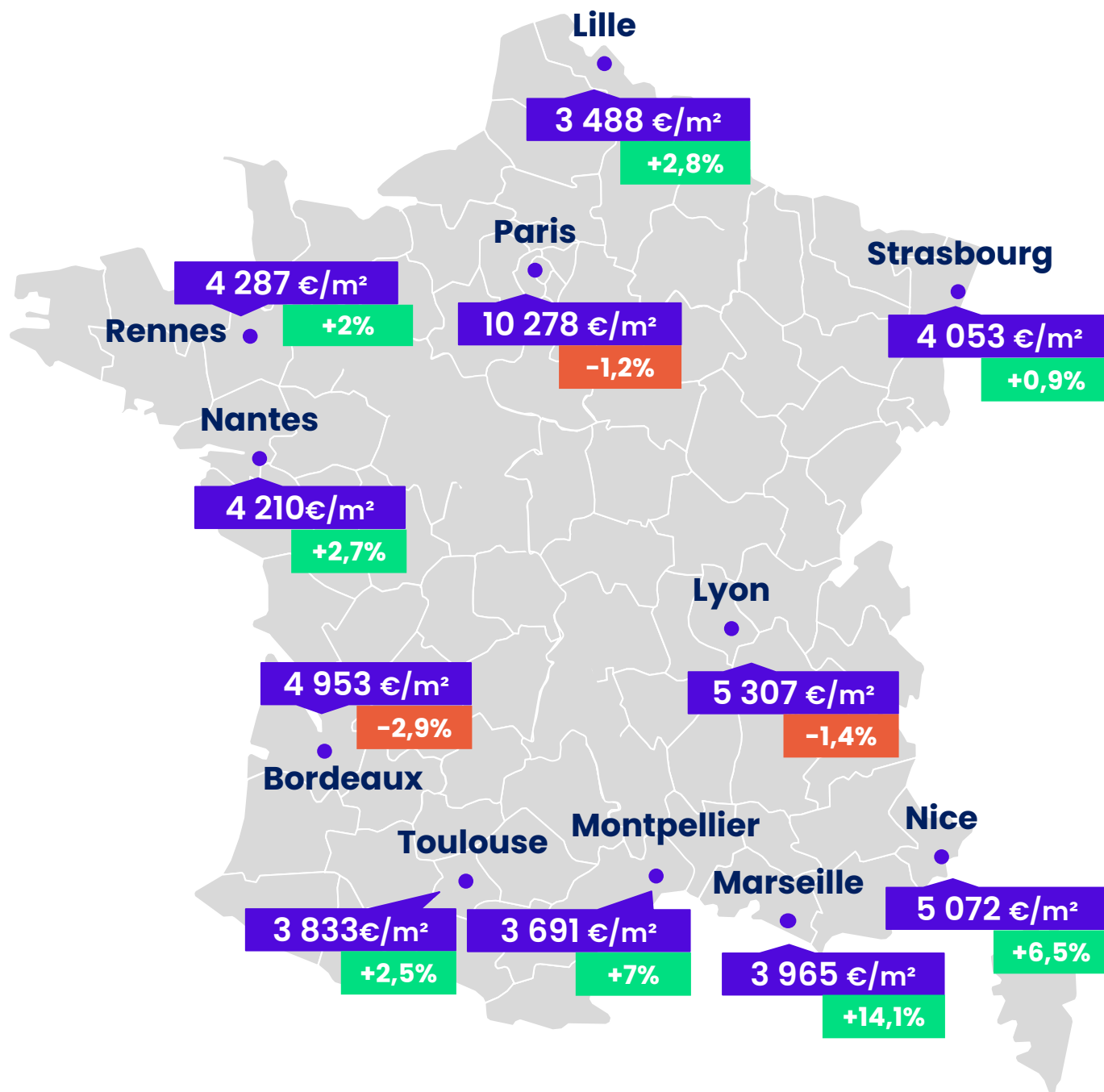
France : the key takeaways

- **1.1 million transactions at the end of the year:** 2022 is the second-best year in terms of volume after the record reached in 2021 (1.2 million).
- **+4.6% rise in prices on average in 2022.**
- **Post-covid trends continue to drive the market in 2022,** with rural areas leading the market dynamics (+7.5% in 2022), while urban areas are losing desirability.
- For now, the **country's general lack of supply** played a protective role in avoiding a sharp decrease in real estate prices.
- **Most expensive cities,** where the purchasing power was already constrained, **were more impacted by changes in credit conditions.** We observed downward trends in Paris (-1.2%), Lyon (-1.5%), and Bordeaux (-2.9%) during 2022.
- **Slow-down signals during the last quarter of 2022 are observed:** +0% on average in Q4 in France (vs. +0.7% on average in Q4 in 2019-2021). **Since the last quarter of the year is often less dynamic, a seasonal effect can partly explains this.**



France

Housing prices and trends



PRICE €/m²

Year on Year

1st January 2023

Hybrid prices and apartment trends (only 12% of the housing stock are houses in french big cities)



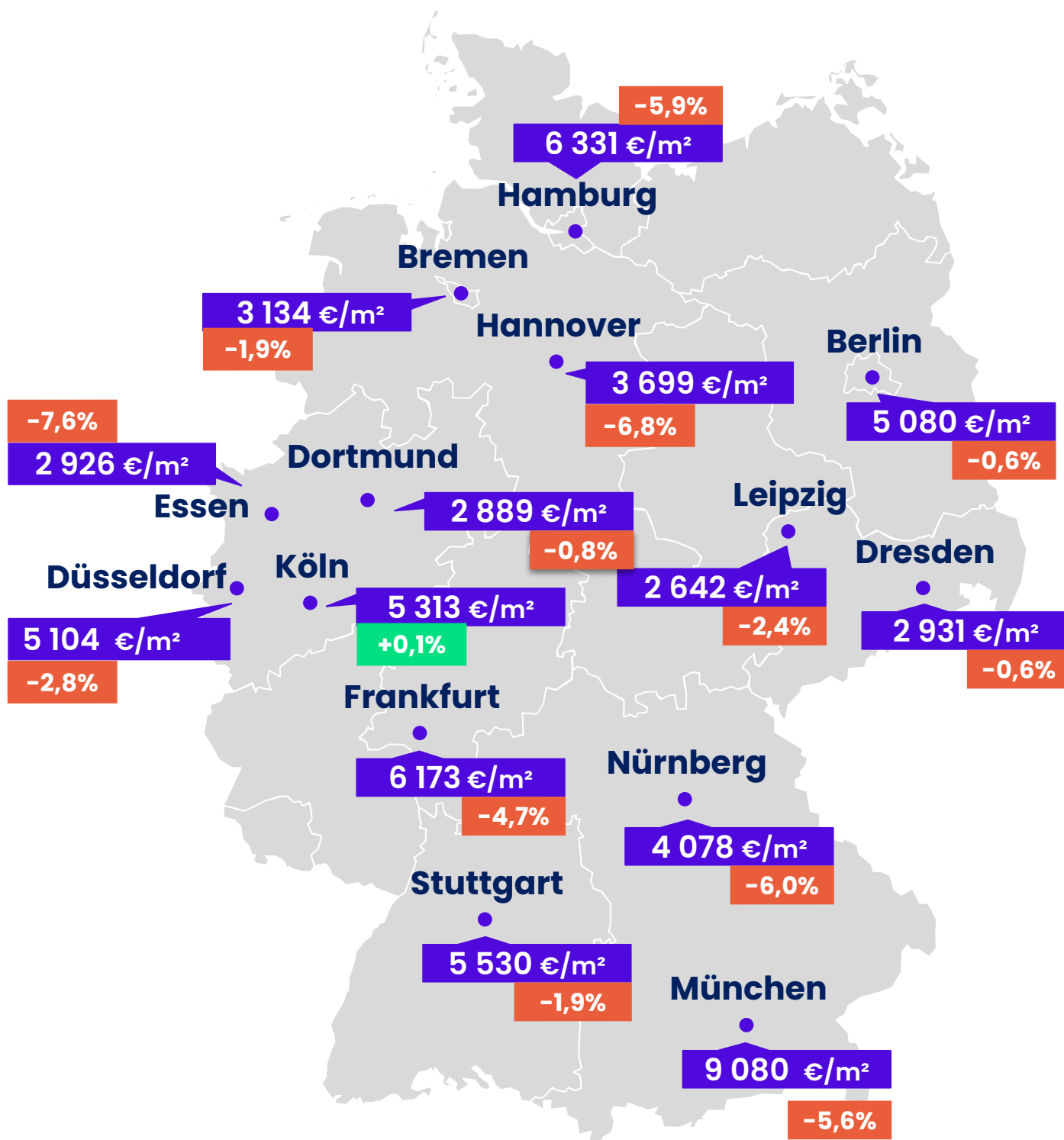
Germany : the key takeaways

- **-0.7% fall in real estate prices in 2022:** this is the only AVIV country with falling dynamics in prices at the country level during last year.
- **The trend of houses outperforming apartments drives country dynamics.** Houses have grown by +0.9% this year, while apartments fell by -1.3% over the same period.
- **Prices started falling in the second quarter of 2022 in 14 out of 16 states in Germany** for apartments and later, in the third quarter, for houses (also 14/16).
- **Changes in credit conditions have impacted all big cities.** We observed an average downward trend of -3.1% for the 13 biggest cities and -5% for Munich in 2022. The only exception is Köln, with a +0.1% rise during the year.



Germany

Housing prices and trends



PRICE €/m²

Year on Year

1st January 2023

Hybrid prices and apartment trends (only 11% of the housing stock are houses in german big cities)



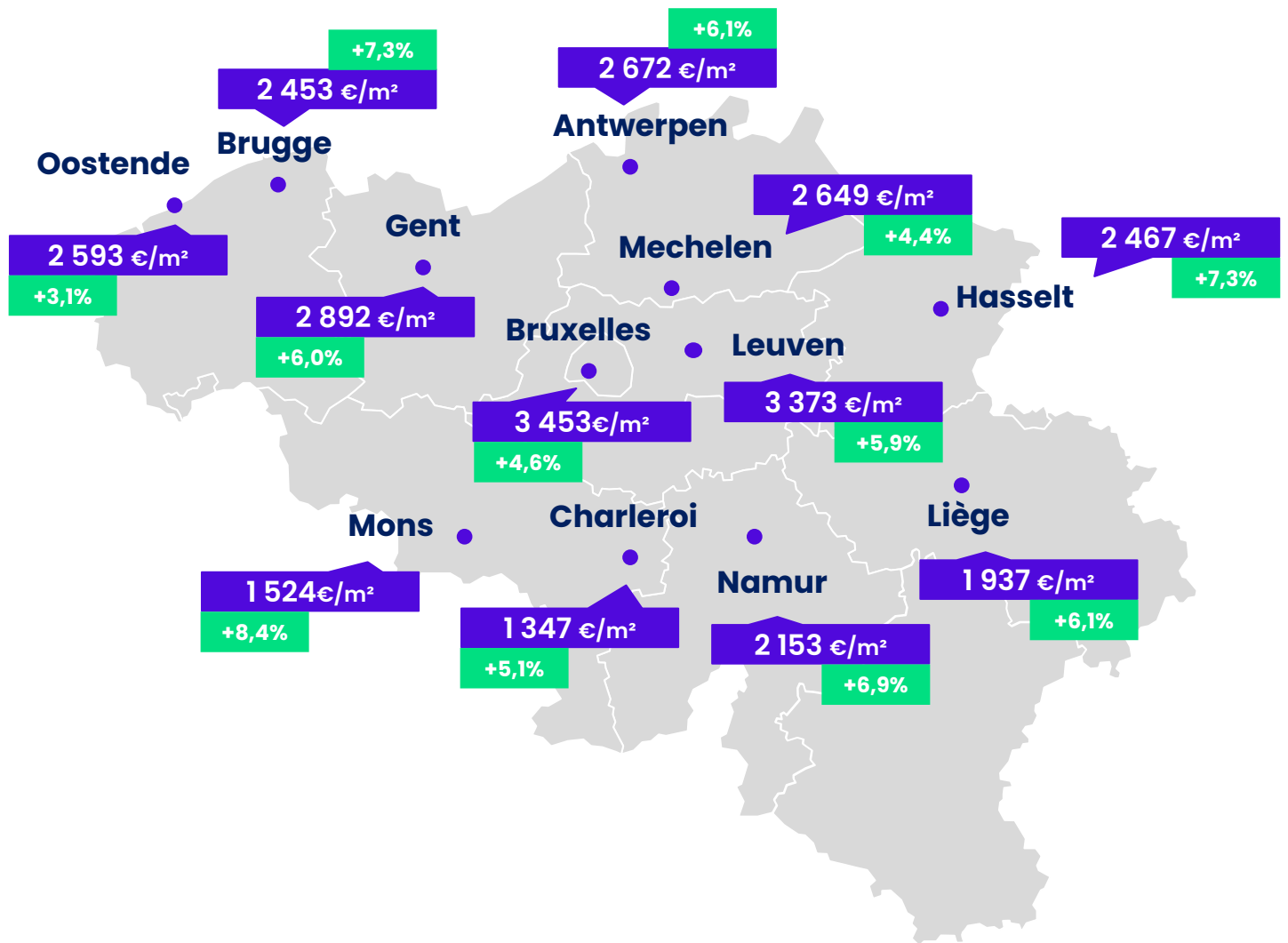
Belgium : the key takeaways

- **+5.6% rise in housing prices on average in 2022.**
- **Post-covid trends drove the Belgian real estate market in 2022, as in France.** While urban areas lost their attractiveness, rural areas led market dynamics (+6.1% and +6.2% rise last year in rural Flanders and Wallonia, respectively, vs. +5.1 for big cities in both regions during the same period).
- **The global income indexation with inflation** for many Belgians (around +11% rise of income at the year's upturn) plays an **important role in protecting purchasing power.**
- Only the province of Luxembourg (-0.8%) and Flemish Brabant (-0.2%) registered a slight fall in prices in Q4. At the same time, **the increasing trends continued** in the rest of the country. For cities, only Oostende (-1.6%) and Leuven (-0.2%) registered a fall during the same period.
- **Slow-down signals during the last quarter of 2022 are observed:** +0.8% on average in Q4 in Belgium. **Nevertheless, similar figures are often observed at the end of the year:** +0.9% on average in Q4 2019 - 2021. Hence, this may indicate a seasonality effect.



Belgium

Housing prices and trends



PRICE €/m²

Year on Year

1st January 2023

Hybrid prices and trends

02 What should we expect for 2023?

a. Economic perspective

The slowdown of European economies is expected to continue in Q4 2022 and Q1 2023.

Indeed, macroeconomic experts expect a short-lived and shallow recession in the Euro Area at the turn of the year, with a low real GDP growth of 0.5% in 2023². Nevertheless, the unemployment

rate is at a historically low level hitting a new record of 6.5% in October. **Rising wages are set to restore some lost purchasing power, supporting consumption.**

As the economy weakens, job creation is likely to slow, and unemployment could rise over the coming quarters.

While energy price growth is expected to slow down substantially in 2023, inflation excluding energy, on the contrary, will remain high next year. This is explained by lagged effects from production cost that will last for a while, in addition to upward pressure on wages and depreciation of the euro. As a result, inflation is expected to decrease from 8.4% to 6.3% in 2023 before reaching a moderate level of 3.4% in 2024 and 2.3% in 2025. Nevertheless, short-term forecasts for inflation remain highly uncertain. The ECB has substantially and frequently revised its projections in recent communications.

According to recent inflation forecasts, **inflation will remain high and continue to do so over next year**, especially inflation excluding energy. **As a consequence, the restrictive monetary policy path will continue in 2023 at a steady pace to reach sufficiently restrictive levels** to ensure a return of inflation to the 2% medium-term target, according to the December communication of the ECB. Hence, we expect key interest rates to continue to rise in 2023 by at least 1pp³. These rises should be reflected in the borrowing cost for households of every country. The magnitude and velocity will depend on country-specificities.

² ECB macroeconomic projections, December 2022.

³ ECB monetary policy statement, 15th December 2022.

b. Will housing markets collapse in 2023?

The economic consequences of credit condition restrictions should translate into a **market slowdown rather than a breakdown in 2023 in France and Belgium**, thanks to smoother interest rate rises and particular country factors (supply tightness in France; and income indexation to inflation in Belgium). The latter will at least partially compensate for the effects of lowering demand on the market. Additionally, **post-covid trends will continue to drive the market in both countries, supporting real estate prices**. Overall, price levels remain more accessible in rural sectors than in big cities, resulting in less constrained purchasing power.

French and Belgian households believe real estate is a safe investment and a shield in crisis. Homeownership remains a desirable target for households (65% and 71% of the homeownership rate⁴ in France and Belgium, respectively), even though housing purchasing power on average is below long-term levels for both countries (61 m² and 83 m², respectively).

On the contrary, **German prices have been very reactive in speed and magnitude in response to the economic environment**. The rise of interest rates and the fall of credit production has been larger compared to the other countries in this study. The rate of rejected loans reached 35% in Q4-2022 (vs. less than 5% since 2021)⁵. Moreover, the country real estate dynamics are driven by the rental market (more than 50% of households are renters), so households seem more sensitive to changes in the selling market.

Thus, we expect downward trends to continue in 2023 for Germany since credit conditions will continue to deteriorate, and there is no specific protection factor as in France and Belgium to reduce the effect. **On the contrary, comparing the AVIV countries, we expect the Belgium market to be impacted the least, followed by France.**

Overall, prices should remain stable in 2023. Nevertheless, they should slightly decrease in expensive big cities e.g., prices in Paris are expected to decline by -3% next year. As a consequence, the median housing price should fall below the symbolic threshold of 10,000€/m² in 2023. Beyond the prices, we expect a significant drop of around -20% to -30% in the number of transactions.

⁴ Eurostat, 2021.

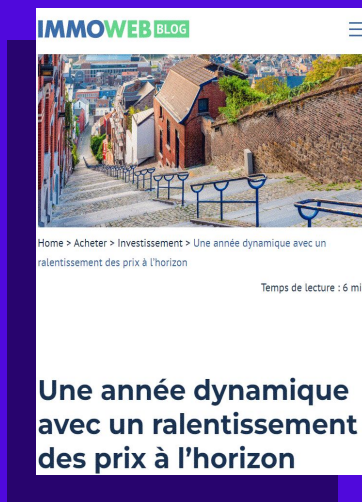
⁵ Bundesbank.

More details :



immowelt

January 2023



IMMOWEB

January 2023



Meilleurs Agents

January 2023

aviv group