



**aviv group** —

# **AVIV Housing market report**

→ Q4 2023

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# AVIV Housing market report

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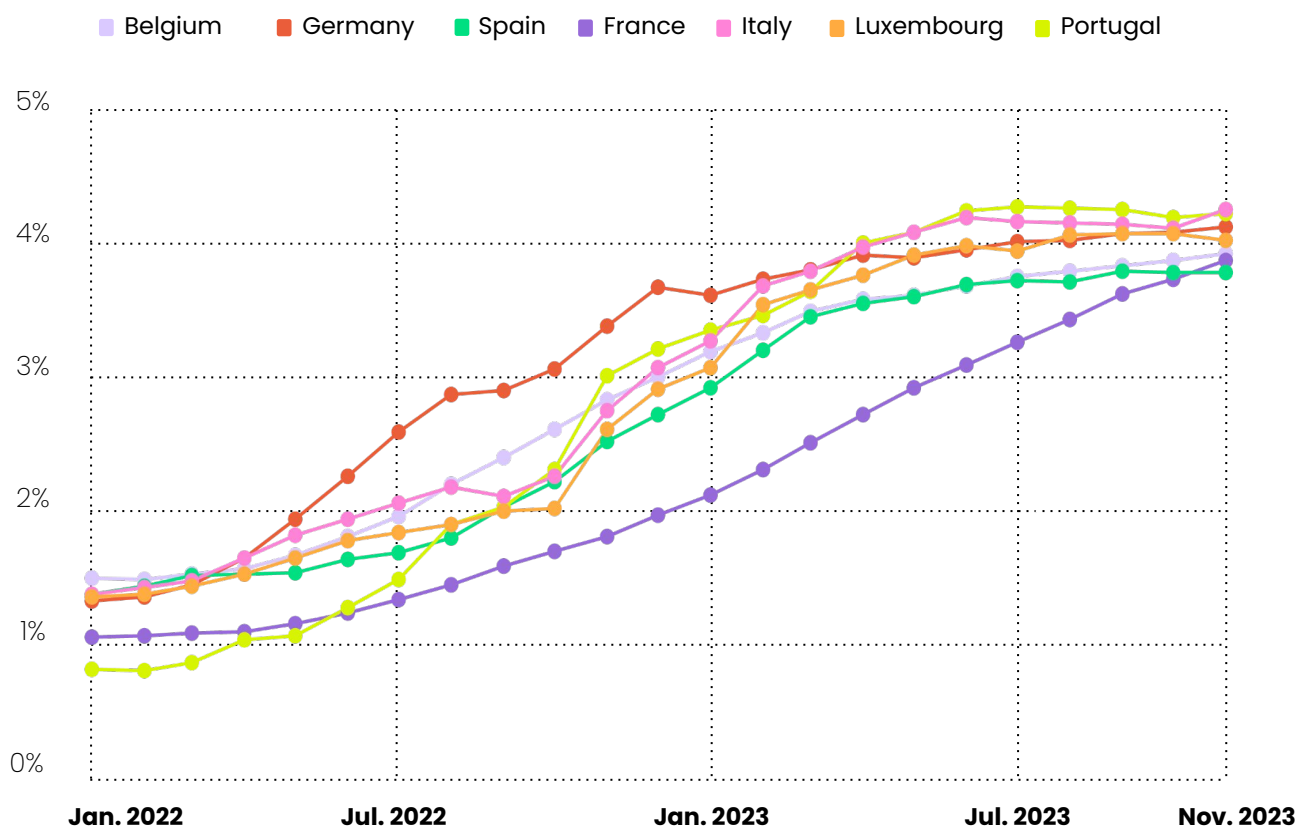
## 01

# Credit conditions in 2023

## 2023: Navigating the shift in credit conditions

The landscape of interest rates for housing purchase has undergone a notable shift in 2023. **While interest rates have continued to rise, the trajectory has notably slowed down since the summer of 2023, marking a distinct deceleration in the overall growth compared to 2022.** Across all studied countries, interest rates remained stable during the last 3 months, except for France. France continued its catch up with its European counterparts, aligning its rates with the levels seen in neighboring European countries. According to the latest harmonized figures released by the European Central Bank (ECB), the interest rates across these countries hover around an average of 4% in all cases at the end 2023.

### Average Interest rates for housing loans to households



*Housing purchase excluding revolving loans and overdrafts. All maturities together.  
Source: ECB, January 2024*

## Evolution of Interest rates for housing loans to households

|   | In 2022     | In 2023     | Last 3 months |
|---|-------------|-------------|---------------|
|  <b>Belgium</b>    | <b>+1.7</b> | <b>+1.1</b> | <b>+0.1</b>   |
|  <b>Germany</b>    | <b>+2.3</b> | <b>+0.7</b> | <b>+0.1</b>   |
|  <b>France</b>     | <b>+1.1</b> | <b>+2.1</b> | <b>+0.4</b>   |
|  <b>Spain</b>      | <b>+1.5</b> | <b>+1.3</b> | <b>+0.1</b>   |
|  <b>Portugal</b>   | <b>+2.5</b> | <b>+1.2</b> | <b>+0.0</b>   |
|  <b>Italy</b>      | <b>+1.9</b> | <b>+1.5</b> | <b>+0.1</b>   |
|  <b>Luxembourg</b> | <b>+1.7</b> | <b>+1.4</b> | <b>+0.0</b>   |

*Housing purchase excluding revolving loans and overdrafts. All maturities together.  
In 2023 = November 2022 to November 2023 ; Last 3 months = August to November 2023.  
Source: ECB, January 2024*

The ECB's decision to initiate a restrained upward progression in key interest rates from the second quarter onwards has been followed by a period of unchanged rates since September 23. This adjustment explains the stability of housing lending interest rates observed in recent months. **The Governing Council's statement regarding the sufficiency of this level of key interest rates in curbing inflation signals the end of the previous upward momentum.**

**Whereas key interest rates are expected to remain at these levels over the next months, recent reports from financial brokers indicate a substantial decline in housing lending interest rates since November 2023 in some countries.** For example, Germany reported a drop of -0.75 percentage points (pp)<sup>1</sup>; and Belgium -0.5pp<sup>2</sup> during this period; while France remained almost equal<sup>3</sup>. This can be mainly attributed to the drop in the financing cost of banks in the interbank market (as known as Euribor) as a result of a more positive forecast of inflation and subsequent expectations of fall in key interest rates by the ECB during 2024.

Along with interest rates, throughout the entirety of 2023, the housing market experienced a notable and continuous decline in credit production. **Across a majority of countries, lending levels recorded a striking drop of over -30% in the last 12 months compared to the 2022 production figures.** This significant decline in lending was notably higher in 2023 than the previous year for all countries.

<sup>1</sup> Interhyp, January 2024

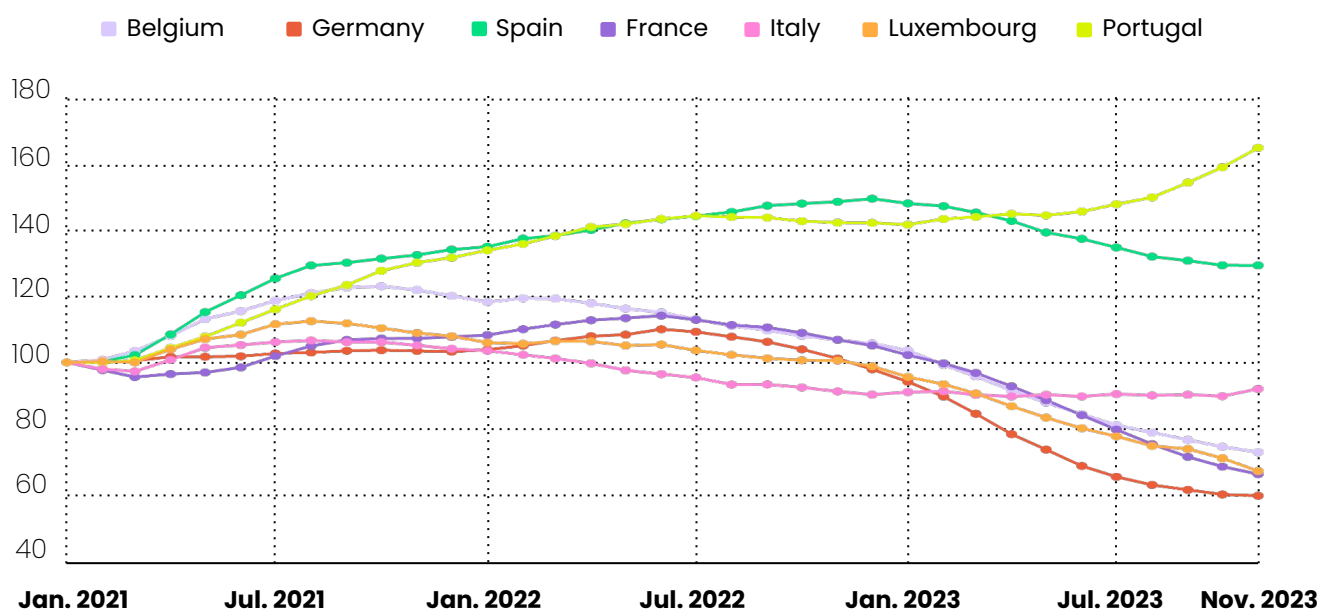
<sup>2</sup> Immotheker Finotheker, January 2024

<sup>3</sup> Empruntis, January 2024



## New credits for housing to households - Annual production

(100 = 1st January 2021)



12 months accumulated sum, non deflated from house prices evolution. Source: ECB, January 2024.

By the conclusion of 2023, the annual lending volume to households for housing purchases plummeted by a staggering -40% compared to 2021 in countries such as Belgium, Germany or France. **This regression brings them back to credit levels similar to before the last bull run starting around 2015, periods characterized by substantially lower housing prices.** Notably, Germany's credit production in 2023 mirrored levels last observed in 2005, standing out as one of its lowest levels recorded in the entire XXth century.

**Nevertheless, we observe a stabilization at its lowest points during the last quarter in the majority of studied countries, in a similar timing than when interest rates stabilized.**

## Evolution of the production of new credits for housing to households

|            | In 2022 | In 2023 |
|------------|---------|---------|
| Belgium    | -12%    | -32%    |
| Germany    | -9%     | -41%    |
| France     | -6%     | -38%    |
| Spain      | +10%    | -13%    |
| Portugal   | +6%     | +16%    |
| Italy      | -12%    | +1%     |
| Luxembourg | -10%    | -33%    |

Annual production, non deflated from house prices evolution.  
In 2023 = November 2022 to November 2023. Source: ECB, January 2024

# 02 Housing markets in 2023

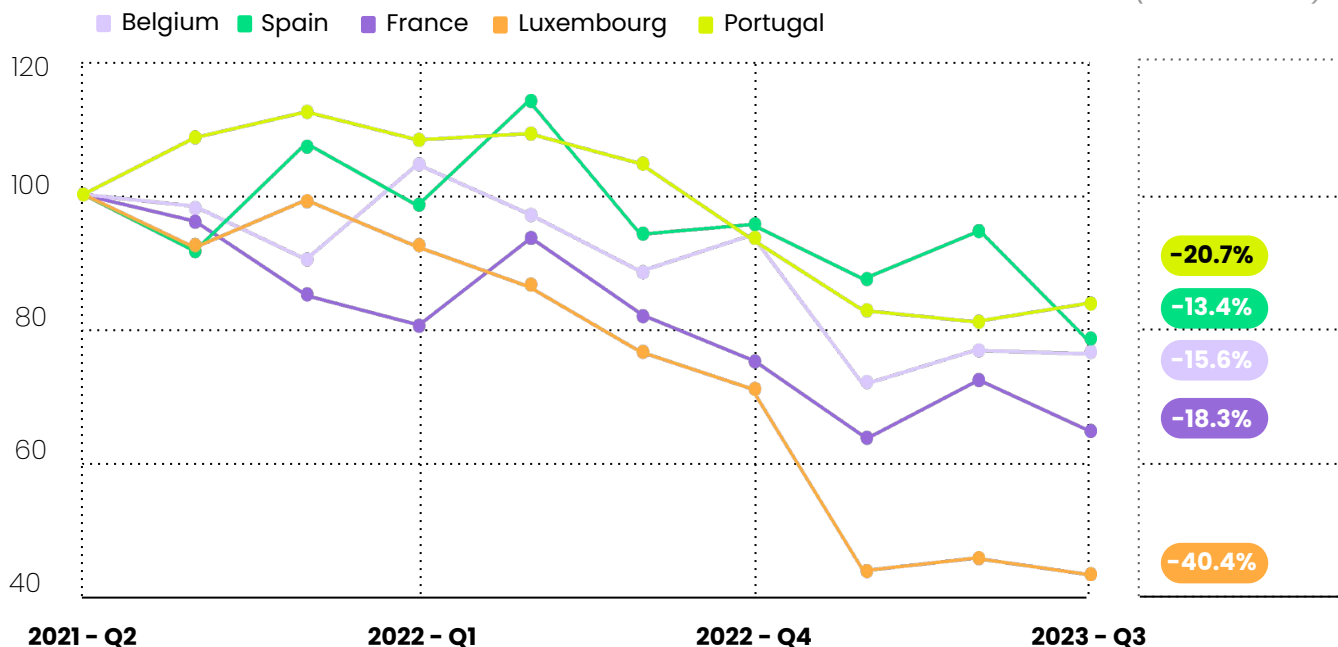
## Housing markets response to the new credit conditions

The new credit conditions have had noticeable repercussions on the housing market, leading to increased borrowing constraints and stricter credit standards for households in 2023. These factors put significant pressure on housing demand,

resulting in a notable slowdown in housing activity. As of Q3 2023<sup>4</sup>, the annual transaction volumes across all studied countries<sup>5</sup> showed a clear and drastic decrease compared to the previous year.

### Number of House Sales Indices - quarterly (100 = Q2 2021)

### Annual evolution (2023 VS 2022)



Quarterly accumulated sum, new and old dwellings together.  
Source: Eurostat, January 2024.

<sup>4</sup> Most recent available harmonized data for all countries.

<sup>5</sup> Eurostat harmonized figures only available for France, Belgium, Spain, Luxembourg and Portugal among studied countries.

Luxembourg experienced the most severe drop with a staggering -40% reduction in annual transactions, marking the most significant decline among studied countries. France and Portugal also faced substantial decreases of around -20%, while Belgium and Spain demonstrated a

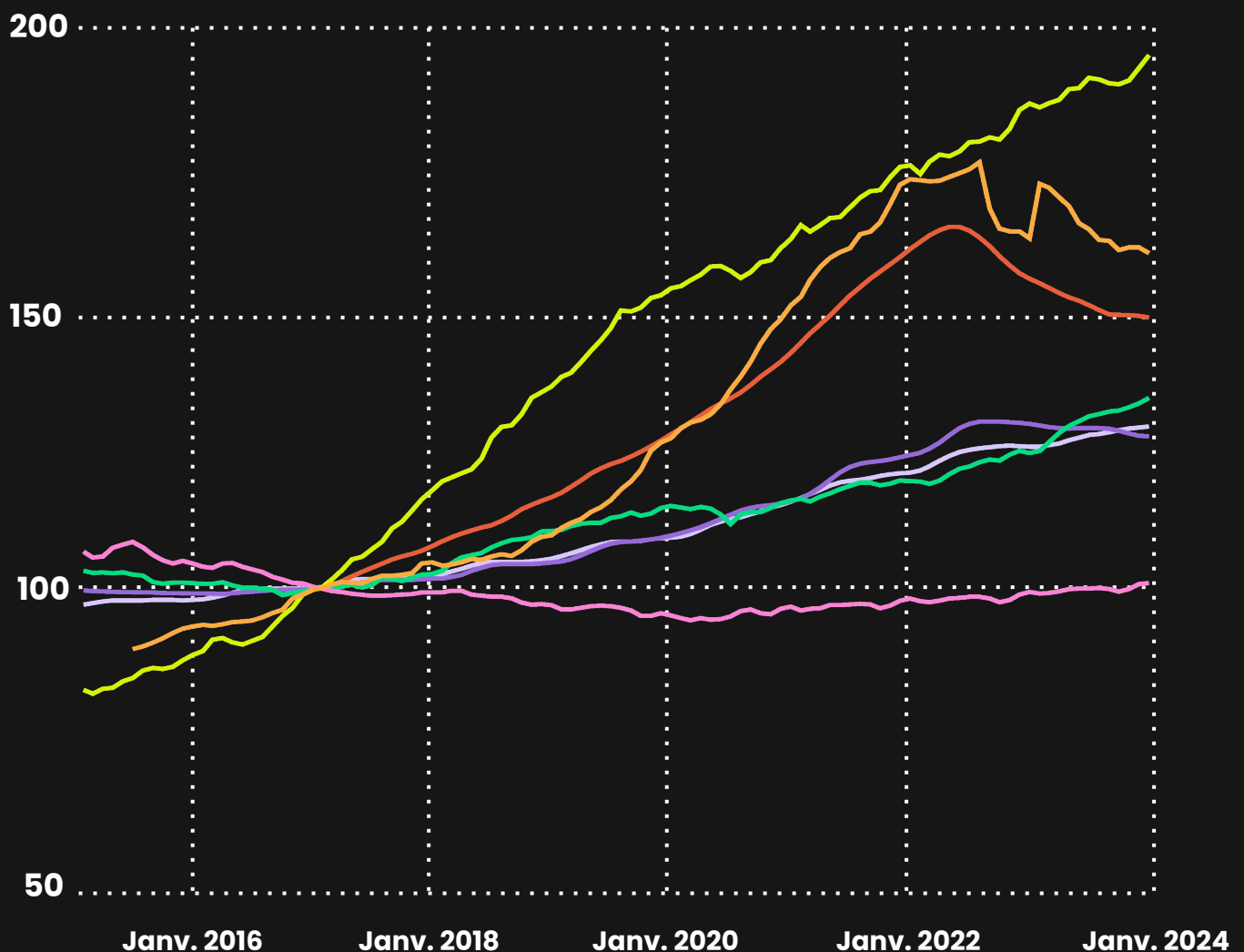
comparatively smoother decline of only around -15%.

The plunge in market activity has had discernible repercussions on price trends. **Consequently, there has been a significant deterioration in housing prices growth compared to 2022.**

## European countries Housing Price Indices

(100 = January 2017)

■ Belgium ■ Germany ■ Spain ■ France ■ Italy ■ Luxembourg ■ Portugal










Source: AVIV - Immowelt, Immoweb, Meilleurs Agents, Idealista Italy, Idealista Portugal, Idealista Spain and Immotop

France saw a stark reversal in trend, shifting from a positive growth of +4.7% in 2022 to a negative downturn of -1.8% in 2023. Similarly, Germany experienced a deeper decline in overall average growth from -3.4% in 2022 to -4.5% in 2023. Meanwhile,

Portugal and Belgium, though still presenting positive trends over the past 12 months, exhibited a noticeable slowdown compared to the preceding year, shifting from +4% to +3% in Belgium, and from +6.5% to +4.7% in Portugal.

## Housing Price Indices evolution

|   | Q4 2023      | In 2023      | In 2022      | Since Jan. 2022 |
|---|--------------|--------------|--------------|-----------------|
|  <b>Belgium</b>    | <b>0.5%</b>  | <b>3.0%</b>  | <b>4.0%</b>  | <b>7.1%</b>     |
|  <b>Germany</b>    | <b>-0.3%</b> | <b>-4.5%</b> | <b>-3.4%</b> | <b>-7.8%</b>    |
|  <b>France</b>     | <b>-0.8%</b> | <b>-1.8%</b> | <b>4.7%</b>  | <b>2.8%</b>     |
|  <b>Spain</b>     | <b>1.7%</b>  | <b>8.2%</b>  | <b>4.3%</b>  | <b>12.9%</b>    |
|  <b>Portugal</b> | <b>2.8%</b>  | <b>4.7%</b>  | <b>6.5%</b>  | <b>11.5%</b>    |
|  <b>Italy</b>    | <b>1.6%</b>  | <b>1.6%</b>  | <b>1.2%</b>  | <b>2.9%</b>     |
|  <b>Lux.</b>     | <b>-0.4%</b> | <b>-1.7%</b> | <b>-6.3%</b> | <b>-7.8%</b>    |

*Source: AVIV – Immowelt, Immoweb, Meilleurs Agents, Idealista Italy, Idealista Portugal, Idealista Spain and Immotop.*

**However, the year-end statistics reveal that only three out of seven countries concluded the year with a negative annual growth in housing prices: Germany, France, and Luxembourg.** These nations, characterized by higher price levels and thus, greater financial dependency of households on purchasing, faced higher challenges due to low housing purchasing power and an existing growth that was already decelerating.

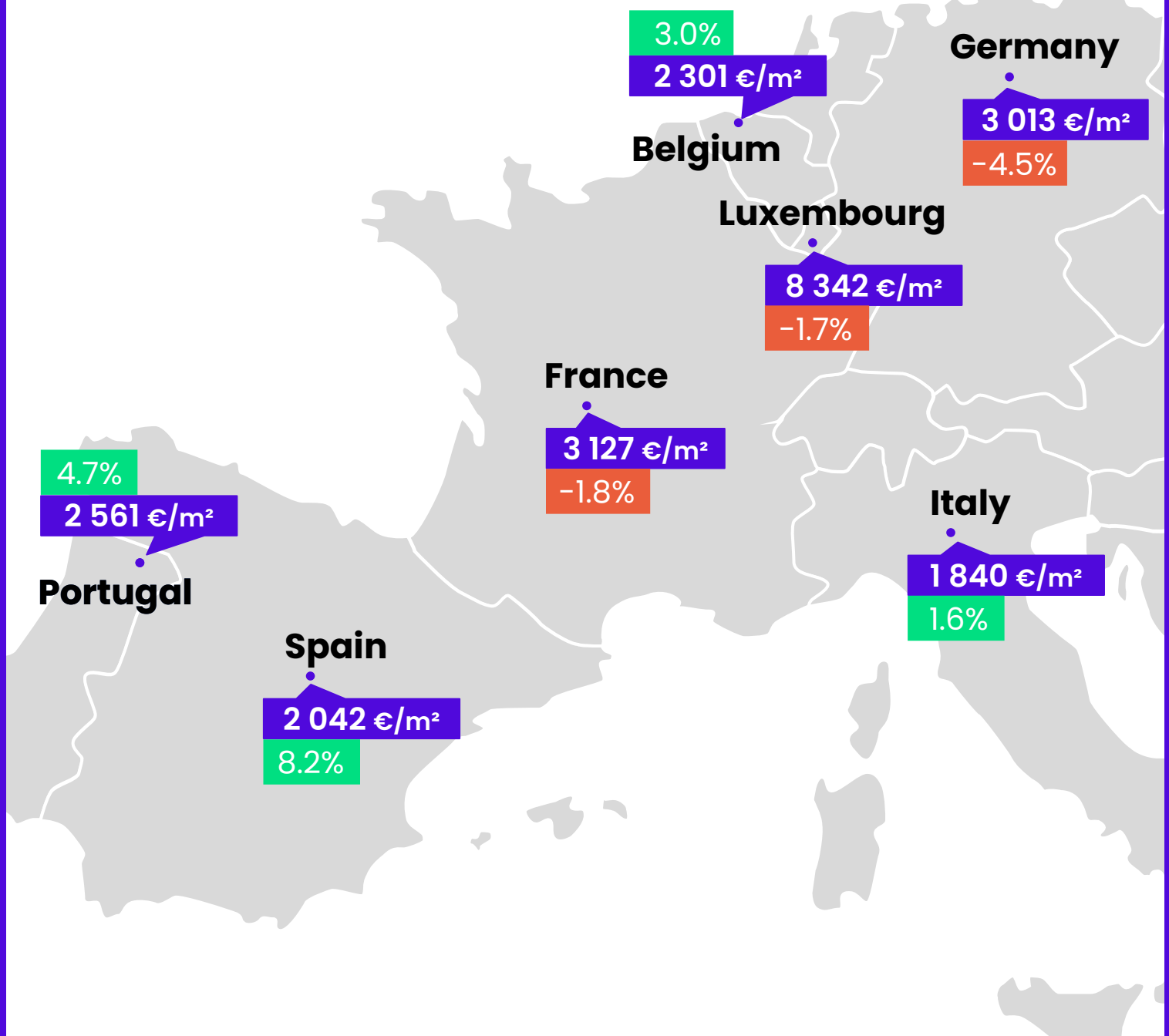
**Encouragingly, Germany exhibited a slowdown in its downward trend towards the end of the year, registering only a -0.3% decline during Q4.** Overall, the country experienced a reduction of -10.2% from its peak to the current scenario. This stabilizing situation can be attributed to improvements in Housing Purchasing Power.



# Housing price & evolution in European countries

- Price €/m<sup>2</sup>
- 1 year evolution

Source: AVIV - Immowelt, Immoweb, Meilleurs Agents, Idealista Italy, Idealista Portugal, Idealista Spain and Immotop .



## TO KNOW

The trends observed in housing prices<sup>6</sup> are based on listing prices for all countries except France, where transaction prices are considered. It's noteworthy that listing prices tend to respond more slowly to market shocks. Consequently, the downward trends already identified might be even more significant than currently quantified, given that negotiations often intensify during downward market periods.

<sup>6</sup> Listing figures are the public data with the freshest update and most close to the market situation. Notary figures are published with a delay between



# 03

# What can we expect from 2024?

## a. Better days for credit conditions?

**In the coming year, the landscape of housing finances is set to shift,** primarily influenced by changes in interest rates to come. The ECB believes that keeping interest rates at current levels for a sufficiently long time will maintain the inflation path towards the 2% target in 2025. **It seems likely that the institution will keep this approach until at least summer 2024, after which the governing council may start lowering key interest rates.**

While the US Federal Reserve has announced plans to decrease interest rates in the coming months, the ECB is trading carefully due to emerging economic uncertainties that cast a shadow on inflation, which could temporarily upswing in the near term. This potential uptick can be attributed to ongoing conflicts in the Middle East and the possibility of disruptions in the Suez Canal, which may impact energy prices and production costs once again. **Depending on how these risks unfold, the ECB may decide to initiate its plan to decrease interest rates either sooner or later.**



Even so, the anticipated future decreases in ECB interest rates and the controlled inflation environment have led to notably reduced financing costs for banks, as observed in benchmarks like Euribor and other interbank market rates. **Consequently, housing interest rates have already begun to decrease,** as reported by country brokers<sup>7</sup>. This pattern, where housing interest rates shift before official adjustments in ECB key rates is a common pattern also observed at the beginning of 2022. **As a result, we anticipate an improvement in credit conditions throughout 2024 for most European countries. Thus, borrowing capacity, purchasing power and hence, housing demand for households could start to recover.**

<sup>7</sup> Interhyp, Immotheker, Finotheker, Credihome and Empruntis.





## **b. Purchasing Power trends as indicator of recovery of the housing market**

Housing Purchasing Power (HPP) has witnessed a significant decline following the interest rate shift in January 2022. **Across numerous countries, the situation has not only worsened since then but has now hit its lowest level in 2 years. Taking Belgium, Spain, and Italy as examples, these countries have lost approximately -30 square meters on average within a two-year timeframe.** Today, their average HPP stands at 144 square meters, 89 square meters, and 103 square meters, respectively. Portugal, however, emerges as the most affected among the studied countries, with a housing purchasing power of only 43 square meters, marking a considerable -32% decrease. While the remaining countries exhibit relatively better figures in terms of magnitude, their losses are still substantial, exceeding -20% in almost all instances.

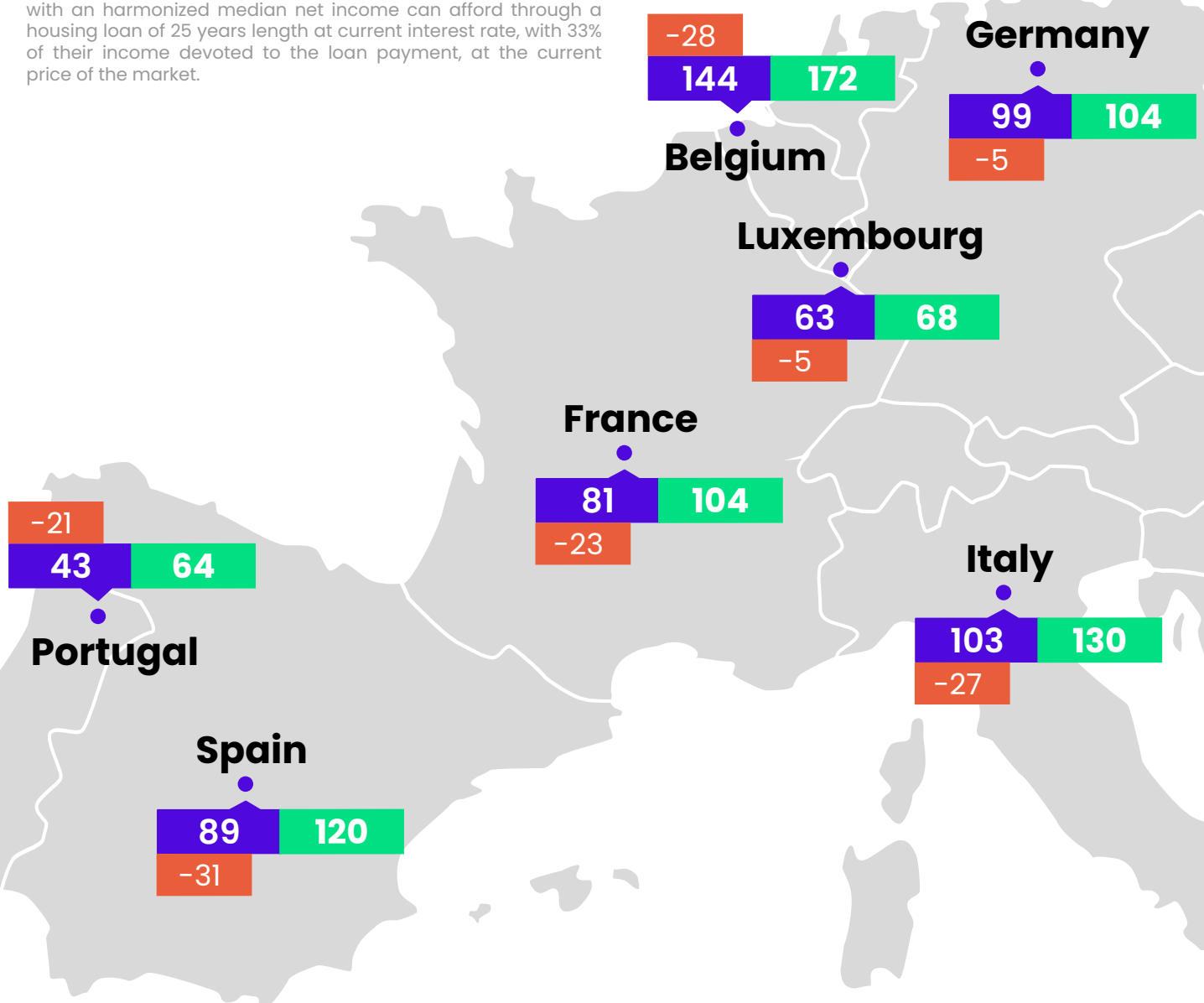
**The remaining gap in affordability is notably substantial, indicating that significant price corrections may be necessary if interest rates do not decrease sufficiently in 2024.** Specifically, a reduction of interest rates to levels between 1% and 2% would be necessary, varying by country and considering the current pricing scenario. Although a decline in interest rates is anticipated in 2024, achieving such low levels seems unlikely. A concrete example is Portugal, where households would require a rate level below 1%, even lower than the pre-shift period. Despite less favorable credit conditions, housing prices in Portugal have persisted in their upward trajectory, exacerbating the nation's challenges in terms of affordability and housing access, as detailed in the preceding report.

# Housing Purchasing Power\* & evolution in European countries

- HPP today (sqm)
- HPP January 2022 (sqm)
- Loss of HPP (sqm)

Source: Authors calculations - Eurostat, ECB, Immowelt, Immoweb, Meilleurs Agents, Idealista Italy, Idealista Portugal, Idealista Spain and Immotop.

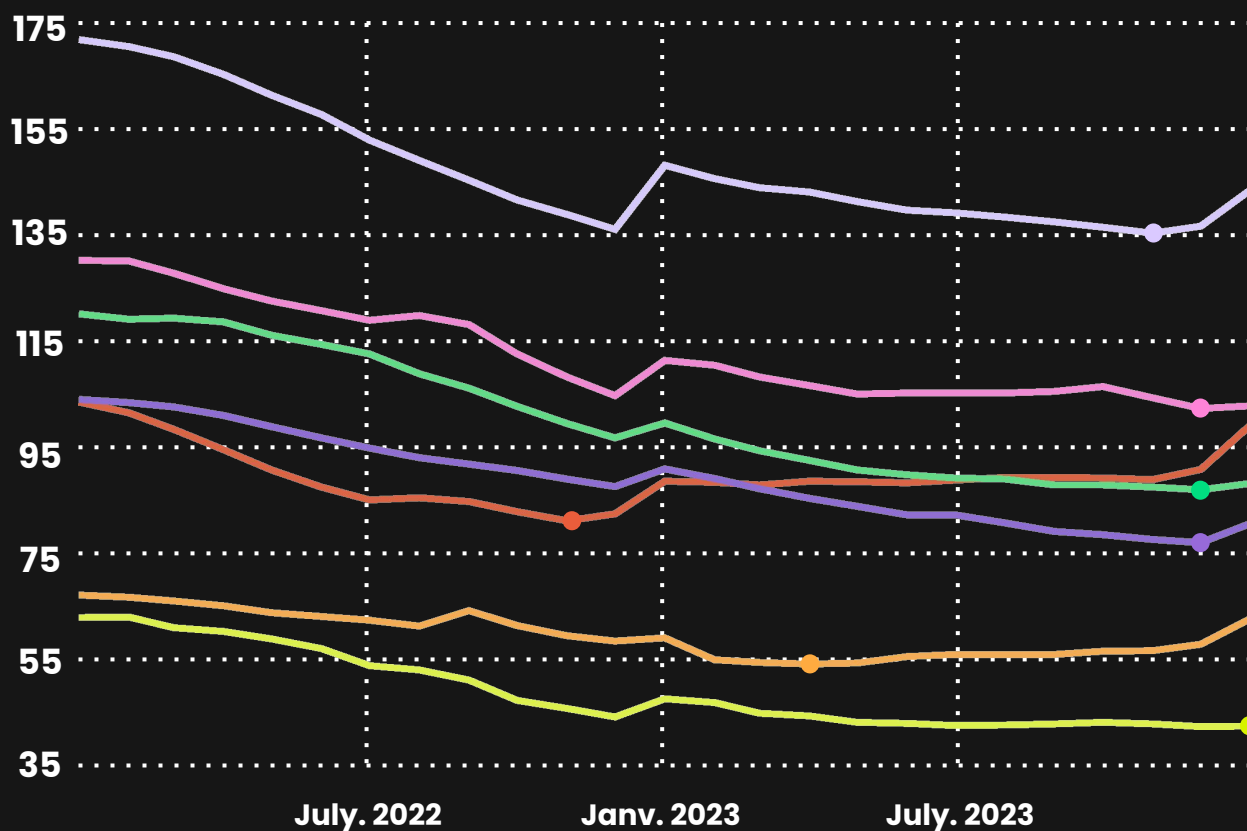
\*Housing Purchasing Power (HPP): Number of square meters that a household of 2 adults under 65 years old without children with an harmonized median net income can afford through a housing loan of 25 years length at current interest rate, with 33% of their income devoted to the loan payment, at the current price of the market.





## Housing Purchasing Power evolution in European countries (sqm)

■ Belgium ■ Germany ■ Spain ■ France ■ Italy ■ Luxembourg ■ Portugal



Minimum level of HPP of the period

Source: Authors calculations – Eurostat, ECB, Immowelt, Immoweb, Meilleurs Agents, Idealista Italy, Idealista Portugal, Idealista Spain and ImmoTop

**While most countries continued to grapple with declining HPP, there are positive signals of recovery emerging in the case of Germany and Luxembourg.** Germany, reaching its lowest point at the close of 2022 with 82 square meters on average, has since witnessed a notable rebound, gaining +17 square meters overall. This improvement can be attributed to the sharp drop in house prices (-10,2% from its peak till today), coupled with the stabilization of interest rates and a recent substantial fall according to country brokers. Similarly, Luxembourg, which experienced its lowest point in April 2023 at 55 square meters, has

bounced back, recovering +8 square meters. Consequently, there is a mere approximate -5% difference in housing purchasing power between the present day and January 2022 levels in both countries.

Thus, these countries necessitate a modest additional fall of around -0.5 percentage points on current interest rates to achieve full recovery of affordability. **This offers optimistic prospects for their housing markets in 2024, which almost recovered their affordability levels, especially with the expectation of continued interest rate decline next year.**

## IN CONCLUSION

The anticipated improvement in credit conditions could initiate a recovery in housing demand. However, the degree of affordability improvement will hinge on the interplay between prices trends and interest rates in each country. Germany and Luxembourg, having experienced substantial price corrections and favorable trends in interest rates, may see positive outcomes in 2024. Yet, other countries face a more extended path to reclaim initial affordability levels, and while price adjustments (either drop or slow down) are probable next year, they might fall short to relaunch the housing market in 2024.





## 2024 Outlook – House prices evolution

|                 | HPP level | HPP loss* | Housing Price evolution in 2023 | Housing Price outlook in 2024 |
|-----------------|-----------|-----------|---------------------------------|-------------------------------|
| <b>Belgium</b>  | 144 sqm   | -16%      | +3%                             | <b>Price stabilisation</b>    |
| <b>Germany</b>  | 99 sqm    | -4%       | -4.5%                           | <b>End of price decrease</b>  |
| <b>France</b>   | 81 sqm    | -22%      | -1.8%                           | <b>Larger price decrease</b>  |
| <b>Spain</b>    | 89 sqm    | -26%      | +8.2%                           | <b>Slowdown</b>               |
| <b>Portugal</b> | 43 sqm    | -32%      | +4.7%                           | <b>Price stabilisation</b>    |
| <b>Italy</b>    | 103 sqm   | -21%      | +1.6%                           | <b>Light price decrease</b>   |
| <b>Lux.</b>     | 63 sqm    | -6%       | -1.7%                           | <b>End of price decrease</b>  |

*\*HPP loss between today and January 2022*



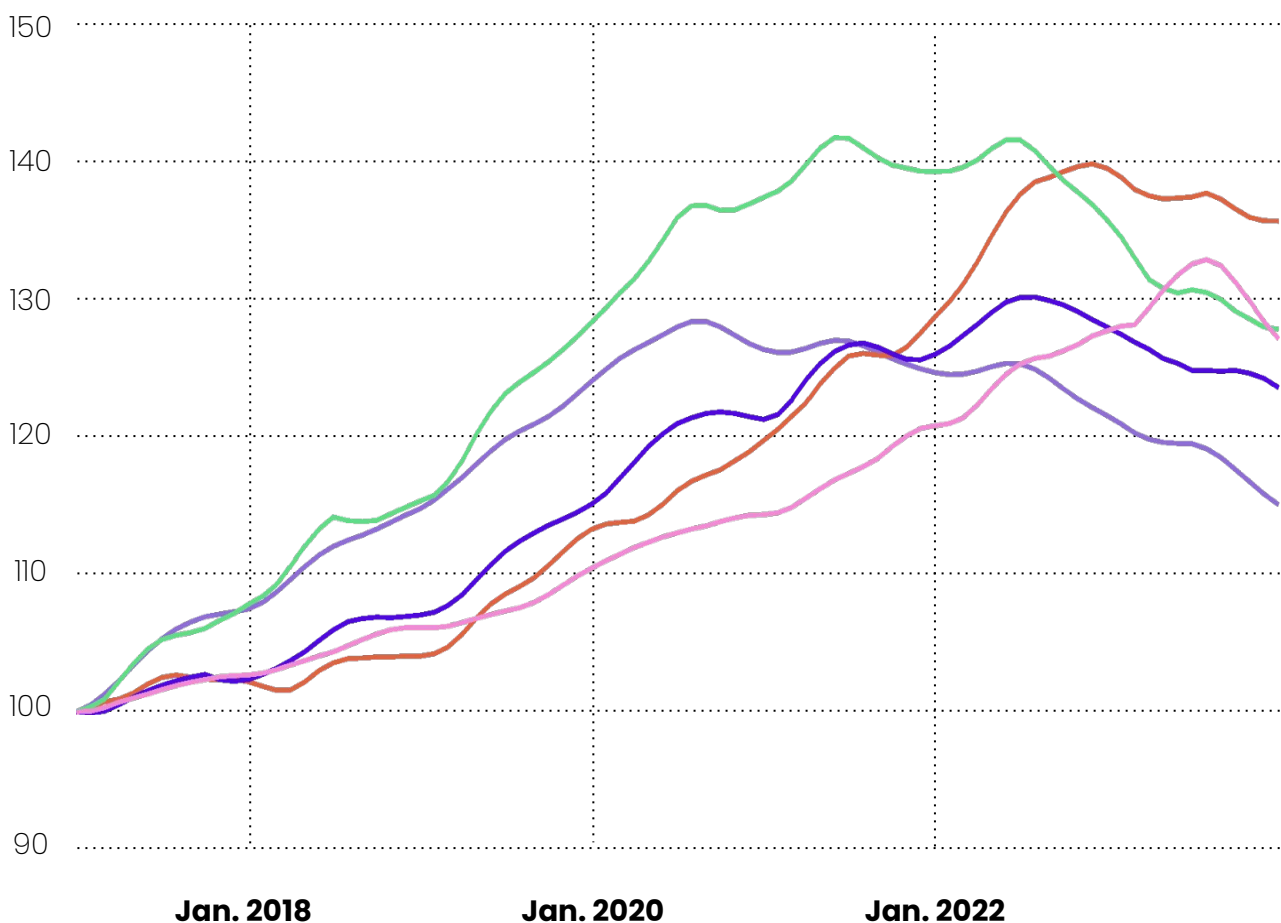


## France : the key takeaways

- For the 1st time in 7 years, the number of annual sales of old dwellings fell below 900,000 transactions in January 2024, almost -25% fewer sales than in 2022.
- Nationwide, prices fell by -1.8%. Such a slowdown over the course of a calendar year has not been seen since 2013.
- Property prices in the capital fell by -5.3% in 2023, reaching an average price of €9,644/m<sup>2</sup> on January 1, 2024.
- In almost all of France's 11 largest cities, property prices have decreased overall, with the exception of Montpellier.
- Although interest rates are likely to fall during 2024, they will remain permanently above the average levels of recent years, and we expect some delay compared to neighboring countries.
- Additionally, prices will not have fallen sufficiently by 2023 to compensate for the loss of housing purchasing power among French households.
- Thus, the expected improvement on housing affordability in 2024 will not be enough to bridge the current imbalance between supply and demand in the coming months, and prices are expected to continue falling.

### Five biggest cities in France (100 = March 2017)

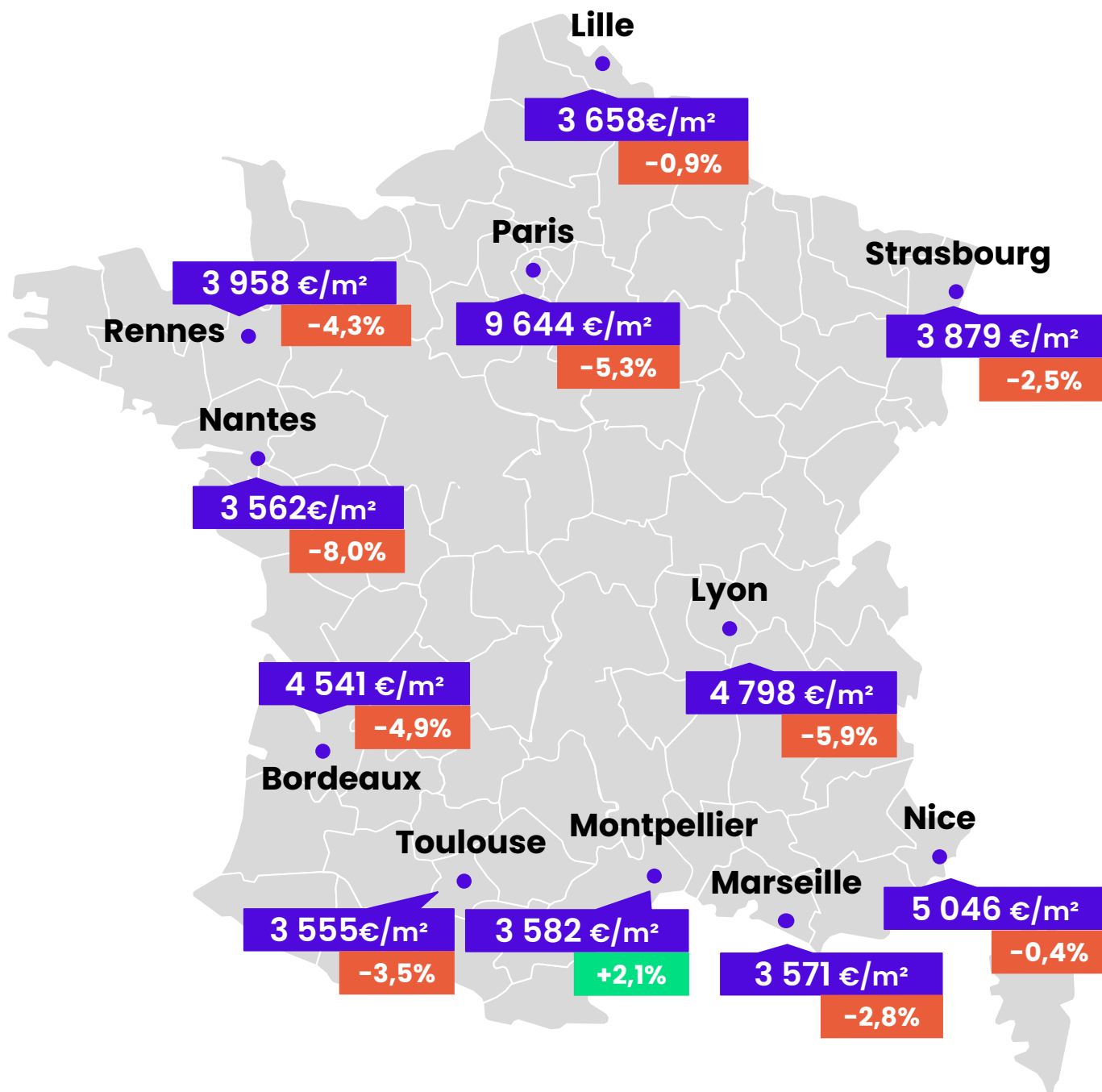
Paris Marseille Lyon Toulouse Nice





# France

## Housing prices and trends



PRICE €/m²

1Y trends

1<sup>st</sup> January 2024

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

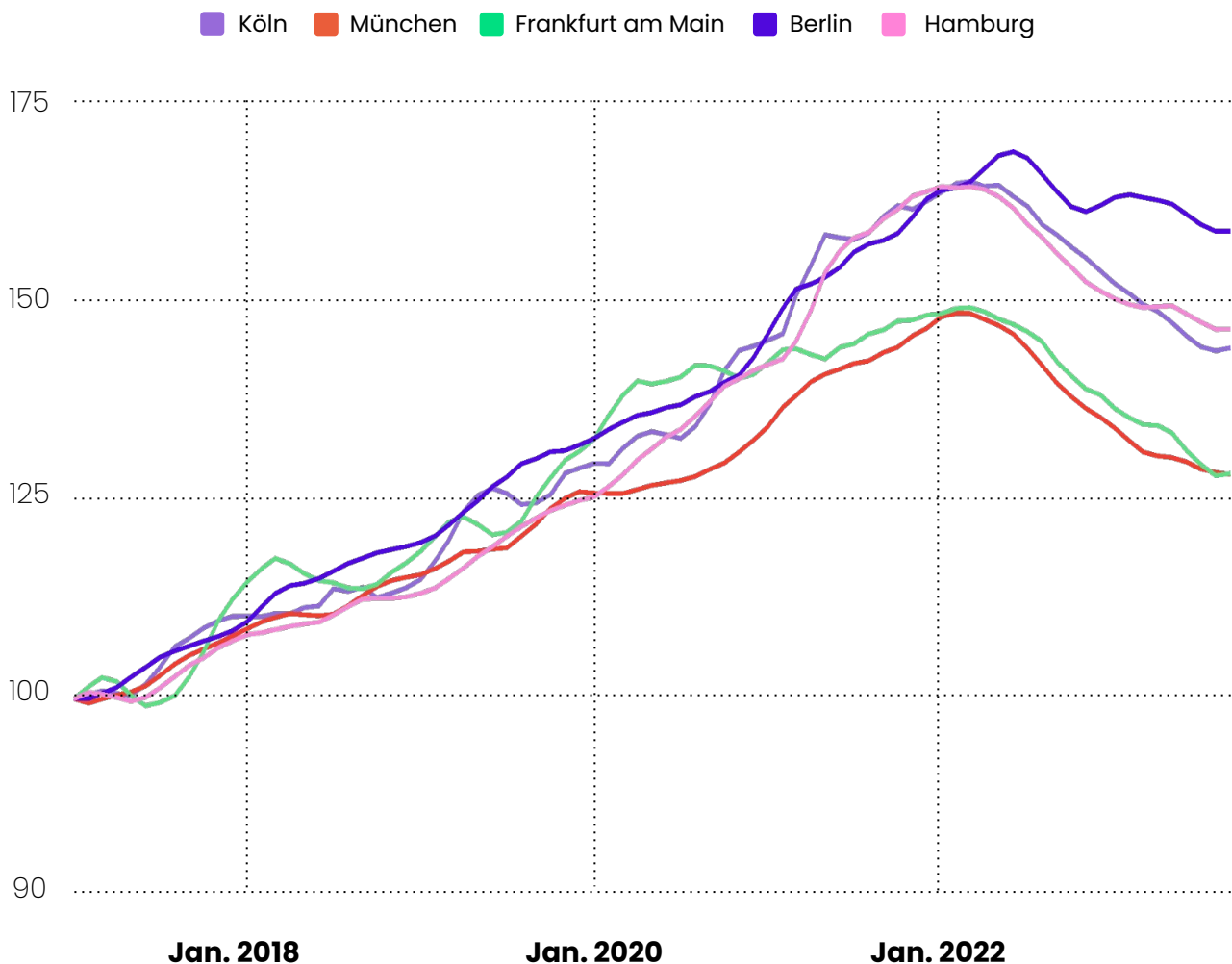




## Germany : the key takeaways

- 2023 is the worst calendar year performance to date in term of prices trends in Germany since 2017. Prices are down by -7.8% over two years, and -10.2% down from its high in May 2022.
- Housing prices have been starting to be stagnant since Q2 2023. -1.6% over 6 months, -0.3% over 3 months. This is an early sign of recovery for the country.
- All 15 largest cities showed negative growth over the last year, ranging from -0.4% to -12%. Nevertheless, cities are starting to stagnate with some recording minor growth in Q4 2023, similarly to national trends.
- Credit conditions are expected to have reached their worst point in 2023 and are set to significantly recover in 2024, as already evidenced by some brokers.
- Housing affordability significantly recovered in 2023 and is today at a close level compared to pre-credit conditions changes. Given income growth and interest rate expectation, we anticipate housing purchasing power to increase, boosting demand.
- Thus, prices are expected to slow down their downward trend in 2024.

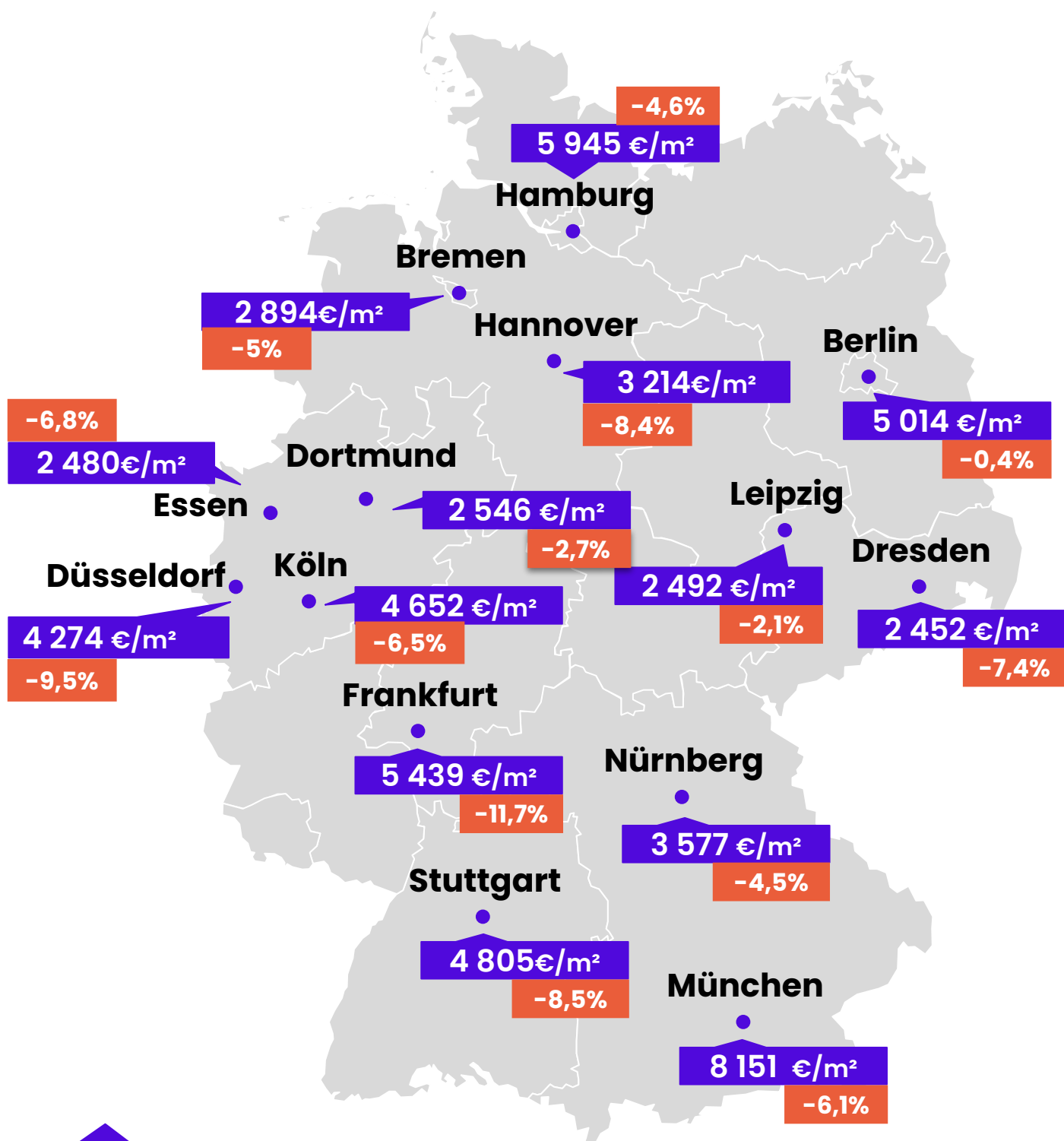
### Five biggest cities in Germany (100 = january 2017)





# Germany

## Housing prices and trends



PRICE €/m²

1Y trends

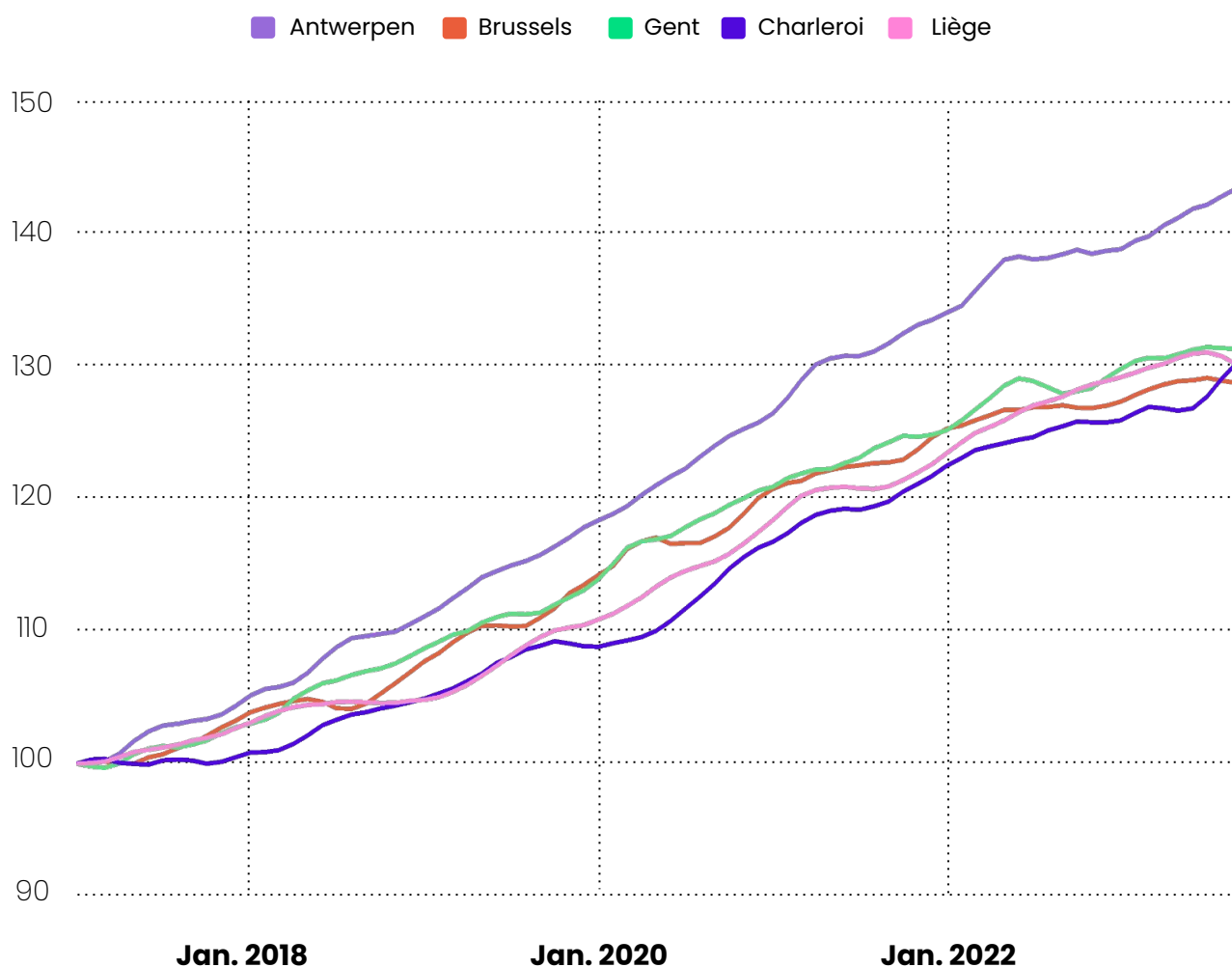
1st January 2024

Hybrid prices and apartment trends (only 11,5% of the housing stock are houses in german big cities)

## Belgium : the key takeaways

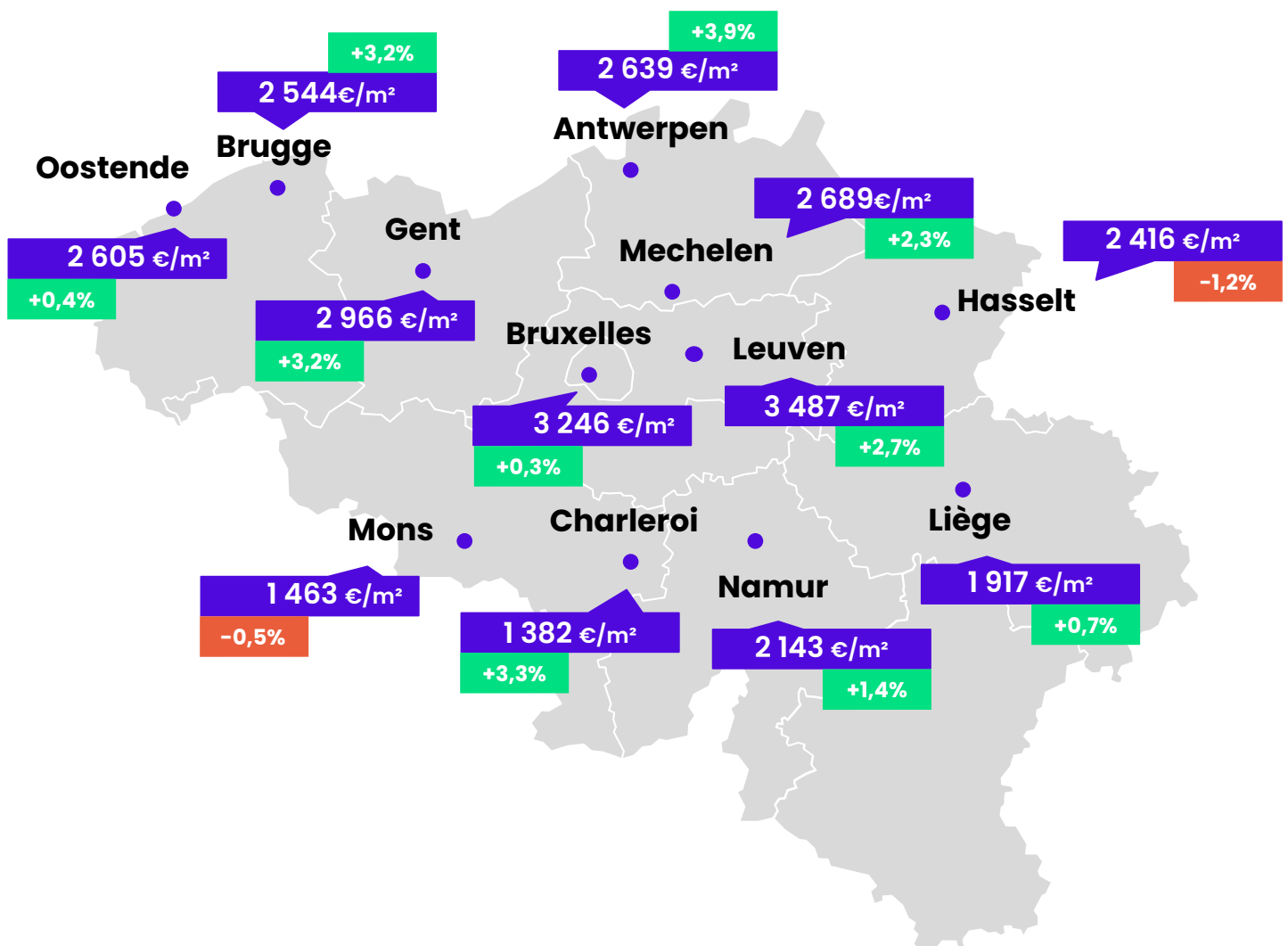
- Although housing prices are still rising in Belgium, the year 2023 marks a slowdown. In 2022, prices increased by 4%. This year, the growth is slower, with an average annual change in Belgium of +3%.
- This slowdown affects all 3 regions. Flanders, which is more protected, will see its prices rise by +3.8% this year, compared with +4.3% in 2022.
- Wallonia will see prices rise by +2.3% this year, compared with +3.8% in 2022.
- The Brussels region is the hardest hit, with a rise of +0.7% this year, compared with +3.1% in 2022. Indeed, prices are stagnating or even starting to fall, with a decline of -0.1% over the last 3 months.
- Although income indexation allowed to avoid a drastic fall of affordability in the country, interest rates rise importantly drawn housing purchasing power.
- Nevertheless, current levels of housing purchasing power are relatively good, particularly compared to neighboring countries.
- Additionally, the fall of interest rates that already started according to brokers, should be enough to maintain demand in 2024.

### Five biggest cities in Belgium (100 = March 2017)



# Belgium

## Housing prices and trends



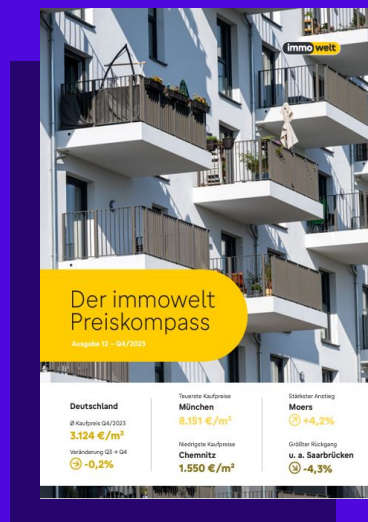
PRICE €/m²

1Y trends

1<sup>st</sup> January 2024

Hybrid city prices and trends

# More details :



**immowelt**

**Q4 2023**



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**January 2024**

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