

# Belgium's housing market

## Something to worry about?

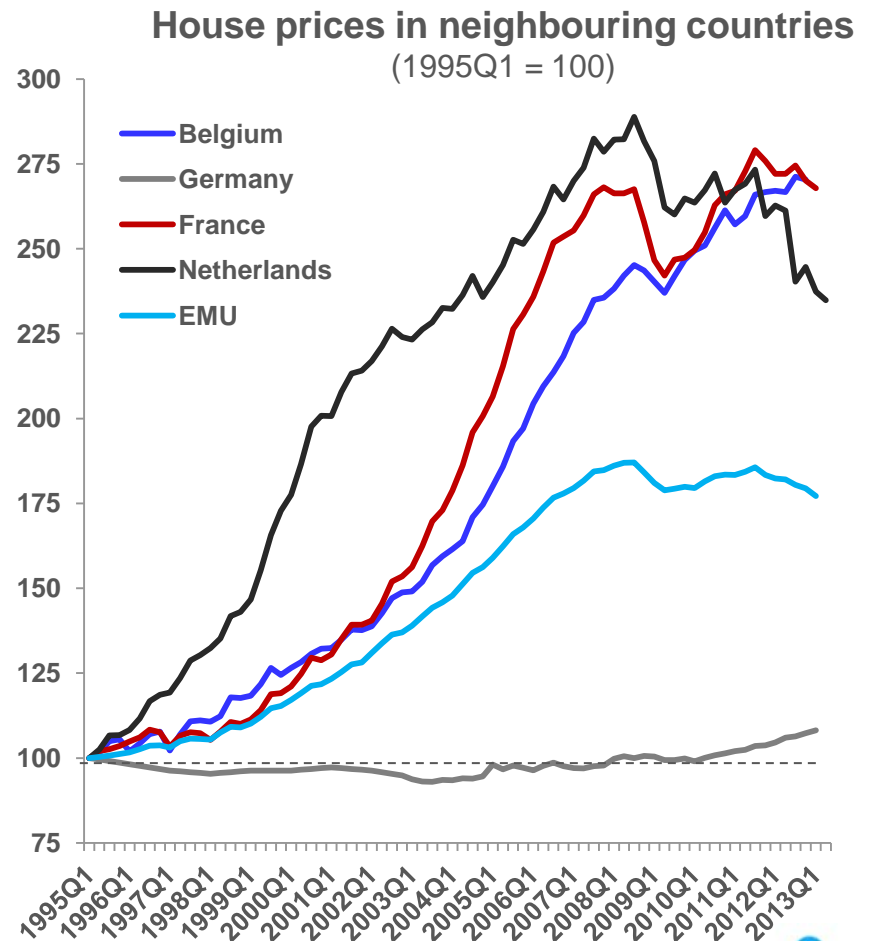
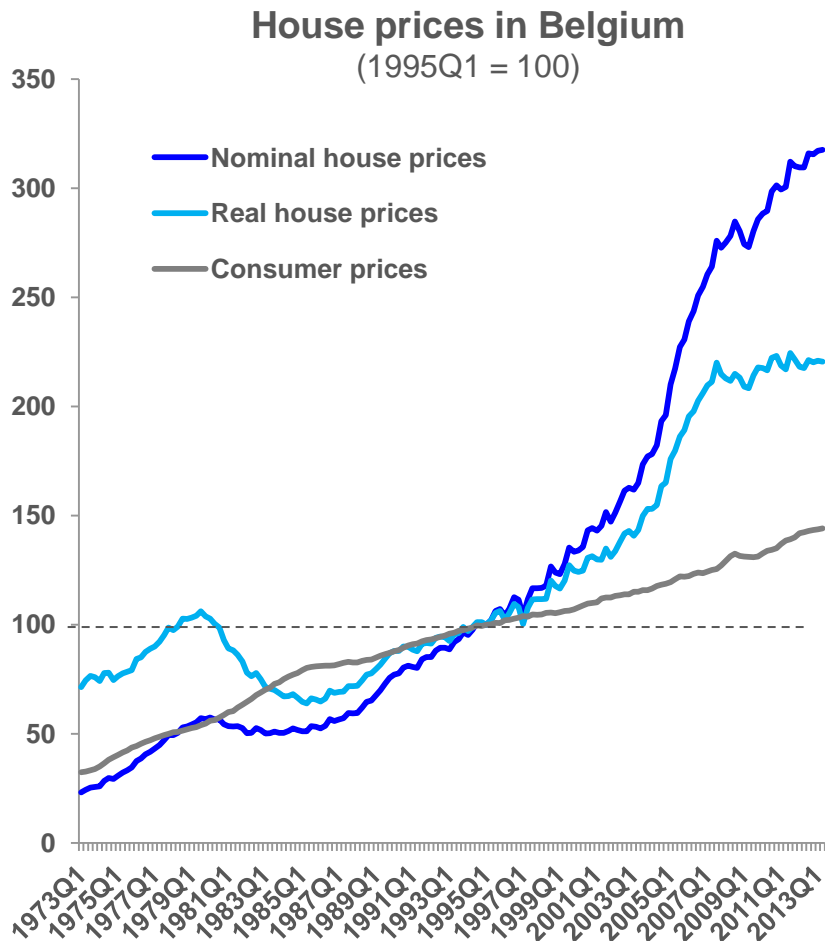
September 2013

Chief Economist Department KBC Groep



# A long-lasting period of rising prices

*Correction in 2009H1 was little more than a blip*

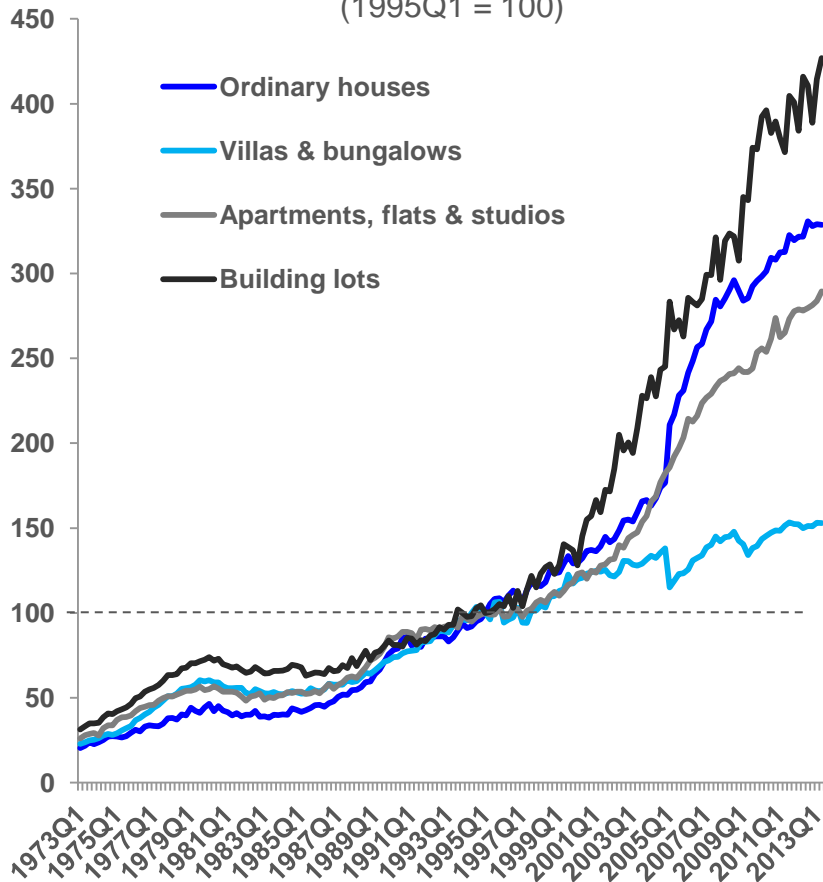


# A long-lasting period of rising prices

*(Substantial) differences between types and regions*

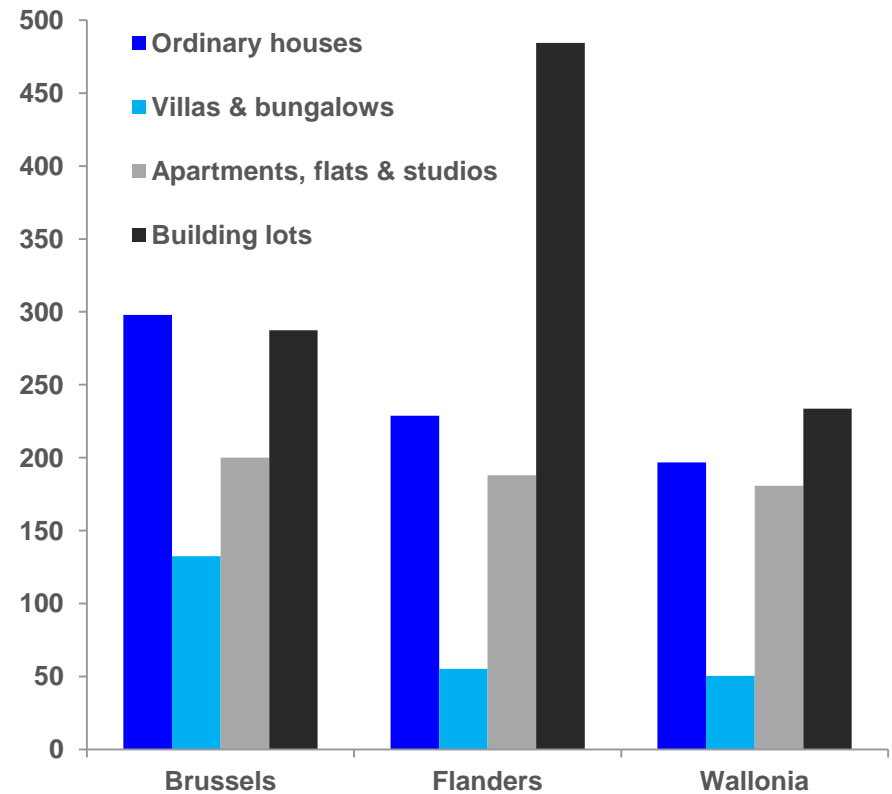
### Property prices in Belgium by type

(1995Q1 = 100)



### Property prices in Belgium by region

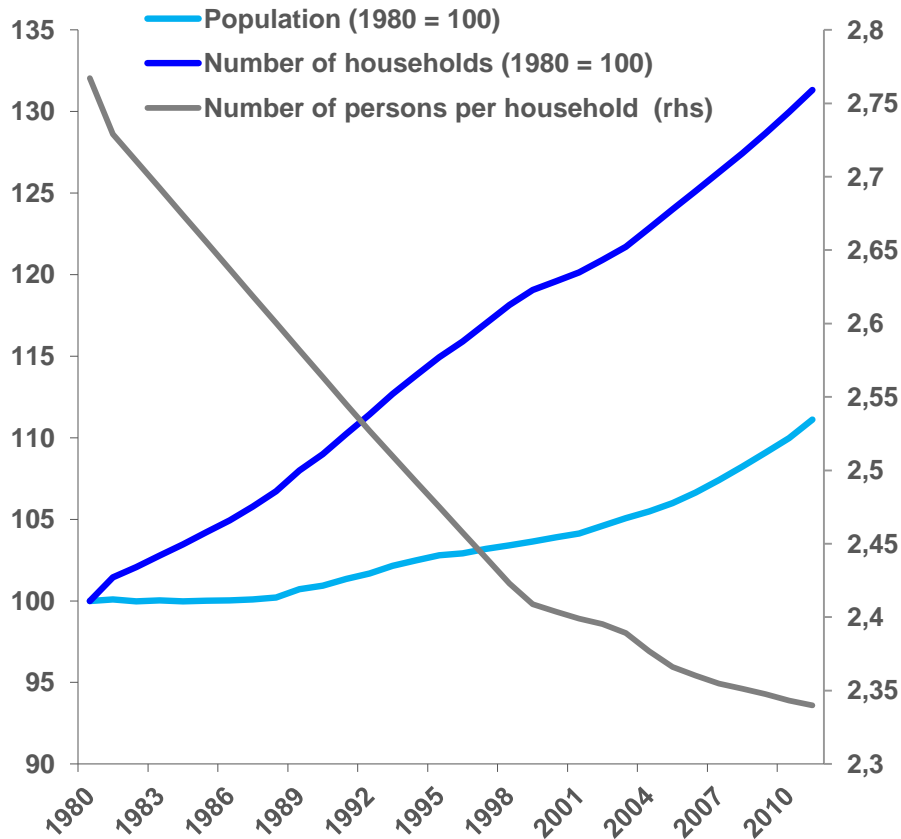
(cumulative increase in 1995Q1-2013Q2, in %)



# Growing demand, limited supply

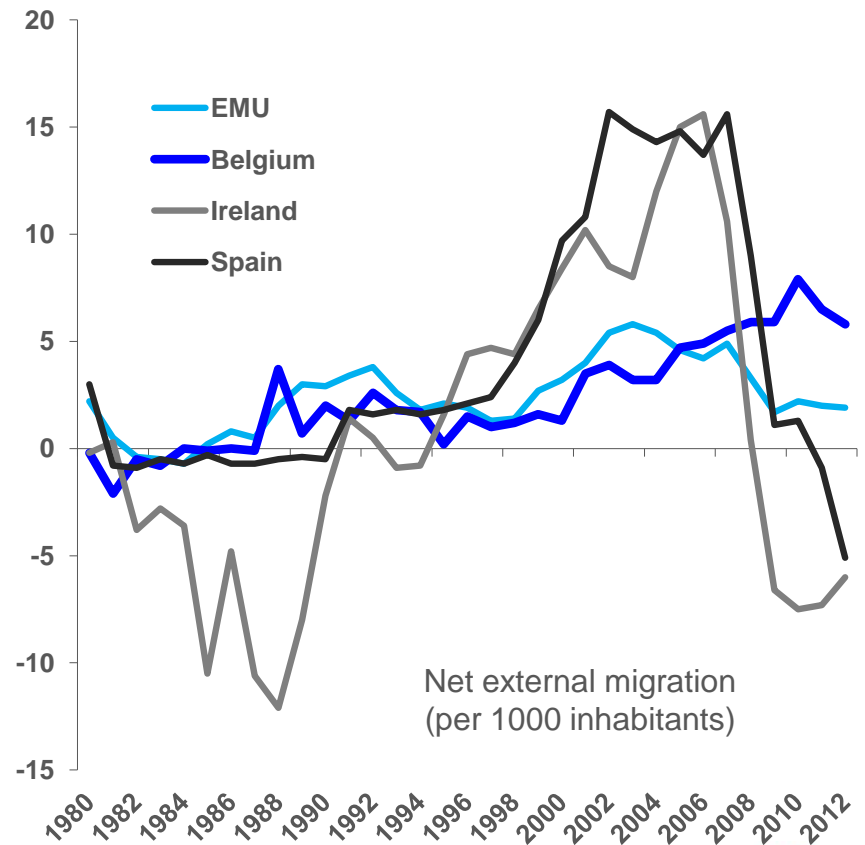
## Demographics fueling house purchases

Number of households growing faster than the population



Source: FOD Economie

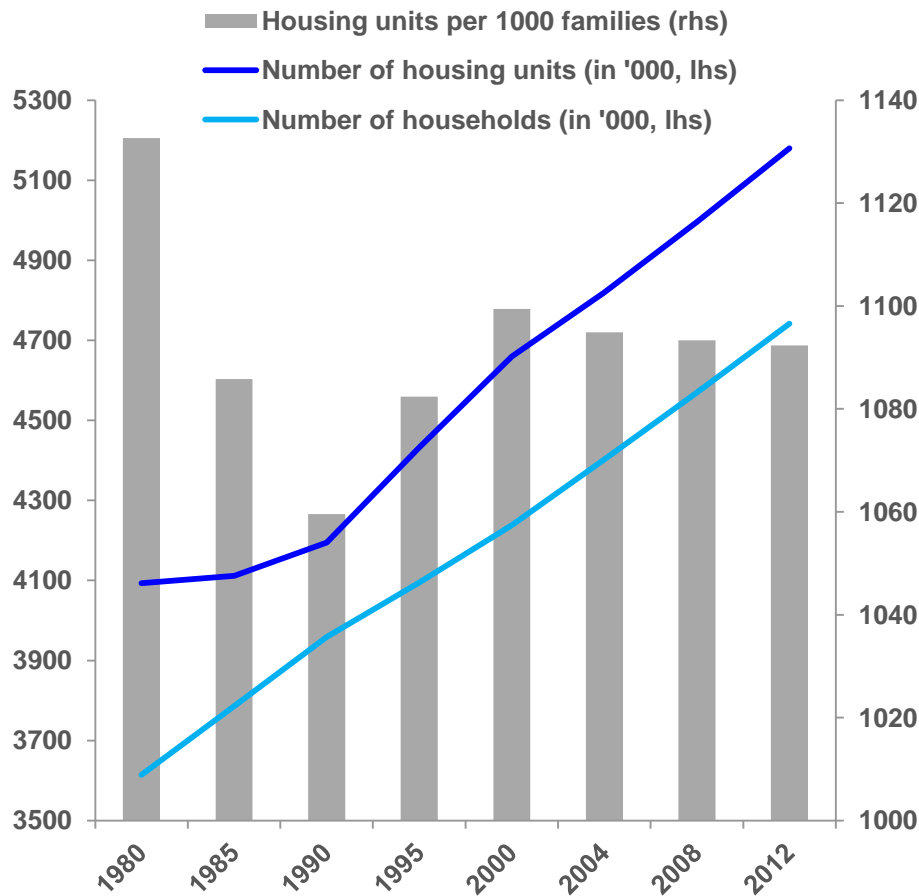
Immigrants (still) pushing up population growth



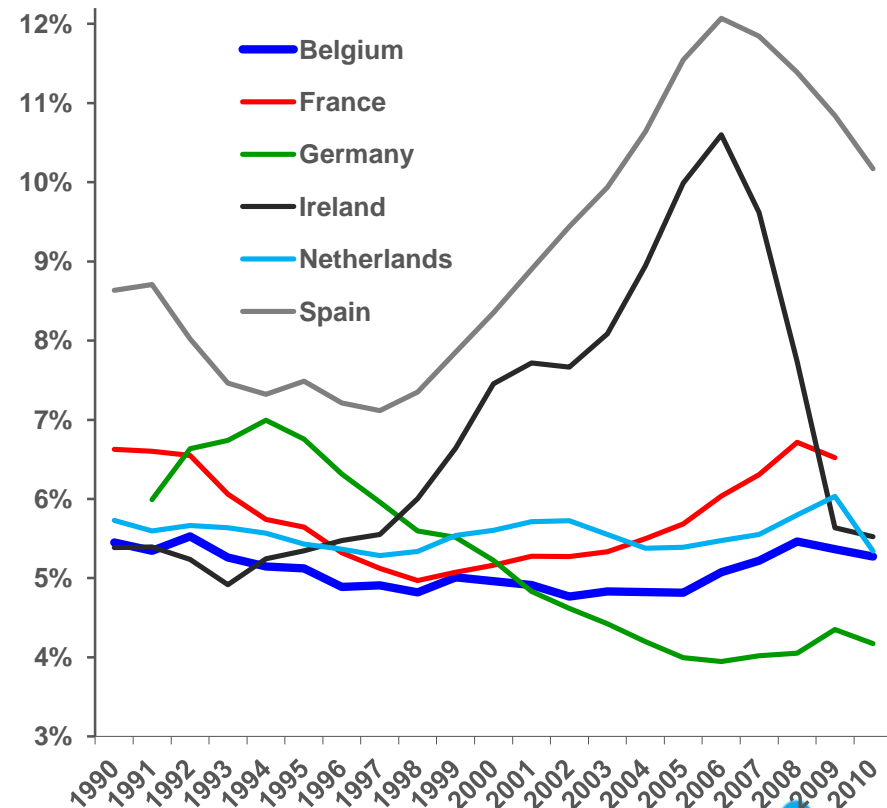
Source: Eurostat

# Growing demand, limited supply

*No excessive building boom*



## Construction sector in line with the pattern of general activity

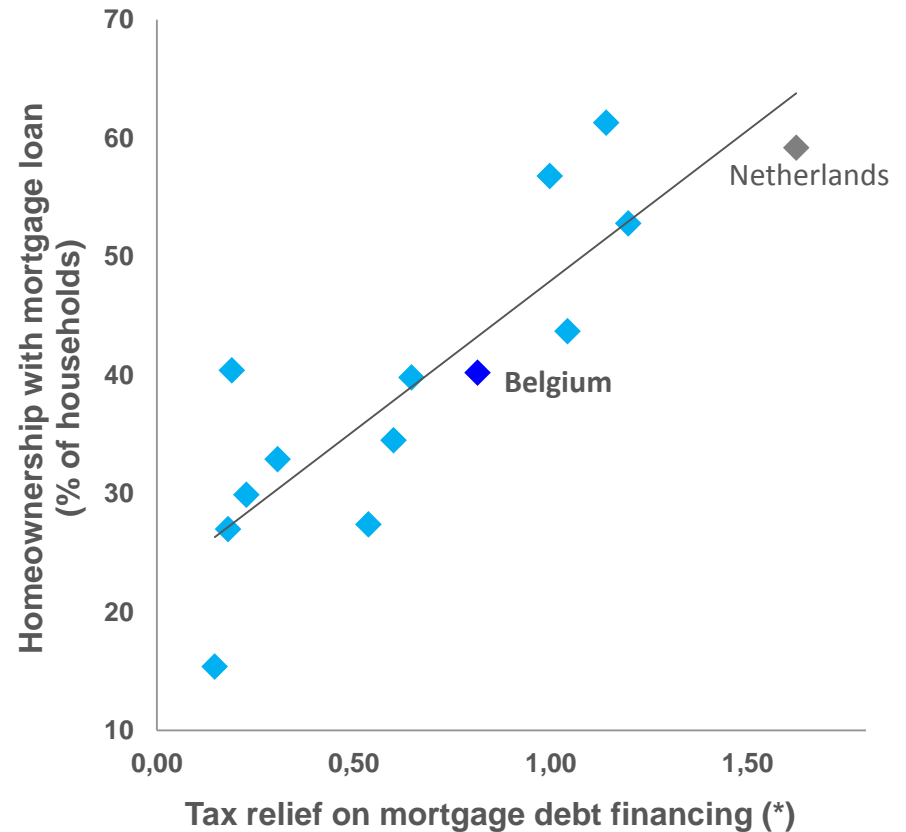
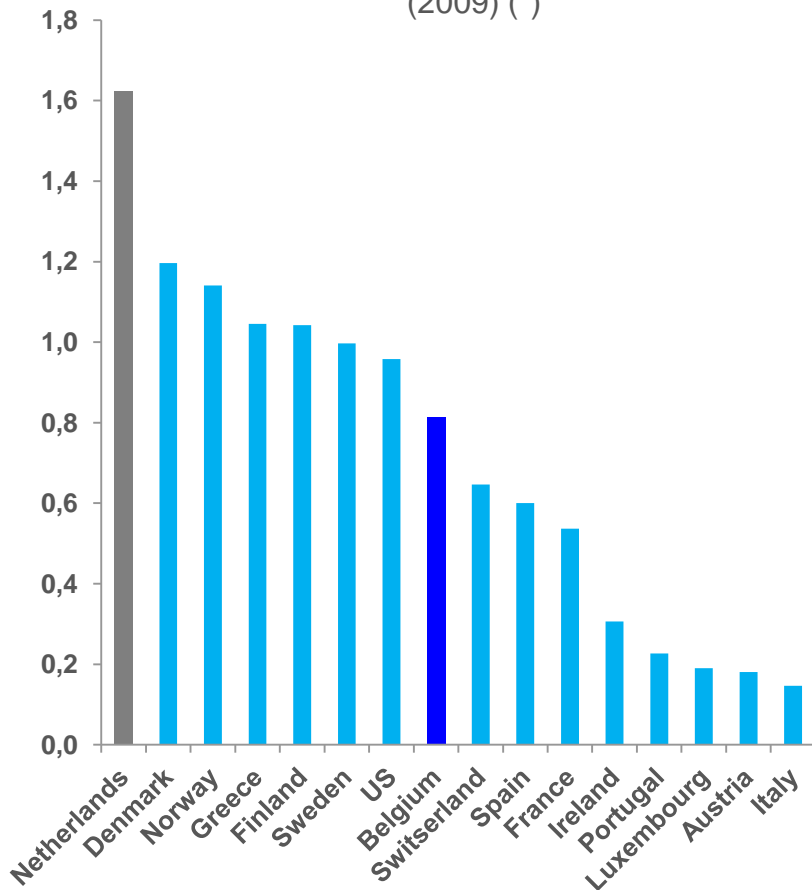


# Growing demand, limited supply

*Tax treatment not exceptionally generous*

## Tax relief on mortgage debt financing

(2009) (\*)

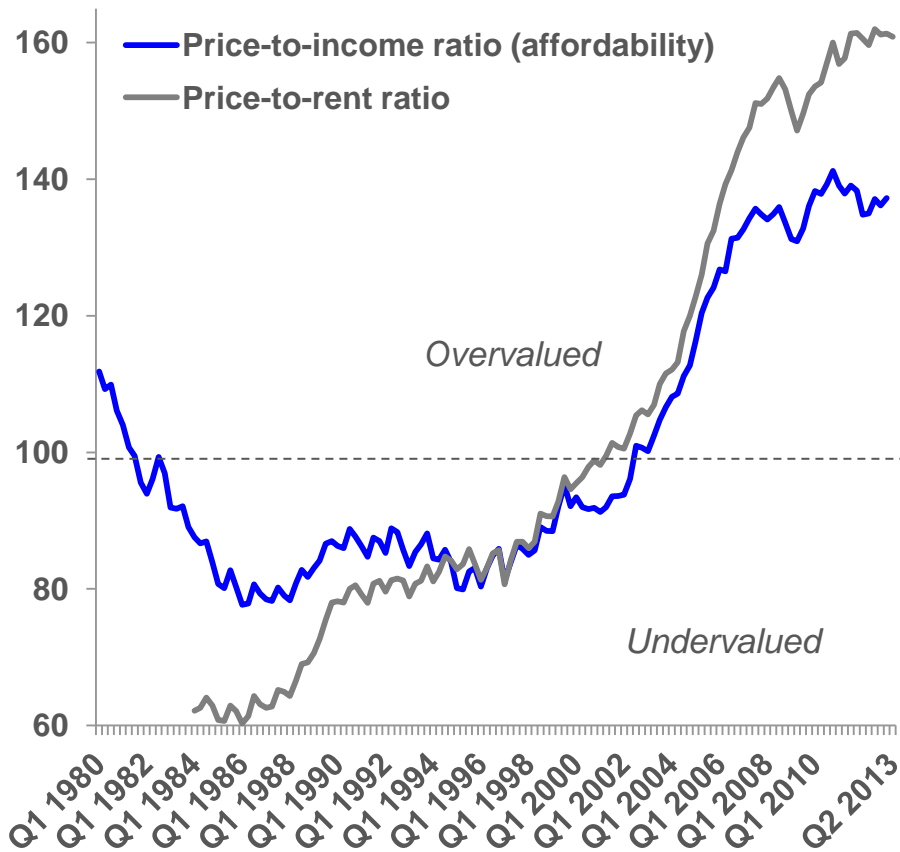


(\*) Indicator taking into account a) deductibility of interest payments on mortgage debt from taxable income, b) limits on the allowed period of deduction or the deductible amount, and c) availability of tax credits for mortgage loans

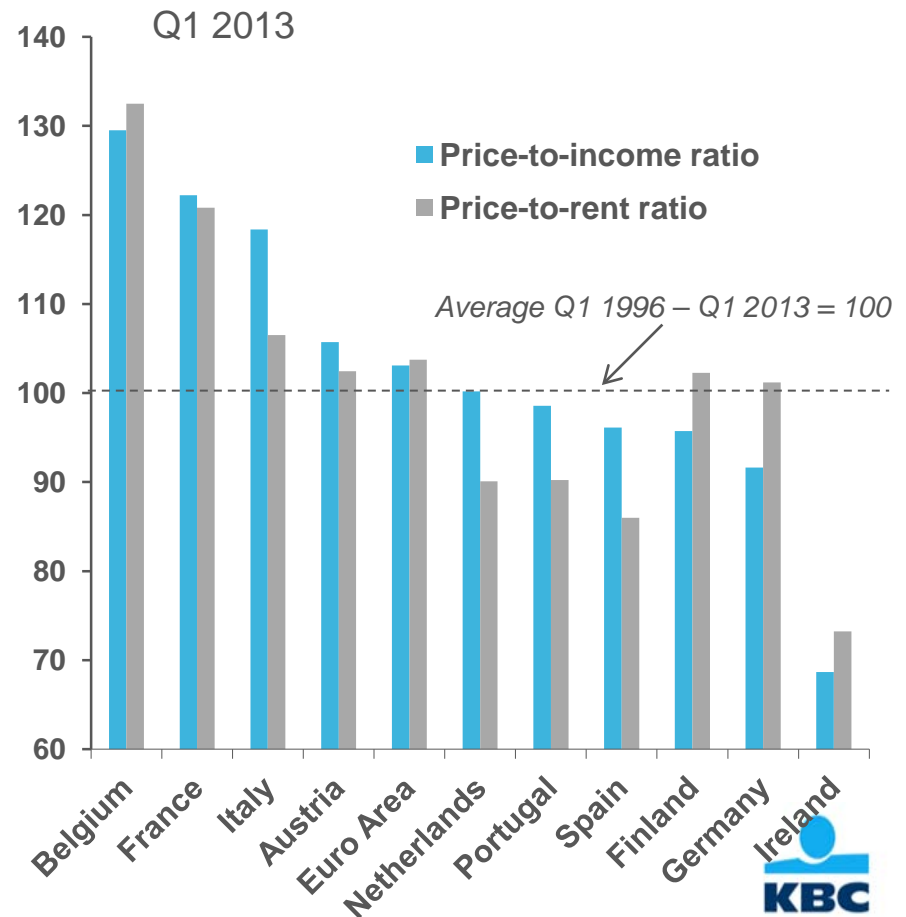
# Housing market valuation

Traditional measures suggest the Belgian market is strongly overpriced...

**Valuation measures Belgian housing market**  
(long-term average = 100)



Source: own calculations

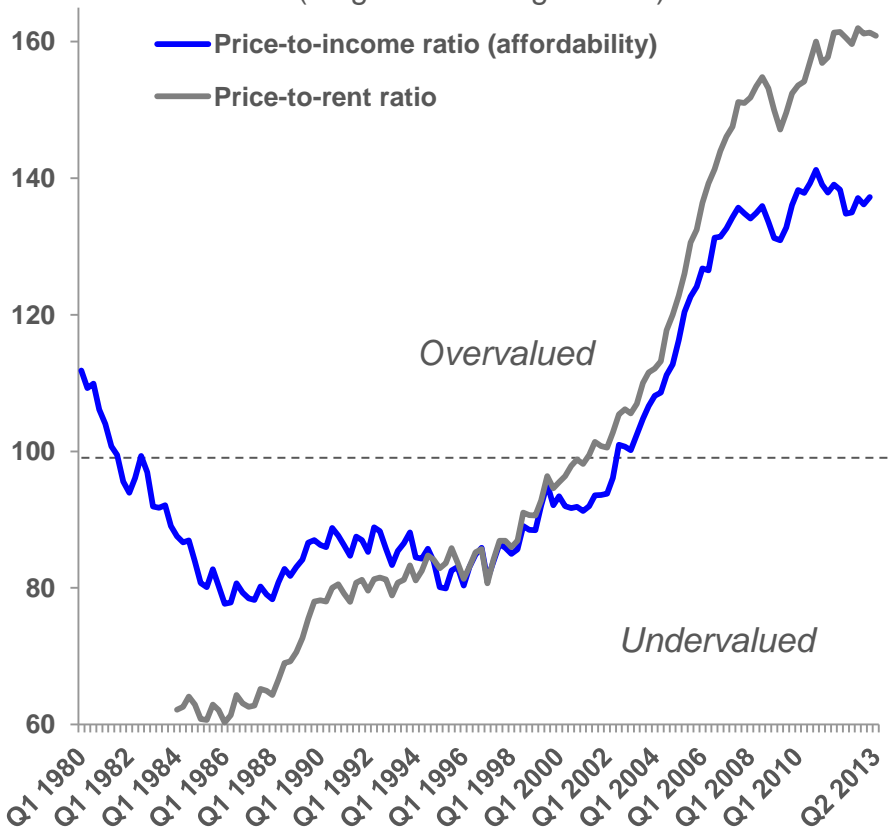


# Housing market valuation

Trend of house prices above EMU-average, trend of rental prices below EMU-average

## Valuation measures Belgian housing market

(long-term average = 100)

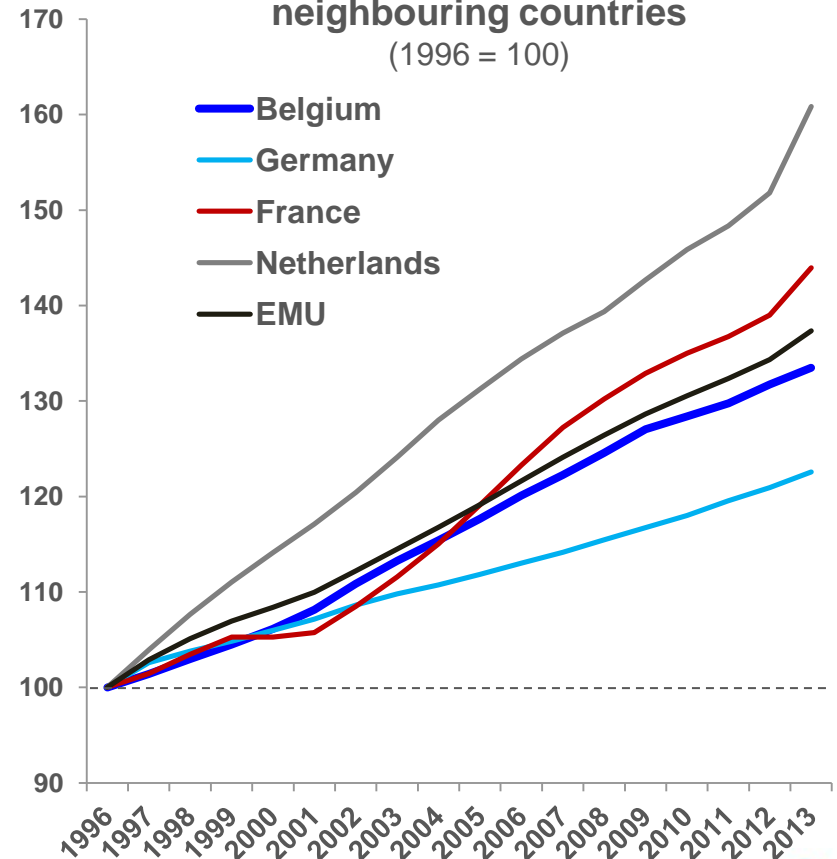


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Source: own calculations

## Rental prices in Belgium and the neighbouring countries

(1996 = 100)



Source: Eurostat

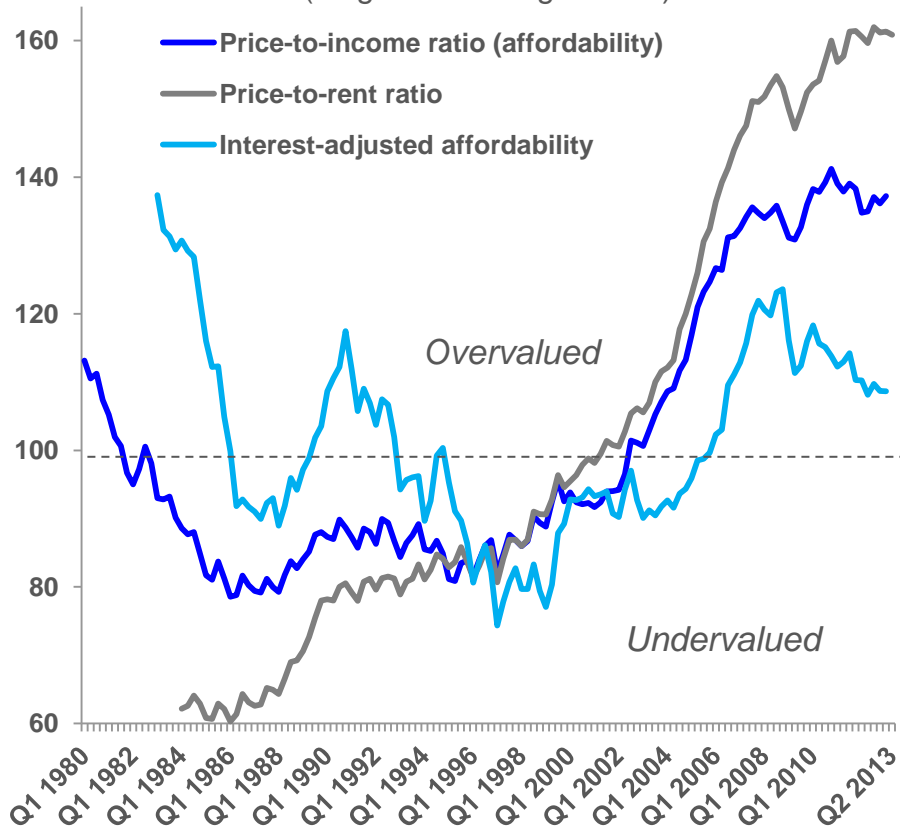


# Housing market valuation

Affordability boosted by declining mortgage rates

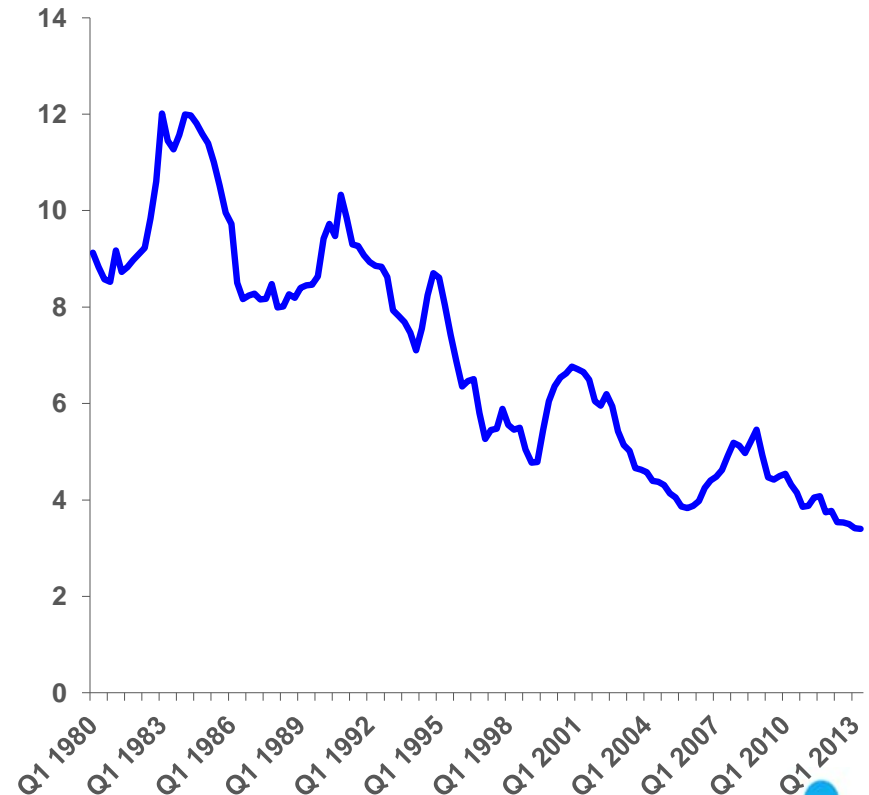
## Valuation measures Belgian housing market

(long-term average = 100)



## Mortgage loan interest rate Belgium

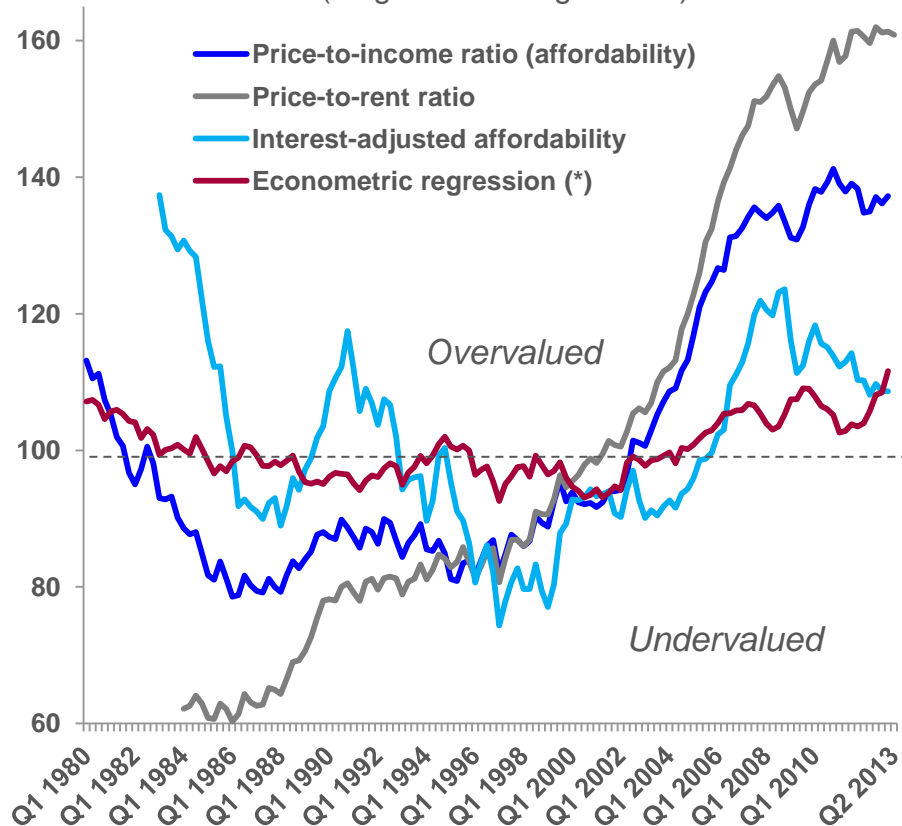
(in %)



# Housing market valuation

Model-based approach, including demand variables

Valuation measures Belgian housing market  
(long-term average = 100)



- **Broader 'fair value' model includes broader set of demand variables:**

- Demographics: number of households (trend)
- Unemployment rate
- Real disposable income
- Real mortgage interest rate

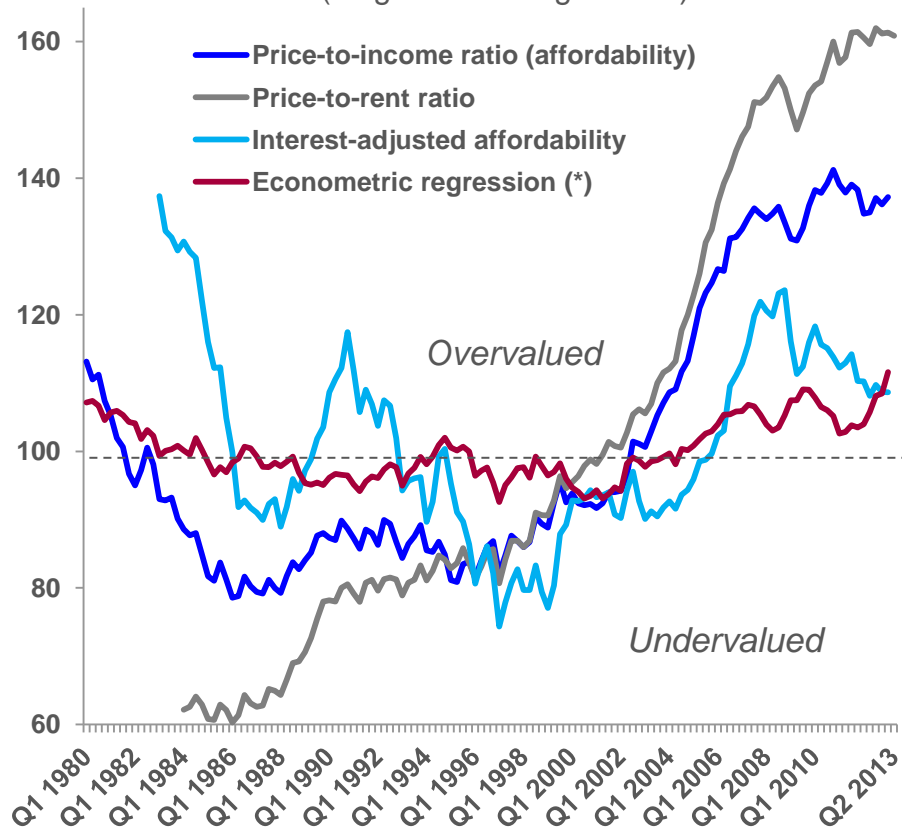
10 (\*) Deviation from the 'fundamental' price as determined by disposable income, mortgage interest rate, unemployment rate and number of households

# Housing market valuation

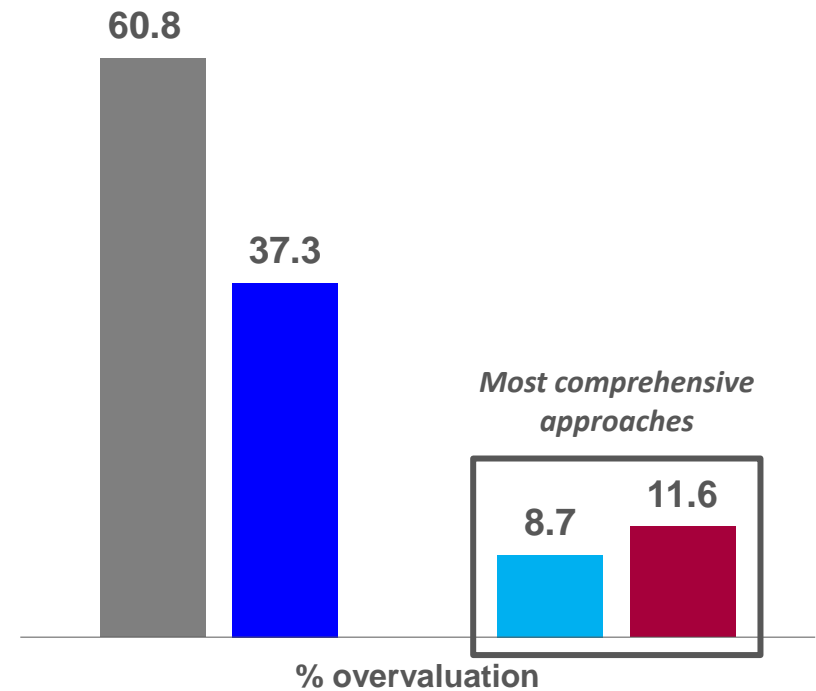
We estimate the overvaluation at some 10%

## Valuation measures Belgian housing market

(long-term average = 100)



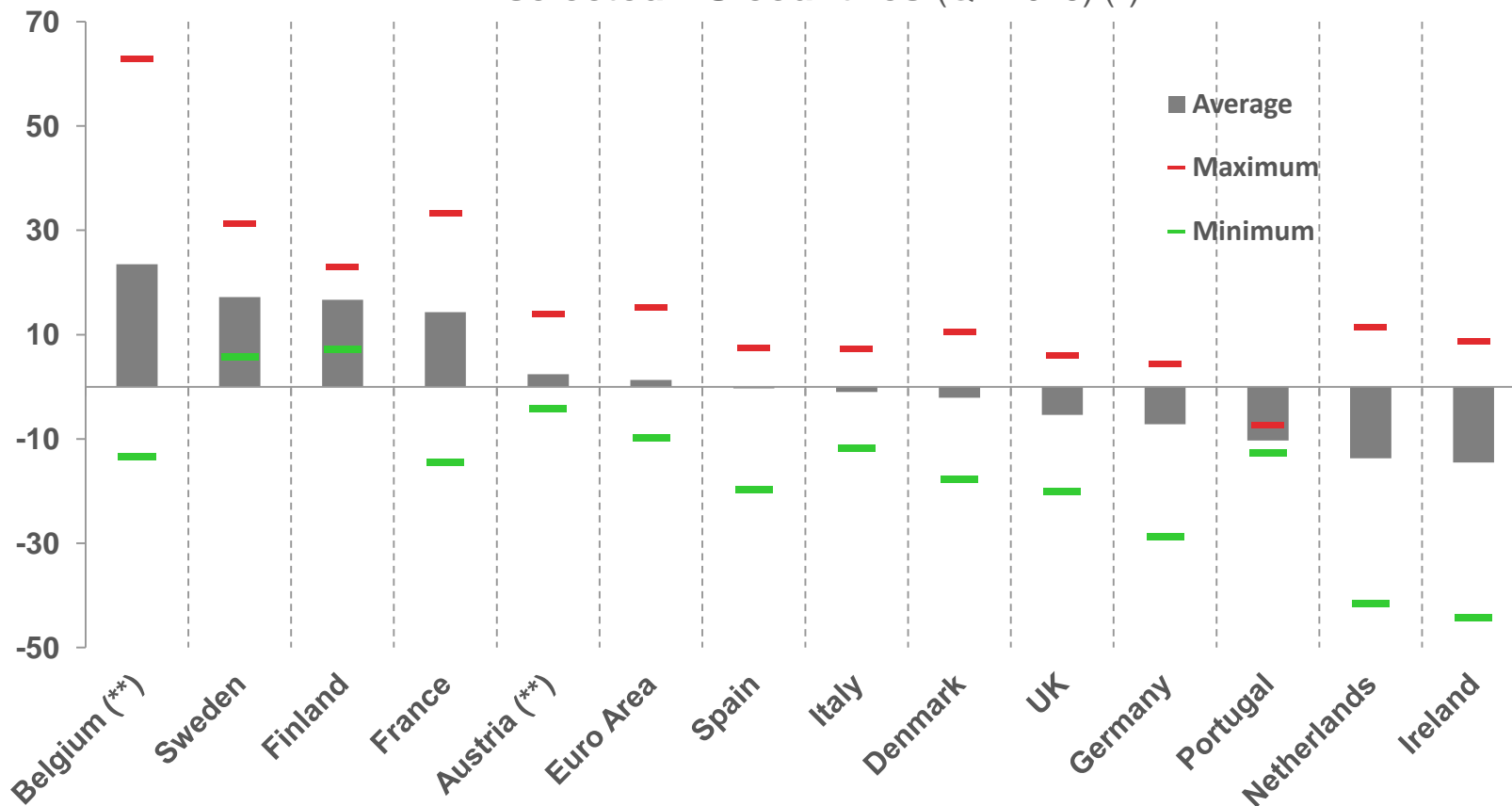
- Price-to-rent ratio (Q2 2013)
- Price-to-income ratio (Q1 2013)
- Interest-adjusted affordability (Q1 2013)
- Econometric regression (\*) (Q1 2013)



# Housing market valuation

ECB's average estimate (23%) biased by the two traditional measures

ECB-estimates of the over/undervaluation of housing markets  
in selected EU countries (Q1 2013) (\*)



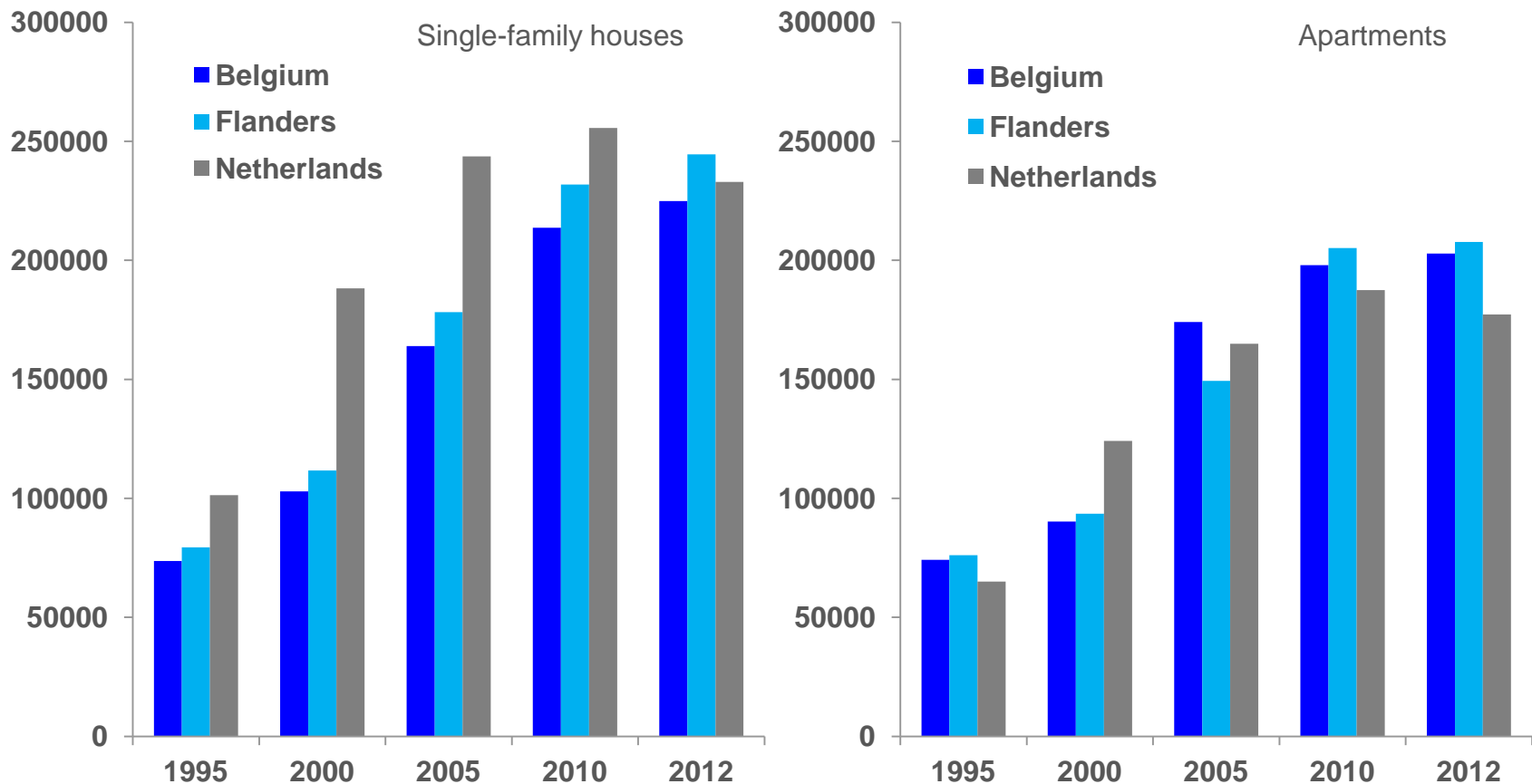
(\*) Estimates based on four different valuation methods: price-to-income ratio, price-to-rent ratio and two model-based methods

(\*\*) Q4 2012 instead of Q1 2013

# Housing price levels

*Dutch houses no longer more expensive than the Belgian/Flemish ones...*

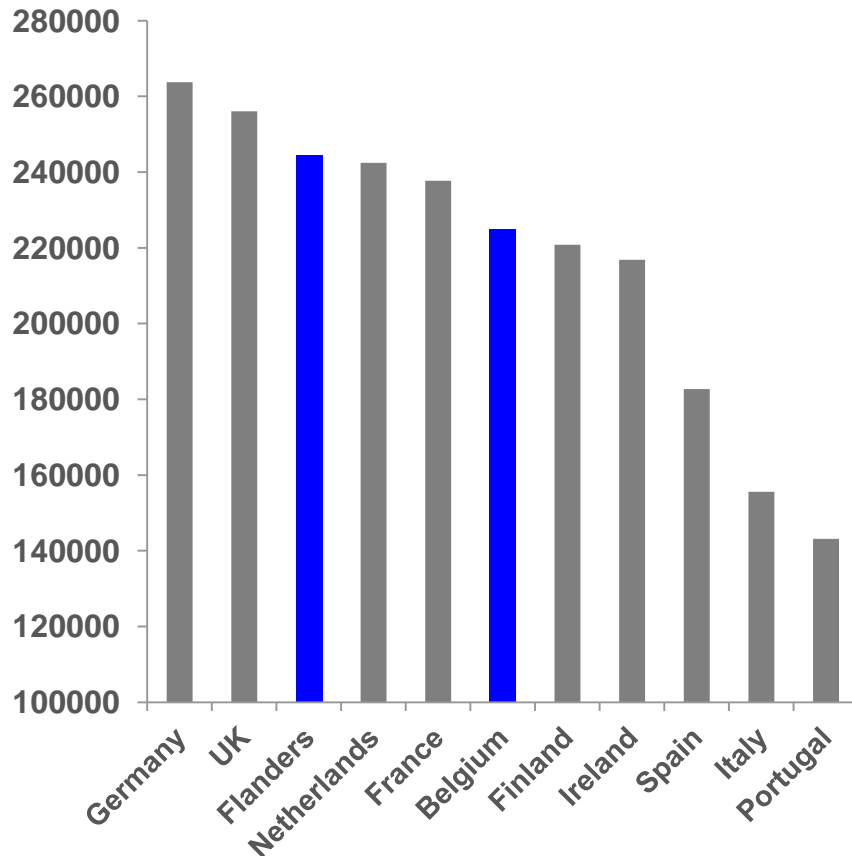
**Average house price levels: Belgium & Flanders versus the Netherlands**  
(in EUR, end of year)



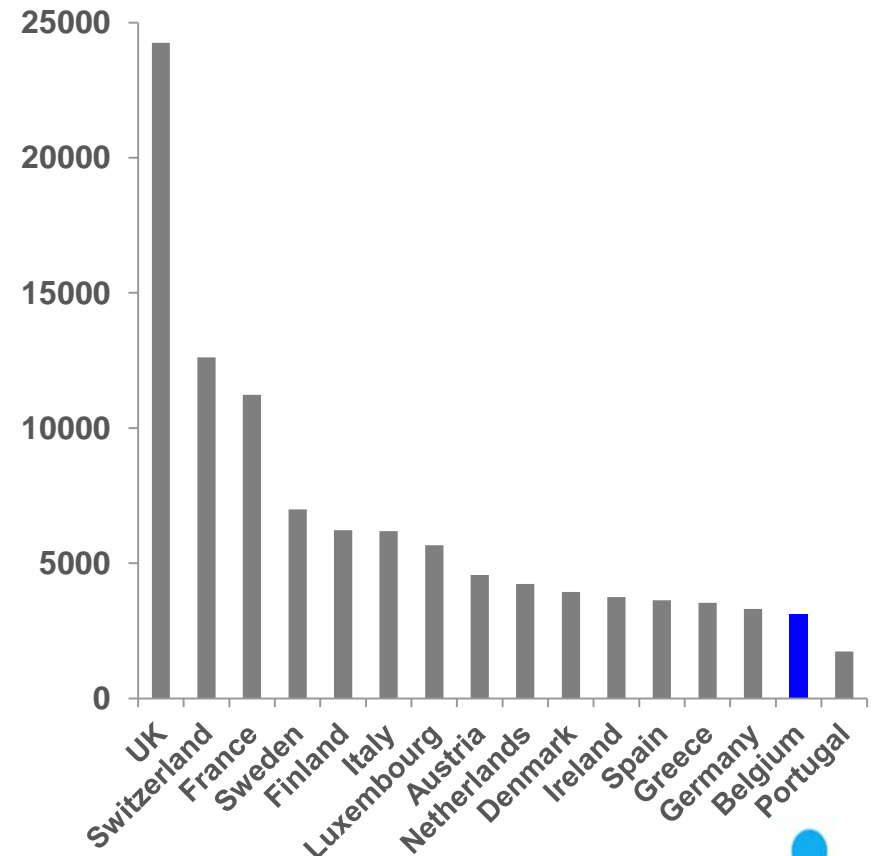
# Housing price levels

...price levels however not unusually higher than elsewhere in Europe

**Average single-family house price**  
(in EUR, end 2012)



**Average sq.m. price of a 120 m<sup>2</sup> apartment located in the capital**  
(in EUR, end 2012)

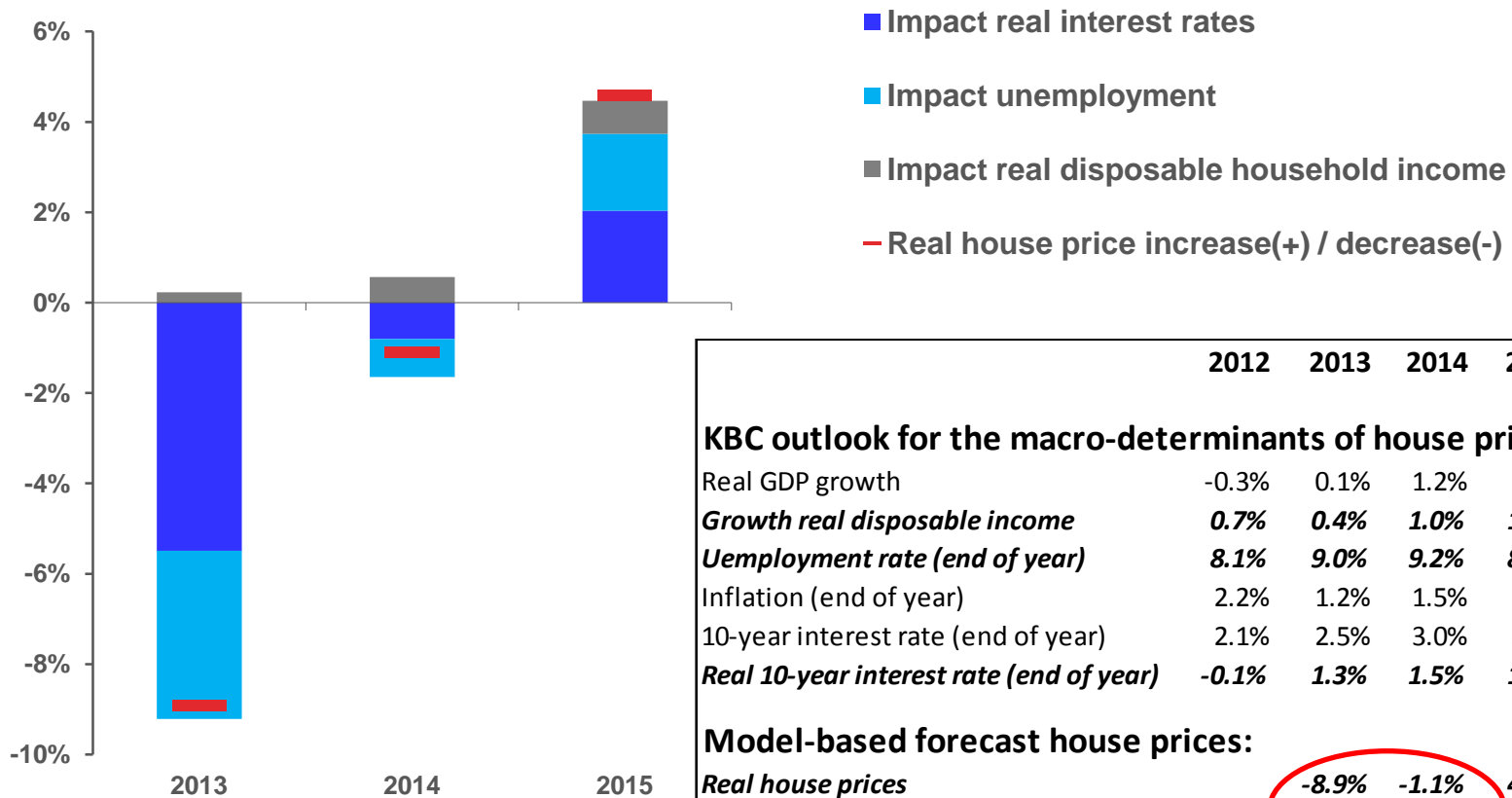


# Looking forward

A 'correction' (about 10%), not a crash in 2013-2015...?

## Model-based forecast real house prices Belgium

(see table for inputs macroeconomic determinants)



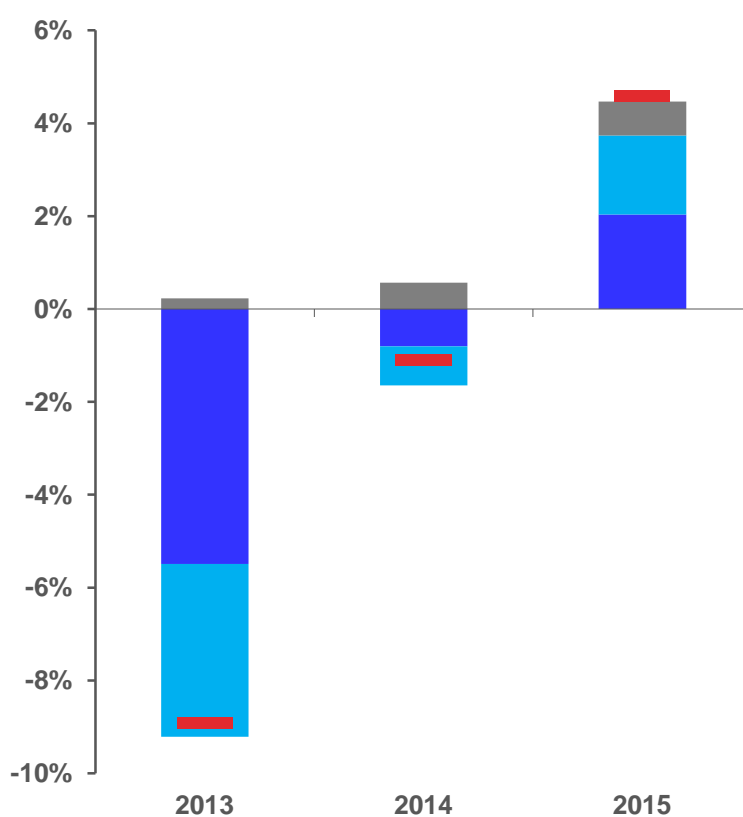
	2012	2013	2014	2015
<b>KBC outlook for the macro-determinants of house prices:</b>				
Real GDP growth	-0.3%	0.1%	1.2%	1.4%
<b>Growth real disposable income</b>	<b>0.7%</b>	<b>0.4%</b>	<b>1.0%</b>	<b>1.3%</b>
<b>Unemployment rate (end of year)</b>	<b>8.1%</b>	<b>9.0%</b>	<b>9.2%</b>	<b>8.8%</b>
Inflation (end of year)	2.2%	1.2%	1.5%	2.0%
10-year interest rate (end of year)	2.1%	2.5%	3.0%	3.0%
<b>Real 10-year interest rate (end of year)</b>	<b>-0.1%</b>	<b>1.3%</b>	<b>1.5%</b>	<b>1.0%</b>
<b>Model-based forecast house prices:</b>				
<b>Real house prices</b>		<b>-8.9%</b>	<b>-1.1%</b>	<b>4.6%</b>
Nominal house prices		-7.7%	0.4%	6.6%

# Looking forward

*A 'correction' (about 10%), not a crash in 2013-2015...?*

## Model-based forecast real house prices Belgium

(see table for inputs macroeconomic determinants)



■ Impact real interest rates

■ Impact unemployment

■ Impact real disposable household income

— Real house price increase(+) / decrease(-)

**Forecast based on the econometric model (macro-fundamentals) does not take into account :**

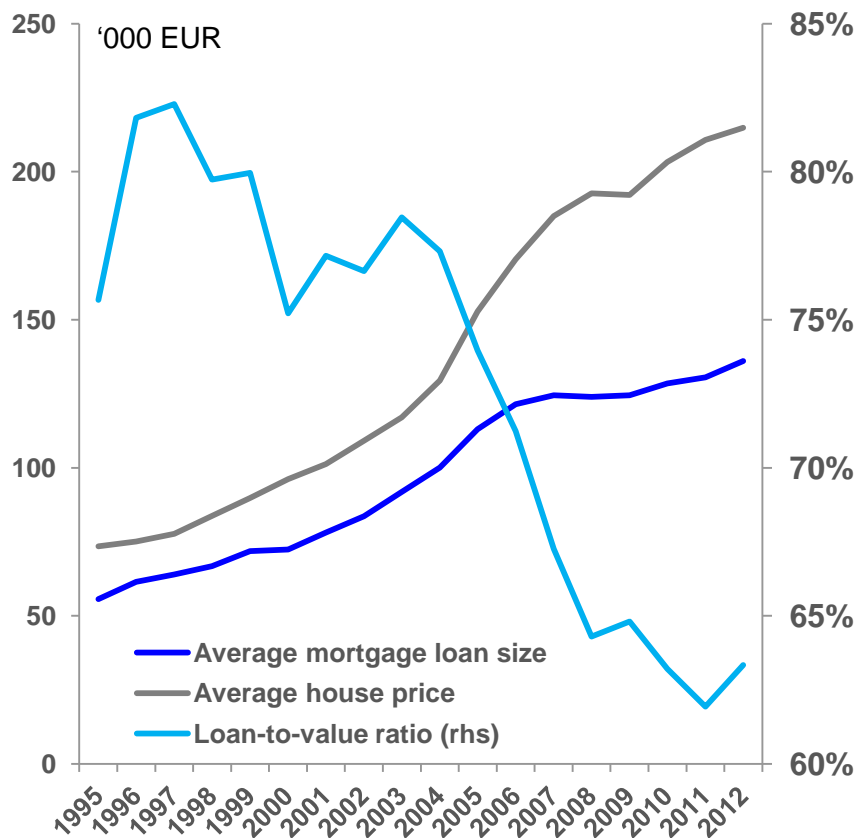
- A possible extra **correction resulting from the overvaluation** (estimated in the model at 12%)
- The impact of **policy measures** (e.g. changes in the system of tax deductibility)
- The possible impact of a continuing **conversion of financial wealth into real estate**



# Potential impact on macro-financial stability ?

*Declining 'average' loan-to-value ratio...*

Average loan-to-value for the purchase of an existing house



Since 2005, the amount of own funds used in the financing of transactions has increased, due to:

- **Fiscal amnesty operation** in 2004 (EBA) resulted in repatriated capital partly being reinvested in Belgian real estate
- The **new tax regime 2005** led to more households taking out a mortgage loan just for tax reasons (limiting the amount borrowed to the level taken into account in the tax return)
- **Conversion of financial assets into real estate** (especially new buildings), as property is still considered to be a 'safe investment' against the background of the financial crisis and an uncertain investment climate
- **Intergenerational transfers:** (grand)parents giving financial support to their children, so they still can afford buying property

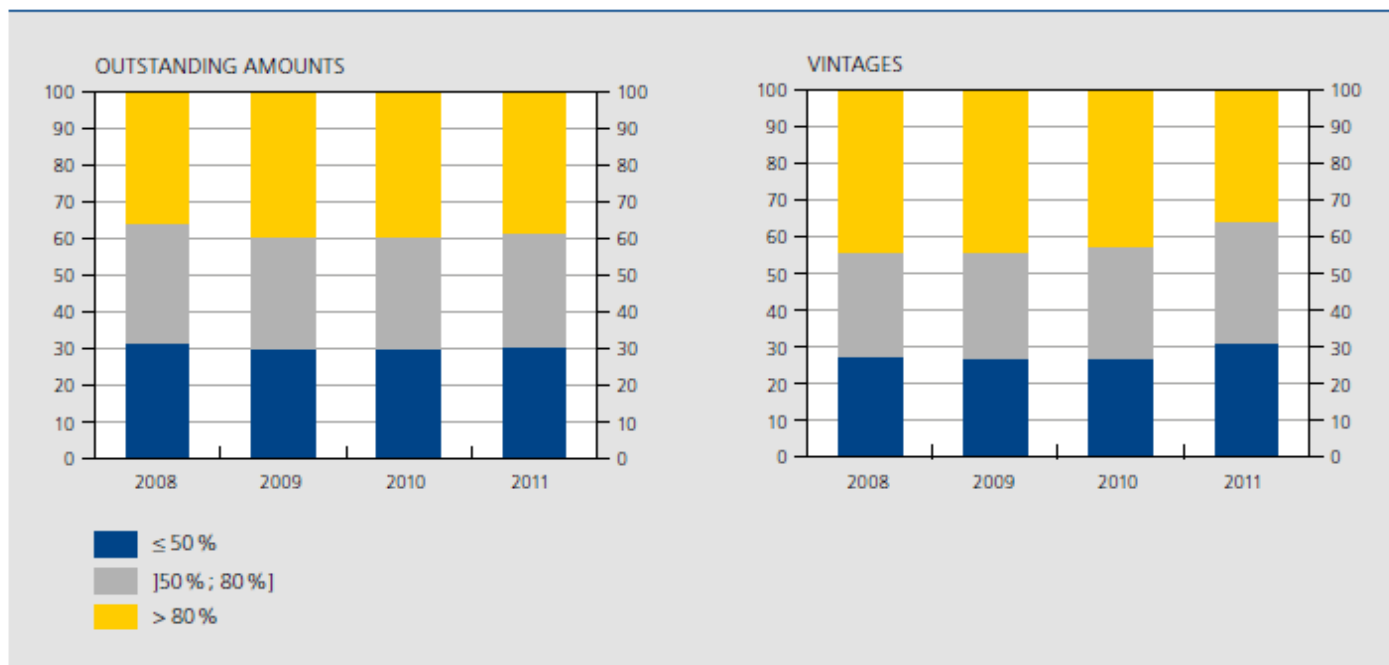
# Potential impact on macro-financial stability ?

...but not for everyone

Despite the decline in the macroeconomic LTV, the proportion of loans with a high LTV (>80%) remained stable at around 40%

## LOAN-TO-VALUE RATIOS AT ORIGINATION

(in % of total loans at the end of the year or total loans granted during a particular vintage)



Source: NBB.

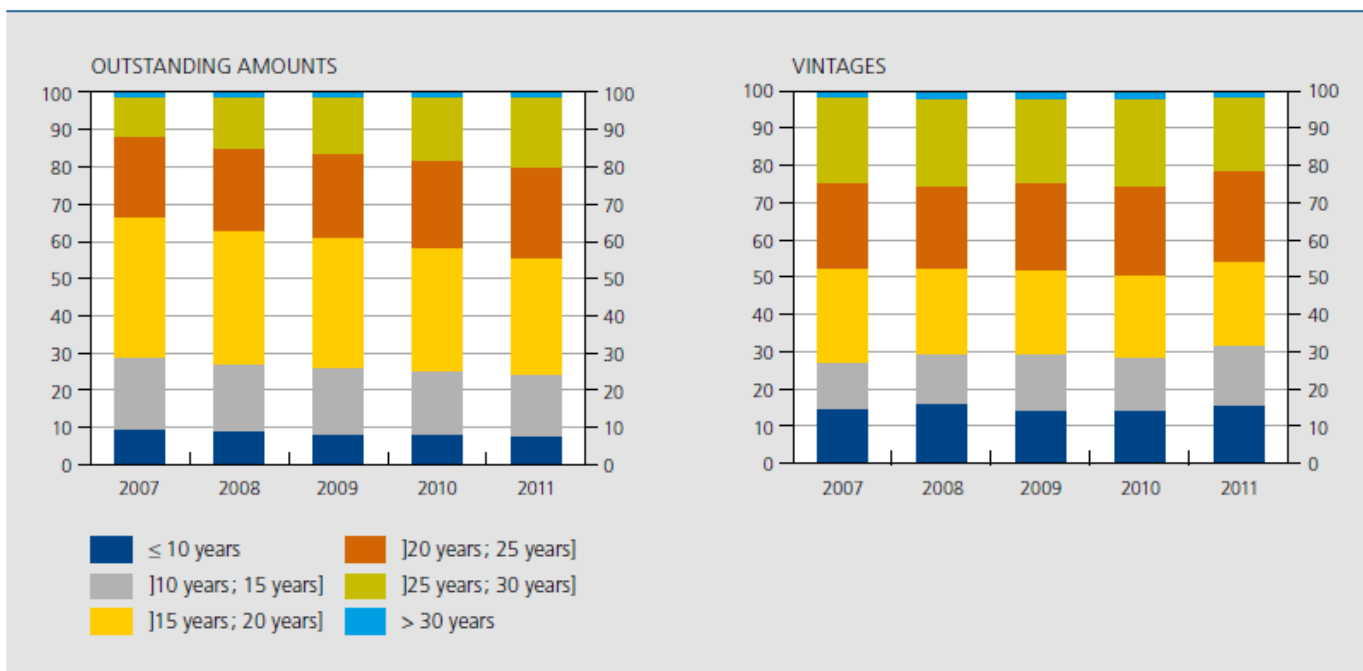
# Potential impact on macro-financial stability ?

## *Increasing maturities of outstanding mortgage loans*

The proportion of loans with an original maturity of > 20 years surged from 34% in 2007 to 45% in 2011

### MATURITIES AT ORIGIN

(in % of total loans at the end of the year or total loans granted during a particular vintage)

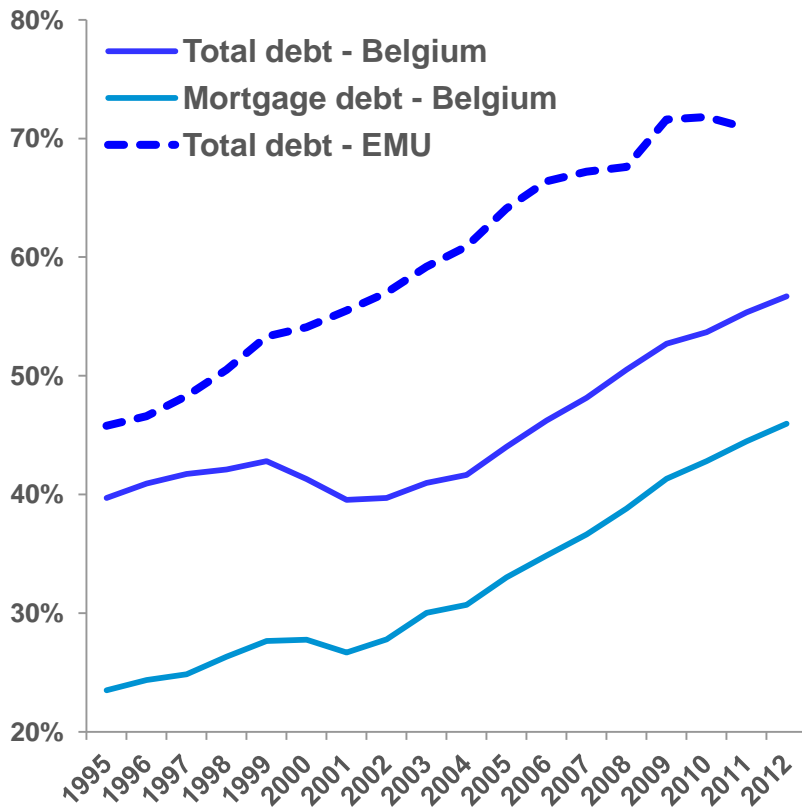


Source: NBB.

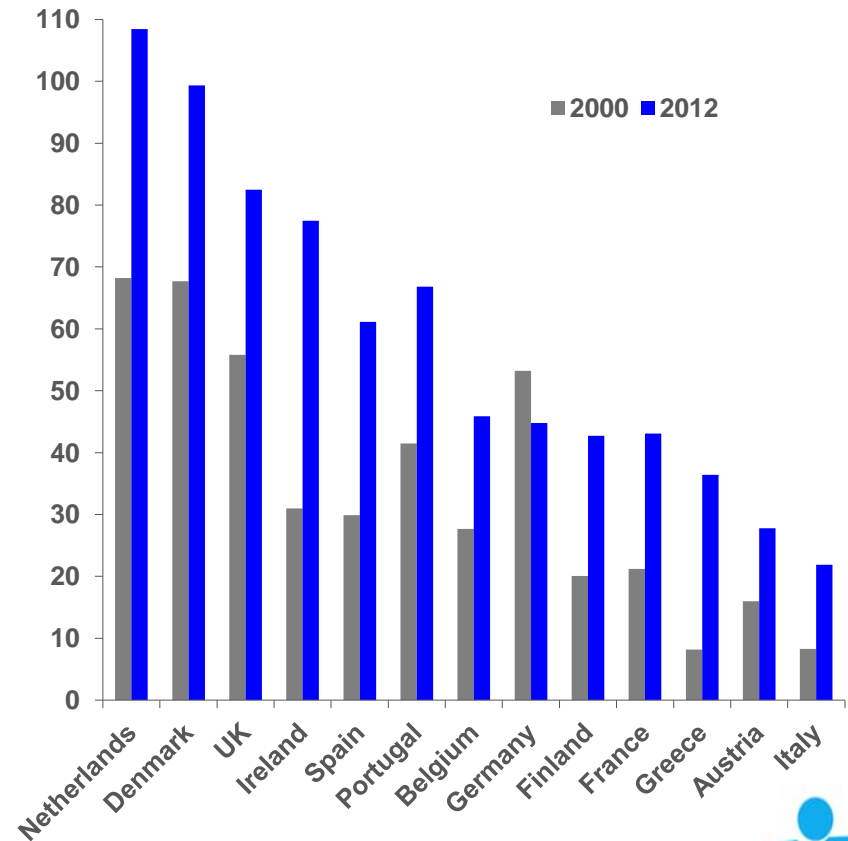
# Belgium's mortgage market

*...does not point to excessive household debt*

**Household debt ratio**  
(as a % of GDP)



**Household mortgage debt**  
(as a % of GDP)



# Belgium's mortgage market

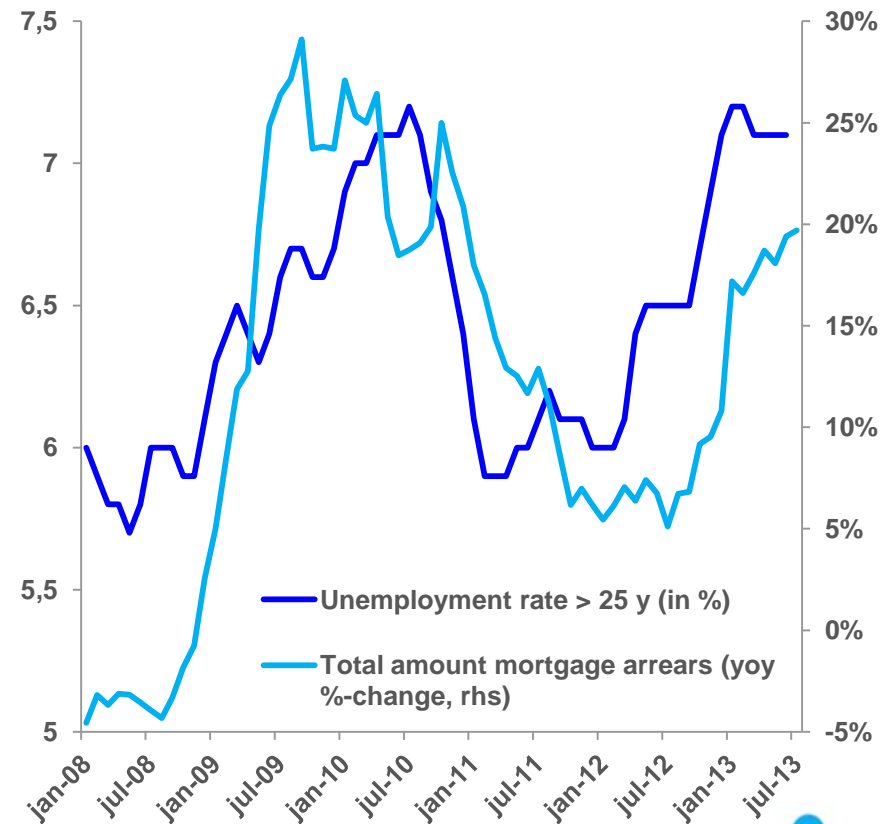
...although the recession has hit credit quality (but not dramatically)

## Default rate mortgage loans

(arrears contracts as % of outstanding contracts)



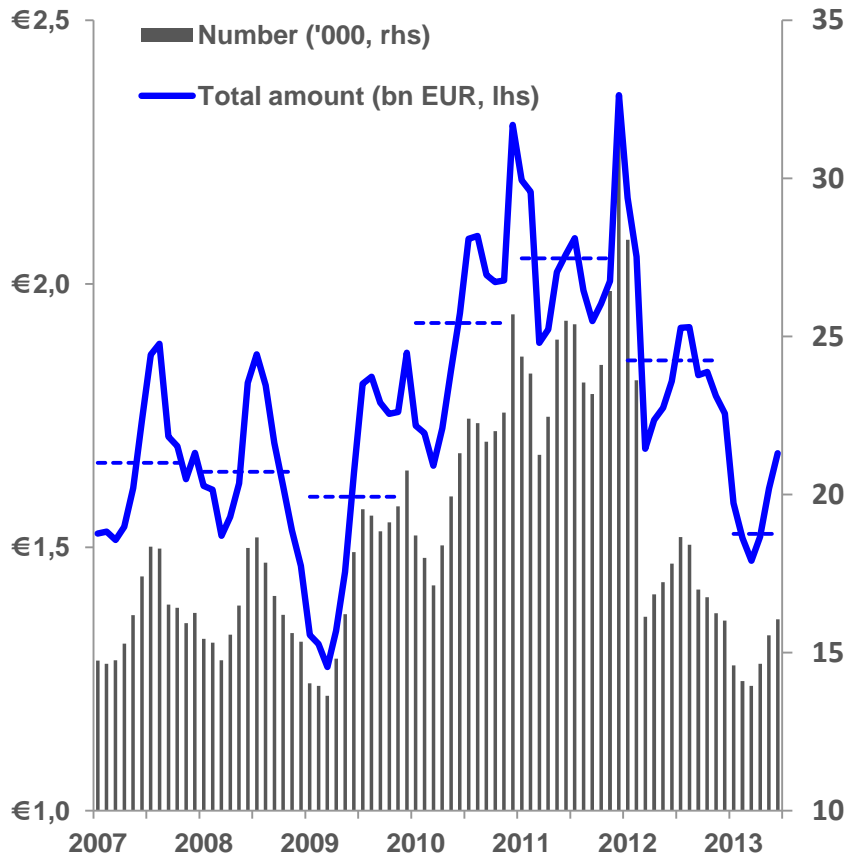
## Arrears and unemployment



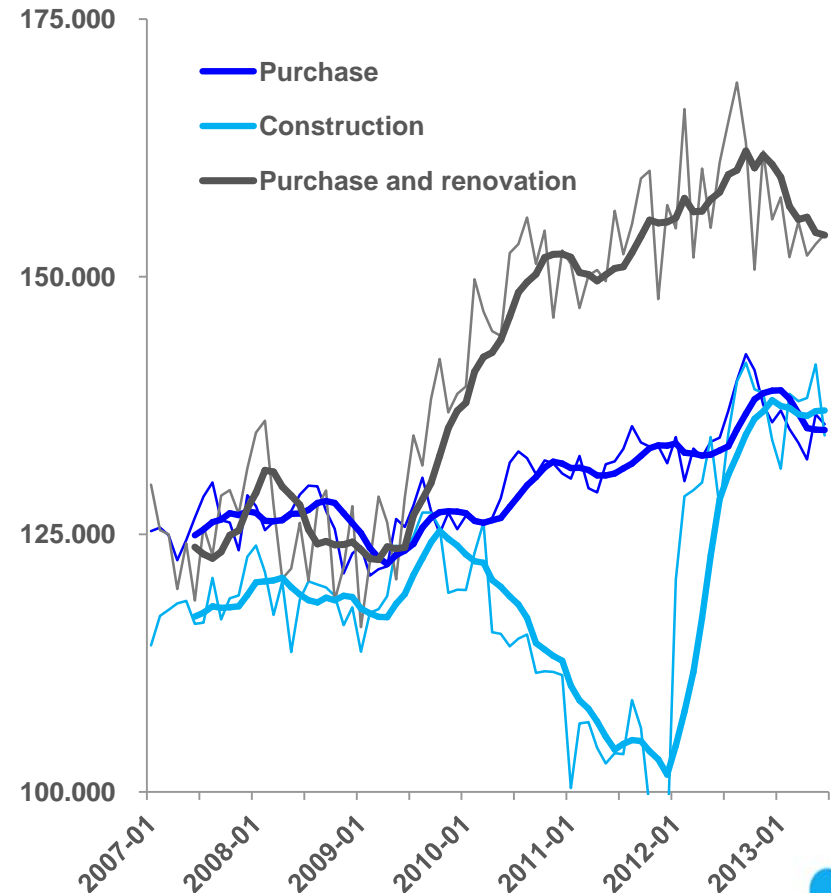
# Belgium's mortgage market

## Average mortgage size over the top...

**New production of housing loans**  
(excl. refinancing, 3m moving average)



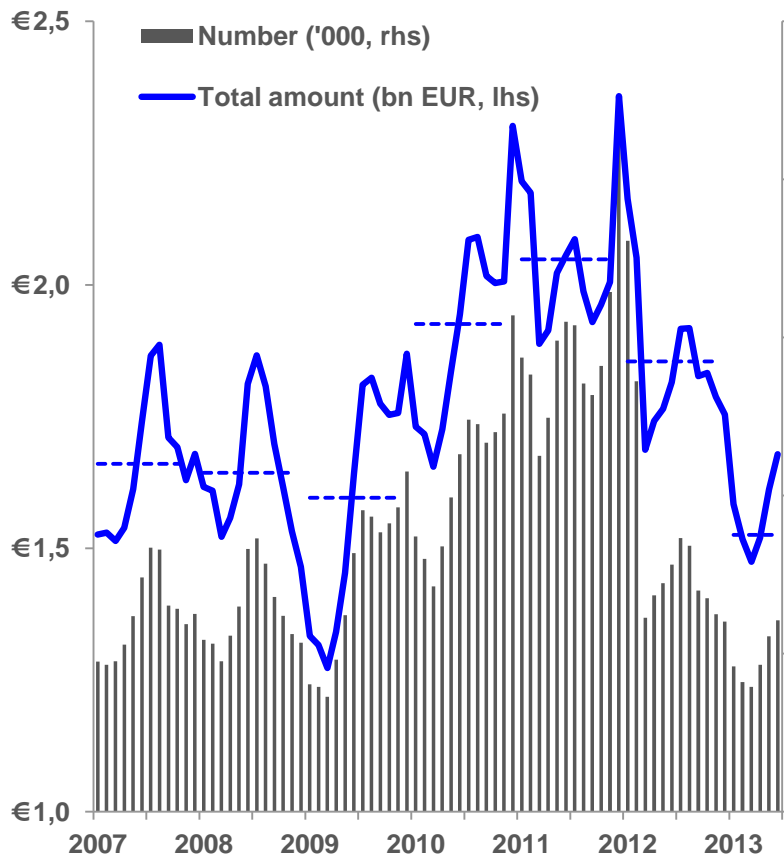
**Average amount per loan**  
(6 month moving averages)



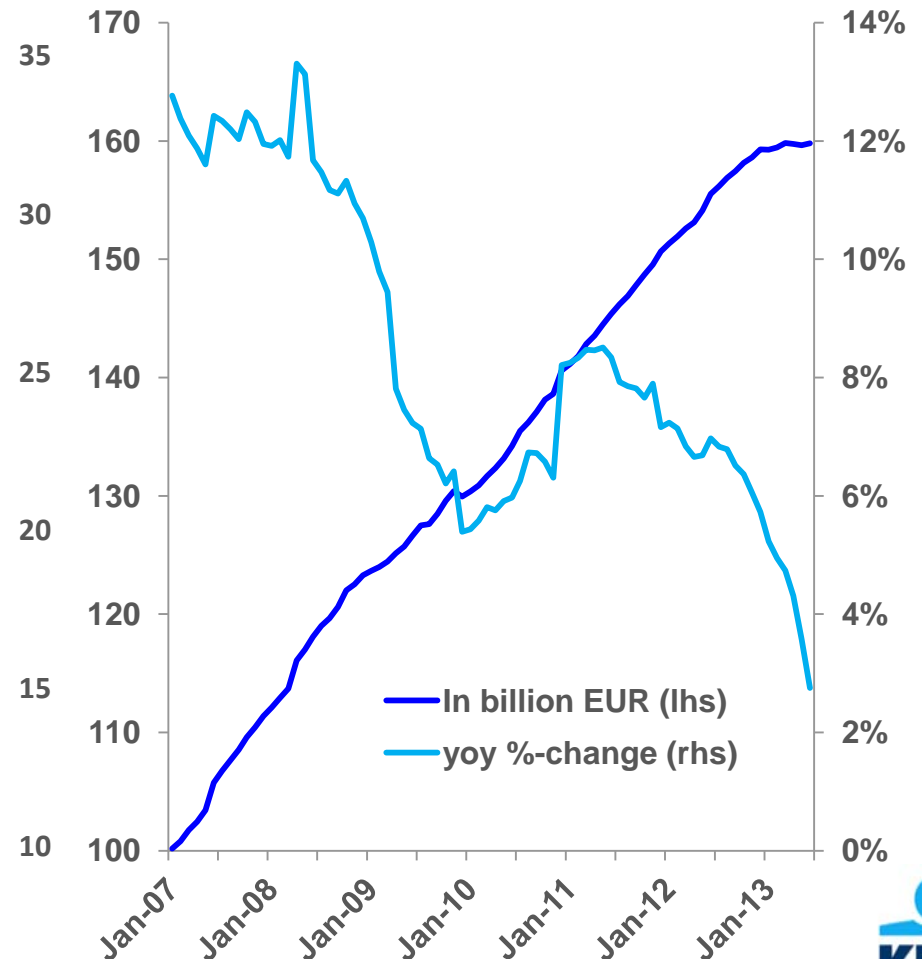
# Belgium's mortgage market

...and market growth is slowing down...

**New production of housing loans**  
(excl. refinancing, 3m moving average)

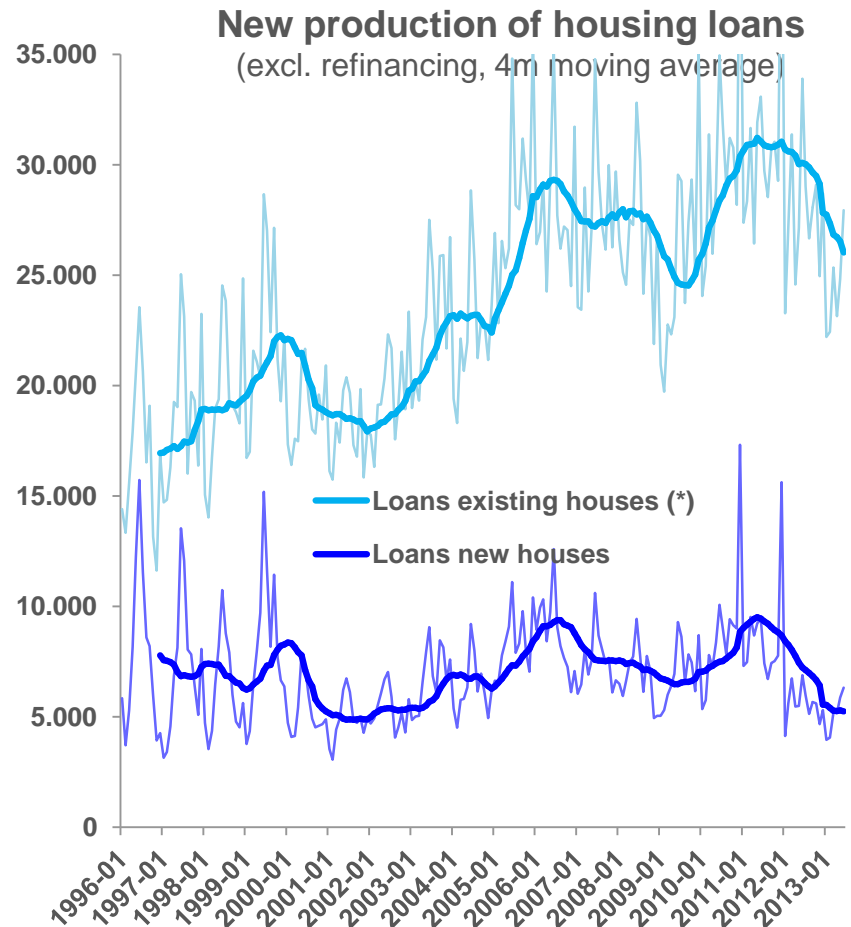
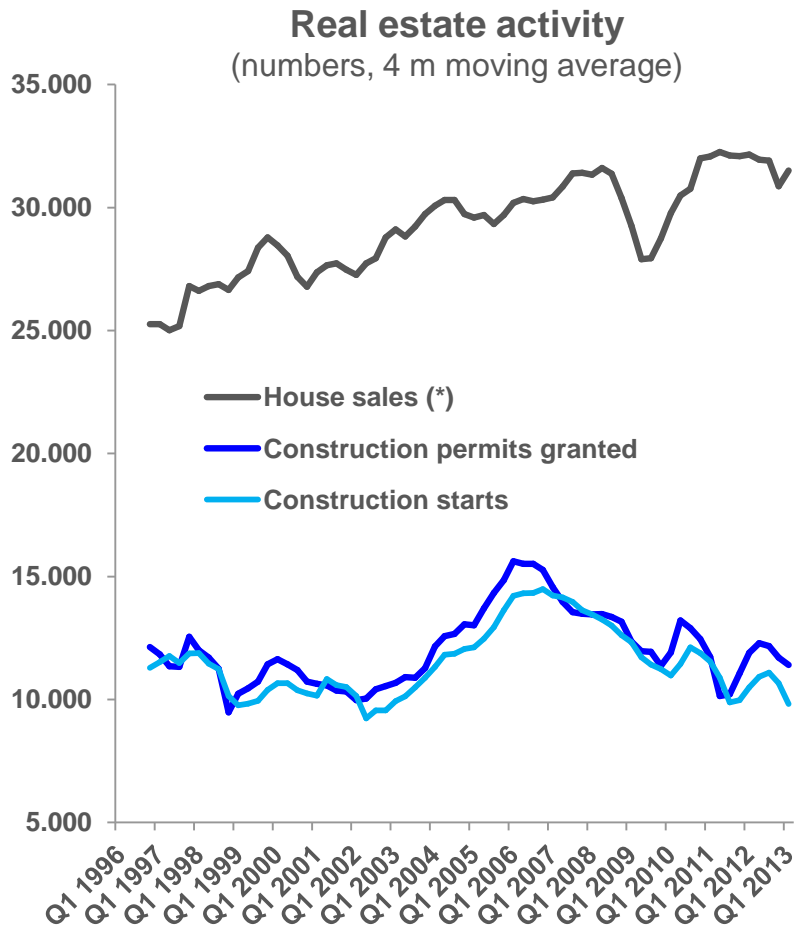


**Outstanding amounts of housing loans**



# Belgium's mortgage market

...reflecting slower real estate activity



(\*) Ordinary houses, villas & apartments

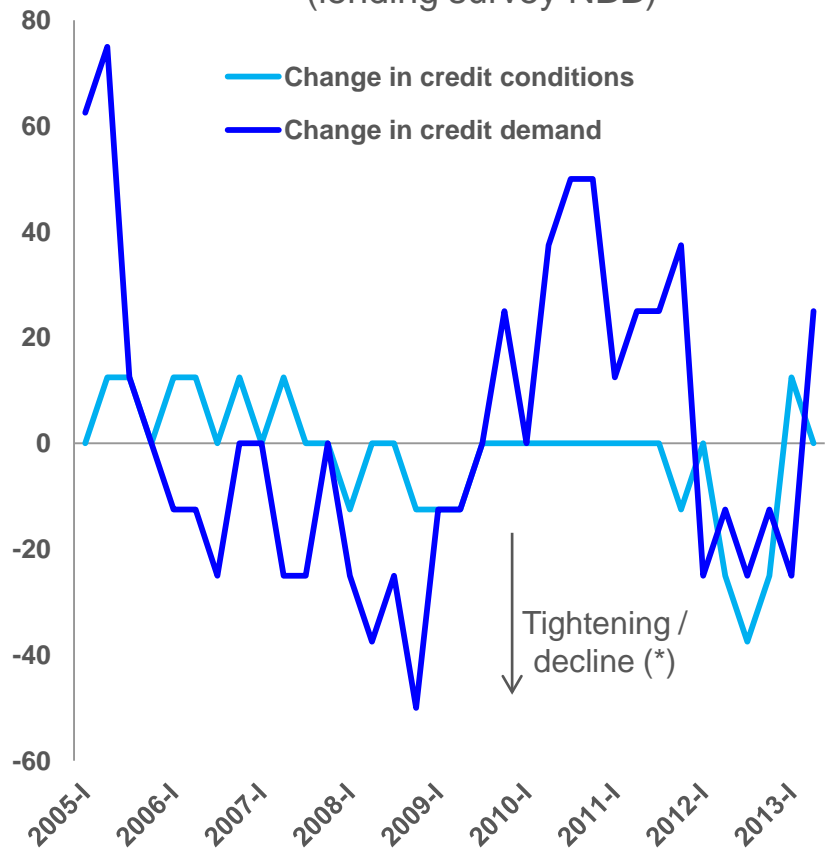
(\*) Including renovation



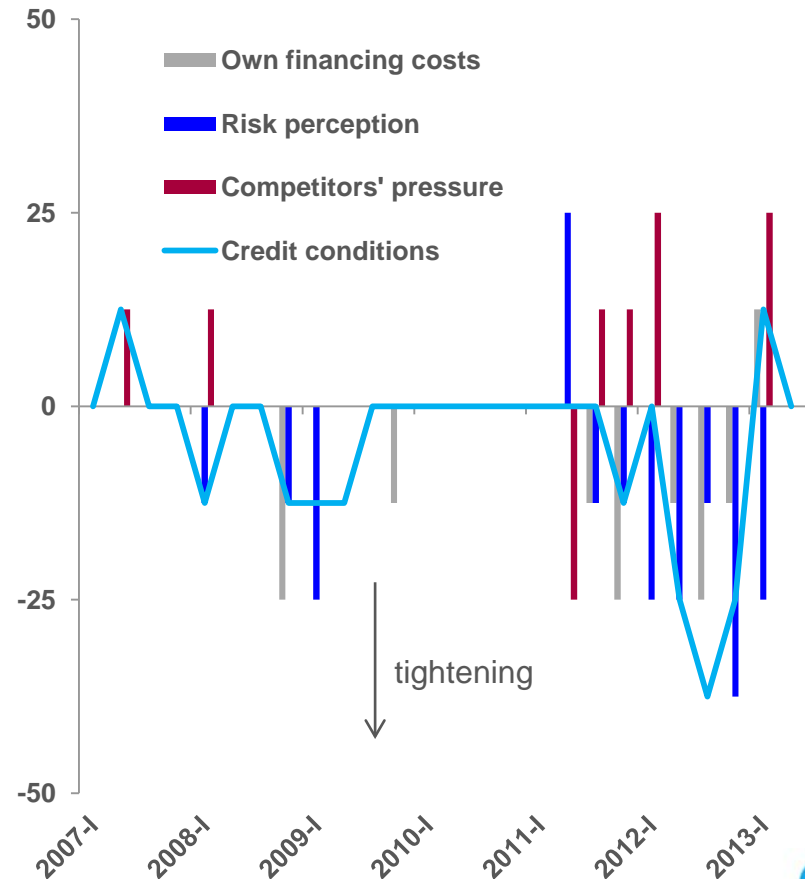
# Belgium's mortgage market

## Short term trend of credit conditions and credit demand

**Banks' lending standards for housing loans**  
(lending survey NBB)



**Determinants credit conditions**



(\*) A negative sign implies a tightening of conditions, respectively a decline in credit demand (and vice versa)

# Summing up

- **Overvaluation not excessively high, price crash unlikely:**
  - We estimate the Belgian housing market overvaluation at some 10%
  - Expectations for the fundamentals suggest a cumulated ('cyclical') price correction of about 10% in real terms (8% nominal) in 2013-2014
- **No major risk to macro-financial stability of the Belgian economy:**
  - The house price boom in Belgium was not accompanied by a surge in house-building
  - Nor has there been an excessive debt accumulation by Belgian households
  - Lower prices in themselves will not affect people's ability to repay their mortgages

# Summing up

- **Belgian housing market remains vulnerable to an interest rate and/or unemployment shock:**
  - In the medium term, rising interest rates are the main risk for property prices and would also have an adverse (though probably limited) impact on the quality of the mortgage portfolio
  - For the quality of the mortgage loan portfolio, a surge in unemployment is a bigger risk, as some borrowers have been incurring increasingly higher debts in recent years
- **Belgian housing market characterised by an increasing 'divide':**
  - On the one hand, there is a sizeable group of people that still can/wants to buy property at current price levels because they have own funds available to do so (as a result, the market is becoming slightly more speculative in nature)
  - On the other hand, housing has become less/no longer affordable for another large group of people. With no/limited amount of own funds, this group needs increasingly large mortgage loans to become homeowner (putting upward pressure on debt service levels), or will increasingly find its way to the rental market



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