

## Changes in the nature of demand for construction works in Belgium

The growth and globalisation of competition represent a key change for the construction sector, but this is not the only factor affecting market conditions. The volume of demand and its nature are just as important, if not more so. Specifically, as long as clients have the required financial resources, the demand for construction works is unlikely to dry up and should in fact increase.

### Shift towards renovations

In every segment of the sector, there is substantial demand for construction works, with this applying to both new constructions and renovations. Against this backdrop, almost five million existing homes will require energy renovations over the next 35 years, so an average rate of 143,000 homes per annum. These renovations are expected to reduce these dwellings' average annual energy consumption, currently standing at 140 kWh/m<sup>2</sup>, to between 60 and 100 kWh/m<sup>2</sup>. This target cannot be achieved just by insulating roofs, as while this does cut energy losses by some 30%, it does not reduce consumption to the same extent.

There is no straightforward way to compare the future demand for renovation work with the current level of production, partly due to the lack of precise data regarding the latter, both in terms of the number of energy renovations and the scale of the works performed. It stands to reason though that the current production level is well below the forecast volume that has to be achieved in the years ahead, in view of not only the work needed to enhance homes' energy performance by 2050 but also that required to do so for non-residential buildings over the same period. As a result, the energy renovation segment can expect strong future growth, but only if the authorities take the measures needed for buildings to meet the targets for cutting greenhouse-gas emissions as part of the efforts required of them to combat global warming.

Here it is also worth reiterating the need to expand the housing stock. The figures cited point to a growth level of around 20% over the next 35 years. This will also play its part in the growth of renovations (non-energy renovations in this case), with all homes generating their fair share of maintenance, enhancement and improvement work as a result of the gradual raising of comfort and quality standards.

Therefore, seems to lie ahead for the renovation market as a whole (both energy and non-energy renovations) can look forward to a rosy future. However, the situation is less clear for new construction. The significant increase in demand for homes by 2050 arising from current population projections drops off when considered on an annual basis, with these forecasts predicting a slowdown in population growth. The detailed statistics given in the Belgian Construction Confederation Annual Report 2014-2015 paint a picture of slackening household growth and therefore a gradual decline in the expansion of the housing stock.

However, the need to expand the stock is not the only aspect having an impact on the production of new homes: another key factor is replacement housing. While the small number of home demolitions (4,000 to 5,000 a year) means there is currently limited demand for replacement housing, this is expected to rise in future. There are various reasons for this: first, the growing number of ageing homes (generally only dwellings that are at least several decades old are demolished); and second, the need to improve the energy performance of buildings, as illustrated by the Belgian Federal Planning Bureau's backcasting simulation. This simulation is based on an assumption of a dramatic improvement in energy performance, up to a threshold of K30 or even K20, which would involve the demolition and rebuilding by 2050 of at least 1.8 million homes, or 45,000 a year.

In this light, the volume of business created by building new homes will probably not increase in the long term unless measures are taken to shore up the demolition and rebuilding segment. Taking this as the ultimate form of renovation, all the indications are that the market will have to make the transition from building new homes to carrying out renovations, at least in as far as the building sector is concerned.

### Switch to a new type of housing

The shift towards renovations mentioned above is bound up with improving the energy performance of buildings. New homes are subject to similar requirements. The climat.be website (in French) run by the Belgian Federal Public Service (FPS) Public Health, Food Chain Safety and Environment forecasts an 80% reduction in greenhouse-gas emissions by 2050 if new homes switch over to passive standards relatively soon.

In the most challenging scenarios, new homes would also have to be more compact, and there would be a greater share of apartments among them. The statistics for the past 10 years

give various indications of such a trend towards smaller homes. We can already see a rise in the proportion of apartments among new constructions. The fact that apartments are smaller than houses reduces the average size of new constructions. Furthermore, the sizes of both apartments and houses are on a downward trajectory.

This trend is probably related to the changes in the factors affecting demand. The sharp increase in the price of building land is forcing the sector to reduce the size of their construction projects, thereby encouraging the building of apartments, given that in their case the price of land has less of an impact on the total construction cost.

We are also witnessing a radical change in household composition, marked in particular by a decline in the proportion of couples and an increase in the share of single-parent families or one-person households, with a growing number of these involving older people. One of the effects of this change is that housing is increasingly being financed by a single income, putting a brake on ambitious building projects. This financial aspect is one reason why households with a single income are more likely to buy an apartment than a house and more inclined to prefer smaller properties. Based on current population projections, the shift in household types from the couple to the one-person household or single-parent family is expected to continue, with these forecasts raising the possibility that by 2050 couples will no longer be the main household composition, having been overtaken by single-parent families and one-person households. In other words, the trend towards a growing number of small houses and apartments is forecast to persist in the years ahead. Another development that could be expected is a situation whereby an expanded housing stock will result in a relative shortage of building land, causing its price to rise and boosting the popularity of smaller homes – a development that is likely to be exacerbated by emerging plans to curb the expansion of built-up areas in Belgium eventually (by 2050).

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