

Belgium

By Frans Meel and Daniel Kryszkiewicz, Union Professionnelle du Cr dit (Febelfin)

IN A NUTSHELL

- Average inflation rate: 2.3% (End 2023: -0.6%).
- Decrease in new loan origination by 30%.
- More than 180,000 new mortgages originated (excluding refinancing) for an approximative amount of EUR 30 bn.
- House prices rose slightly in nominal terms, but at less than the rate of general inflation.

MACROECONOMIC OVERVIEW

The rise in interest rates, which began at the end of 2022, continued, impacting the borrowing capacity of potential buyers and adding to the pressure on the property market.

Total employment increased by 1.1%. The harmonised unemployment rate also rose slightly, by 0.2%, to 5.8%. GDP grew by 1.4%.

Consumer confidence has returned positive trend after 2 negative years.

Inflation is contained by a principle that is unique in Europe, the automatic indexation of salaries if inflation exceeds the pivot index (fixed at 2%). This has a significant impact on companies' wage costs.

Rising interest rates have impacted consumer borrowing capacity, reduced credit applications (-24%) and credit production, refinancing excluded (-30%), in comparison with the previous year.

HOUSING MARKET

The number of transactions in the private real estate market declined by 1.1% according to the barometer of the federation of notaries. It's interesting to note that number of transactions on the Belgian real estate market remains positive with + 8%, higher than pre-Covid (end of 2019) .

The market in the Flemish region is more constrained than in the other two regions for properties with a bad EPC certificate - worse than EPC D Label (with a consumption of more than 400 kWh/M²/year). Buyers of these properties are obliged to get at least a D label within 5 years. This does not yet apply to the Walloon and Brussels regions.

The average house price was EUR 322,780, an increase of +1.1%. As inflation was +2.1%, the real change in house prices was -1%, approximately -EUR 3,000. Compared to pre-covid (2019), house price growth is +22.8% on average. After inflation, this is +6% (EUR 16,000). The average price of a house rose by 3% (to EUR 358,677) in Flanders, by 2% in Wallonia (EUR 240,649) and decreased in Brussels by -2.4% (EUR 562,489).

The importance of EPC labels has been confirmed in 2023 and has an impact on real estate transactions. Recent studies confirm that houses with a bad EPC are for sale for a longer period and that prices of that kind of homes are significantly lower than comparable houses with a good EPC. Indeed, properties with a "bad" label are less attractive in contrast to 2022.

MORTGAGE MARKET

According to the Belgian Federation of the Financial Sector (Febelfin), almost 180,000 new loans were provided (excluding external refinancing) for an amount of EUR 29.9 bn. This reflects a decrease, in number, of 29.4% and in amount, by 30%.

The overall number of new loans granted for all purposes decreased: loans for construction purposes fell by 41.7% due to higher prices for construction materials, loans for purchases fell by 24.3%.

There were approximately 264,000 applications (excluding refinancing) for EUR 48.4 bn, a decrease of 24.4% in number and 23.8% in amount, mainly the result of the rise of interest rates.

The average amount of a construction loan decreased to around EUR 207,000 in the fourth quarter, this is still higher than pre-COVID by EUR 30,000 (+16,9%) since the beginning of 2019.

The average loan for house purchase stabilised in the fourth quarter to around EUR 194,000. Again, this is an increase of EUR 34,000 (+21.5%) from the beginning of 2019.

The average renovation loans have increased from around EUR 54,500 at the beginning of 2019 to almost EUR 63,000 (+15.6%) at the end of 2023.

In the fourth quarter, the average loan for purchase and renovation fell relatively significantly to around EUR 186,500. This also represents a slight decrease from the beginning of 2019 (a decrease of around EUR 8,500, or -4.4%).

External refinancing fell by -57.2% (in number, -54.7% in amount) largely due to the rise in interest rates.

More than 92% of the borrowers opted for a fixed interest rate and nearly 5% for a variable interest rate with an initial 10-year fixed rate. This means that around 97% of borrowers have opted for a fixed or semi-fixed interest rate for the entire term of their loan.

The importance of the energy performance of the assets as guarantees for the credit portfolios of banks is more than ever in the focus of their attention and becomes more and more an important element in the decision to grant mortgage loans.

| | BELGIUM 2022 | BELGIUM 2023 | EU 27 2023 |
|--|-----------------|-----------------|---------------|
| MACROECONOMIC VARIABLES | | | |
| Real GDP growth (%) (1) | 3.0 | 1.4 | 0.4 |
| Unemployment Rate (LSF), annual average (%) (1) | 5.6 | 5.5 | 6.1 |
| HICP inflation (%) (1) | 10.3 | 2.3 | 6.4 |
| HOUSING MARKET | | | |
| Owner occupation rate (%) (1) | 72.5 | 71.9 | 69.2 |
| Gross Fixed Investment in Housing (annual change) (1) | -3.0 | -3.4 | -3.1 |
| Building Permits (2015=100) (2) | 111.7 | 114.9 | 94.0 |
| House Price Index - country (2015=100) (2) | 142.7 | 145.8 | 170.2* |
| House Price Index - capital (2015=100) (2) | n/a | n/a | 165.1* |
| Nominal house price growth (%) (2) | 8.5 | 2.2 | 3* |
| MORTGAGE MARKET | | | |
| Outstanding Residential Loans (mn EUR) (2) | 308,579 | 315,607 | 6,782,375 |
| Outstanding Residential Loans per capita over Total Population (EUR) (2) | 26,561 | 26,877 | 15,114 |
| Outstanding Residential Loans to disposable income ratio (%) (1) (2) | 96.5 | 90.3 | 71.3 |
| Gross residential lending, annual growth (%) (2) | -13.1 | -30.3 | -26.6 |
| Typical mortgage rate, annual average (%) (2) | 2.1 | 3.6 | 4.7 |

* Please note that this value is a simple average of the available values in 2023.

Sources:

(1) Eurostat.

(2) European Mortgage Federation - Hypostat 2024, Statistical Tables.

BELGIUM FACT TABLE

Which entities can issue mortgage loans in your country?

Banks, insurance companies and other types of lenders that have been authorised (licence) or registered by the supervising authority FSMA to grant mortgage credit according to the Belgian law on mortgage credit.

What is the market share of new mortgage issuances between these entities?

Based on the membership of our Association (UPC), representing ca 90% of the total Belgian market, the following market shares can be approximatively given in amount:

- Banks: ca 96,4%
- Insurance companies: 0.5%
- Other types of lenders: 3.2%

N.B.: These figures do not take into account the social credit lenders. However, their market share is rather low.

Which entities hold what proportion of outstanding mortgage loans in your country?

The list of mortgage credit lenders and the end-of-year outstanding amount of mortgage loans was published until 2013 on an annual basis by the supervising authority FSMA. This publication has been stopped since then. On the basis of UPC membership, the following market shares can be approximatively given in amount:

- Banks: ca 95.9%
- Insurance companies: 1.2%
- Other types of lenders: 2.9%

What is the typical LTV ratio on residential mortgage loans in your country?

According to the Financial Stability Review issued by the National Bank of Belgium (NBB), the average loan-to-value ratio was about 80% in the period 1996-2006. It dropped to about 65% (and even below that) in the years 2007-2014. However, this average loan-to-value ratio has to be interpreted with caution, as the data are the result of a very wide distribution of loan-to-value ratios at origination. For the first half of 2020 vintage, about 53% of the volume of new mortgage loans was made up of loans with an LTV ratio above 80%. As a consequence of recommendations imposed by the NBB, the share of new mortgage loans with an LTV ratio above 80% has decreased to about 40% in 2022. In 2023, the share of new mortgage loans with an LTV higher than 80% again increased. Average LTV-0 was at 71%, compared to 72% in 2022.

How is the distinction made between loans for residential and non-residential purposes in your country?

Residential purposes means that it is for private housing (consumers).

The Belgian mortgage credit law applies to mortgage credit as funding for acquiring or safeguarding immovable real rights granted to a natural person chiefly acting for a purpose deemed to lie mainly outside the scope of his commercial, professional or crafting activities and having his normal place of residence in Belgium, at the moment when the agreement is being signed:

- either by a lender having his principal place of business or chief residence in Belgium
- or by a lender having his principal place of business or chief residence outside Belgium, provided a special offer or publicity had been made in Belgium before the agreement was signed and the actions needed for signing the agreement have been undertaken by the borrower in Belgium.

What is/are the most common mortgage product(s) in your country?

The most common mortgage credit product is a loan with a term of 20 - 25 years, a fixed interest rate throughout the full loan term and a fixed amount of monthly instalments.

What is the typical/ average maturity for a mortgage in your country?

The median maturity of a mortgage loan at origination is about at 20 years. Since 2007, lenders have continued to tighten customers' access to mortgage loans with long maturities. The percentage of loans granted with a maturity of more than 25 years has plummeted from 23% in 2007 production volumes to only 2% in 2015 and 2016. At the same time, the share of loans with a maturity between 20 and 25 years in mortgage loan vintages remained relatively stable until 2016 while the share of loans with a maturity between 15 and 20 years clearly increased. These trends seem to have influenced the average maturity level of total outstanding stock as from 2013; by the end of 2015, 11% was associated with initial maturities above 25 years, down from 20% in 2012. Whereas in 2016 only 29.0% of mortgage loans was granted with a maturity of over 20 years, this number rose to almost 40% in 2019. Since then, the market share of new mortgage loans with a maturity of over 20 years remained almost stable at about 40%. For last year, the proportion of new loans with a maturity of more than 20 years rose to 49% in 2022 and to 54% in 2023, from around 40% in the period 2018-2021. The part of loans with a maturity of >25 years, however, remained stable. In 2023, the market share of loans with a maturity of 20 to 25 years further increased to more than 55%.

What is/are the most common ways to fund mortgage lending in your country?

Most funding still comes from deposits. A few major lenders issue covered bonds.

What is the level of costs associated with house purchase in your country (taxes and other transaction costs)?

The registration duty in **Flanders** changed at the start of 2022. It increased to 12% (coming from 10%) of the purchase price of a dwelling that is not the own and only home as the main residence. For the own and only home as the main residence, this duty is lowered to 3% (coming from 6%) of the purchase price. It only amounts to 1% in case of a deep energetic renovation in the first 5 years after the purchase. Application of an additional reduction of EUR 2,800 in case the purchase price does not exceed EUR 220,000 (EUR 240,000 in the main cities and some cities around Brussels). Moreover, the principle of "portability of registration duties" existed in Flanders: upon the purchase of a new housing property intended to replace the previous principal residence, registration duties up to EUR 13,000 could be "transferred", meaning these duties did not have to be paid a second time. This "portability of registration duties", that applied in Flanders until 2022, was reformed: until 01.01.2024, consumers could choose to apply the new lowered registration duty or still to pay the former (higher) level of registration duty in combination with the portability of registration duties. From 01.01.2024 on, the portability of registration duties no longer exists.

In **Wallonia**, the registration duty amounts to 12.5% of the purchase price. However, in case of a main residence, the first EUR 20,000 of the purchase price is exempt from registration tax.

In 2023, the registration tax amounts to only 6% on the first slice of EUR +/- 178,000 in case of small properties in some cities and on the first slice of EUR +/- 167,000 in more rural areas. The tax on those slices is even lowered to 5% in case of social mortgage credit.

In the **Brussels region**, the normal registration duty amounts to 12.5% of the purchase price. However, buyers can benefit from an "abattement" (= exemption on which the buyer is not required to pay registration duties) on the first slice of **EUR 200,000**. This exemption is only applicable to properties of under **EUR 600,000** and provided that it concerns the buyer's own and only home as his main residence. An additional "abattement" of EUR 25,000 per energy label category is possible if the energy class of the purchased home improves by at least 2 energy label categories in the first 5 years after the purchase.

There is also a registration duty on the amount of the mortgage loan covered by a mortgage registration.

What is the level (if any) of government subsidies for house purchases in your country?

Across the regions (Flanders, Wallonia and Brussels) the schemes differ, with each region pursuing its own policy:

Flanders no longer provides a tax reduction. The "housing bonus" system, which allowed the owner of a single house to obtain deductions (40% tax relief) for construction/ purchase/ renovation up to the total amount of EUR 1,520 (and even EUR 2,280 during the first 10 years of the mortgage) has been replaced since 01.01.2020 by a reduction of the registration duty.

In **Wallonia**, the so-called "Chèque habitat", applies from 2016 on. More information is available on: <https://logement.wallonie.be/fr/aide/le-cheque-habitat>

The **Brussels region** also no longer provides a tax reduction. It was replaced by a higher tax relief on registration duties (first slice of **EUR 200,000**) to buyers purchasing their own and only home as their main residence.

The **federal state** provided until end 2023 a tax reduction if one buys a second house: a deduction of up to EUR 1,520 (tax relief of 40%) for capital repayments and debt balance insurance premium in case of a loan for the purchase/ construction/renovation of a second house in 2023. As from 01.01.2024, this measure has ended.