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Press Release

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Europe's residential market undergoes sustainable revolution with ESG focus

Despite sustainability challenges and interest rate shocks, Belgium retains stable market characteristics compared to its neighbouring countries. It will need a holistic approach to tackle those challenges in the future.

Brussels, 3 October 2023 – Today, Deloitte published the twelfth edition of the Deloitte Property Index, which analyses and compares the residential real estate markets in 27 countries in Europe. Due to the various challenges that the real estate market is facing, the activity in Belgium shrank by 2% in 2022. Despite fewer transactions, prices of new dwellings maintained the same tendency with a yearly increase of 8% in 2022. Investors see increased interest rates as the biggest challenge for the sector. As a result, more people are obliged to enter the rental market.

Belgium still records higher prices although fewer transactions

While an increase in prices was recorded in 2022, the Belgian real estate market experienced a 2% decline in its transaction activity compared to the previous year. The average transaction price of a new dwelling rose to €3,102 per square metre, an 8% rise compared to 2021. Professional investors point to the increase in interest rates as the main culprit, leading to more hesitant behaviour in the market and a decompression in residential yields (prime yield for block sales ranging between 4.5 - 5.0%). Another important aspect is that private investors were deterred by registration fees in Flanders rising to 12%, leading to fewer transactions despite the lowering of registration fees for the acquisition of the first and sole house to 3%. Furthermore, Belgium is one of the few countries with a decrease in new completions, which are down 5.7%.

"*We expect the European market to cool down in 2023 with a slight drop in prices, but we do not think that this will happen in Belgium to the same extent as in other countries. The real estate market in Belgium has a history of being more stable. Furthermore, the new housing supply rate is expected to slow down in the upcoming years, coupled with a growing number of households, which will result in a shortage of housing and a subsequent rise in prices. In addition, the postponement or cancellation of new construction projects stabilises prices, as demand for high-quality and sustainable housing remains strong,*" says Danny Stas, Real Estate sector Lead at Deloitte Belgium.

Economic reality is pushing Belgian households increasingly toward the rental market

The combination of more expensive mortgages and the rise in energy and construction costs makes it challenging for many households to buy an affordable home, especially in Brussels and large Flemish cities. As a result, households are increasingly turning to the rental market as a more affordable alternative. Brussels, where the average monthly rent is €14.0 per sqm per month, ranks 26th out of 66 cities measured. The most expensive European cities for renters are Dublin (€32.8 per sqm per month), Paris (€28.5 per sqm per month), and Oslo (€28.0 per sqm per month).

"Brussels remains an interesting rental market in comparison with other EU capitals, even though Belgium remains one of the highest-taxed countries in Europe, affecting affordability," says Frédéric Sohet, Real Estate sector partner at Deloitte Belgium.

Compared to last year, Belgium has risen from third to first place in terms of affordability of own housing in Europe (based on gross salaries). This is contradictory to the general feeling the Belgian market is experiencing. The fact that Belgium leads the ranking is likely due to Belgians' purchasing power, which has remained relatively stable due to the automatic indexation of wages. On the other hand, Belgium remains one of the highest-taxed countries in Europe resulting in less available income left for housing.

There is a need for a more holistic view on living, moving away from "total cost of ownership" toward "total cost of living", where additional factors such as cost of taxes, food, healthcare, mobility, etc. are also taken into account.

The increase in mortgage interest rates is a setback for the real estate sector, even though interest rates are relatively lower in Belgium than in other European countries. With an average of 2% over the entire year of 2022, Belgium still has the fourth lowest interest rate of the 27 countries surveyed.

"The European housing market has faced major challenges in recent months, such as rising interest rates, energy costs, building material prices, and labour costs. All those challenges make it less affordable for households to own a house," explains Danny Stas**.**

Europe's residential market undergoes a sustainable revolution and rewards investments in green building practices

The sustainable revolution is expected to continue driving growth in the residential real estate sector in Europe as investors recognise the financial returns of "responsible investment practices". ESG considerations are becoming increasingly important in the residential market in Europe, with developers and investors adopting green building practices, integrating social features, and scrutinising the management practices of real estate companies to benefit from "green premiums". Along the same lines, buyers are increasingly turning to energy-efficient buildings to attract tenants and comply with forthcoming regulations. These buildings offer several advantages, including lower energy costs due to lower consumption, higher sale prices, and faster selling times.

"Sustainability will remain an important focus for the Belgian housing market in the coming years," adds Danny Stas. *"On average, homes with an EPC index between 100 and 199 are sold at prices 10.9% higher than comparable homes with a lower-performing EPC rating and will sell on average 25% faster."*

However, there are challenges in acquiring sustainable properties due to economic conditions that limit households' purchasing power and a lack of supply of energy-efficient housing. Today mainly new constructions meet the most stringent ESG requirements, whereas the existing housing stock often needs complete remodelling and faces high investment costs to comply with regulations, while greening the source of energy could already be sufficient to reach the sustainability goals.

A more holistic view will be needed in order to cope with all the above-mentioned challenges in order to provide affordable, sustainable housing for everyone.

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