



aviv group —

AVIV Housing market report

→ Q3 2023

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AVIV Housing market report

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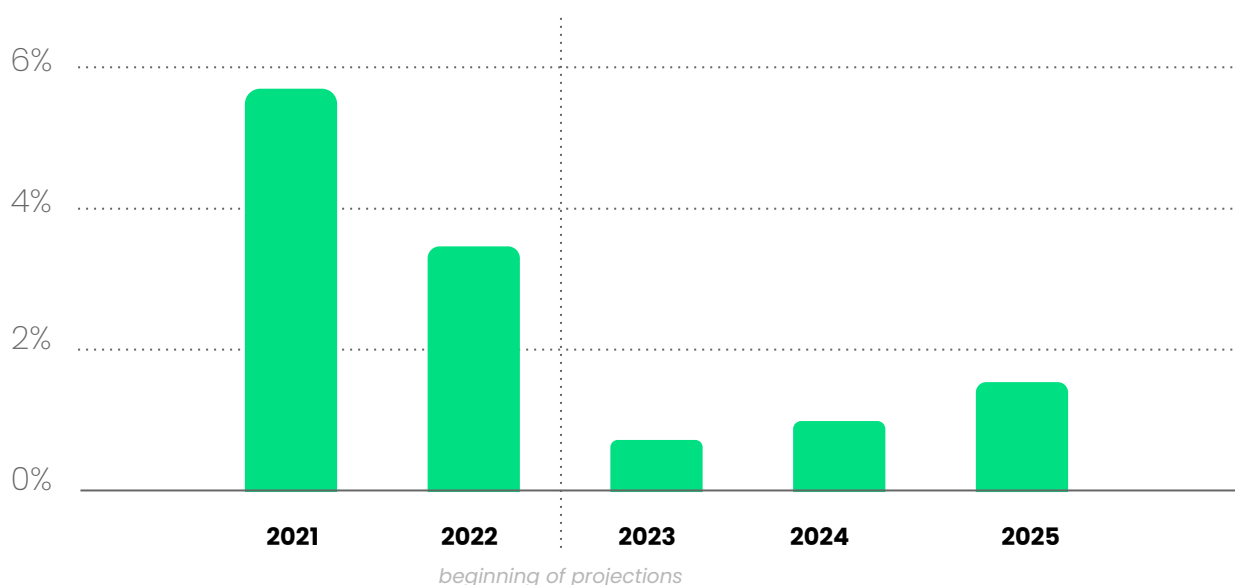
01 Economic outlook

Slow growth, but controlled inflation

In the second quarter of 2023, economic growth in the euro area remained sluggish. Projections suggest a continuation of this trend in Q3 and Q4, attributed to a weak manufacturing sector and an anticipated slowdown in the services sector. Private consumption continued to stagnate and fell short of previous expectations due to elevated inflation and tight financial conditions. These points coupled with a worsened outlook for global trade

have prompted the ECB to revise its economic growth forecasts significantly downward. The updated projections foresee a modest growth of 0.7% for the euro area economy in 2023, followed by 1.0% in 2024 and 1.5% in 2025. **However, with inflation expected to decline and wages to rise in a still tight labor market, real disposable income is expected to recover.**

GDP annual growth



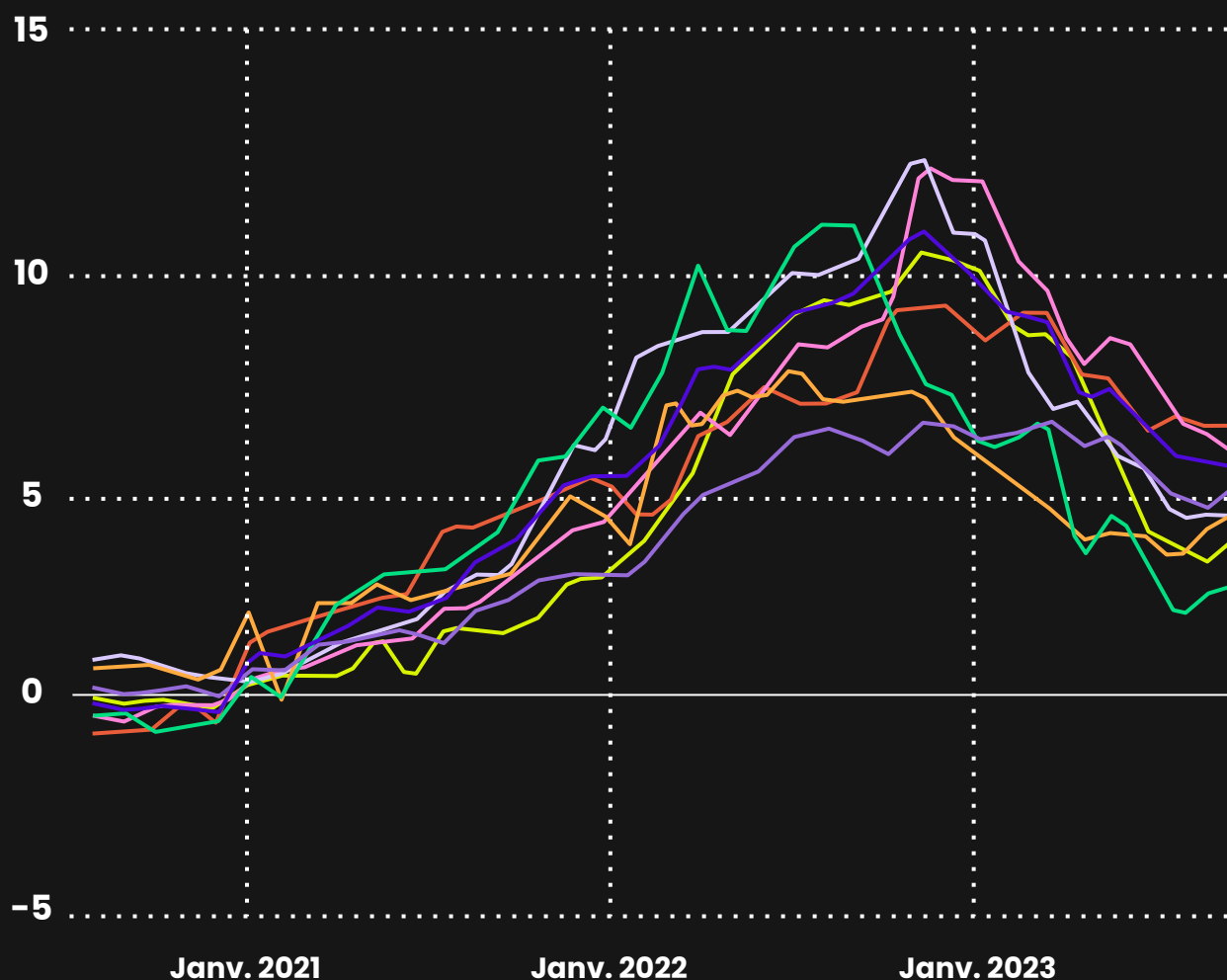
Source: ECB, macroeconomic projections September 2023.

Tighter financing conditions are dampening demand and driving inflation closer to target levels in all countries. **Most of the studied economies have already reached an annual inflation rate lower than 5% as of August 2023, and even below 4% in Spain and Portugal.** Nevertheless, the latest inflation projections by the ECB for 2023 and

2024 have been revised upward. Based on projections made by the ECB, Euro area inflation predicted to reach 5.6% in 2023, 3.2% in 2024 and 2.1% in 2025. **This shows that price pressure remains high, even if most indicators are starting to ease.**

Euro area annual inflation

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

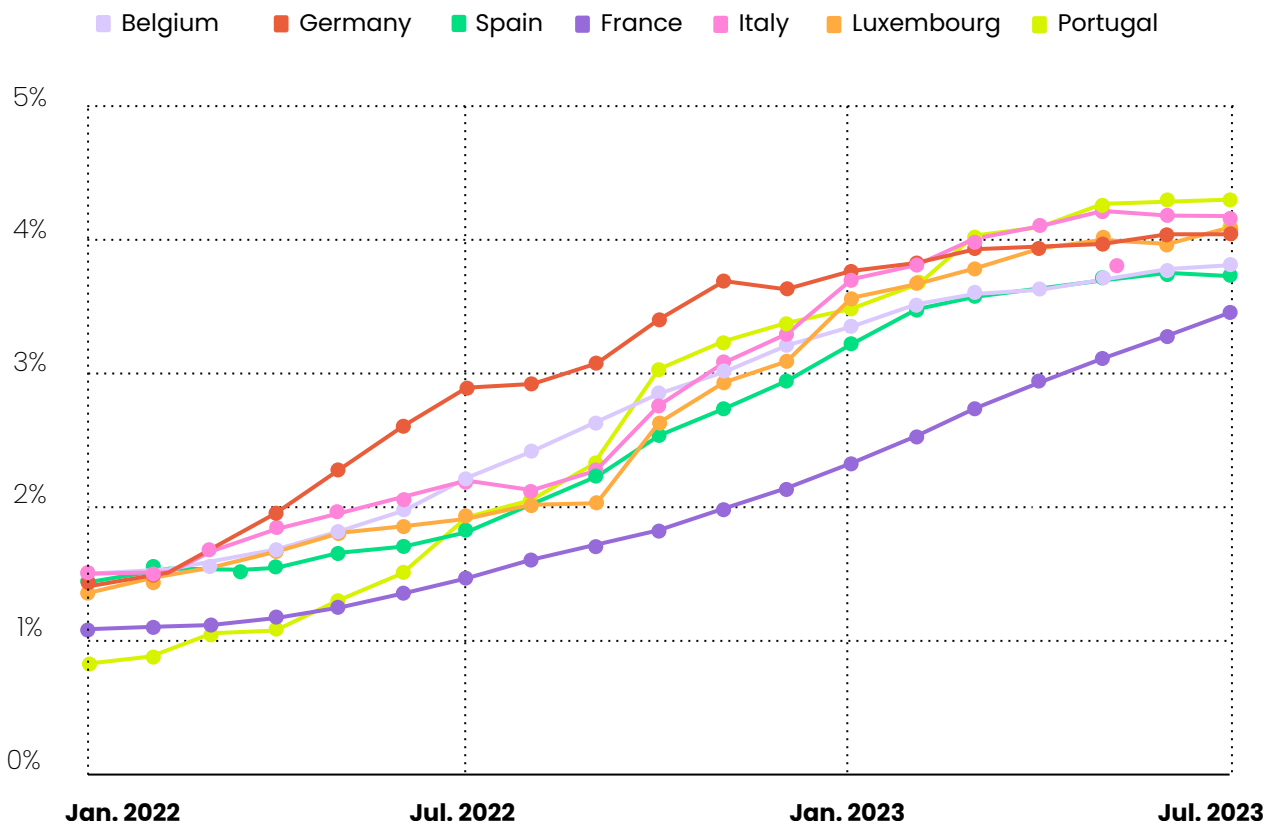


02 Credit conditions

Interest rates approach their maximum

The ECB recently raised key interest rates by another 25 basis points; however, the President of the European Central Bank (ECB) Christine Lagarde declared that rates "have reached levels that, if maintained for a sufficiently long duration, will make a substantial contribution to the timely return of inflation to our target." Therefore, **this increase probably marks the end of the upward trajectory. However, this level of key interest rates is expected to be maintained for an extended period**, most likely until the tail end of 2024, if economic projections hold true.

Average Interest rates for housing loans to households



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

Interest rates evolution

(in percentage points)

	Year to date	Last 3 months
 Belgium	+0.6	+0.2
 Germany	+0.4	+0.1
 France	+1.3	+0.5
 Spain	+0.8	+0.1
 Portugal	+0.9	+0.2
 Italy	+0.9	+0.1
 Luxembourg	+1.0	+0.1

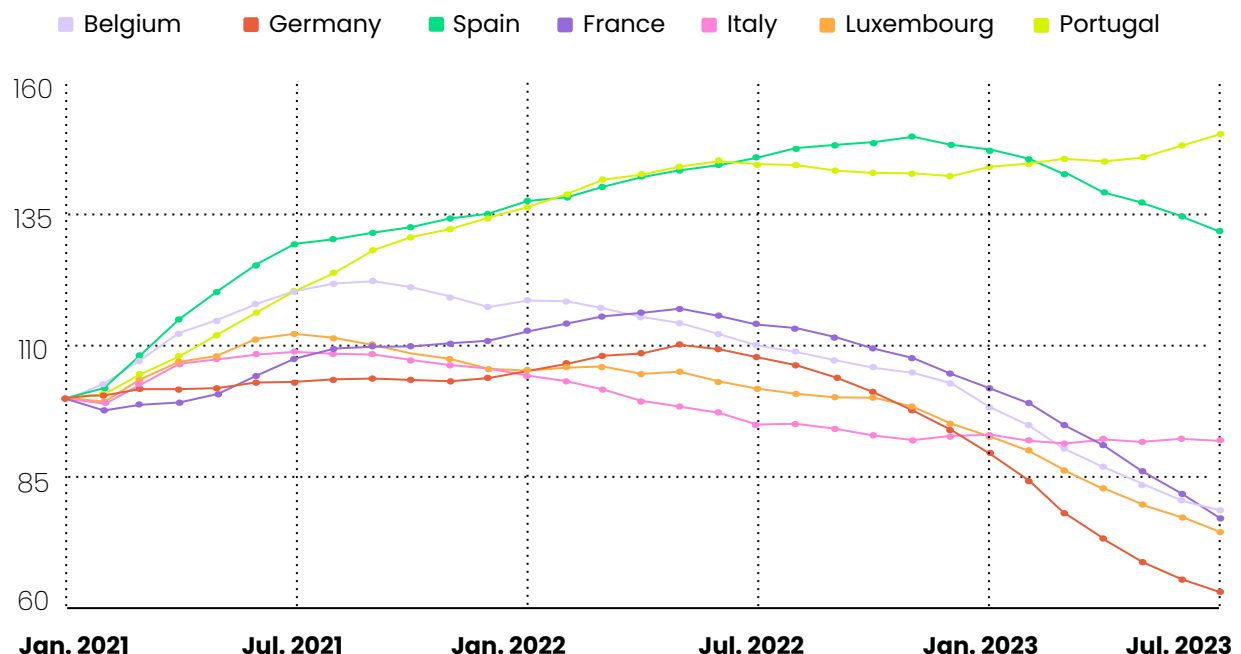
Year to date = December to July. 3m = April to July

Source: ECB, September 2023

Interest rates have continued to increase in multiple countries, but the rate of this increase has notably decelerated, especially since January 2023. During this period, all countries have experienced an increase of less than 1 percentage points, with the exception of France. **This stabilization becomes evident when focusing on the most recent three months of data, revealing a rise of less at most 0.2 percentage points in all countries except France.** At present, interest rates hover around 4% in all these nations, with France narrowing the gap that previously existed with its neighboring countries.

New credits for housing to households – Annual production

(100 = 1st January 2021)



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








Source: ECB, September 2023.

At the same time, **the trajectory of credit production continues to decline across all countries, resulting in negative credit evolution over both the past quarter and the past year, except for Portugal.** Although the reduction in credit production seems to be slowing compared to previous months, the decline remains notably high as of July 2023. **This persistent trend will exert continued pressure on**

demand and transaction volumes, ultimately impacting price trends and underscoring a shift in housing market dynamics. Based on the current levels of credit lending for housing purchases, it is anticipated that annual transaction volumes for 2023 will decrease by as much as -30%, depending on the specific country.

% Evolution of monthly credit production for housing to households

(year on year)

	Jul 23	Jun 23	May 23	April 23
 Belgium	-27%	-33%	-39%	-41%
 Germany	-32%	-39%	-50%	-50%
 France	-45%	-43%	-45%	-44%
 Spain	-19%	-18%	-14%	-27%
 Portugal	17%	18%	9%	-4%
 Italy	-5%	8%	-6%	7%
 Lux.	-32%	-29%	-36%	-44%

In April 2023, Germany's total lending to households for housing purchase decreased by 50% compared to April 2022.

Source: ECB, September 2023.

03

Housing markets in European countries

a. The deterioration of Housing Purchasing Power

Housing Purchasing Power (HPP)¹ in studied economies has experienced a sharp downturn during recent months, reaching their lowest levels for all analyzed countries since 2017. This unprecedented decline can be attributed primarily to a drastic shift in borrowing conditions, notably the surge in interest rates, which now hover around 4% across all countries. **These heightened interest rates have significantly impacted borrowing capacity, which has dropped between -15% and -30% depending on the country,** making it more challenging for potential homeowners to afford properties and thereby reducing their housing purchasing power, which has dropped in similar magnitudes. In particular, Portugal and Spain experienced the most significant percentage drops, both losing approximately -30% of their pre-crisis HPP. In absolute terms, Spain also faced one of the highest drops, losing more than 20 square meters.

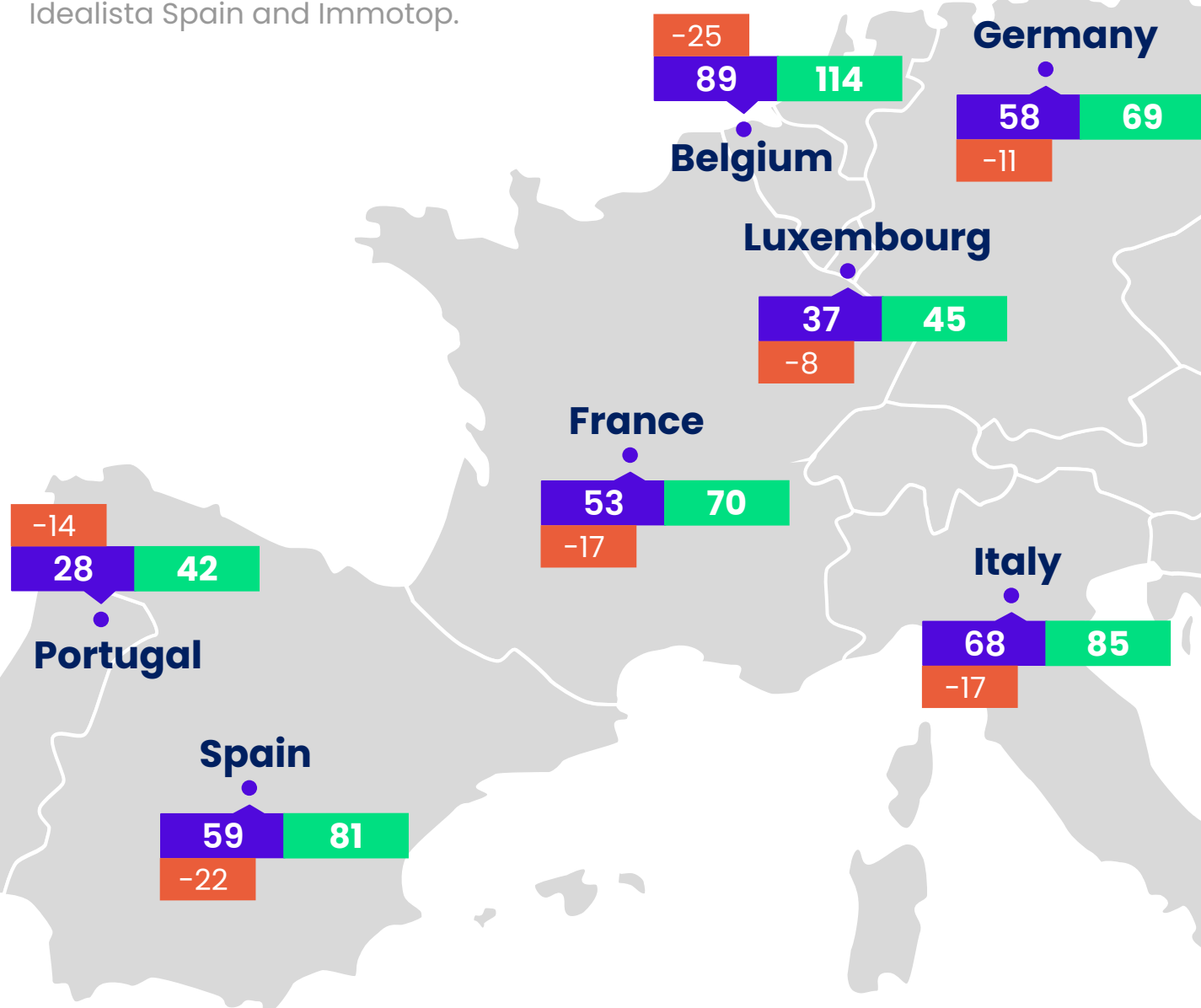
¹ Housing Purchasing Power definition: Number of square meters that a 2 adults couple without children with an harmonized median disposable income can buy through a housing loan of 25 years length at current interest rate, with 33% of their disposable income devoted to the loan payment, at the current price of the market.



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.



Currently, apart from the extreme deterioration in HPP, there is a noticeable gradient that highlights the relatively favorable HPP levels in southern countries. These nations offer a better living situation for their residents, particularly when compared to central european countries where HPP metrics are significantly lower, often dropping below 60 square meters on average for a couple with a median disposable income. **While it's true that income levels are generally higher in central european countries, the relatively elevated housing cost per square meter diminishes this advantage, resulting in reduced purchasing power.**

In contrast, despite having lower average income levels, southern countries benefit from more affordable housing costs per square meter, which translates to greater purchasing power for households on average. For instance, Italian households can afford an average of 68 square meters, compared to just 37 square meters for households in Luxembourg.

There are two outliers in terms of Housing Purchasing Power: Portugal and Belgium. **Belgium secures the top position with a HPP of currently 89 square meters.** This strong performance can be attributed to the relatively low average square meter price of approximately €2,300, which closely aligns Belgium with the price level in southern countries (around €2,000/sqm). In comparison, Belgium boasts a significantly higher median income, amounting to €39,032 per year, surpassing even Germany

(€34,592) and France (€30,636). On the other side, **Portugal stands out as being the country with the lowest HPP at a mere 28 square meters on average, illustrating the acute housing affordability challenge faced by its residents.** With an average price per square meter of €2,526, Portugal finds itself situated between the price ranges of southern and central european regions. However, it maintains the lowest income level among the countries under examination, with an average income of just €14,137.



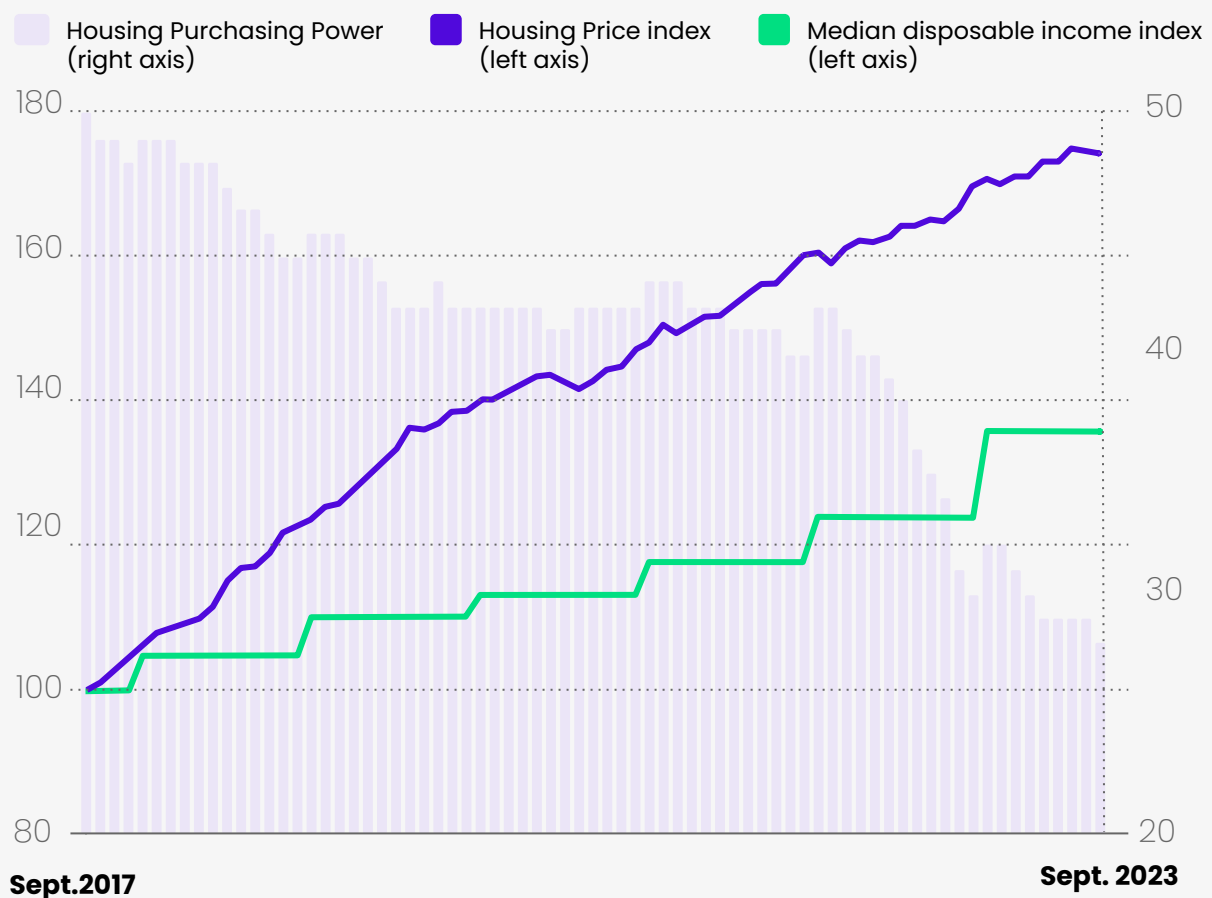
Efforts by the Portuguese government to boost economic recovery after the 2007–2008 financial crisis, particularly through promoting tourism, had unintended consequences. Initiatives like "golden visas" for investors and tax breaks for foreign pensioners and "digital nomads" led to an influx of foreign capital, creating an imbalance in the housing market by widening the wage-housing price gap.

The Portuguese housing market has experienced a significant transformation in recent years. **Between 2017 and 2022, real estate prices saw a remarkable +78,2% increase, far outpacing the growth in average salaries, which only rose by 24,8% during the same period.** Indeed, a quarter of the Portuguese workforce lives on the minimum monthly wage. This discrepancy represents a challenge for potential homebuyers who are now confronted with a much lower HPP value of 28 sqm.

To aid Portuguese families, the government recently implemented measures aimed at reducing interest rates for borrowers and regulations to reduce the rise in property price, including ending "golden visas" and mandating the rental of long-vacant flats in densely populated areas.

Housing Purchasing Power (HPP) – Portugal

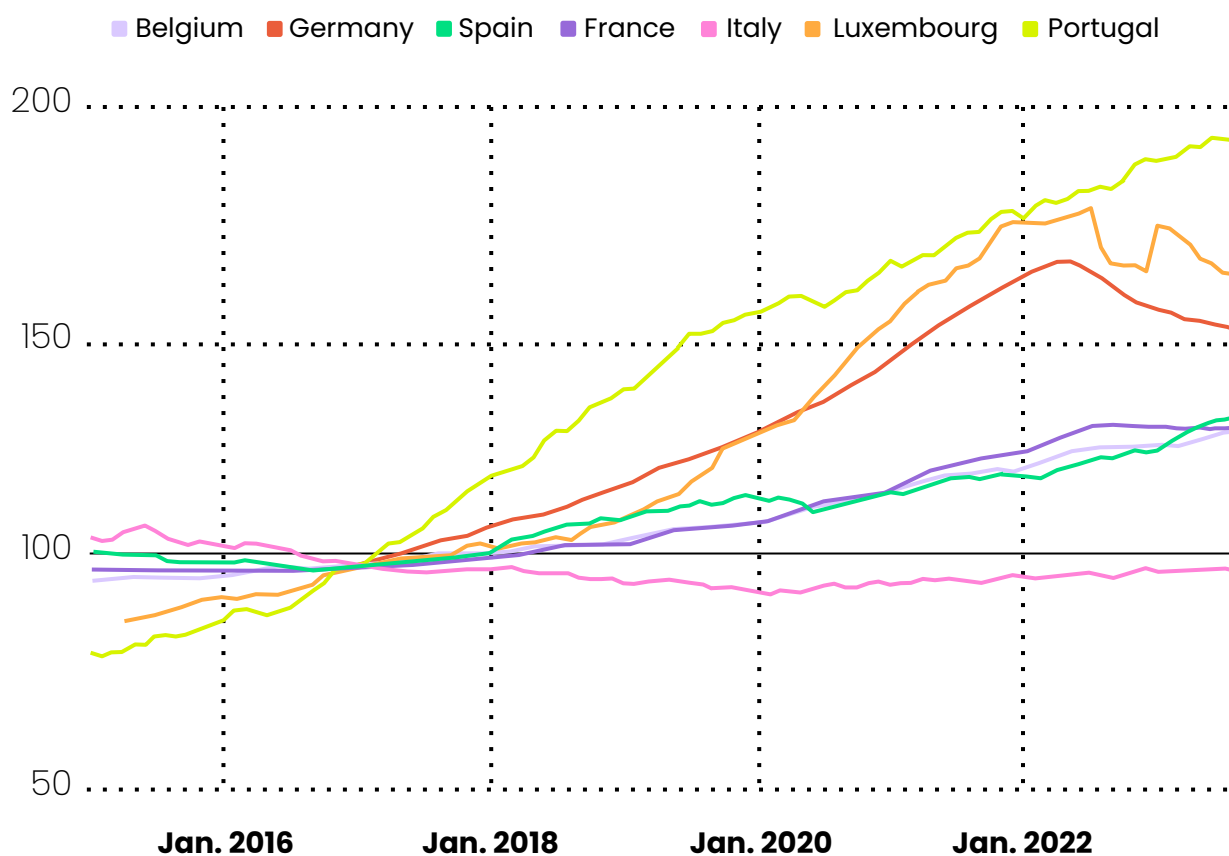
(100 = September 2017)










b. Housing market dynamics: a shift in trajectory

European countries Housing Price indices

(100= january 2017)



Housing price indices evolution

	 Belg.	 Germ.	 Fran.	 Spain	 Port.	 Italy	 Luxem.
Average 1y growth before 2022	3.8%	10.4%	4.2%	3.5%	13.3%	-1.2%	11.7%
Since 01.01.2022	7.0%	-6.7%	4.7%	10.8%	8.6%	0.9%	-6.5%
1 year	2.9%	-6.0%	-0.6%	7.2%	5.6%	0.9%	-3.5%
Year-To-Date	2.9%	-3.5%	-0.5%	6.2%	2.1%	-0.3%	-0.3%
Q3	0.8%	-1%	0%	1.4%	0.6%	0%	-2.0%

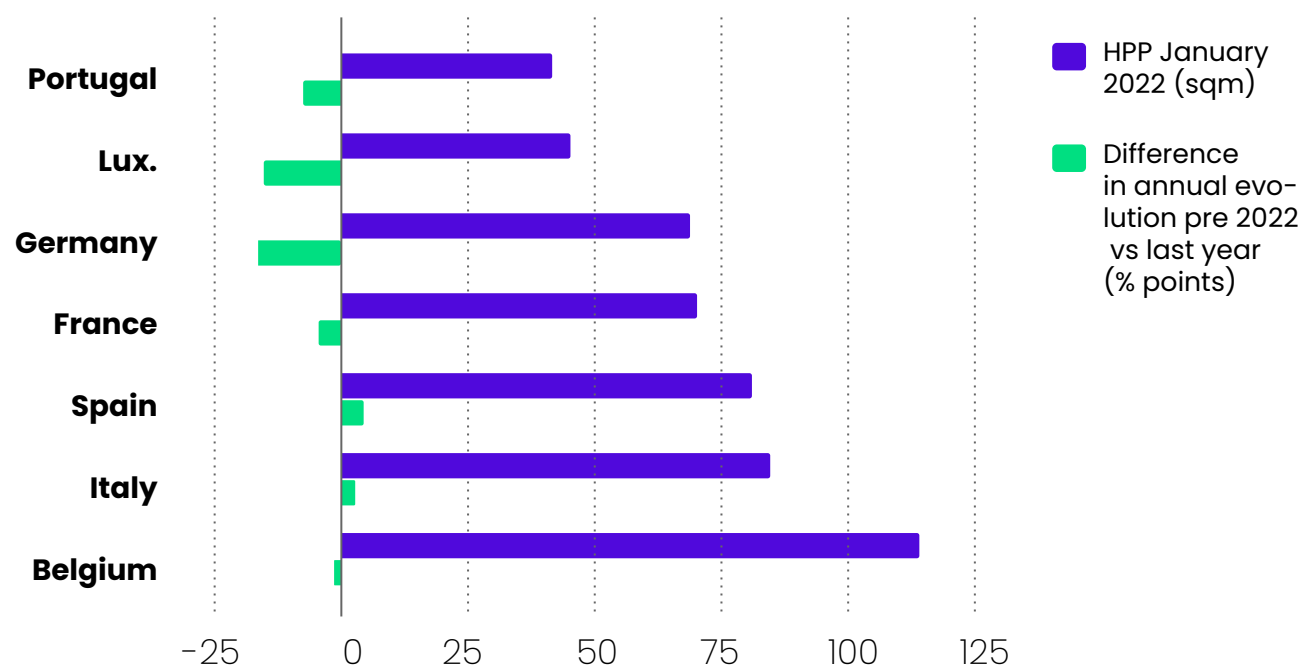
Source :AVIV - Immowelt, Immoweb, Meilleurs Agents, Idealista Italy, Idealista Portugal, Idealista Spain and Immotop.

The housing price dynamics in the countries under study are currently undergoing a significant transformation, marked by either a decline or a noticeable deceleration.

There has been a consistent and widespread slow down resulting in reduced housing prices across most countries since the start of the year.

For instance, Germany witnessed a -3.5% decrease in housing prices from January to October 2023. France experienced a -0.5% decline, while Italy and Luxembourg reported a -0.3% drop during the same period. Importantly, when we examine how prices have developed over the last 12 months, we notice that growth has been significantly lower compared the annual price increases over the 5 years prior to 2022 – a period characterized by the last upward cycle in house prices for all countries. A notable correlation emerges, indicating that regions with the lowest Housing Purchasing Power (HPP) are most susceptible to changes in financial conditions since the beginning of 2023. This vulnerability arises from the fact that households were already operating at their maximum borrowing capacity before the substantial increase in interest rates. Interestingly, **the countries with the lowest HPP at the beginning of 2022 are also the ones experiencing the most significant slowdown** since that time. This trend is particularly evident in the case of the central european countries such as Germany, France, and Luxembourg, as well as Portugal.

Housing Purchasing Power and slowdown of housing prices growth



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

The most recent data reveals that in two countries, namely Germany and Luxembourg, residential property prices have fallen significantly below their levels as of January 1, 2022, with average declines reaching approximately -6.7% since that time. Germany and Luxembourg, alongside Portugal, were at the forefront of the housing price surge during the last upward cycle. Germany experienced a remarkable 64.2% increase in property prices since January 2017, while Luxembourg and Portugal saw even more substantial gains of +75.6% and +76.6%, respectively. These figures greatly surpassed the comparatively "modest" price increases of up to 25% observed in the other countries examined

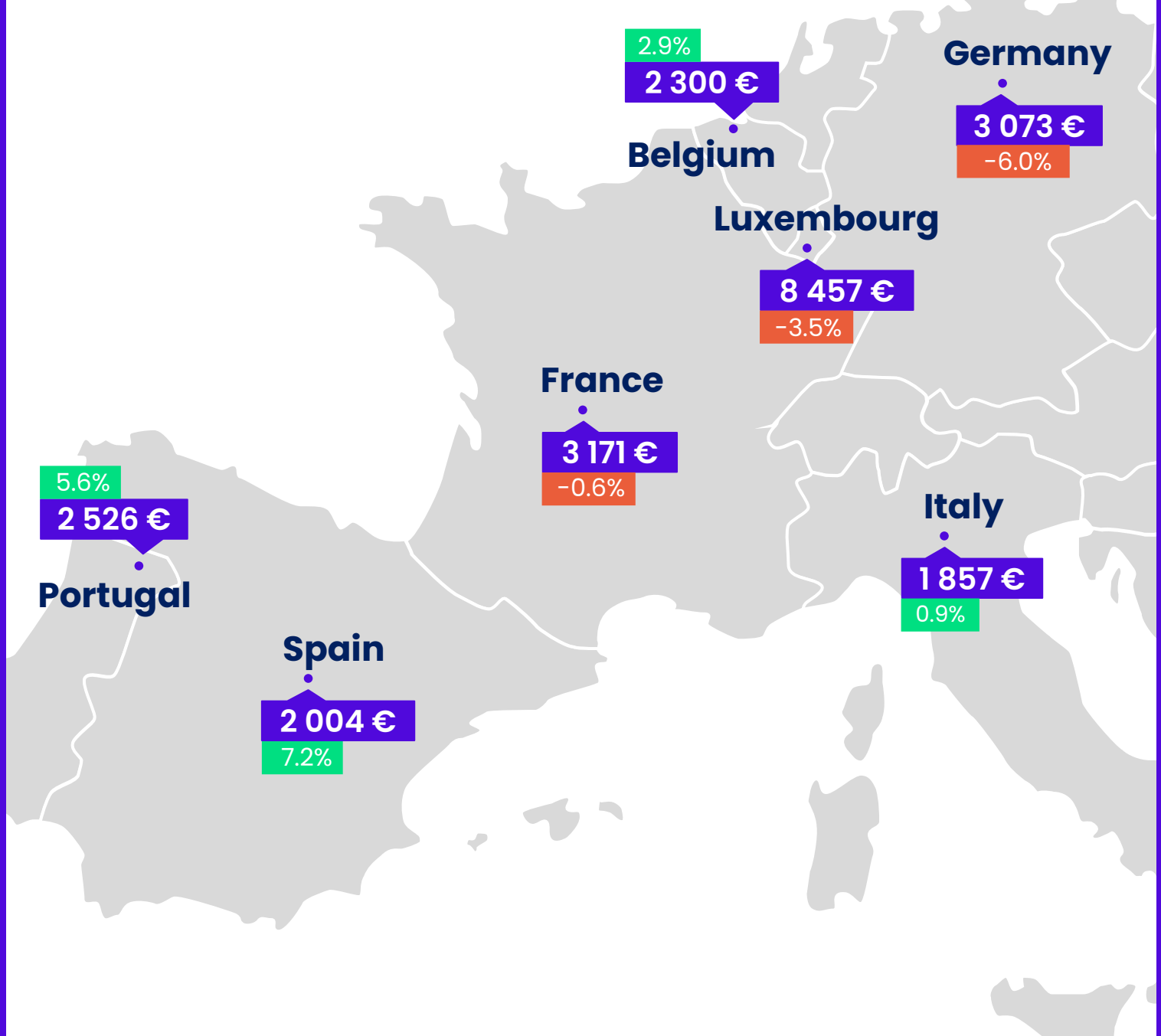
Due to the rapid growth in real estate prices compared to income trends in these countries, the purchasing power of residents began declining well before the start of 2022. Hence, affordability within these countries was already starting to reach critical levels. As a result, these countries were especially vulnerable and responded swiftly and significantly to the financial changes in the Euro Area that began in 2022..

The trends observed in housing prices 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. A notable example is Spain, which shows accelerated growth compared to the 2017-2022 period: +7.2% over one year on average over 2017-2022 versus an average of +3.5% today. However, recent transaction figures of the notaries show a decline of -4.4% in prices between July 2022 and July 2023.

Housing price & evolution in European countries

- Price
- 1 year evolution

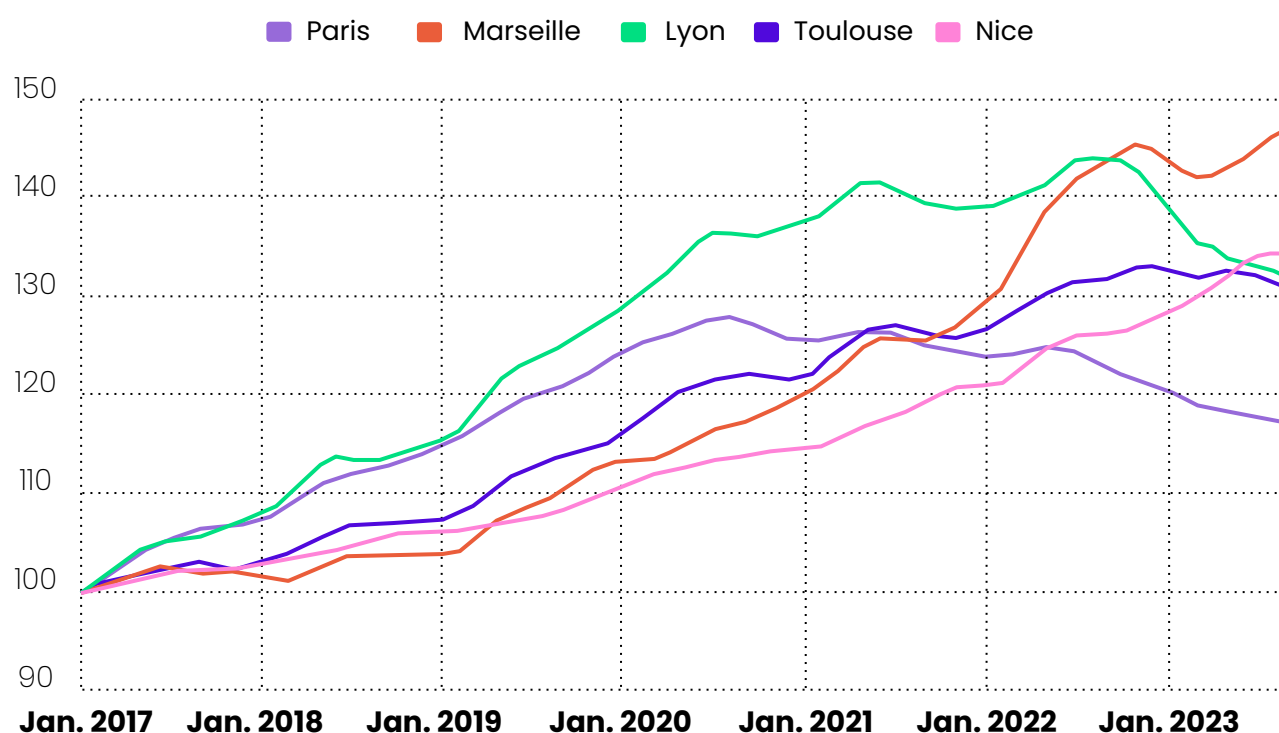
Source: AVIV - Immowelt, Immoweb, Meilleurs Agents, Idealista Italy, Idealista Portugal, Idealista Spain and Immotop .



France : the key takeaways

- In contrast to Q3 2022, when national prices rose by +0.9%, prices remained unchanged this quarter. In addition, prices in France have decreased by -0.6% during the last 12 months. **This confirms the slowdown of the market that began one year ago.**
- **The majority of major French cities have witnessed a shift towards declining property prices over the past year** (-1.4% on average since September 2022).
 - While Lille, Nice, and Marseille continue to show slight increases (+0.6%, +0.6% and +2%, respectively over the last 3 months), they are showing signs of slowing price growth too.
 - In the cities of **Lyon and Bordeaux, housing markets have witnessed historic declines in property prices: -8.4% and -8.3% respectively over the last year.** This drastic decline can be attributed to the rapid rise in borrowing rates since September 2022 and the already high real estate prices in these areas, Lyon and Bordeaux, being the second and third most expensive cities per square meter after Paris.
 - **Prices in Paris have continuously decreased since July 2020:** already affected by Covid-19 crisis, the current credit context accelerated the downward dynamics. Prices have decreased by -8,1% since July 2020 and -4.8% over the last year. This summer, prices went below the symbolic threshold of 10 000€/m².
- **The market is shifting from a shortage to an accumulation of properties for sale** of +42% of available listings on the market since January 2022. The latter led to increased time on market: +4 days on average in 1 year.

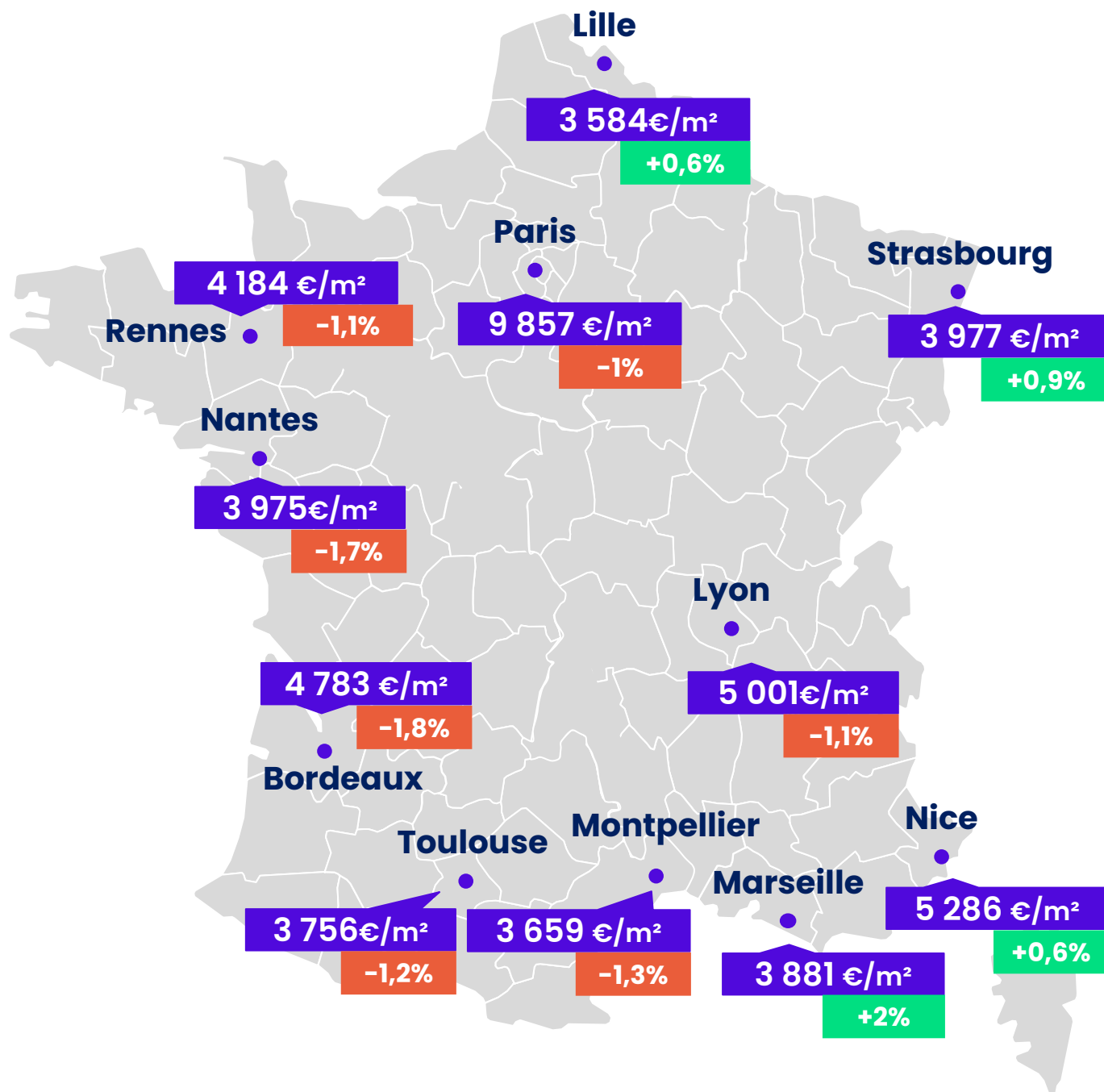
Five biggest cities in France (100 = March 2017)





France

Housing prices and trends



PRICE €/m²

Q3 trends

1st October 2023

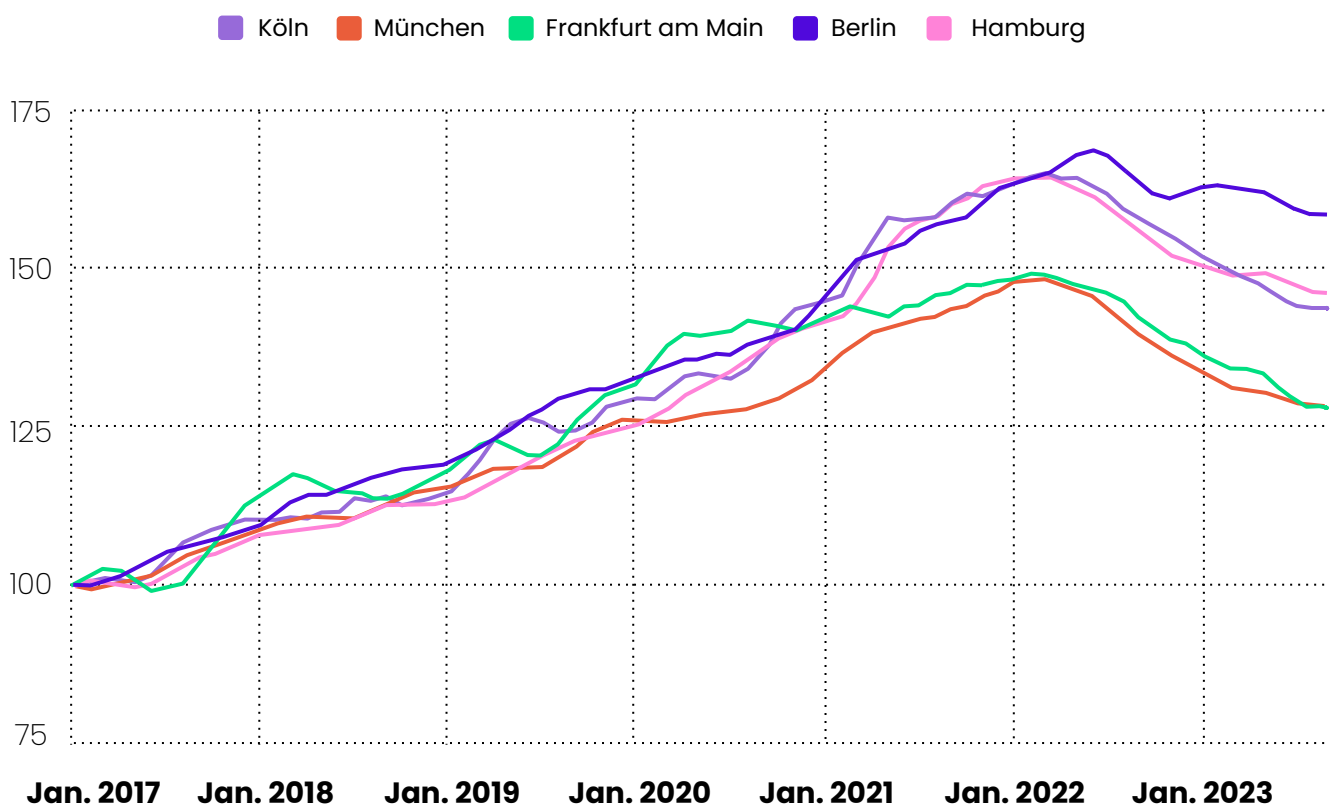
Hybrid prices and apartment trends (only 12% of the housing stock are houses in french big cities)



Germany : the key takeaways

- **The fall of real estate listed prices continued during Q3 in Germany dropping by -1.1% on average.** This marks the 6th quarter in a row in which the German housing market has been contracting.
 - On average Germany has been contracting by 1.5% every quarter.
 - Since the start of this year, the market has dropped by -3.5% on average.
 - **The market for houses continues to outperform.** The apartment market only registered a drop of -0.3% compared to -1.3% for houses. This trend started to materialize as a result of Covid 19, and is explained for the relatively stable drop off.
- The German real estate market continues to slowly cool as buyers continue to be priced out of the market. Housing prices take time to adapt to new market conditions and adjust smoothly.
- **Apartments in 13 of the 14 biggest cities are down compared to Q2 2023 with the exception of Bremen** which registered a slight growth of 1.1%. On aggregate, apartment prices in the 14 cities are down by -1.4% compared to Q2 and -3.9% to the start of the year.

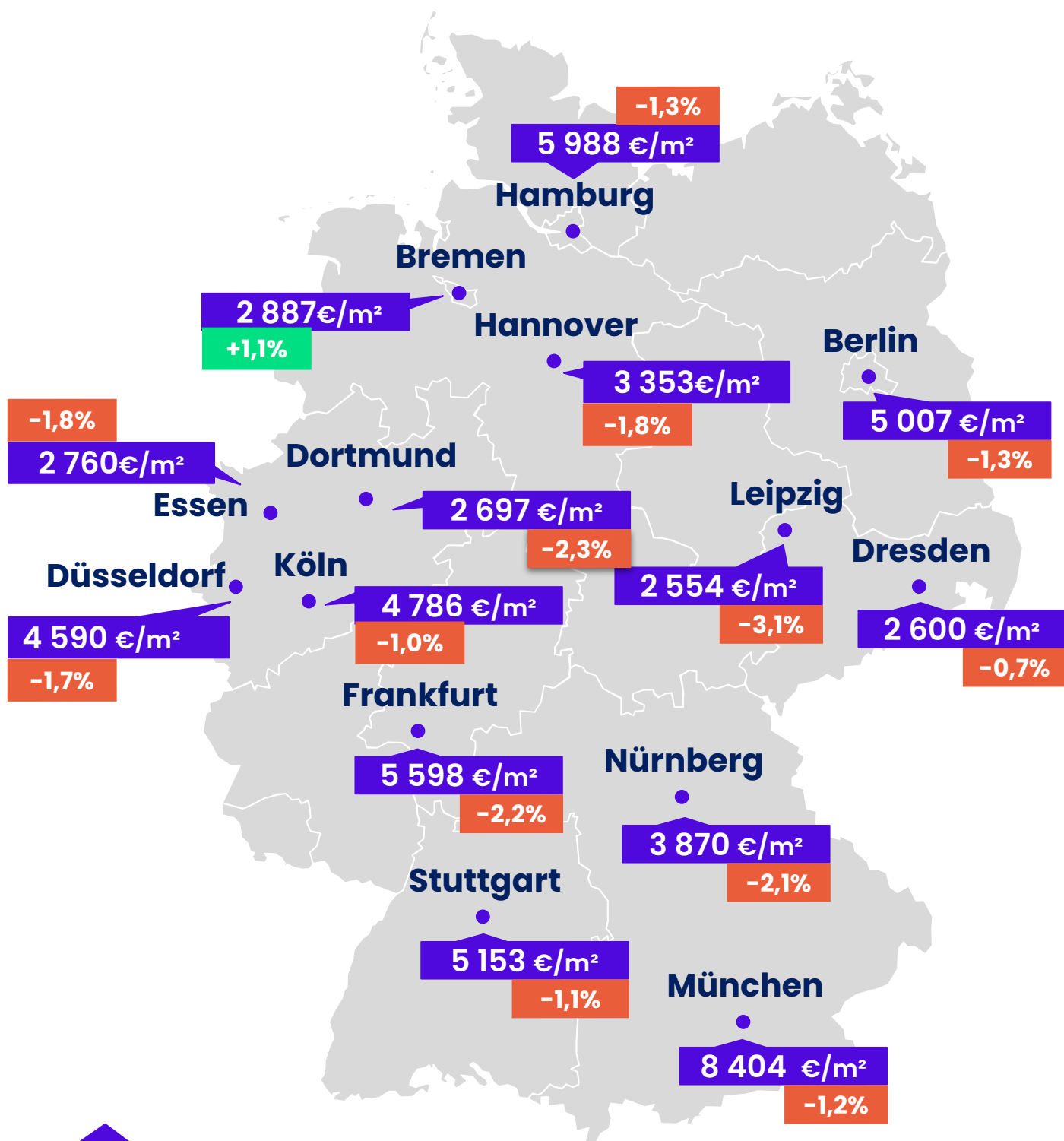
Five biggest cities in Germany (100 = January 2017, Apartments)





Germany

Housing prices and trends



PRICE €/m²

Q3 trends

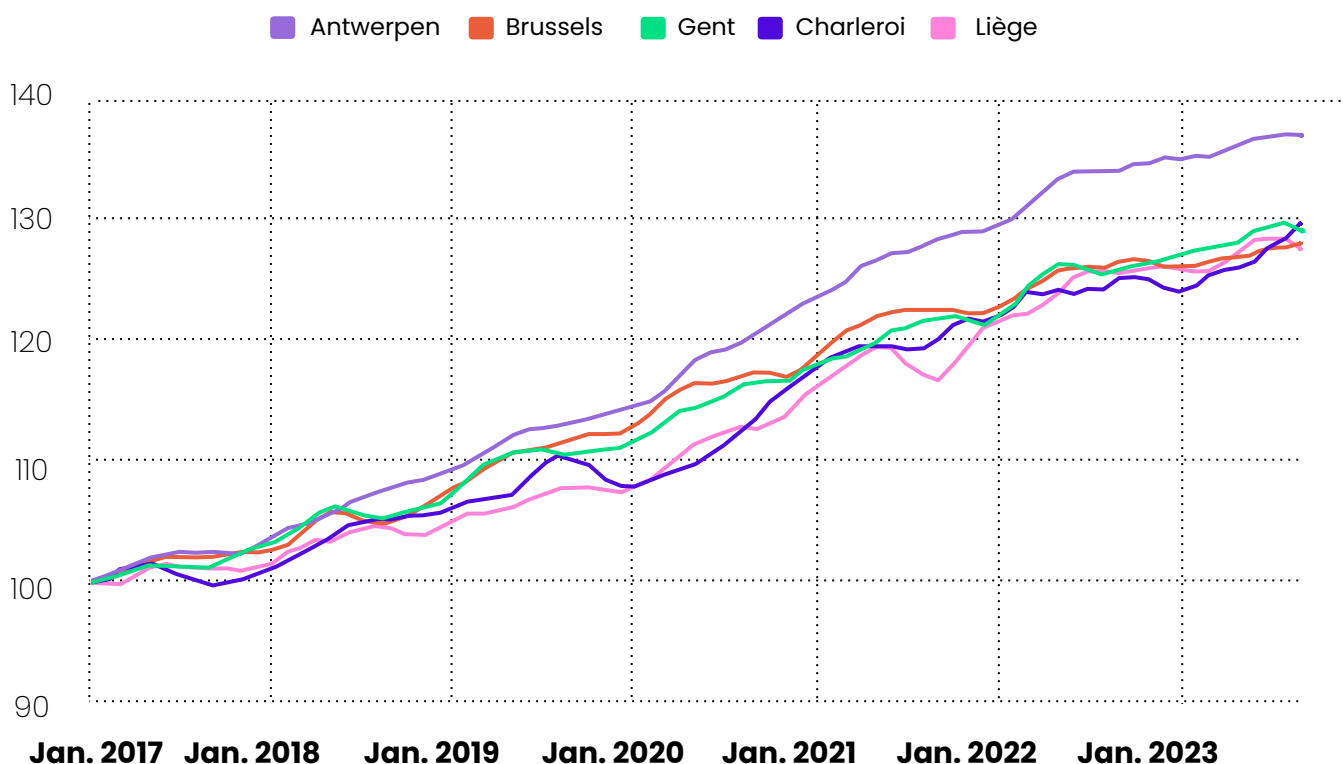
1st October 2023

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

Belgium : the key takeaways

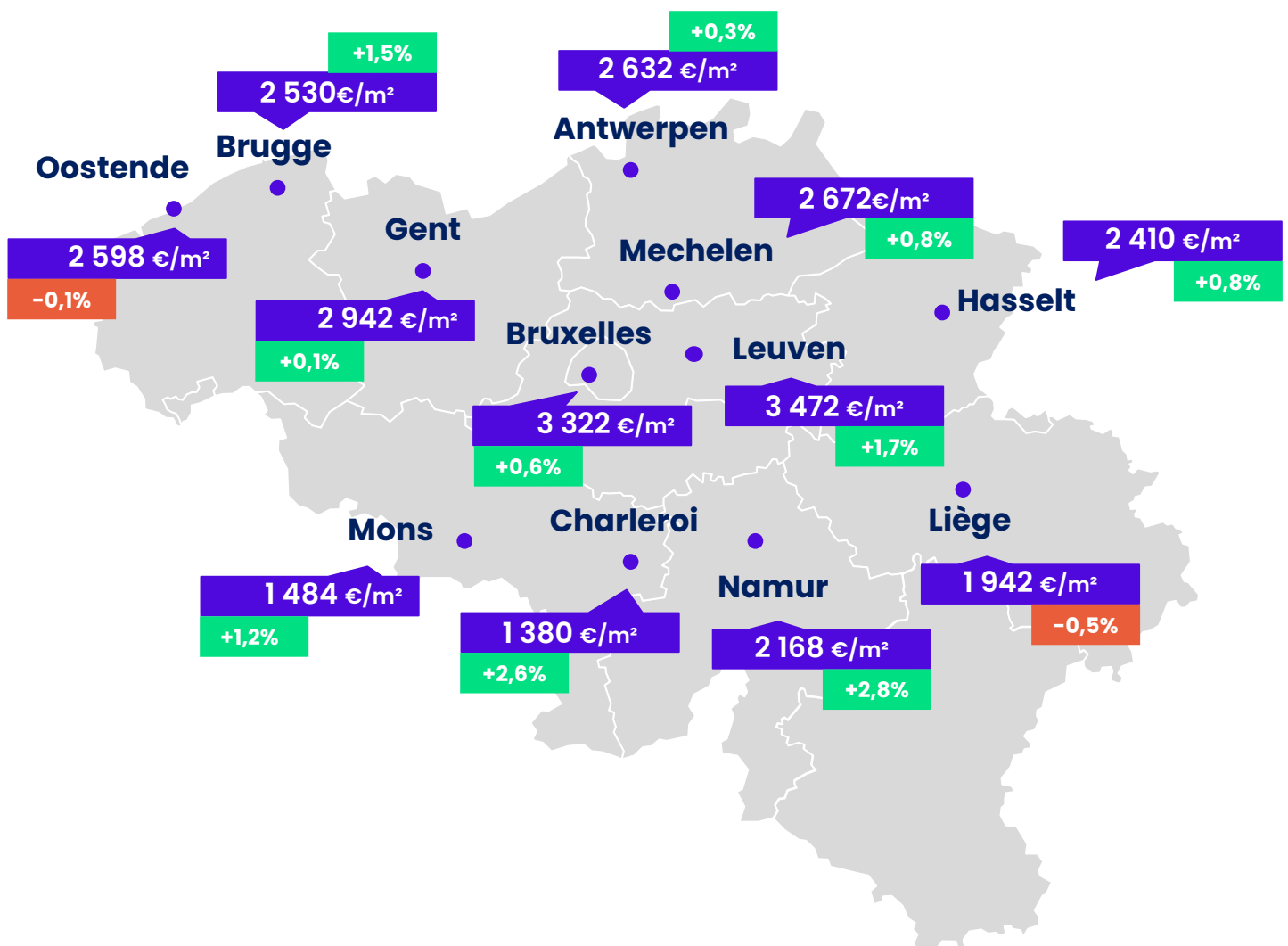
- **Belgium housing prices continued their upward trend during the third quarter 2023**, with an increase of +0.8% on average.
- **However**, with an average increase of +2.9% in Belgium over the last year **the price increases are at a much slower pace than in previous years.**
- In fact, Belgium had not seen an annual price increase of less than 3% since the beginning of 2018.
- **The slowdown is more pronounced in expensive places such as Brussels or Antwerp compared to more affordable rural areas**, where purchasing power is higher.
- In the Brussels region, where the price per square meter is the highest of the three regions (3 322 €), the rise in property prices has been more moderate over the last twelve months (+1.2%), compared to Flanders (+3.3%) and Wallonia (+2.7%). A trend that has been observed in the post pandemic years and has become more pronounced with the increase in real estate interest rates and tightening borrowing conditions..

Five biggest cities in Belgium (100 = March 2017)



Belgium

Housing prices and trends



PRICE €/m²

Q3 trends

1st October 2023

Hybrid city prices and district trends

More details :



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