

'Thorough revaluation of real estate ahead'

'The impact of sustainability on house prices is increasing'

Houses are increasingly subjected to a variety of requirements regarding energy conservation. The environmental impact of the location is also receiving more attention. The expedited transition to more sustainable housing in Belgium has a significant impact on the selling price of houses. With scores and labels offering more transparency, a house's sustainability performance will increasingly become a price-determining factor. This will result in an expanding gap in price development and speed of sale between (desirable) sustainable houses and (no longer desirable) non-sustainable houses.



The historical development of housing prices in Belgium can largely be attributed to the changes in a number of fundamental determining factors of the real estate market. In the past decades, demand aspects were mainly responsible for the strong increase in house prices. These aspects include a sharp drop in mortgage rates, increased family income, the dynamic demographic (in particular the strong increase in the number of households) and favourable tax facilities for mortgage loans.

The price of an individual property generally follows the overall price development. The price of an individual property generally follows the overall price development. The location is generally regarded as an important price determining factor. Individual characteristics of a house that affect its price include the year it was built, its current state of repair (finishing, kitchen and bathroom, roof, etc.), liveable surface area, and the type of construction (detached, semi-detached, terraced).

Strong focus on improved sustainability of the housing stock

One of the individual aspects that is rapidly gaining in importance in the pricing process, is the home's sustainability. Improving the sustainability of the housing stock has become a topical issue against the background of climate change. The energy performance of houses in Belgium remains poor, because the housing stock still largely consists of older houses that do not meet modern standards for energy efficiency. In Flanders, more than three quarters of all buildings were built before 1980. In addition, there is the ill-considered use of space with much fragmentation and hard surfacing, resulting in traffic congestion, pollution and pressure on biodiversity.

This explains why the housing policy in Flanders focuses strongly on improving sustainability. New buildings and renovations must comply with the increasingly strict EPB requirements for energy performance and interior climate, which will make new buildings close to climate-neutral by 2021. Since 2019, the EPC+ certificate has been mandatory for homes offered for sale. In addition to stating the energy consumption in kWh/m² this certificate also contains an energy label, ranging from A+ (excellent) to F (poor), as well as

proposed energy-saving improvements. In addition, for the notarial transfer, a house must now meet three of six energy requirements (for roof insulation, wall insulation, floor insulation, windows, condensing boiler, renewable energy boiler) within five years.

This list is non-exhaustive, and other far-reaching measures may be added (such as a ban on oil-fired boilers in new houses and for extensive renovations from 2021). In addition to the new energy requirements, the Flemish government launched the Mobiscore in 2019. This score is based on the environmental impact of commuting, and takes into account the vicinity of amenities (shops, sports facilities, public transport, etc.). The objective is to make inhabitants more aware of the environmental impact of their choice of house. The Mobiscore is a useful instrument for real estate agencies, and it will also be integrated in the Flemish 'Woningpas' (house or dwelling ID) – a digital building renovation passport containing available information on a house.

Sustainability boost leads to more variation in house prices

Obviously, as improved sustainability of the housing market becomes more important, this will be reflected in a more dominant impact on the selling price of a house. The mandatory and more stringent requirements lead to additional costs for the builder/renovator. This causes an increase in construction or renovation prices, but new and properly renovated premises also retain their value better than other houses. On the other hand, these new requirements will lead to a drop in the prices for non-sustainable houses, because prospective buyers will include the required investments in their negotiations to get a lower price.

We are currently at a turning point with improved sustainability picking up pace. In the near future, we will see more variation in house price development than in the past. Existing (no longer desirable) houses with a bad sustainability score will face a (sharp) price drop, because the mandatory investments for energy efficiency will weigh on the selling price. Newly built or properly renovated houses that meet the requirements, will retain their value better, as they will reach a higher selling price because they are in high demand. The sustainability performance of a house being capitalised in the price is a positive development, otherwise sustainability investments would be lower than the socially optimal level.

The level at which the expected effects will occur indeed remains uncertain. In some countries (in particular the Netherlands and the Scandinavian countries) the impact of the introduction of official energy labels on the selling price of houses has already been studied. The large majority confirm this impact. Studies show that (very) poor scores in particular have a (very) significant negative price impact. Merely including the energy status on labels would be a turning point at which sustainability performance will start having an increasing impact on the price. In addition, researchers find that the scores affect the price as well as the selling speed.

For Flanders, a study into the subject was recently conducted by the Catholic University of Louvain, commissioned by the Flemish Energy Agency (see: Sven Damen [2019]: 'Het effect van het EPC en energetische kenmerken op de verkoopprijs van woningen in Vlaanderen' [The impact of EPC and energy characteristics on the selling price of houses in Flanders], Catholic University of Louvain, Faculty of Economics and Business, April). The results confirm that the price effects of energy characteristics reflected in the EPC score have already gained importance in recent years. In concrete terms, houses with an EPC score between 100 kWh/m² and 199 kWh/m² (label B) were sold for an average price of around 11% higher than similar houses with an EPC score between 400 kWh/m² and 499 kWh/m² (label E). In addition, the average selling speed for these houses is 25% higher. The price effect for apartments is not as significant and the impact on the selling speed is also less evident.

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