S&P Global Ratings

Homebuilders and Developers

Bracing for a two-speed recovery

This report does not constitute a rating action.

Franck Delage
Paris
franck.delage@
spglobal.com
+ 33 1 44 20 6778

What's changed?

Demand for newly built residential properties has reached a low point. The number of issued permits in European countries has decreased by 20%-40% in the past two years, particularly in Germany and France.

Construction costs remain elevated. The price of several raw materials, such as metal and timber, has decreased but the price of concrete has only declined marginally. Furthermore, labor costs are increasing.

The European market is two-speed. While the French, German, and U.K. markets struggle, Spanish developers are proving more resilient, supported by a significant increase in the number of permits and orders. This is thanks to the country's lower exposure to mortgage loans and higher demand from international investors, particularly on coastal areas.

What to look out for?

Construction cost pressures should ease. As of the end of 2023, the cost of most building materials has stabilized, and subcontractors have adjusted their prices amid weaker demand. Therefore, developers should see some modest margin recovery in 2024 and 2025.

Demand for newly built residential properties should recover gradually. Increasing real income, a resilient labor market, housing scarcity, and a growing preference for energy efficient assets should progressively revive demand for newly built assets.

Prices could bottom out. After correcting by different degrees (low in Spain and the U.K., and high in Sweden and Germany), we expect the price of existing houses to rise again in most markets in 2025. Newly built residential should follow the same trend.

What are the key risks around the baseline?

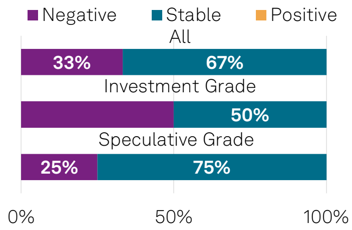
Intensifying regulatory and environmental requirements. While these are fueling demand for newbuilds, the requirements also represent additional costs, administrative hurdles, and technical challenges for developers.

Development of office real estate remains risky. Developers of office commercial real estate should continue to face pre-leasing headwinds and risk aversion from banks.

Political or geopolitical risks could delay the recovery. Although not our base-case scenario, any strong effect on government bond yields from political risks could inflate mortgage loans and hit demand for newly built residentials. It may also take longer to approve building permits in France due to the recent shift in the government.

Rating Trends

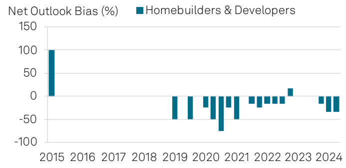
Outlook Distribution



Ratings Statistics (YTD)*

	IG	SG	All
Ratings	2	4	6
Downgrades	0	1	1
Upgrades	0	0	0

Ratings Outlook Net Bias



All data as of end-June 2024.
* Year-to-date. Current ratings only.

Related Research

[Credit FAQ What Does Property Company Signa's Failure Mean For Ratings](), Dec. 12, 2023

[Bulletin: Tough Year Ahead For U.K. Homebuilders: Costs Will Rise And House Prices Are Likely To Fall](), March 1, 2023

[When Rates Rise: Softening Demand Threatens European Homebuilders Amid Climbing Costs](), Aug. 12, 2022