

Report on German housing market

Konstantin A. Kholodilin

kkholodilin@diw.de

DIW Berlin

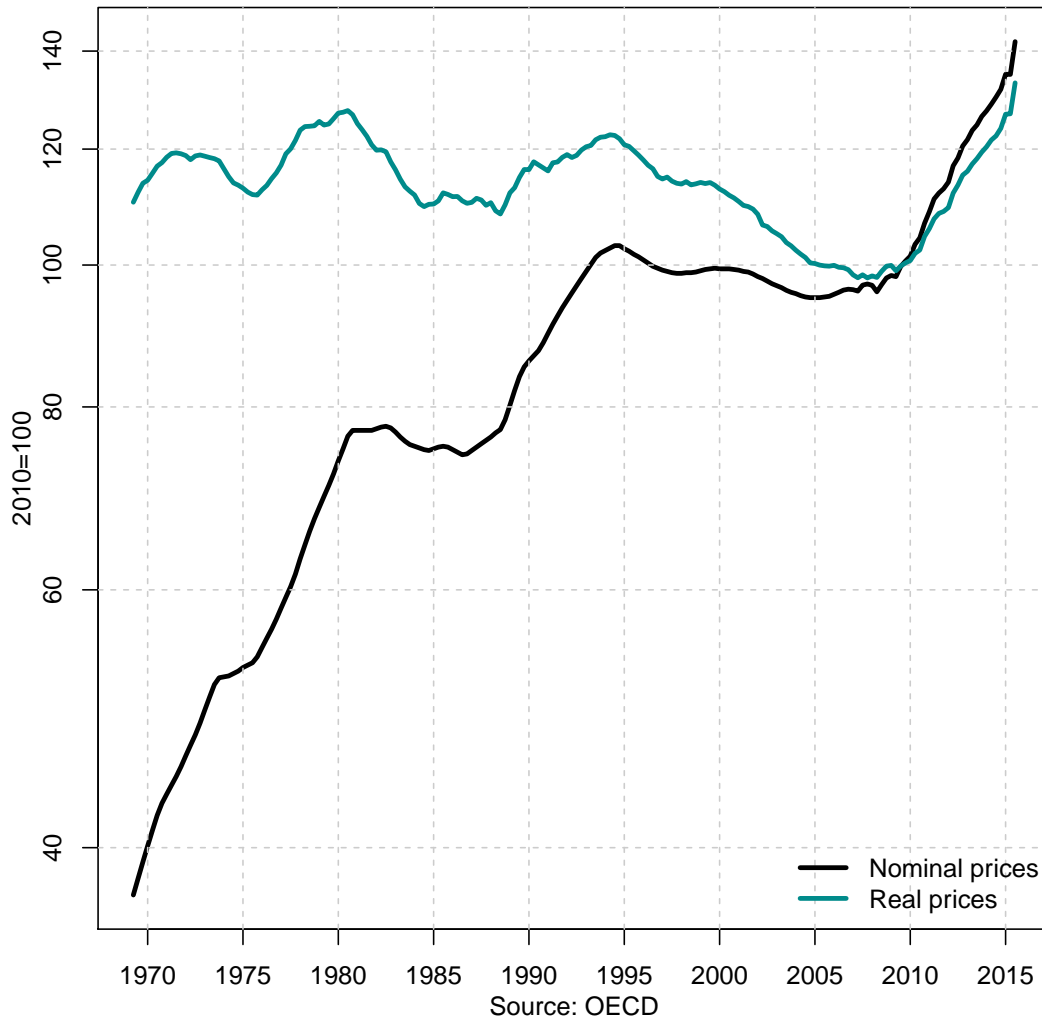
Mohrenstraße 58, 10117, Berlin, Germany

December 7, 2016

1 Evolution of housing prices and rents

- *Further price increases.* Between 2010 and 2016, the nominal prices increased in nominal and real terms by 38% and 30%, respectively. In 2016, price increases are much stronger than in 2015.

Figure 1: House price evolution, 1970q1–2016q2



- *Rather slow overall rent increases.* Between 2010 and 2016, the rent index computed by the statistical offices as a part of the CPI went up by 7.6% for Germany and 10.2% for Berlin, see Figure 2. The real rent index (adjusted for the CPI) grew by 0.3% and 2.0%, respectively.
- *Much faster newly agreed rent increases.* If only asking rents and prices are examined that approximate the newly agreed rents/prices, then much stronger increases are found, see Figure 3 and Table 1.

Figure 2: House rent evolution (CPI approach), 1961m1–2016m10

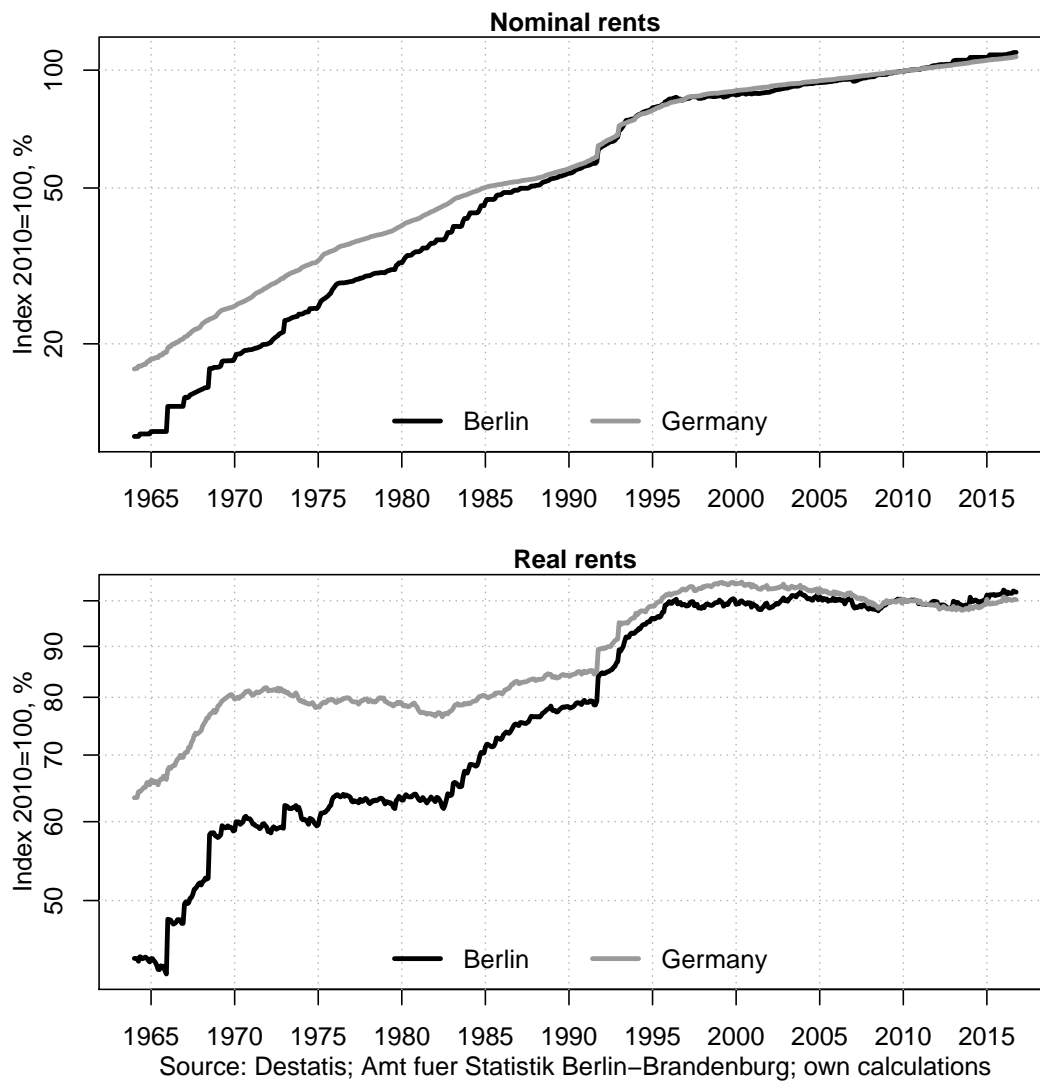
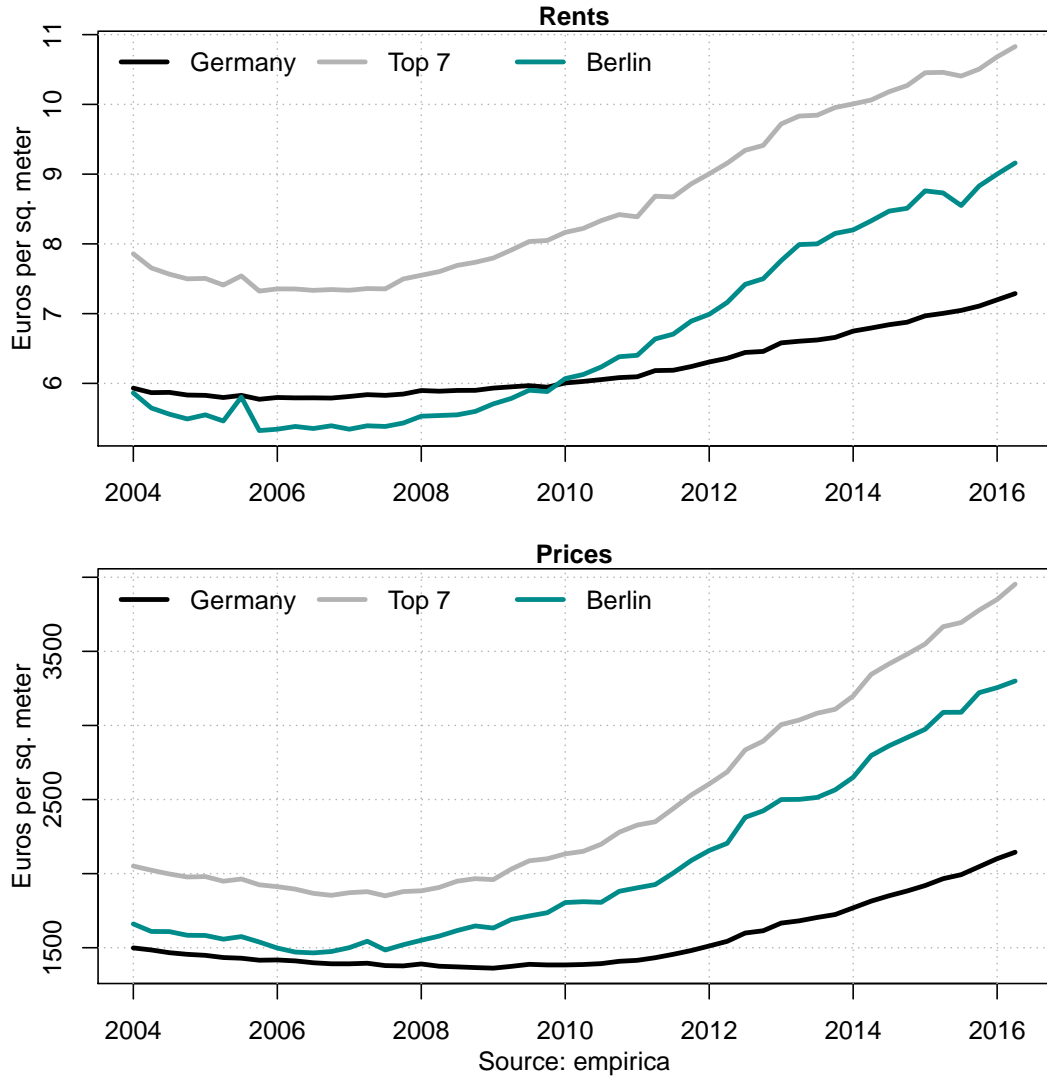


Table 1: Percentage increase of asking rents/prices between 2010 and 2016

Region	Rent	Price
Germany	19.9	52.4
Top 7 cities	29.8	78.1
Berlin	46.4	79.5

Figure 3: Asking rent and price evolution, 2004q1–2016q2

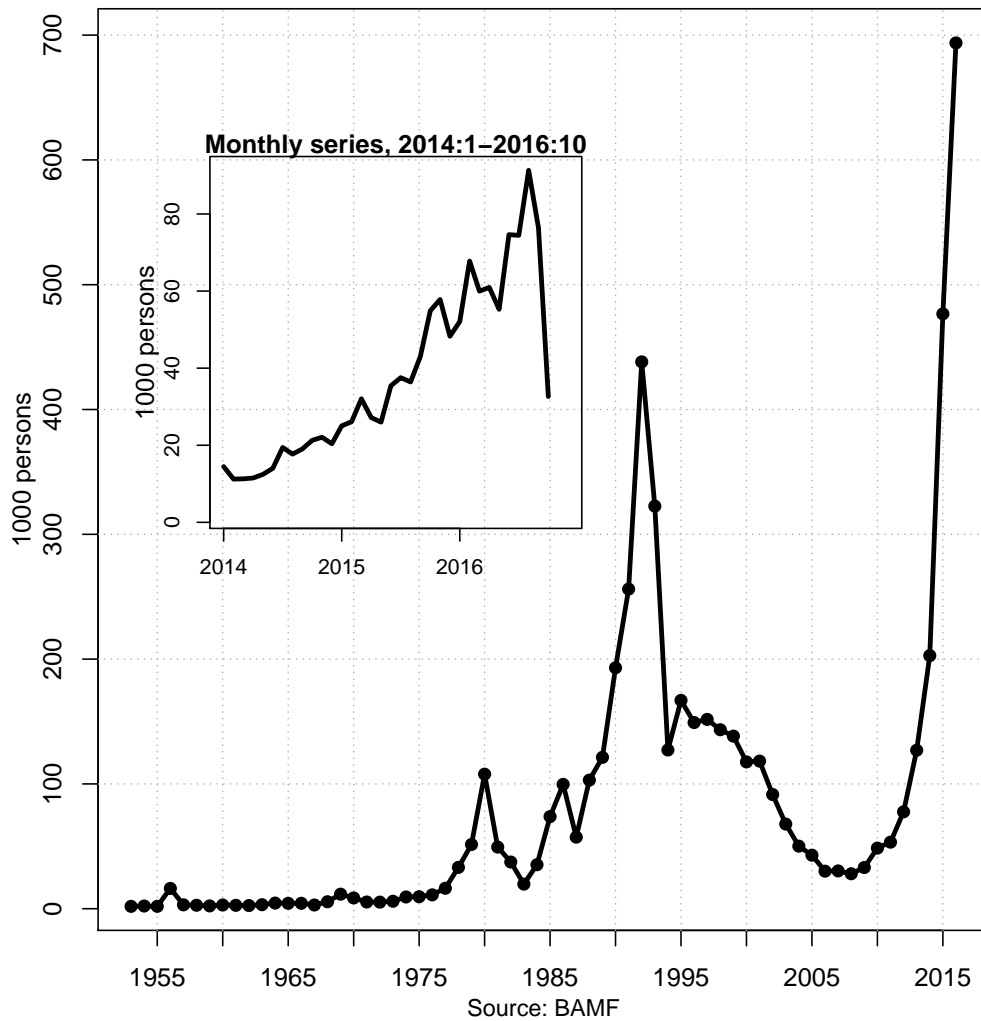


2 Demand side: growing demand for housing

2.1 Foreign migration

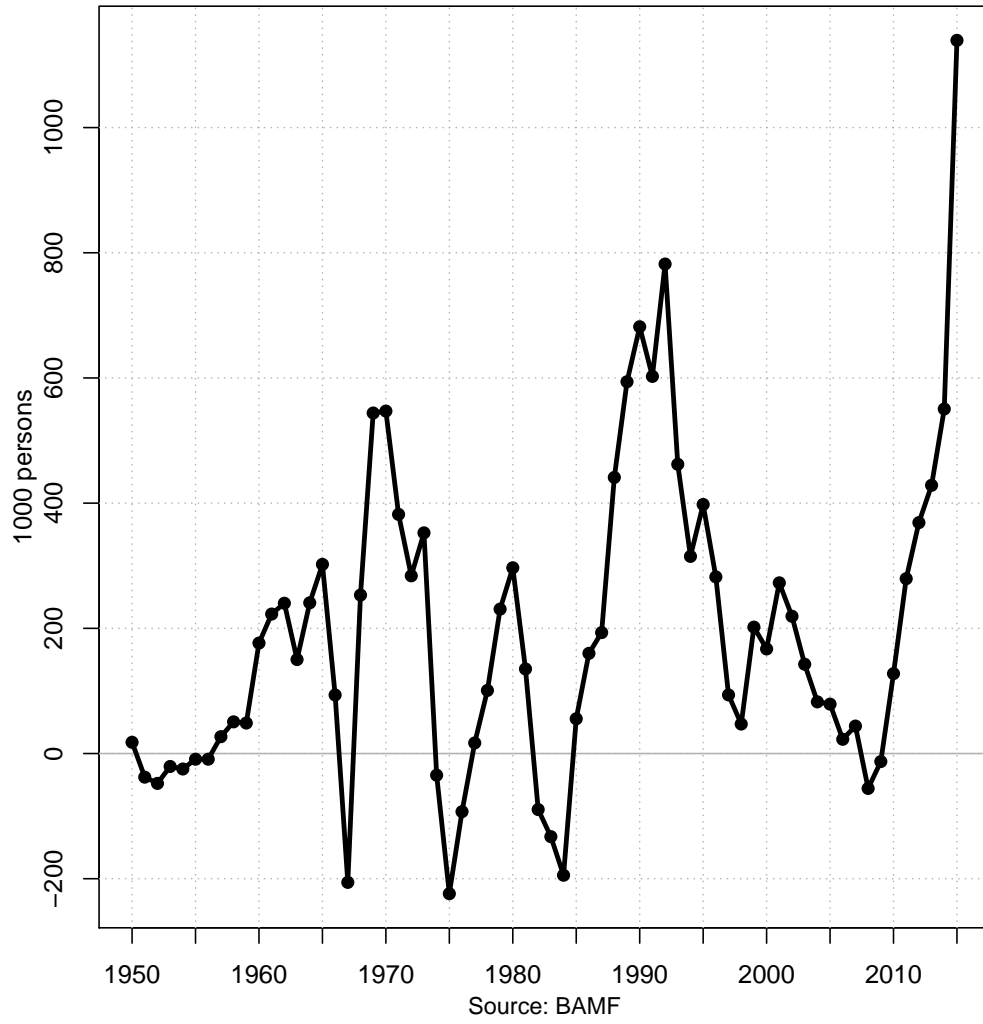
- *Large numbers of refugees.* Figure 4 shows the dynamics of refugee applications. From around 170,000 in 2014 the number of applications went up to over 440,000 in 2015 and almost 680,000 in 2016 (based on January-October figures).

Figure 4: Refugee applications, 1953–2016



- *Growing migration to Germany.* Since 2010, the net migration to Germany is again on an upward trend. In 2015, an absolute record over the last 65 years with attained with 476,649 persons more coming to than leaving Germany.

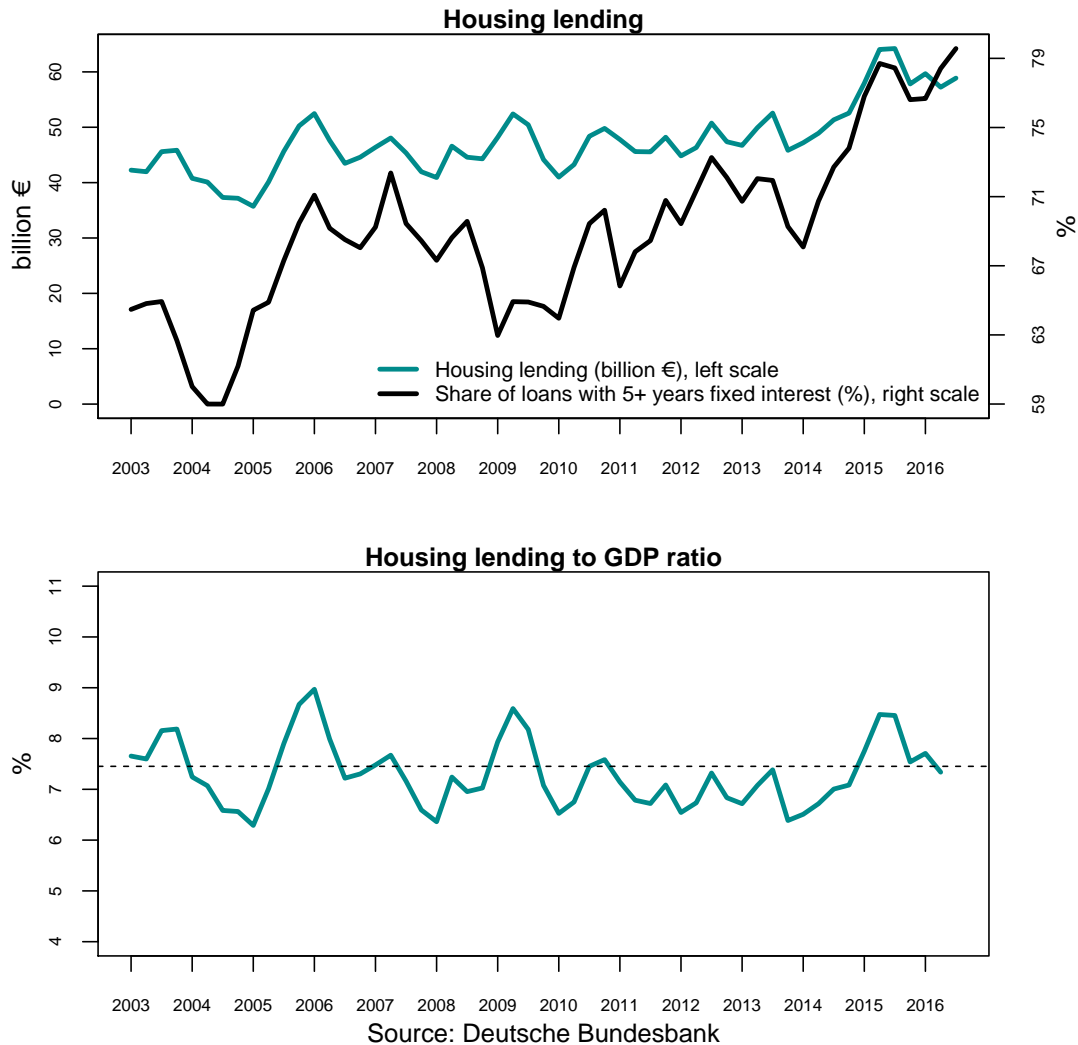
Figure 5: Net migration to Germany, 1950–2015



2.2 Housing loans

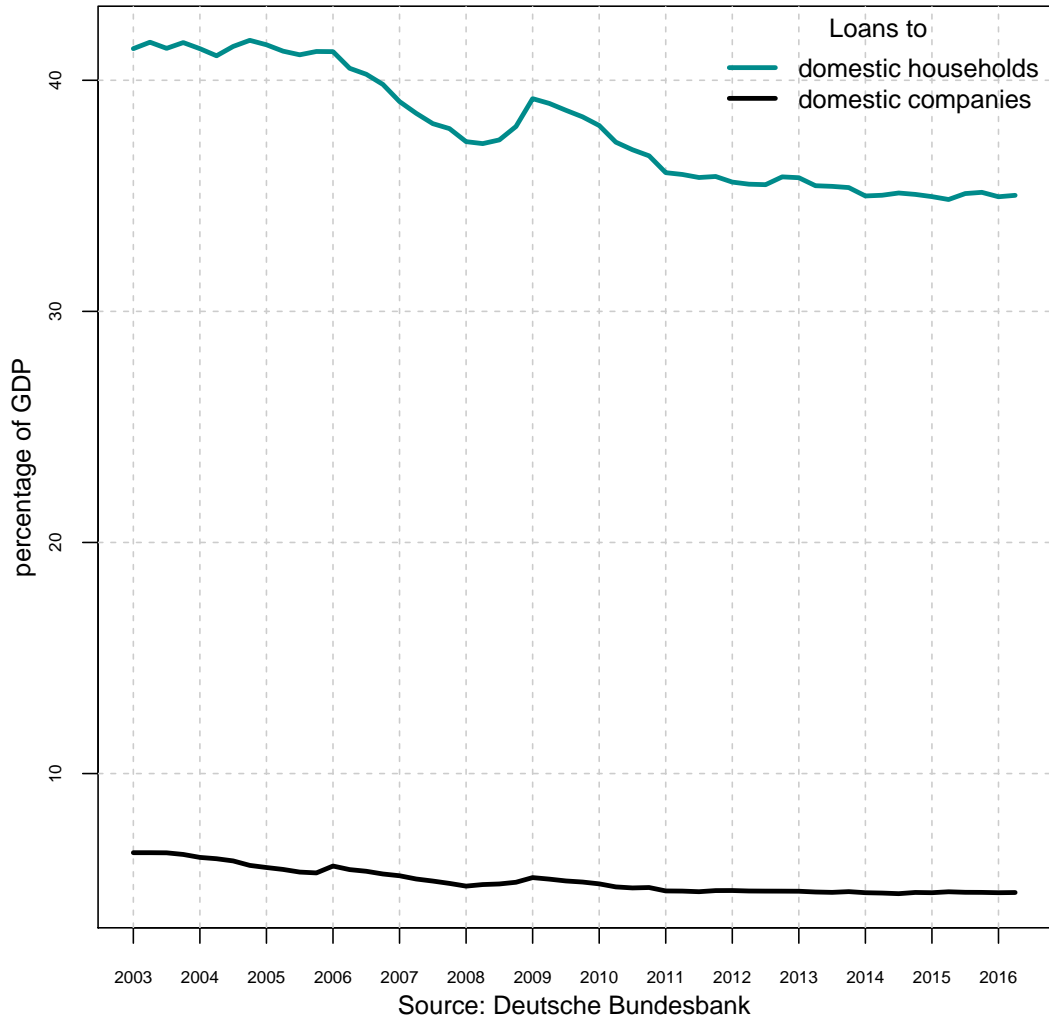
- *New housing lending volume unchanged.* Between 2010 and 2016, the volume of new housing lending increased from 41 to 59 million euro, i.e., by 44%. However, the share of long-term fixed-interest (with 5-year fixation) rose from 64 to 80%. The housing lending to GDP ratio remains virtually unchanged at 7.5%.

Figure 6: New housing lending, 2003–2016



- *House purchase loans stock declining relatively to GDP.* Between 2010 and 2016, the stock of house purchase loans to domestic households as percentage of GDP reduced from 37% to 35%; see Figure 7. The stock of house purchase loans to domestic companies as percentage of GDP reduced from 5.1% to 4.8%.

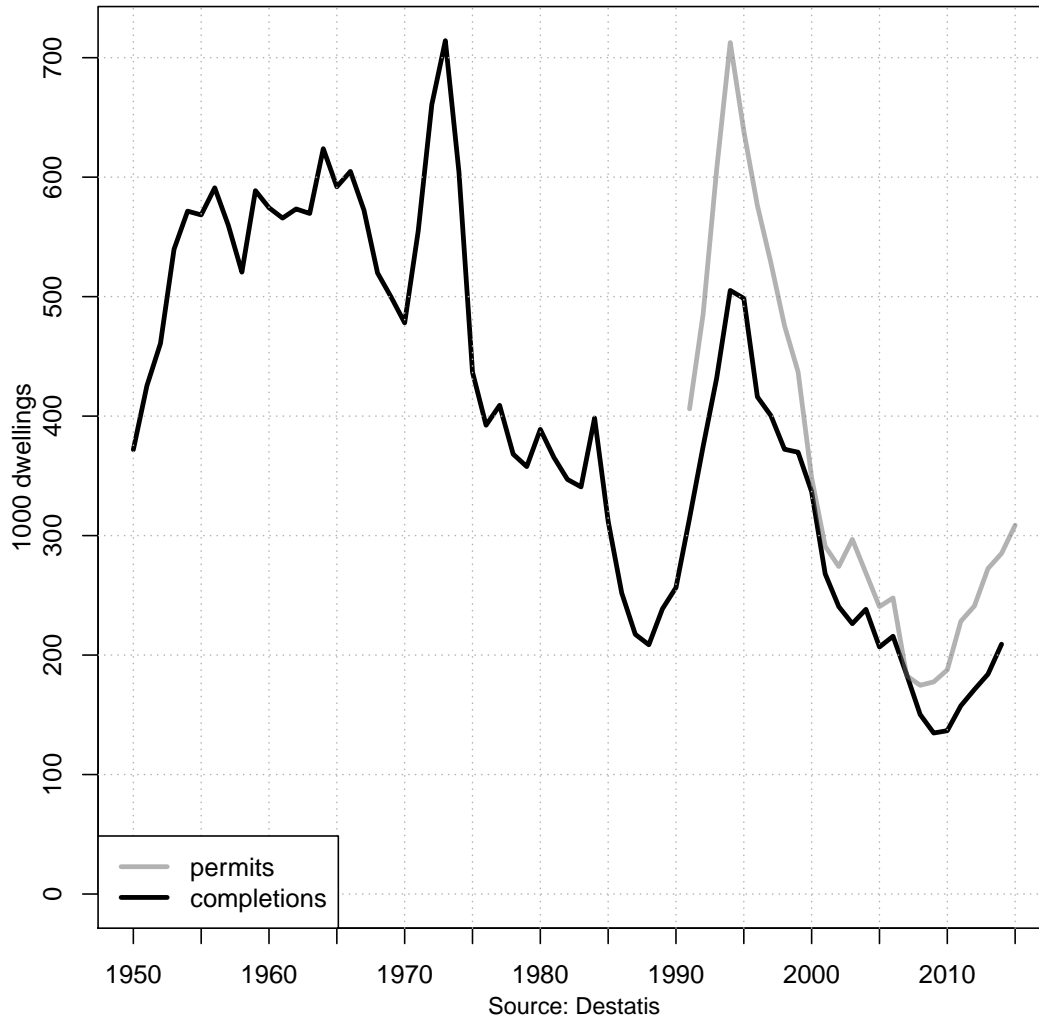
Figure 7: House purchase loans stock, 2003–2016



3 Supply side: growing residential construction

- *Recovery of construction.* Since 2010, the housing completions grow again. Between 2010 and 2014, the average growth rate of completions was 9%. However, in 2015, it slowed down to barely 1%.

Figure 8: Housing permits and completions, 1950–2015



- *Required construction.* The estimates of required residential construction vary from 350,000 to 430,000 dwellings a year; see Table 2. According to economica, the refugees alone, generate housing demand of 75,000-131,000 dwellings, depending on their geographical distribution. In case, they can be lodged in areas with high vacancies, the demand will be much smaller. The actual construction is still lower than required. However, in the past, higher construction levels were achieved. The main barrier to expanding new building is a lack of land for residential construction.

Table 2: Construction volume: needed vs. actual

Institution	Period	Indicator	Population	Dwellings per year, 1000
IW Köln	2016-2020	completions	overall	430
BMUB	2016-...	completions	overall	350
Pestel Institut	2016-2020	completions	overall	400
empirica	2016-2020	completions	refugees	131
empirica	2016-2020	completions	refugees, accounting for vacancies	75
Destatis	2015	completions	overall	245.3
Destatis	2015	permits	overall	308.7
Destatis	1949-2014	completions	overall	469.1

- *Estimated need for refugee housing:* Based on the distribution of refugee applicants by age and gender, shown in Table 3, a ratio of households to the applications is estimated at 34%. It was assumed that the “male surplus” need one dwelling for two persons, when aged over 18 years old. Out of the male surplus at the age between 16 and 18 years, one half is supposed to come to Germany alone. For them the same assumption is applied as for those aged 18+ years. Given that the number of refugee seekers between January 2015 and September 2016 amounted to 1,118,219 and the rejection rate was around 27.2%, the number of the effective refugee households should be about 277,000. However, this represents a short-run demand for housing. Provided that the refugees will be allowed to invite their families and the young refugees will marry, the housing market pressure will grow substantially.

Table 3: Distribution of refugee applicants by age and gender in 2015–2016, as a percentage of total number of applications

Age group	Male	Female	Male surplus	Household
0-16	15.8	12.9	2.9	0
16-18	4.2	1.1	3.2	1.0
18+	47.1	18.9	28.2	33.0

Source: [Bundesamt für Migration und Flüchtlinge \(2015\)](#), p. 7; own calculations.

4 Government regulation as response to current challenges

- *Regulation chaos:* Different political forces through different bodies pursue often divergent policies that are completely uncoordinated.

Body	Policy	Expected effects on	
		prices/rents	construction
Existing legal acts	energy efficiency prescriptions (EnEv)	+	-
Länder	increases in land transfer tax	+	-
Bundesjustizministerium	rental break	-	?
Bundesfinanzministerium	accelerated depreciation	+	+
Bundesfinanzministerium	macroprudential policy	-	-
BMUB	residential construction program	-	+

– **Rental brake:**

* Positive:

- short-term rent slowdown.

* Negative:

- less incentives for rental housing.
- less incentives for maintaining the housing in good shape. Only those features of housing will be maintained that are valued in the so-called *Mietspiegel*; see [Kholodilin \(2017\)](#).

– **Macroprudential policy** — restrictions imposed on housing loans to private persons and firms (Gesetz zur Ergänzung des Finanzdienstleistungsaufsichtsrechts im Bereich der Darlehensvergabe zum Bau oder zum Erwerb von Wohnimmobilien zur Stärkung der Finanzstabilität (Referententwurf) 31.10.2016):

- * upper bound on the Loan-To-Value ratio;
- * specification of the period, during which a certain share of the loan must be repaid;
- * upper bound on the Debt-Service-To-Income or Debt-Service-Coverage ratio; and
- * upper bound on the Debt-To-Income ratio.

– **Residential construction program:**

1. Make available the building land and provide public construction plots at lower prices and according to a certain concept of use;
2. Increase housing density and fully utilize the construction potential of wastelands and gaps between buildings;
3. Create targetted tax incentives for an affordable housing;
4. Aim at a uniform building regulations in the federal states;
5. Prove the standardization;
6. Push serial construction of an appealing and cheap housing;
7. Make more flexible the parking lot prescriptions;

8. Newly design the regulations on energy saving and use of renewable energies;
9. Campaign for more acceptance by the population of the new construction.

References

Bundesamt für Migration und Flüchtlinge (2015). Aktuelle Zahlen zu Asyl 2015. Ausgabe: Dezember 2015. Tabellen, Diagramme, Erläuterungen.

Kholodilin, K. (2017). Quantifying a century of state intervention in rental housing in Germany. *Urban Research and Practice*, forthcoming.