aviv group

AVIV Housing market report

Q1 2023

GROUPE SeLoger · Meilleurs Agents · IMMOWEB · immowelt aviv group_

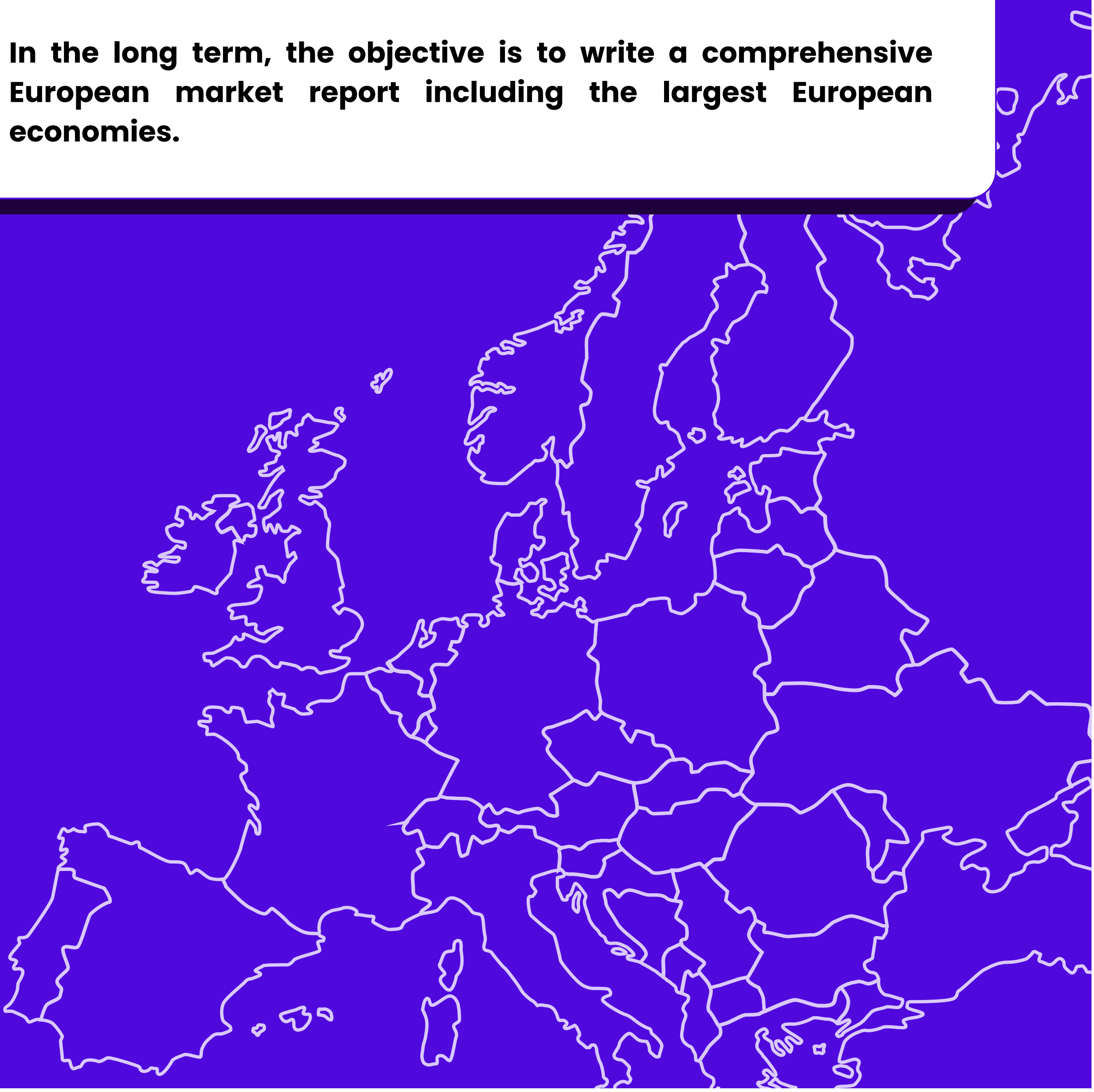
Housing market report

Introductory statement

One year after the launch of the AVIV housing report, we aim at expanding the analysis to more European countries. We start the expansion by including in the report a sample of neighboring AVIV countries: France, Germany, Belgium, Italy, Spain, Portugal, Luxembourg.

The UK and Netherlands are planned to be included in future analysis. Currently, we face several difficulties in terms of lack of official, reliable and comparable data about their credit and real estate markets

In the long term, the objective is to write a comprehensive European market report including the largest European economies.

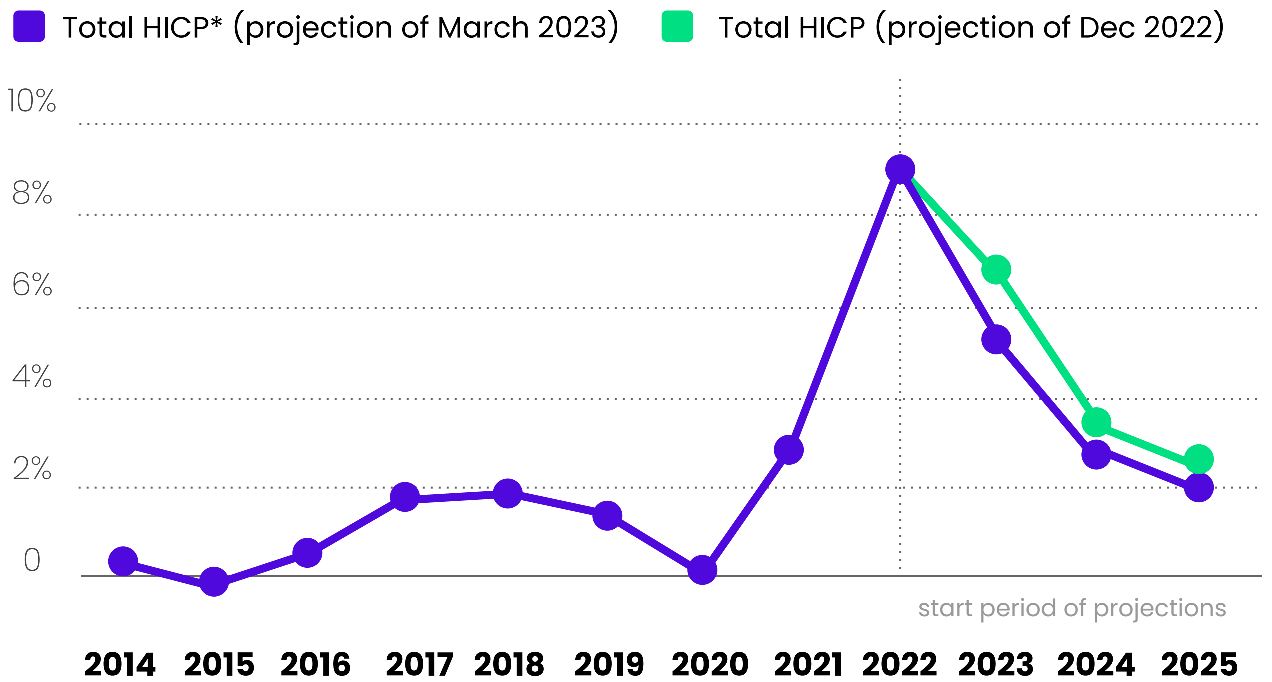


01 Economic outlook

For the first time since the start of the economic and geopolitical disruptions, the macroeconomic projections of the ECB have been favorably revised to more positive forecasts. This marks a change in direction from the deteriorating revisions that have been common practice over recent months. The climate of high inflation we have faced in recent months is predicted to slowly improve. While Euro Area inflation picked up to 8.4% in 2022, the rise in prices is expected to slow down to around 5.3% in 2023, followed by 2.9% and 2.1% in 2024 and 2025, respectively. After an annual growth rate of 3.6% in 2022, GDP growth is expected to slow to 1% in 2023, which subsequently will pick up again the following year.

Euro area inflation projection

(annual percentage change)

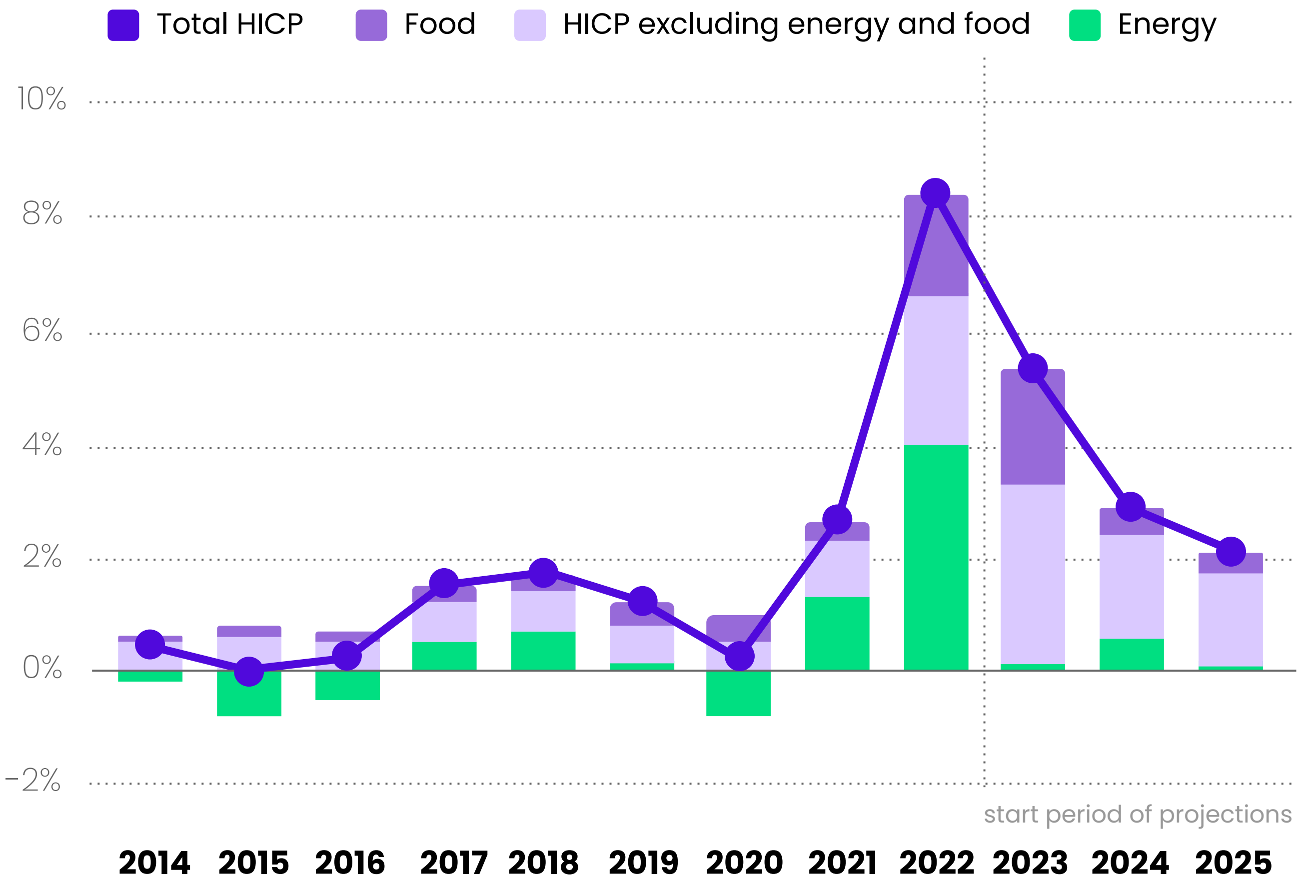


HICP - Harmonised Index of Consumer Prices
Source: ECB, macroeconomic projections of March 2023.

This is a positive signal for the recovery of the current economic situation. The latter is mainly explained by energy prices getting back to normal faster than expected, along with the easing of bottlenecks in global supply. Although this is expected to provide some cost relief to energy-intensive industries and households, core inflation (overall inflation excluding energy and food) remains high and will be higher in 2023 than in 2022 on average. this can be explained by the lagged transmission of inflation onto the real economy.

Euro area inflation by component

(annual percentage change)



HICP - Harmonised Index of Consumer Prices
Source: ECB, macroeconomic projections of March 2023.

Although the ECB's monetary policy actions have drastically changed in 2022 to fight high inflation, the direct effects of these restrictive policies on the economy have not yet fully materialized and are expected to be observed in the near future. **Despite the improvements in recent months, core inflation remains stuck at an unsustainable level. This continues to be the main driver for the ECB decisions today.**

02 Borrowing conditions

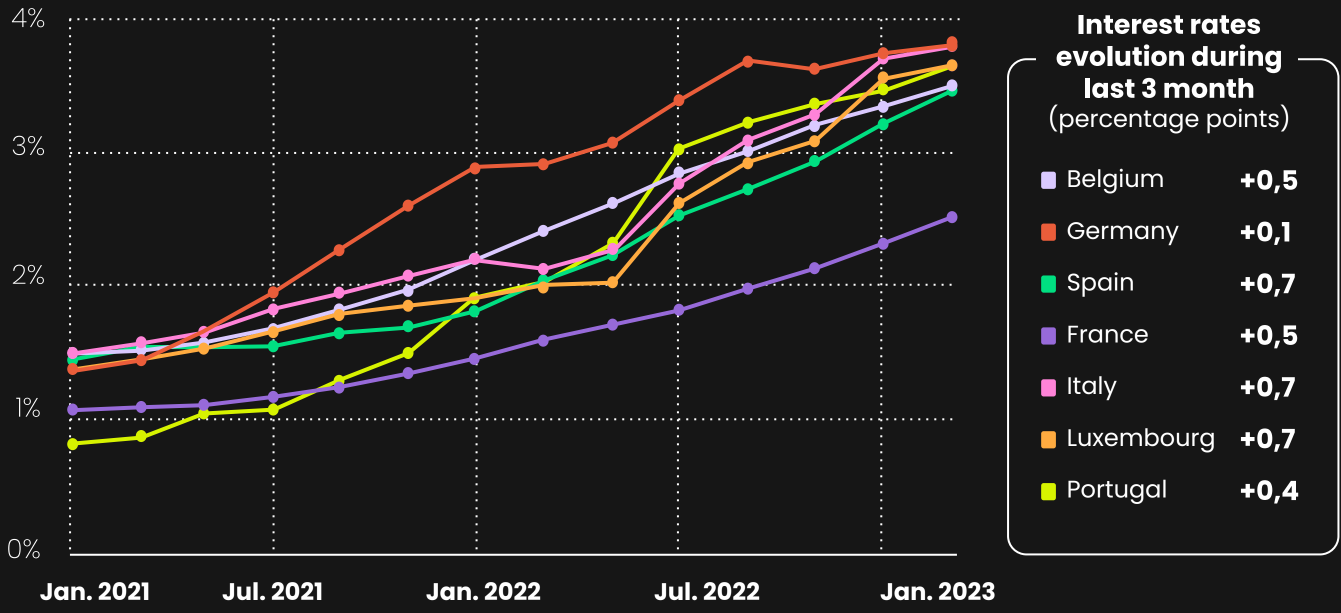
a. Overview

In order to slow down demand and fight the persistent high inflation across the Euro Area, the ECB has increased its target interest rate by a total of 3.5 percentage points (pp) between the summer of 2022 and the latest monetary policy decision in March 2023. Additionally, the injection of money in the economy has been progressively reduced. **As a result of the normalization of monetary policy action and inflation anticipations, interest rates for housing loans have been on the rise in European countries since the beginning of 2022 and continued to do so in 2023.**

In particular, analysed countries have seen an approximate average increase of +2.2pp within this timespan, with the highest increases being observed in Portugal (+2.8pp), Germany (+2.4pp) and Italy (+2.4pp). The countries analysed in this report, have mostly followed a similar path and are quite closely grouped in terms of interest rate developments, during this period. The only exception is France, where interest rates for housing loans have only increased by +1.4pp on average. This can be mainly explained by the existence of a national regulation preventing fast interest rates spikes[1]. Nevertheless, starting from January 2023, ceiling rates will be updated monthly rather than quarterly. Thus, in 2023, we expect interest rates in France to catch up and thereafter, follow trends similar to the rest of European countries.

[1] The French national bank sets an usury rate as a ceiling rate intended to protect individuals from abusing borrowing conditions. Before 2023, usury rates were settled every quarter. As a result, interest rates have been increasing much slower in 2022 compared to the other European countries, rising in lagged responses to the ECB target rate increases. Additionally, the amount of granted new loans has been substantially disturbed as the market interest rates approached upper usury limits.

Average Interest rates for housing loans to households by country*



**Housing purchase excluding revolving loans and overdrafts. All maturities together.*
Source: ECB, March 2023.

In 2023, interest rates for housing purchase are still on the rise. Over the last three months, housing loan interest rates have increased on average by +0.5pp, which is less compared to the +0.8pp increase over the previous three months. This slight slow down in interest rate hikes is especially present in Germany, where interest rates have only increased by +0.1pp on average over the last three months (vs +0.8pp in the three previous ones). This phenomenon may be the result of the latest ECB key policy rates rises being less aggressive compared to initial ones[2], or a result of structure changes for granted housing loans in the Euro Area countries towards safer housing loan profiles (shorter length, smaller amount, higher Loan-to-Value ratios,…). These changes would consequently lower interest rates on average, as pointed out in the last bank lending survey conducted by the ECB[3]. This structural change consequently implies more households being excluded from the market due to disqualifying financial constraints.

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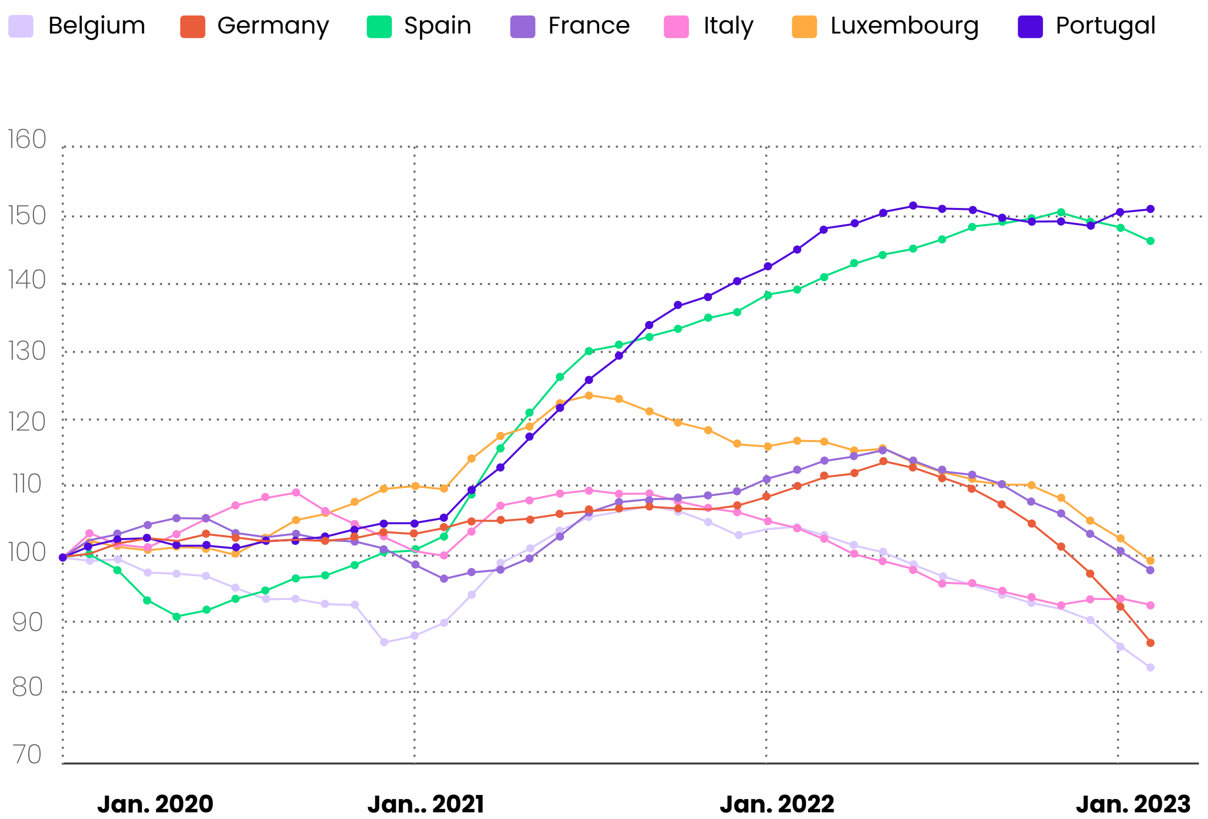
[2]+0.5pp in ECB decisions since December 2022, compared to +0.75pp in the previous ones. ECB, March 2023.
[3]-ECB bank lending survey, 2022Q4.

Along with the deterioration of the borrowing conditions, **credit production has substantially dropped during recent months in the majority of the studied countries.**

Highest year on year decreases in the volume of annual credit production are observed in Germany (-21%) and Belgium (-19%). Spain and Portugal are the only counties reporting a positive year on year growth of +4% and +5%, respectively. This may be attributed to a delayed response to the economic condition within these countries, since we also observe a downward trend in Spain starting in 2022Q4 and a clear stabilization in Portugal since 2022Q2[4].

New credits for housing to households* - Annual production

(100 = 1st January 2020)



*12 months accumulated sum, non deflated from house prices evolution.

Source: ECB, March 2023..

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[4] Itis important to notice that although Spain and Portugal present high lending volume growth, they remain the only countries that have never recovered credit volume levels of 2007, while the majority of other countries have largely gone beyond pre-crisis levels.

The general downward trend of lending accelerated in recent months, resulting in a deterioration of year on year volumes for new loans granted per month. Germany shows the worst reduction of housing credit production in February among all studied countries, more than halfing (-54%) its production compared to February 2022. It is closely followed by Belgium (-39%) and France (-37%).

If downward trends were to continue at the current rate, by the end of the year, annual volumes of housing transactions could reach up to -30% for countries such as Belgium, France or Luxembourg, and even worse for Germany, compared to 2022.

% Evolution of monthly credit production to households for housing purchase

(year on year)

	Feb 23	Jan 23	Dec 22	Nov 22
🇧🇪 Belgium	-39%	-45%	-21%	-14%
🇩🇪 Germany	-54%	-49%	-43%	-40%
🇫🇷 France	-37%	-31%	-29%	-21%
🇪🇸 Spain	-18%	-8%	-11%	8%
🇵🇹 Portugal	6%	17%	-4%	-1%
🇮🇹 Italy	-14%	4%	9%	-12%
🇱🇺 Lux.	-34%	-31%	-32%	-21%

In February 2023, Germany total lending to households for housing purchase decreased by 54% compared to February 2022.

Source: ECB, March 2023.

b. Financial market instabilities: the new challenge facing the economy?

In addition to the current economic context that led the ECB to enhance credit market restrictions to combat inflation, **new concerns about the banking system stability have shaken the economy in the first quarter of 2023.**

The bank failures of Silicon Valley Bank and Credit Suisse, among others in the US and Europe, have put international financial markets under pressure, generating a large loss of confidence among the banking sector. As a result, increasing uncertainty and changes in the level of risk aversion could modify the behaviour of banks. They could be less willing to lend money in order to avoid spillover effects, similar to what happened after the financial crisis in 2007. This could further tighten the global access to housing loans for households. However, the ECB, along with other central banks and governments, reacted quickly to the situation in order to ensure the liquidity and stability of the banking system.

Nevertheless, the risk of a financial crisis looms over the economy, which could push central banks to stop their current aggressive monetary policy decisions in order to preserve financial stability and reduce banks exposure to risks**. Indeed, for the first time in one year, the ECB did not foreshadow another rise in key policy rates for the next monetary policy decision, instead highlighting that actions will be "data-dependent" in order to "preserve price and financial stability in the euro area."** This may suggest the end of the rising interest rate period.

03 Housing markets in 2022

Prices in the real estate market of studied European countries have continued growing during the last 12 months regardless of the drop in bank lending to households. In 2022, Germany and Luxembourg are the only countries registering decreasing prices with -2.7% and -0.4%, respectively. Indeed, they present very similar trends with the fall of prices starting in 2022Q2 and a slight stabilization[5] in recent months. The rest of the countries registered an average growth of 4.5% in 2022. Major drivers of this growth are Spain (5.4%) and Portugal (7.1%).

As expected, countries with higher prices are the ones reacting sooner to the increase of interest rates. Indeed, in these countries, households present lower housing purchasing power levels and are therefore more dependent on borrowing conditions to purchase housing. Hence, they are more sensitive to changes in interest rates. Italy seems to be the exception to this rule. Nevertheless, housing prices in Italy has been constant for years, and no remarkable change is observed in 2022[6].

Prices remained quite stable in the first months of 2023 for all countries, which provided some breathing space even for countries were prices were decreasing. While this is a common dynamic at the beginning of the year for the other countries, Belgium, Germany and France used to have significantly higher growth at the same period in previous years. **Importantly, France is the only country with falling prices (-0.5% on average) in Q1 2023, compared to a growth of 1.9% during the same period 1 year ago.** While this remains a small drop in magnitude, this represents a big change in trend for the country.

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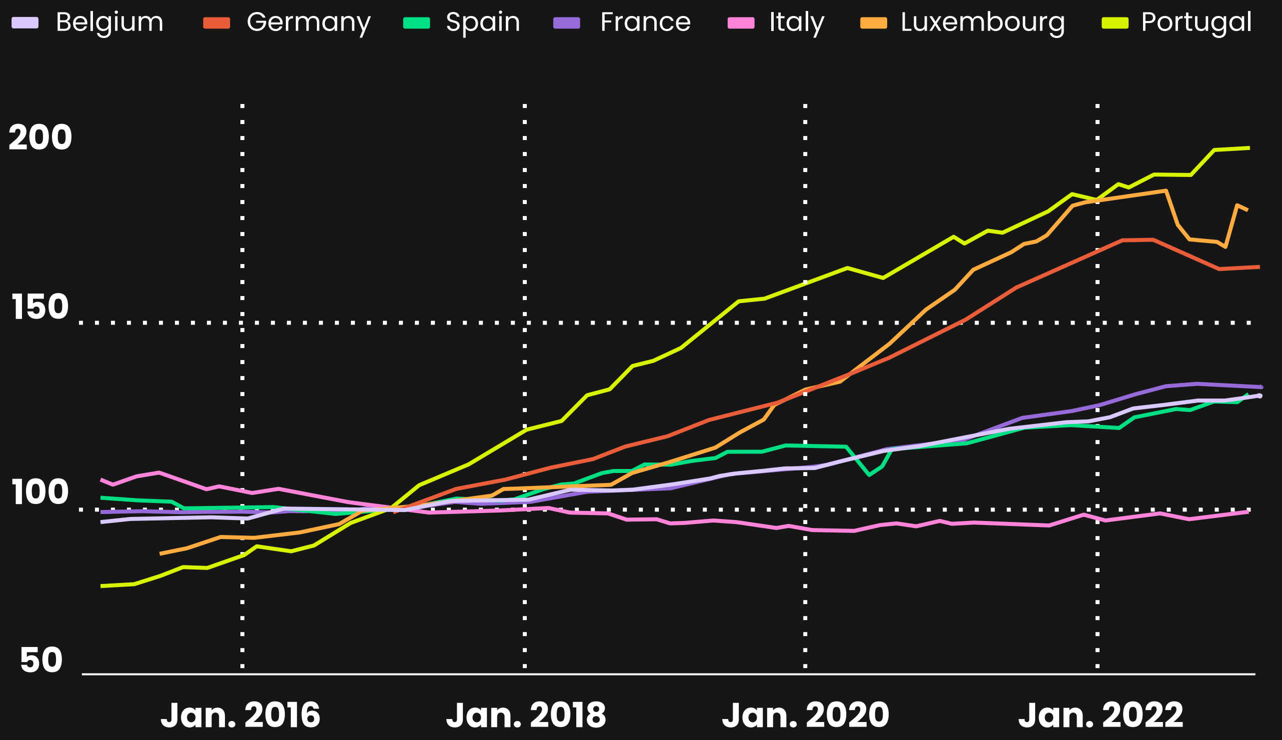
[5] Whereas Luxembourg presents significant rise trends in the last months, this should be carefully interpreted. The latter is a small country more prone to market high fluctuations due to the small volume of data.
[6] This might be explained by the fact that Italian housing markets remain affected by structural fragilities, such as demographic issues and unemployment. Italy continues to be depopulated and aged: The average age is increasing rapidly (46 years + 3 years since 2010), the highest in EU. Italy still has the highest inactivity rate (15-64 years) in the EU (34.5%). Direction générale du Trésor, 2022.

Europe
Housing trends

European countries housing price indices
(100 = January 2017)

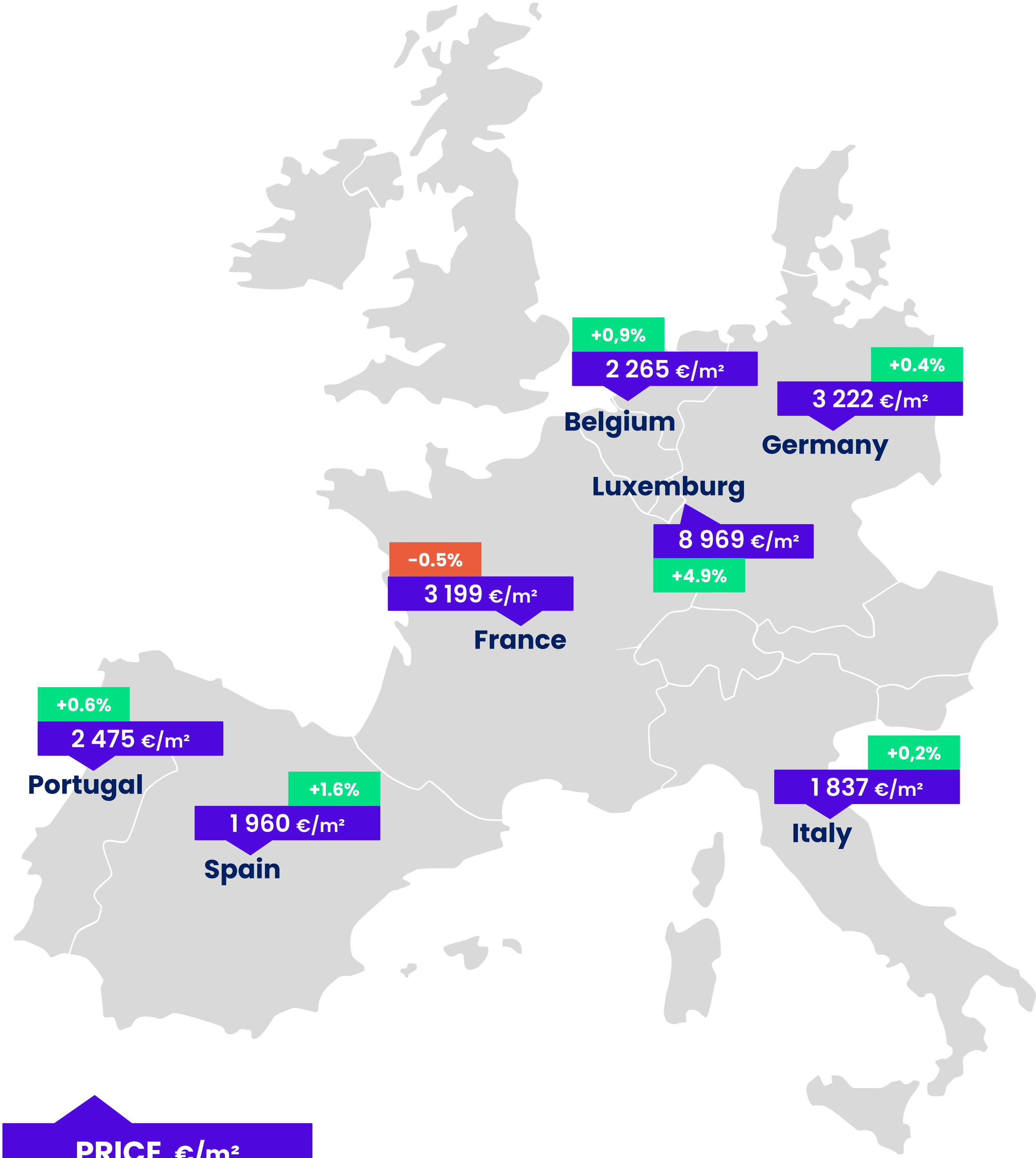


	2017	2018	2019	2020	2021	2022
Belgium	2,4%	3,3%	3,4%	6,5%	4,4%	4,5%
Germany	8,6%	8,3%	10,1%	12,3%	12,9%	-2,7%
France	1,6%	3,2%	5%	5,8%	7,6%	4,1%
Spain	3%	7,4%	4,3%	1,6%	2,1%	5,4%
Portugal	19,6%	16,2%	12,1%	7,3%	5,6%	7,1%
Italy	-0,7%	-3,3%	-1,7%	1,5%	1,8%	1,4%
Luxemb.	-4,2%	6,7%	16,7%	18,8%	14%	-0,4%

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

Europe

Housing prices and trends

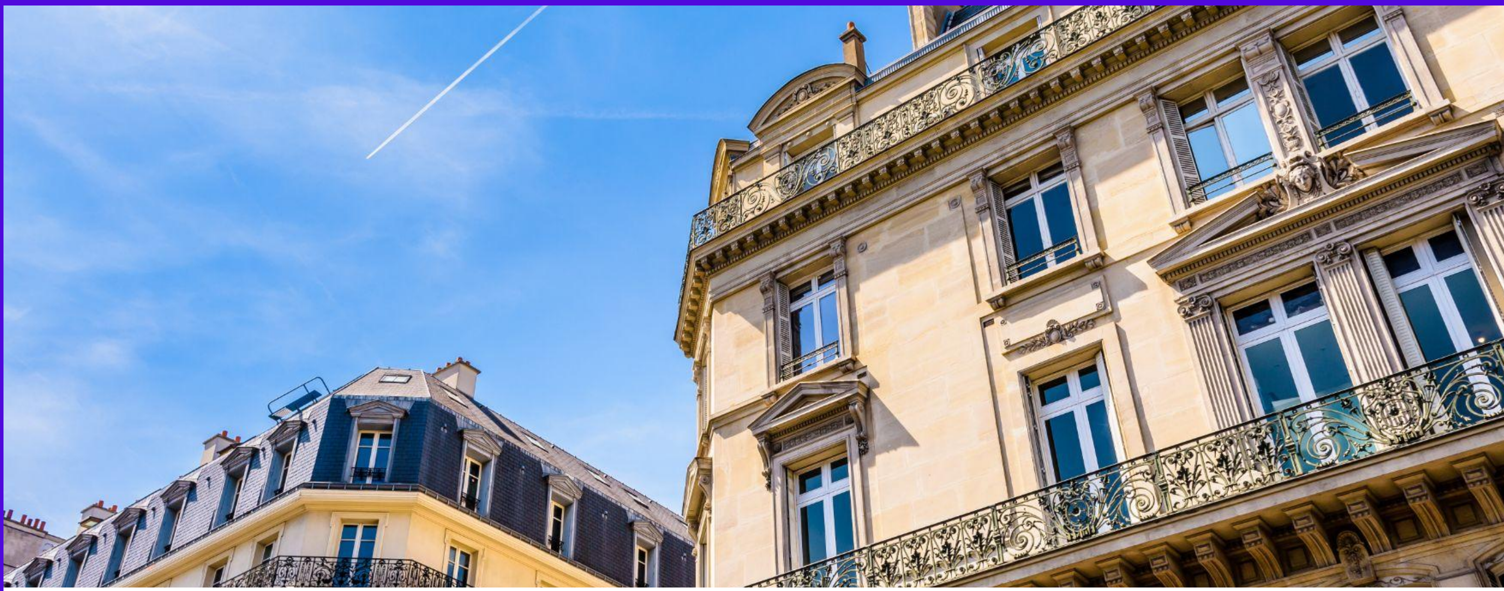


PRICE €/m²

Q1 trends

1st April 2023

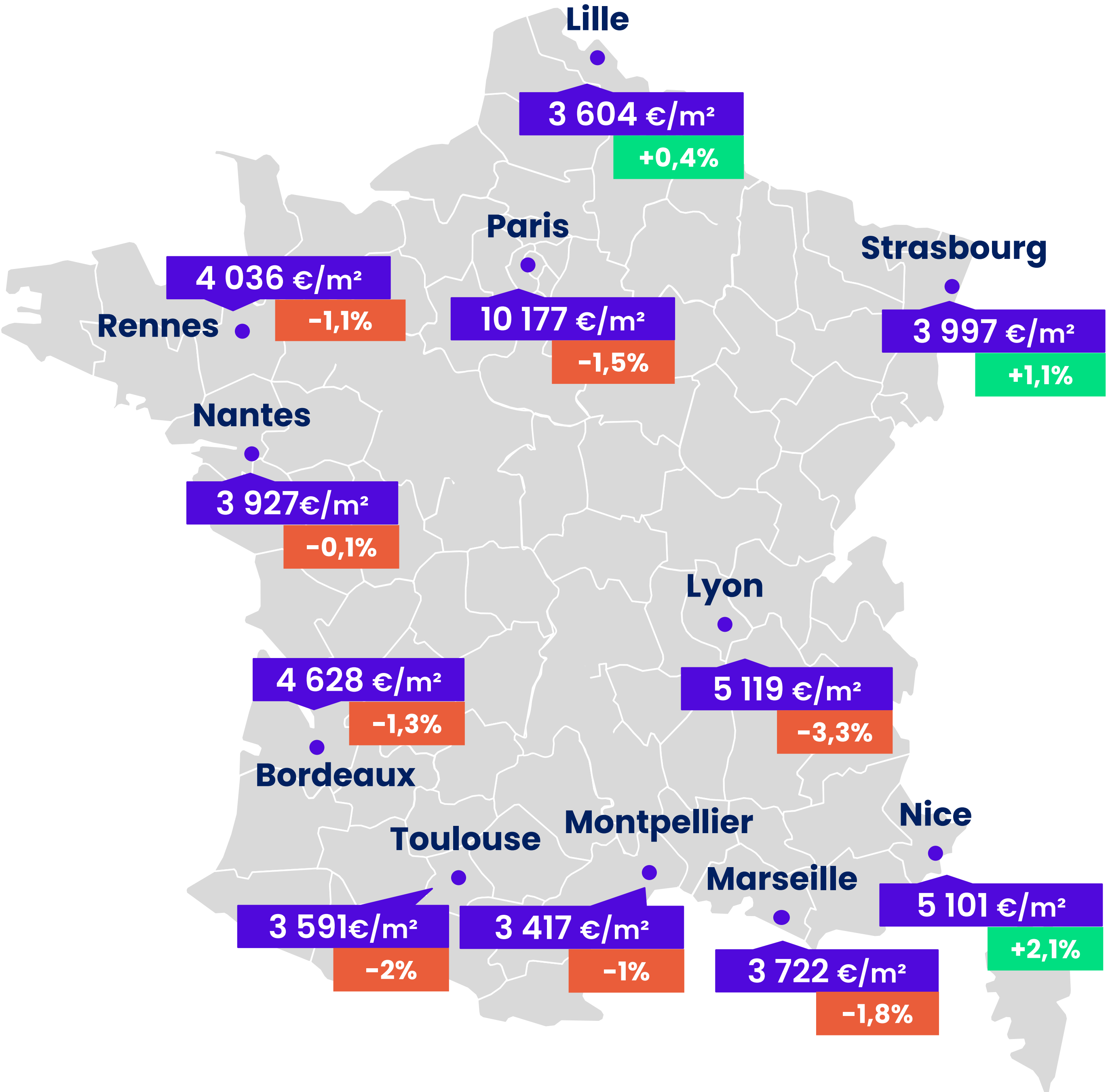
Source: AVIV - Immowelt, Immoweb, Meilleurs Agents, Idealista Italy, Idealista Portugal, Idealista Spain and Immotop.



🇫🇷 France : the key takeaways

- **The french real estate market is seizing up:** Prices are slightly decreasing by -0.5% during the first quarter of the year.
- **Despite the fact that the 10 biggest cities have seen the sharpest decline in their price in Q1** (-1%), the 50 biggest cities (-0.5%) and the rural areas (-0.1%) have also seen their prices fall this quarter.
- Since the beginning of the year, Lyon (-3,3%), Toulouse (-2%), Marseille (-1,8%) and Paris (-1,5%) have seen **the largest drop in prices among big cities.**
- **In Paris, the prices have recorded a significant drop year on year: -3.9%.** As an illustration, this drop is the second largest and fastest decrease of the century in Paris after the financial crisis in 2008. Following this trend, Paris could fall below the price threshold of 10,000€ / sqm2 by the summer of 2023.
- **Households are still struggling due to tightening credit conditions resulting in less transactions.** As discussed previously, we do not expect significant improvements and positive changes in loan conditions for the upcoming months in the country.

France
Housing prices and trends



PRICE €/m²

Q1 trends

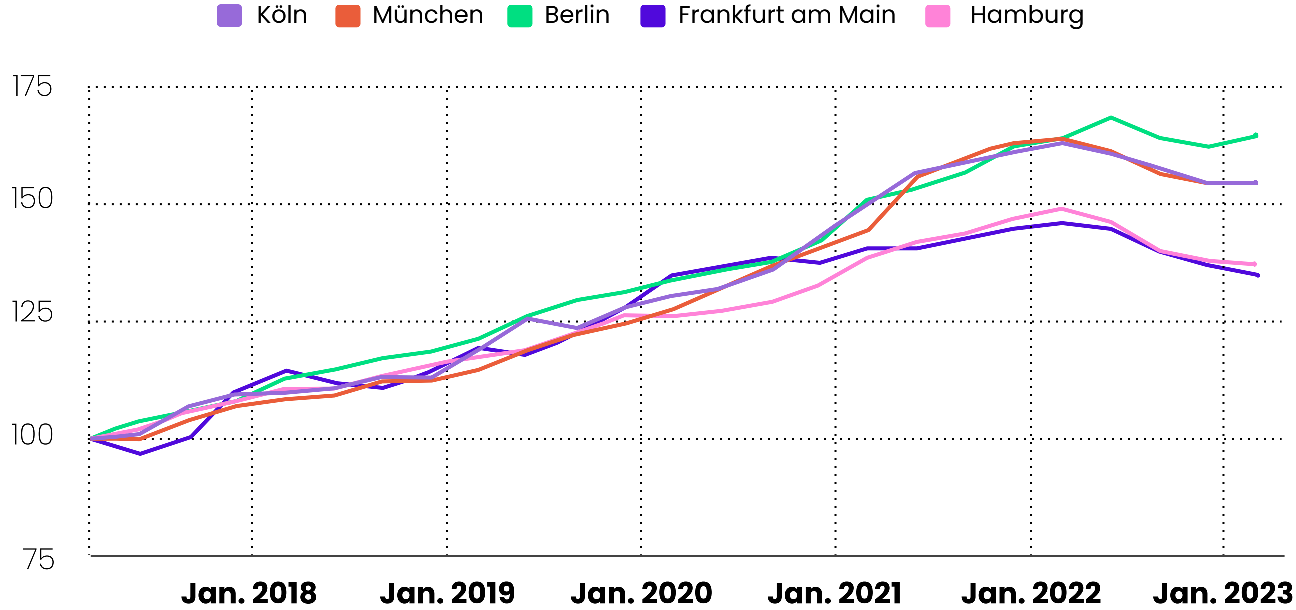
1st April 2023

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

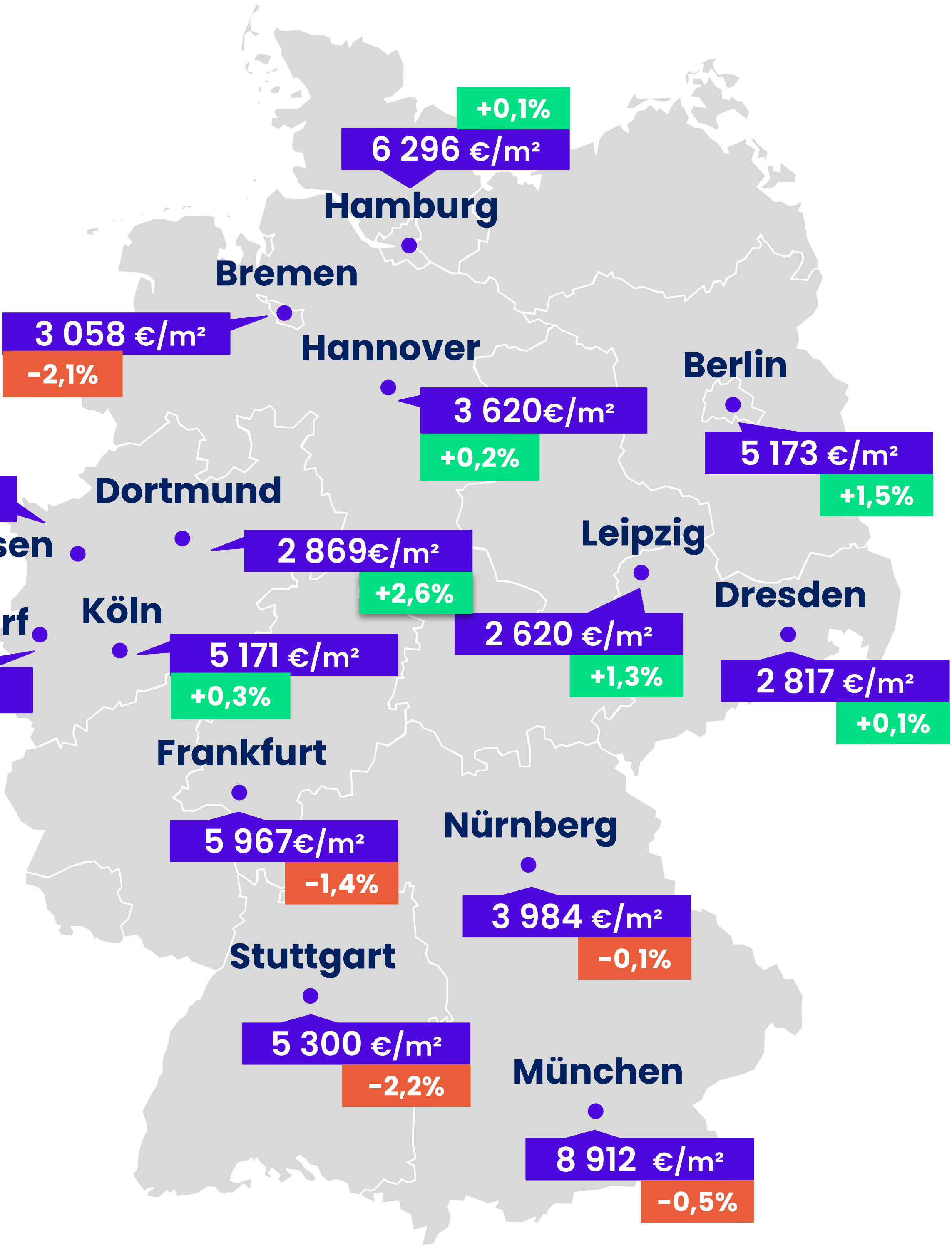
🇩🇪 Germany : the key takeaways

- **The german housing market is stabilizing on average in the first quarter of 2023, growing by 0.3% year to date**.
- **Nevertheless, the market is still down by -3.8% compared to last year**. The market peaked in May 2022, and lost -4.3% until it hit its low in December 2022. Since then, the market has slightly recovered by 0.2%.
- **In Q1, 8 out of 14 biggest cities are showing positive growth** with the strongest performers being Essen (4.9%), Dortmund (2.6%), and Berlin (1.5%).
- **Post-covid market dynamics continue to drive the market. Prices for apartment have dropped almost twice as much as houses : -2.2% in houses, -4.3% in apartments.** Apartments have been outperformed by houses ever since June 2021 due to the post-covid desirability effect for more living/recreational space.

Five Biggest Cities in Germany (100 = March 2017)



🇩🇪 Germany
Housing prices and trends



PRICE €/m²

Q1 trends

1st April 2023

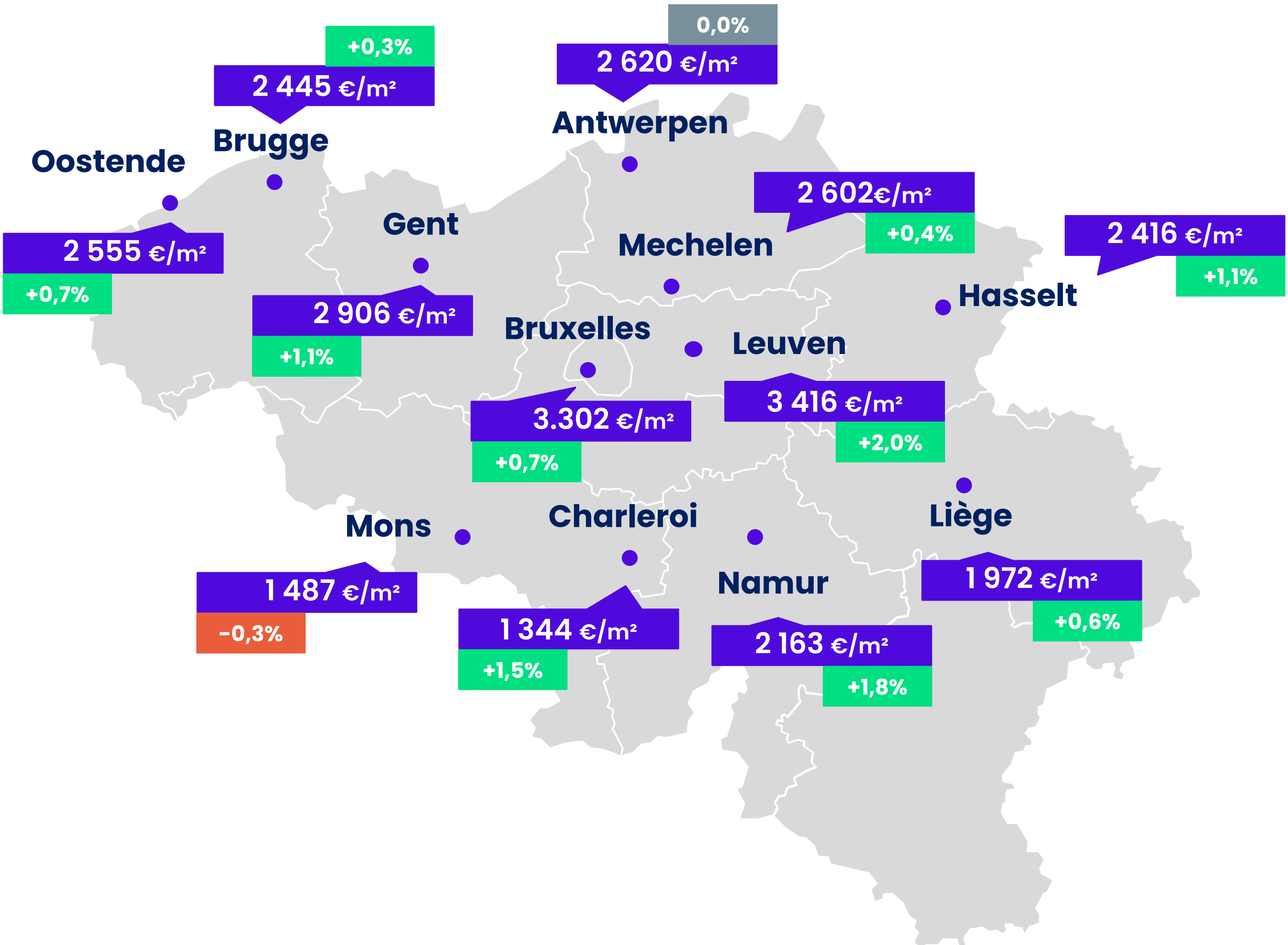
Hybrid prices and apartment trends (only 11,5% of the housing stock are houses in german big cities)

🇧🇪 Belgium : the key takeaways

- **In Belgium, prices are stabilising,** with a moderate price increase of +0.9% in Q1 2023 on average. This is half the increase of the first quarters of the previous two years, which saw an average price growth of +1.9%.
- **The appeal of houses over apartments seems to be returning to normal with a similar price increase in Q1 2023** (1% house, 0,9% apartment). **Differences in price growth between cities and rural areas are also less pronounced** this quarter. Flanders, for example, recorded an increase of +0.5% for cities, which was similar to the price growth of rural areas (+0.6%).
- **Brussels is lagging behind Wallonia and Flanders** in terms of price growth over the last 12 months. In one year, property prices have risen by 3.6% and 3.5% respectively in Flanders and Wallonia, compared to a more modest rise in Brussels (2.6%).
- **At provincial level, the ranking for this quarter is led by Flemish Brabant (+1.8%)**, closely followed by East Flanders (+1.6%) and Luxembourg (+1.4%). On the other hand, the provinces of Limburg (+0.4%), Walloon Brabant (+0.3%) and Antwerp (+0.2%) recorded more modest increases.
- If we look at the larger Belgian cities, **Leuven (+2%) and Namur (+1.8%) are recording the highest price growth this quarter.** On the other hand, Mons recorded a slight decrease of -0.3%, while prices in Antwerp remained stable (+0%).
- Although there has been a **decline in the production of real estate loans** (resulting in less transactions), as explained in section 2, the evolution of **real estate prices, although modest, remains positive in the country**.

🇧🇪 Belgium

Housing prices and trends



PRICE €/m²

Q1 trends

1st April 2023

Hybrid prices and trends

More details :

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