



Federal Institute for
Research on Building,
Urban Affairs and
Spatial Development

within the Federal Office for
Building and Regional Planning



For a good ten years, the German housing and property markets have been experiencing a strong differentiation with diverse market constellations. Growth and contraction are parallel development paths in Germany's regions. This poses very different challenges for households, businesses, politics and planning.

- **Internal and external migration create very different regional patterns of housing demand.**
- **Due to the decreasing average household size, the number of households has increased significantly more than the size of the population.**
- **In growing cities and regions, the shortage of building land has led to particularly strong growth in prices.**
- **In the coming years, the demand for new construction will remain high in the growth regions.**
- **Demographic developments mean that increasing vacancy rates can be expected in shrinking regions.**
- **A moderation of price and rent increases for residential property due to the coronavirus pandemic is not yet discernible.**
- **Surprisingly, once again there has been a noticeable increase in the number of building permits granted in the first three quarters of 2020.**

Housing and property markets in Germany 2020

Author

Alexander Schürt

Foreword

Dear readers,



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The housing markets in Germany are highly differentiated. The overwhelming majority of regions have to contend with tensions in the housing markets. Meanwhile, some regions are facing a decline in housing demand.

The focus on new residential construction is in the big cities and their surrounding areas. Within the last ten years, the number of homes completed in Germany has doubled to 293,000 per year. Cities and municipalities are successfully meeting the challenge of creating more housing. The high construction surplus of 740,000 dwellings at the end of 2019 also indicates that the municipal efforts to obtain more planning and building permits are bearing fruit. Nevertheless, the situation of the housing market in the economically strong regions remains tight.

While housing is scarce in growth regions due to high demand, in structurally weak, predominantly rural areas more than one in ten homes are now vacant – especially in apartment buildings. And the trend is exacerbating. Here economic and infrastructural incentives are essential to retain the population in the region and to encourage the inward movement of households and the setting up of businesses. This is also the declared aim of the policy to promote equivalent living conditions.

The year 2021 will also be strongly influenced by the coronavirus pandemic and the resulting economic and social constraints. The extent to which the economic consequences of the pandemic can be absorbed will be decisive for the future market developments. However, in 2021, rents and prices for building land, houses and flats are still likely to be determined by the high demand for housing in the growth regions. With interest rates remaining low, residential property continues to be a safe form of investment which has been additionally strengthened by the *Baukindergeld* (a government subsidy to support families building homes). If the policy to promote equivalent living conditions is successful, in the medium term we will also see an increase in demand for housing and property in previously structurally weaker areas.

The booklet informs you about the key developments and challenges of the housing and property markets in Germany. The long version of the report has been published in German (*Wohnungs- und Immobilienmärkte in Deutschland 2020*).

I hope you find it an informative read.

Dr. Markus Eltges
Head of the Federal Institute for Research on Building, Urban Affairs
and Spatial Development (BBSR)

Cities and regions

Housing and property markets between growth and contraction

The housing and property markets are regionally differentiated. The overwhelming majority of regions have to contend with tensions in the housing markets. Other regions are characterised by a decline in housing demand. While the large cities and their surrounding municipalities grow, many small and medium-sized local authorities in structurally weak rural areas are contracting. Gains in internal and external migration are causing housing shortages in the growth areas, although new construction activity has picked up strongly. Prices for building land, houses and flats as well as quoted rents continue to rise here. Different types of use – housing, work, utilities, leisure, the protection of open space – are increasingly competing with each other for increasingly scarce space in cities.

Growth of relocations into surrounding areas

As there is a shortage of homes in the prospering large cities, despite the growth in residential construction, home seekers are increasingly moving to the surrounding areas – especially people aged between 30 and 45 years of age. Relocations within growth cities are becoming more difficult, as many prospective tenants are competing for housing and moves to comparable flats are usually associated with higher new contract rents or purchase prices.

Migration from structurally weak regions causes more housing vacancies

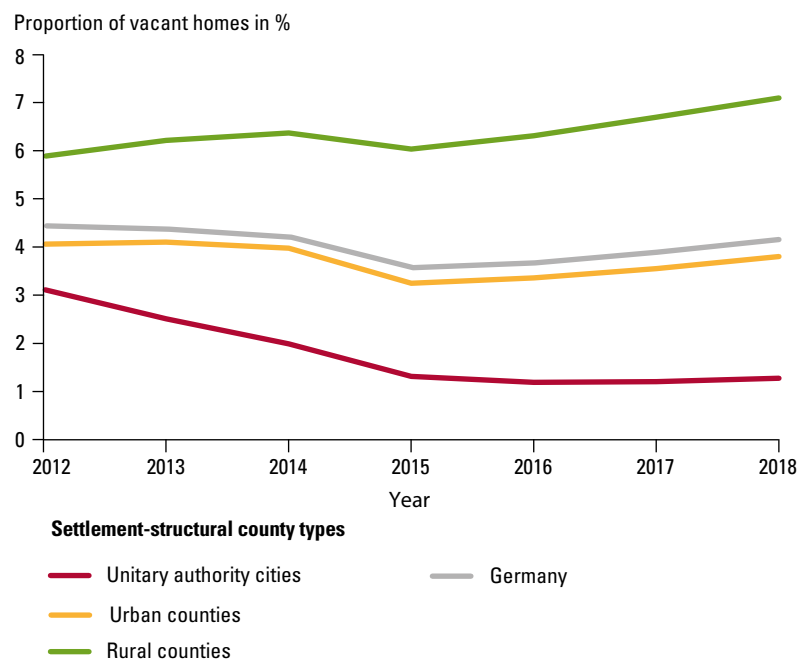
According to BBSR calculations, there were an estimated 1.7 million vacant homes in Germany in 2018. That corresponds to 4.2 % of the total housing stock. By comparison: according to the census survey, in 2011 there were 1.83 million vacant homes (4.5 % of the housing stock). The number of vacant homes has dropped mainly due to the high levels of immigration since 2014. While there are only a few unused homes in

the growing cities and counties, the number of vacant homes is rising in regions of outward migration.

According to a research project sponsored by the BBSR, there could be up to three million vacant homes in Germany by 2030, because demand for housing will continue to fall, particularly in the shrinking regions. The scale of the phenomenon depends crucially on the extent to which it is possible to channel demand into the housing stock in regions with declining populations. The economy and infrastructure must be strengthened in the regions of outward migration so that fewer people move away.

Figure 1

Estimate of vacant homes according to county type 2012 to 2018



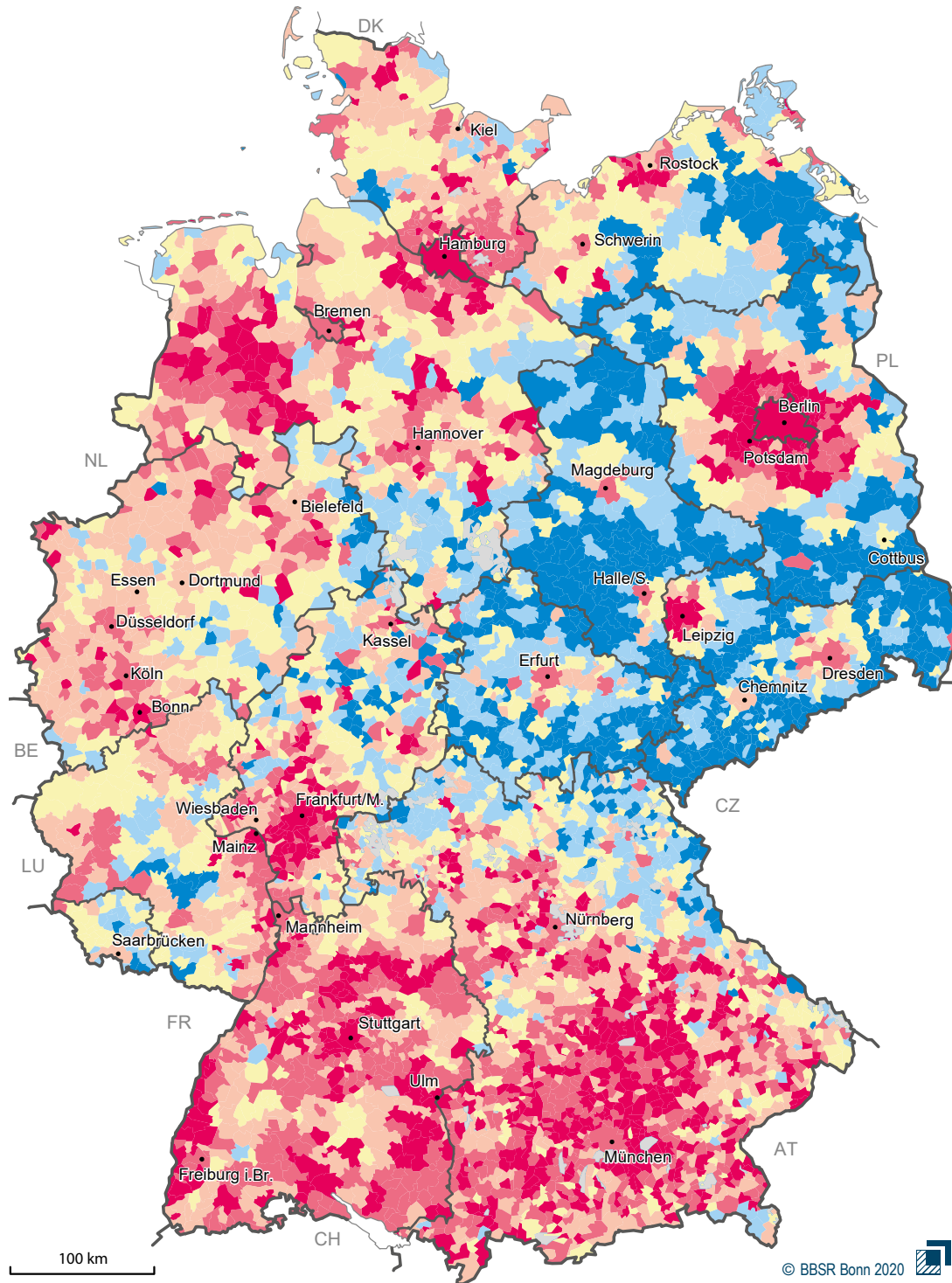
Note: Recalculated 31.1.2020

Source of data: BBSR Estimate of vacant homes, based on the vacancy data of the 2011 building and housing census

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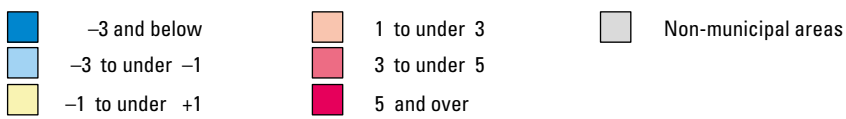
Map 1

Population development 2013 to 2018



BBSR-Analysen KOMPAKT 08/2021

Population development 2013 to 2018 in %



Source of data: BBSR housing market monitoring, Update of the Federal and State Population Statistics Geometric basis: Municipal associations, 31.12.2018 © GeoBasis-DE/BKG
 Processing: J. Nielsen

Different market situations in Germany and its neighbouring countries

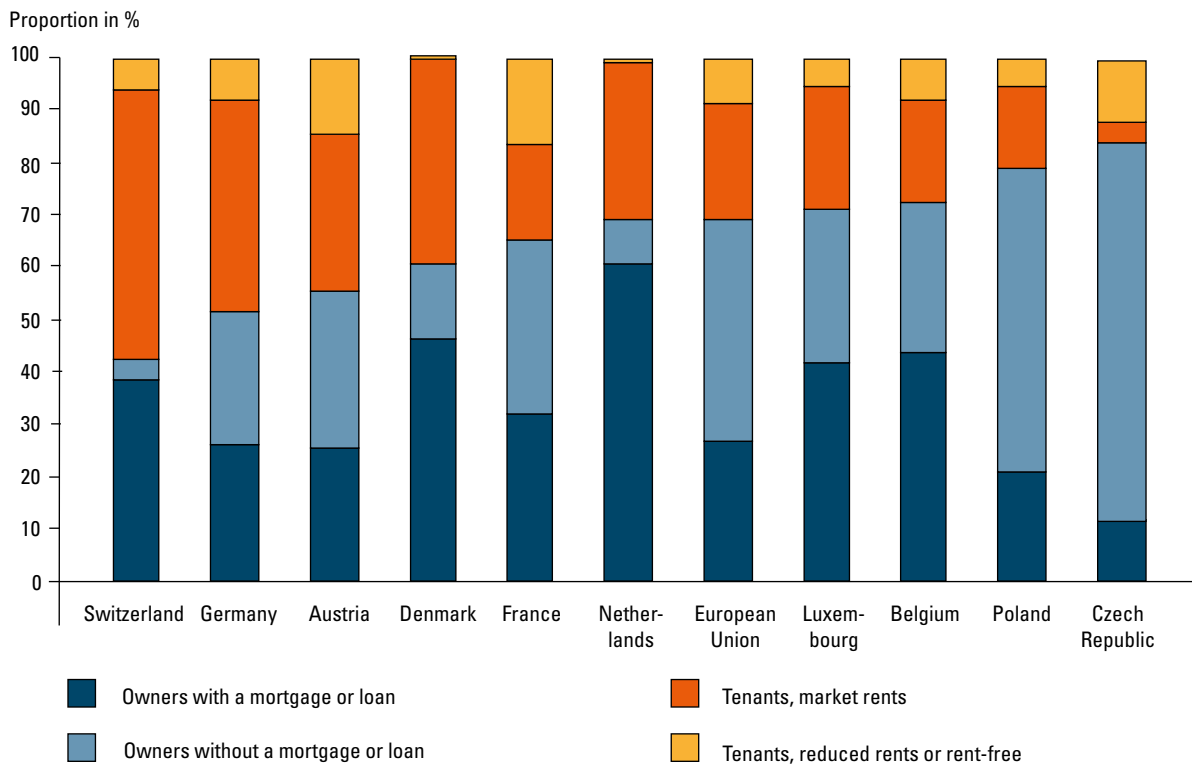
Property prices are also increasing in the countries neighbouring Germany, particularly in urban areas. However, the relationship between increasing population and residential building

permits varies as between the countries. Luxembourg, as the smallest state, achieves the highest population-related new construction figures with nine approved dwellings per 1,000 inhabitants, followed by Austria, France and Poland. The highest price increases were in the period from 2015 to 2019 in the Czech Republic, Luxembourg and the Netherlands.

The proportion of owner-occupiers is comparatively low in Germany (51 %) and Switzerland (42 %). On the other hand, in Belgium, the Netherlands and Luxembourg, about two thirds of the population live in their own property, and four fifths of Eastern European neighbours Poland and the Czech Republic.

Figure 2

Distribution of population according to housing tenure 2018



Source of data: Ongoing spatial monitoring of Europe, Eurostat

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Housing supply

Regional differences in new residential construction

In 2019, 293,000 homes were built in Germany – just under 85 % more than in 2009. An above-average number of new homes were built in the growing big cities. The average size of new build homes decreased. This is due to the increased importance of multi-storey housing, higher property prices and higher construction costs.

In cities with over 500,000 inhabitants, an average of 33 homes per 10,000 inhabitants were constructed in 2019 – three times as many as in 2009. Other focal points of apartment building construction are in the booming surrounding areas as well as in tourist regions on the North Sea and Baltic coasts and in the Alps.

In terms of population, an above-average number of owner-occupied homes were built in rural regions in northern Schleswig-Holstein, Lower Saxony, Bavaria, the Berlin and Hamburg hinterlands and on the borders with Luxembourg and the Netherlands. Even though residential construction in 2019 was heavily concentrated in regions with high demand, supply also grew at a low level in shrinking areas – which in turn is likely to increase vacancies in the existing housing stock there.

High construction backlog – new construction has a delayed effect

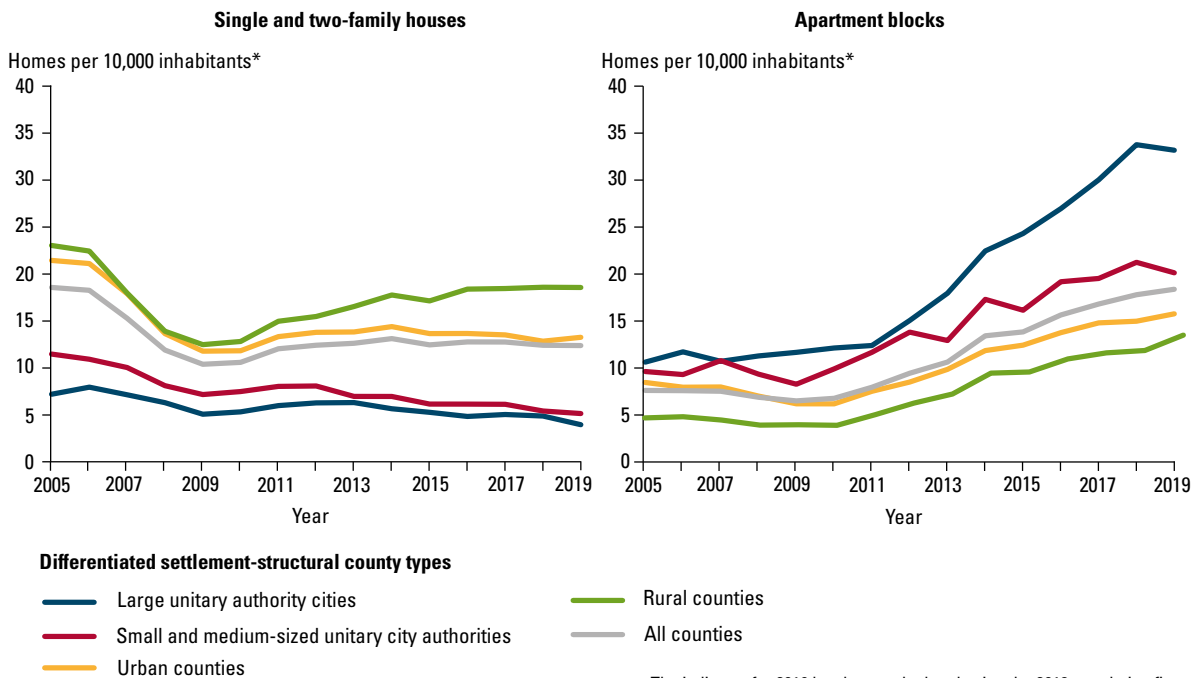
In the last ten years, the number of building permits increased more than the number of completed homes. In

2019, the building authorities approved about 360,000 homes. By the end of the year there were 740,000 homes approved but not yet completed.

There are various causes for the increase in the construction backlog. The development of projects is often taking longer because construction processes have become more complex. The construction industry has been working at high capacity for years and suffers from a shortage of both skilled and unskilled workers.

Figure 3

Housing completions from 2005 to 2019 according to building type and county type

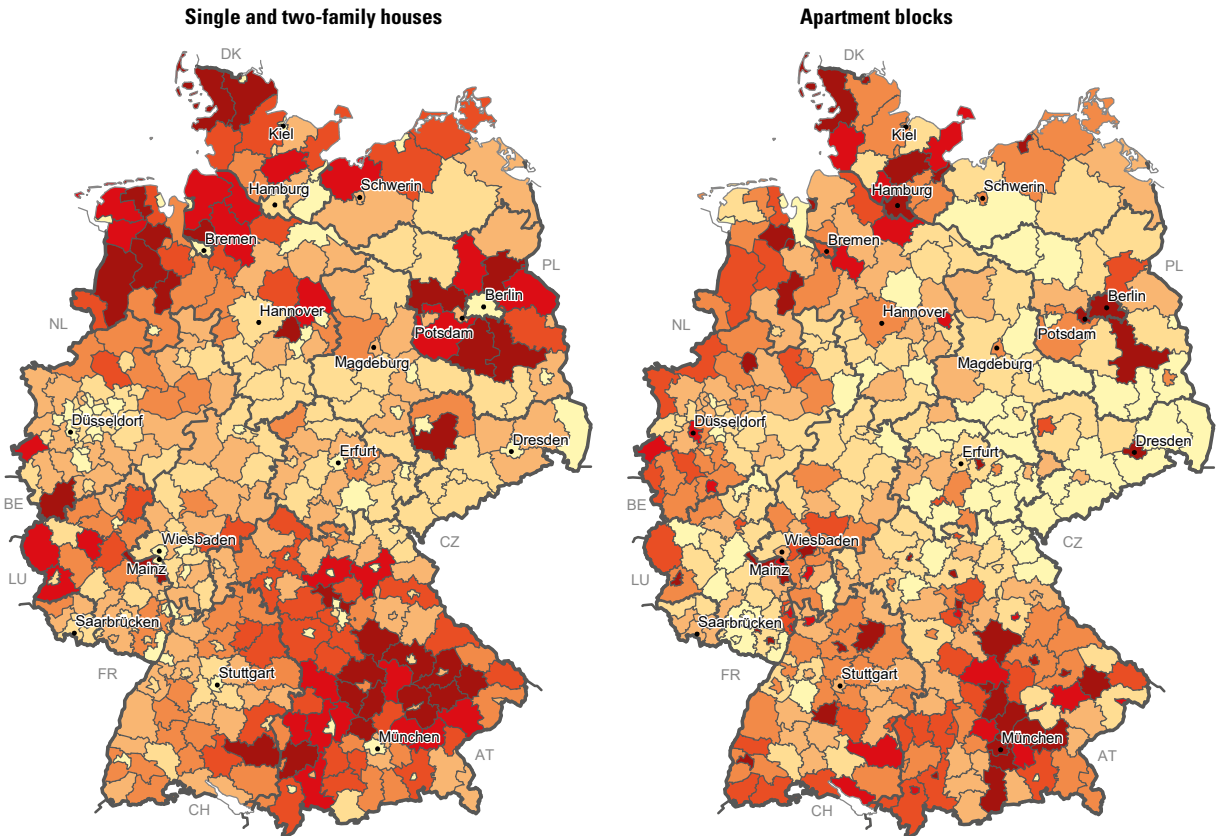


Note: Large unitary authority cities: at least 500,000 inhabitants.

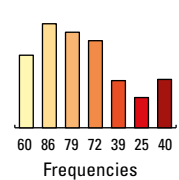
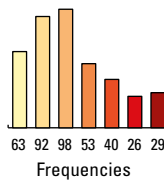
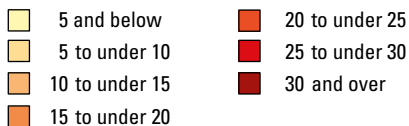
Source of data: BBSR housing market monitoring, statistics on building completions of the federal government and the Länder, update of the population data of the Federation and the Länder (Re-estimates after census correction up to 2010 by the BBSR)

Map 2

Construction completions according to building type 2019



Completed new build homes per 10,000 inhabitants* 2019



*Population: Status 2018

Source of data: BBSR housing market monitoring, Update of the Federal and State population statistics. Geometric basis: Counties (generalised), 31.12.2018 © GeoBasis-DE/BKG Processing: J. Nielsen

Thermal upgrading and age-appropriate conversion of housing stock still necessary

In 2019, there were 42.5 million homes in residential and non-residential buildings. Compared to 2010, the housing stock increased by 2 million homes, corresponding to a rise of 5%. Every year, about 1% of the housing stock is thermally upgraded.

There is still great potential for savings in the residential building stock. Heating and hot water generation in residential buildings account for 15% of the CO₂ emissions in Germany.

In 2018, only 2% of all homes in Germany were suitable for disabled people. Access to the home is more often met than accessibility in the home. Conversion measures enable people in need of care to live in their

homes for longer. Structural measures improve the quality of life and enable greater independence of the residents – regardless of age. Barrier reduction is achieved more often in new buildings than in existing buildings. Overall, 22% of all homes in apartment buildings in the youngest class of buildings offer all features of barrier reduction.

Housing demand

Rising demand for housing due to smaller households and regional gains in migration

In 2018, the population of Germany was 83 million – 2.7 million or 3 % more than in 2010. The cause of this increase in population is immigration from abroad. In 2018, the balance of immigration and emigration was just under 400,000.

The population was distributed in 41.4 million private households. On average, two people lived in a household. The average household size decreased significantly between 2000 and 2018. The number of households thus grew by 8.5 % – significantly

more than the population (+1.9 %). This structural change had a stronger influence on housing demand than the growth of population.

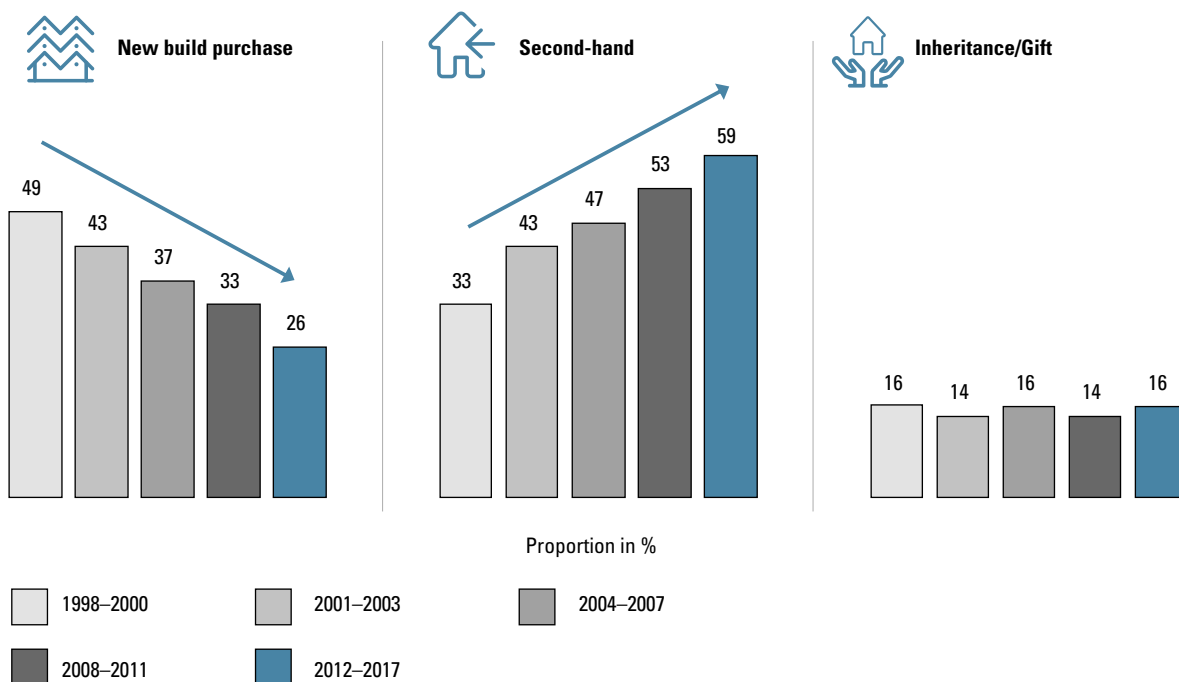
In 2018, the per capita living space was 45.6 m². This was an all-time high, despite the strains in housing market in many regions and demonstrates how segmented and regionally varied the housing markets are. The typical per capita living space varies between 36.5 m² for tenants in flats in multistorey buildings in large unitary authority cities, up to 53.5 m² for owner-occupier households in single family houses in rural areas. The living space can vary even more, depending on the size of the household.

Growing importance of acquiring existing housing

Existing properties are gaining in importance in the formation of residential property, as they are cheaper compared to new build properties. When it comes to buying property, households are getting younger. In the case of first-time buyer families, the average age of the principal earner was 38. Home ownership serves as an effective financial security for old age.

Figure 4

Distribution of acquisition types of residential property 1998 to 2017



Source of data: BBSR housing market monitoring, Kantar TNS on behalf of various financial institutes and BMVBS/BBSR: various studies on home ownership in Germany, 1998–2000, 2001–2003, 2004–2007, 2008–2011, Kantar on behalf of BMI/BBSR: Home ownership in Germany 2012–2017

Housing providers and property transactions

The structure of housing providers is very diverse

The German rental housing markets are characterised by a great diversity of housing providers. Two-thirds of all homes for rent are owned by private individuals. Most of them have smaller property portfolios than professional housing companies that are active in the market in different corporate forms and with different business objectives. A BBSR survey of private housing companies has shown that about a half of the companies surveyed had a portfolio of between 20 and 1,000 properties.

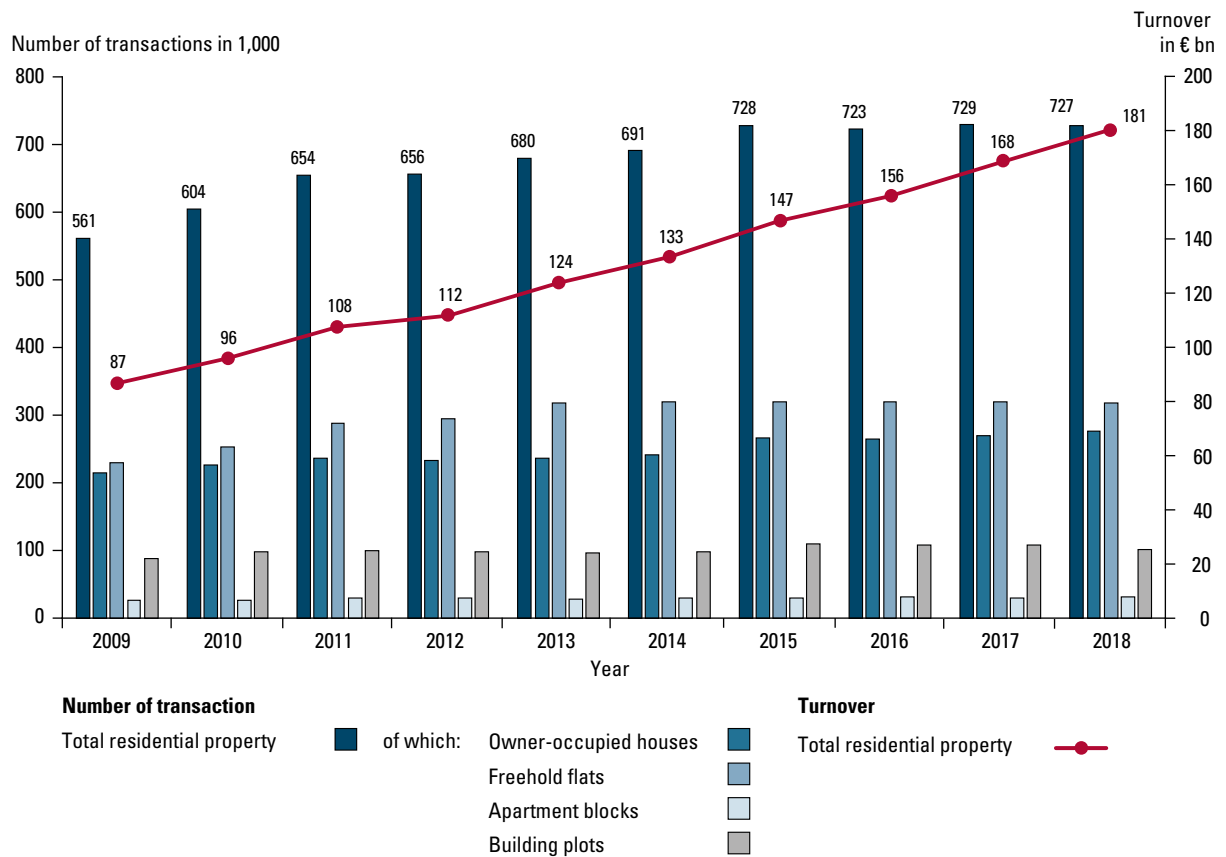
For municipal housing companies, providing target groups such as low-income households with affordable housing is of high importance for solving current housing policy problems. For several years, municipalities have been trying to expand their housing stock to meet demand. In doing so, they are relying mainly on new construction. Through municipal concepts and local alliances, other provider groups such as private sector companies and housing cooperatives are being activated in order to expand the housing supply.

More property transactions

According to official valuation committees, in 2018, sales of building plots for homes were focused mainly in the surrounding areas of large cities and in rural counties, whereas plots for apartment blocks were mainly traded in large cities. Between 2008 and 2018, the turnover in residential sales doubled to €180 billion. The number residential properties sold increased by 30 % compared to 2008. In 2018 purchasers of second-hand owner-occupied houses con-

Figure 5

Transactions and turnover of residential property from 2009 to 2018



Source of data: BBSR housing market monitoring, expert opinion survey of the working group of the senior valuation boards, central offices and valuation boards in the Federal Republic of Germany (AK OGA)

cluded 277,000 sales contracts worth over €70 billion. For second-hand and new freehold flats, the official valuation committees counted 318,000 transactions. In the same year, 96,000 residential building plots were sold, 90 % of which were outside the large cities.

On the other hand, the trade in residential property portfolios is at a low level. A shift can be observed among the participating market players. German private companies, but also

municipalities are increasingly buying. Foreign market players, on the other hand, are more active as sellers of property.

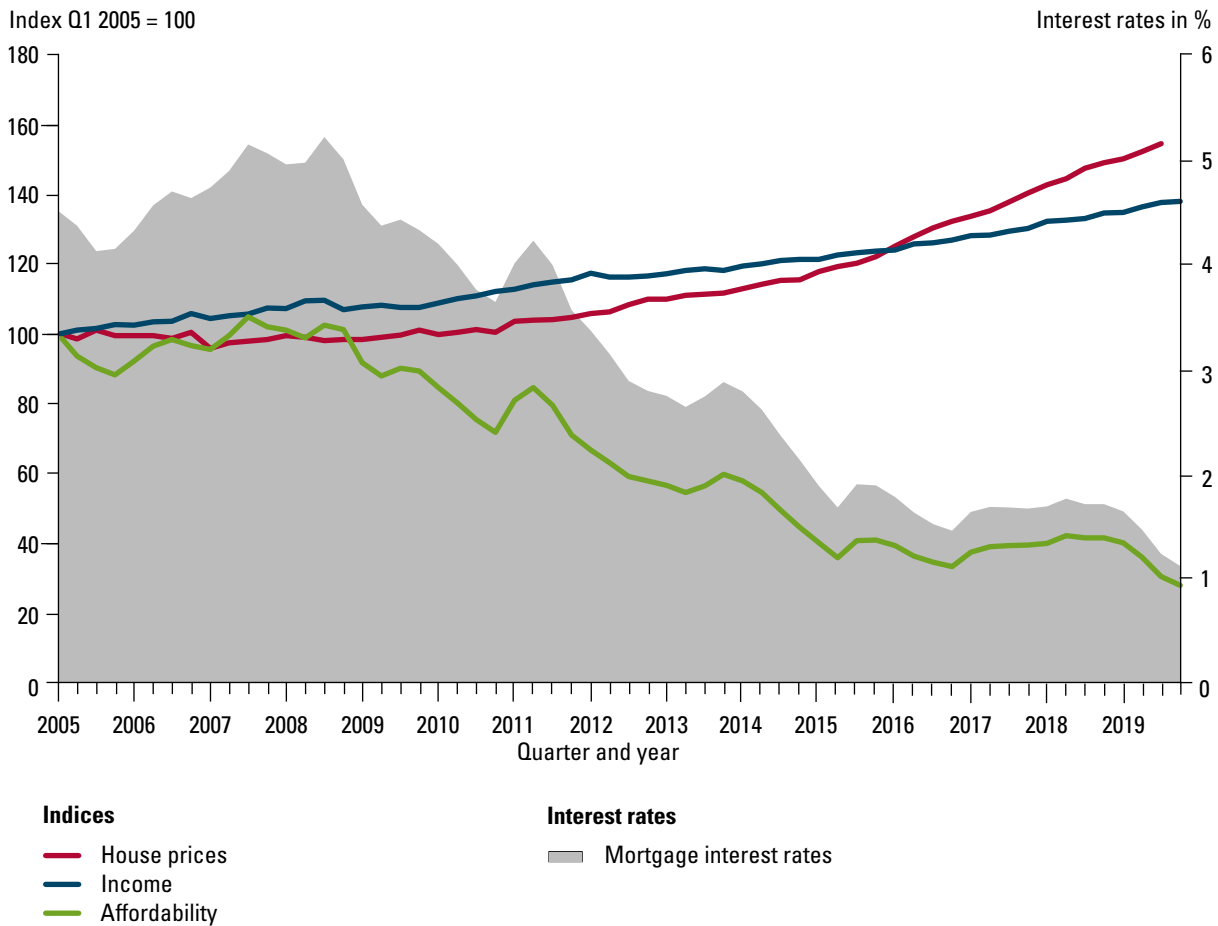
Willing buyers benefit from low mortgage interest rates

Housing finance accounts for a good half of banks' lending business. Interest rates are at a historically low level, so that the financial burden of

purchasing property is in many cases still moderate, despite increased prices. Under these conditions, there has been a sharp increase in long fixed interest periods, thus offering greater security against changes in interest rates. On the other hand, the long period of low interest rates makes it more difficult to build up the necessary equity capital for property purchases. Up to now, the collateral-oriented system of financing property in Germany has had a stabilising and market-invigorating effect.

Figure 6

Mortgage interest rates, house prices, income and affordability 2005 to 2019

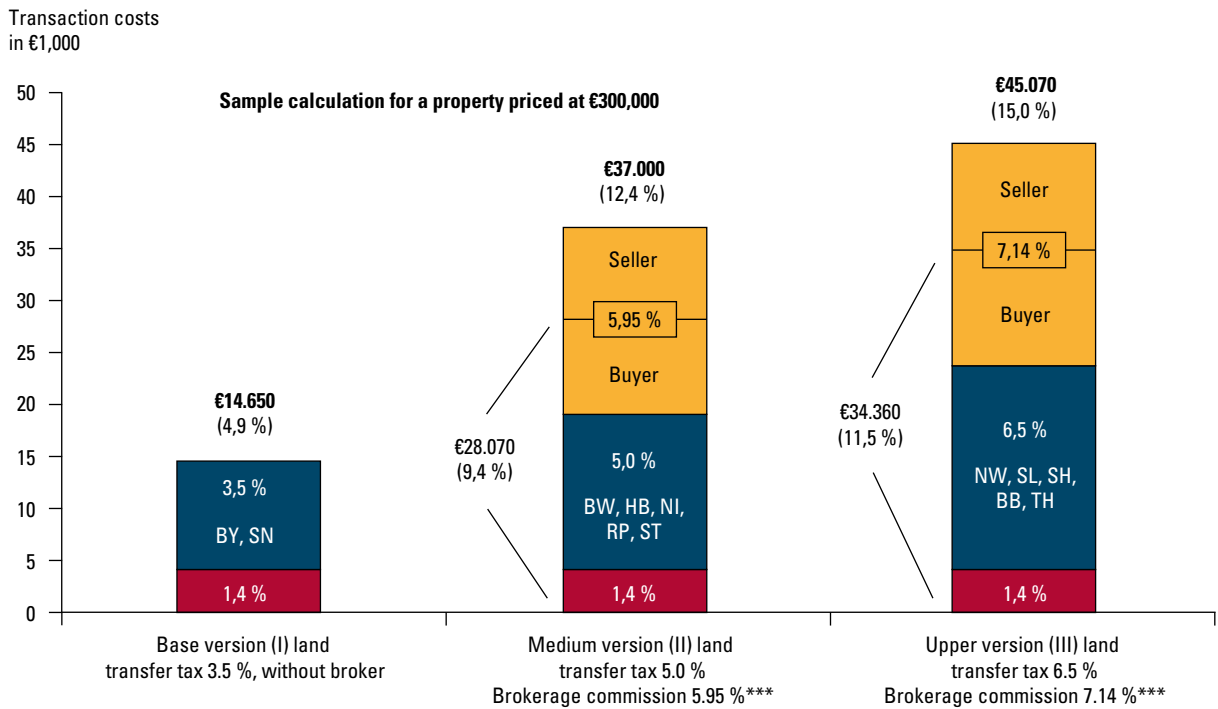


Source of data: OECD, Bundesbank, ECB, Deutsche Bank Research
 Source: Deutsche Bank Research

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Figure 7

Example calculation for the range of transaction costs after the new regulation of brokerage costs 2020



Elements of transaction costs

- Land registry and notary
- Land transfer tax*
- Brokerage commission**

* Status: 01.01.2020; other rates of land transfer tax: Hamburg 4.5 %, Berlin, Hesse and Mecklenburg-Western Pomerania 6.0 %
 ** Split between seller and buyer according to the statutory new regulation of 2020
 *** Brokerage fee stated as "customary in the locality" in offers (in principle negotiable); versions without, at 5.95 % and 7.14 % commission incl. VAT (19 %)

Shortcuts of the painted Federal states in Germany: BY – Bavaria; SN – Saxony; BW – Baden-Württemberg; HB – Bremen; NI – Lower Saxony; RP – Rhineland-Palatinate; ST – Saxony-Anhalt; NW – North Rhine-Westphalia; SL – Saarland; SH – Schleswig-Holstein; BB – Brandenburg; TH – Thuringia

Assumptions: Property price €300,000, new entry of a mortgage of €180,000 (60 % of the purchase price)

Source of data: BBSR housing market monitoring, BBSR research

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High ancillary acquisition costs inhibit property purchases

High transaction costs make ownership more difficult and make people less willing to resell a property. According to BBSR calculations,

the ancillary costs for purchasers of property currently range between 5 % and 11.5 %, depending on the federal state. This includes the new regulation adopted in the summer of 2020, whereby the buyer and seller share the brokerage costs.

Property prices and rents

Property prices have risen sharply

Within ten years, the prices of building land, flats and houses have risen sharply in the growing cities and regions. According to purchase price data from the official valuation committees, between 2008 and 2018 the purchase prices for second-hand homes have doubled. There are extreme differences between the regions: In 2018, the average price of building land for apartment blocks was €15/m² in the county of

Sonneberg [southern Thuringia] and €3,000/m² in the city of Munich. On average, second-hand detached single and two-family houses in the seven largest cities (except Berlin) cost over €600,000.

There is a continuing demand for residential property, whether as a capital investment or for owner-occupation. This can provide a good explanation for the regional price increases. Model calculations from a research project commissioned by the BBSR show that, given the persis-

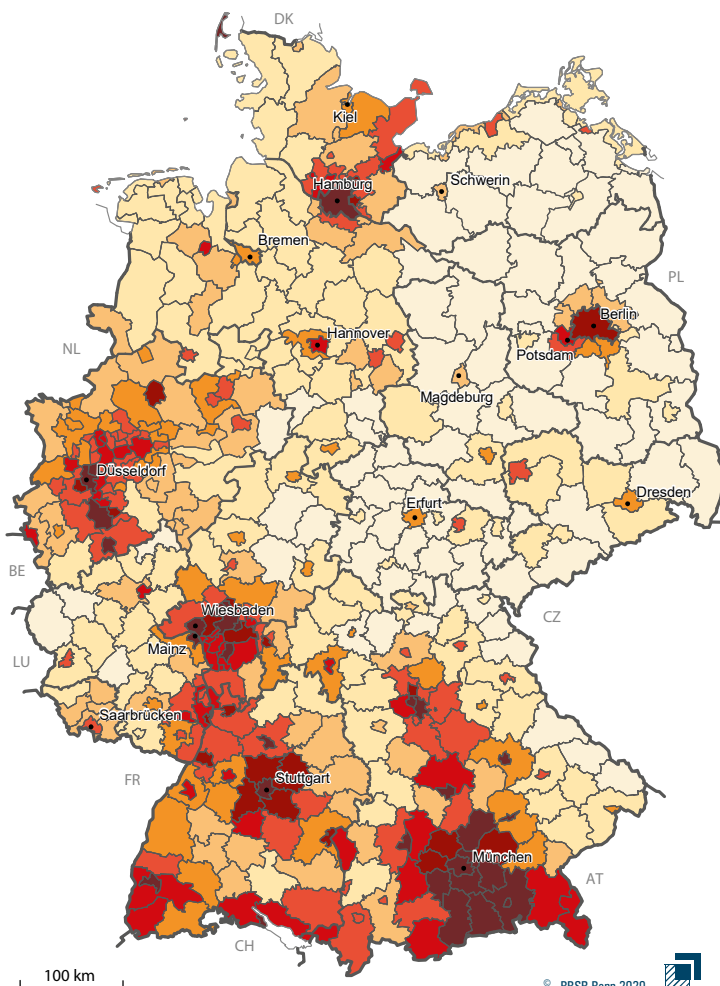
tently low interest rates nationwide, the current risk of a property price bubble is low.

Rent levels high in growing large cities

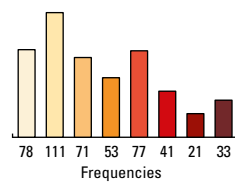
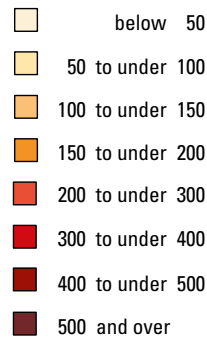
The advertised rents of flats rose sharply between 2009 and 2019. Recently, however, the momentum has weakened – even in Germany’s largest cities. In 2018, tenants were paying an average monthly cost of €1.00/m² of living area for “cold”

Map 3

Building land prices for owner-occupied houses 2018



Prices for building land for owner-occupied houses in medium locations 2018



Source of data: BBSR housing market monitoring, expert opinion survey of the working group of the senior valuation boards, central offices and valuation boards in the Federal Republic of Germany (AK OGA)
 Geometric basis: Counties and sub-counties based on municipalities (generalised), 31.12.2017
 © GeoBasis-DE/BKG
 Processing: C. Zander, J. Nielsen

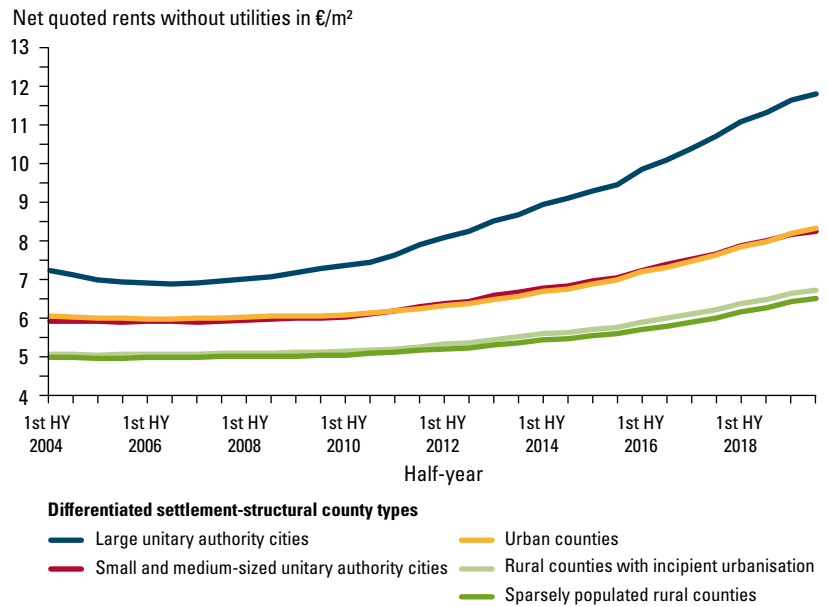
utility costs (without heating and hot water) and €1.20/m² for “warm” utility costs. So the utility costs for a 70 m² flat were on average €154 per month. There are considerable regional variations particularly in the “cold” utility costs and depending on the building type.

The rent burden is high, especially for households in the growing big cities. There, moving to another flat also often results in higher rents per square metre with corresponding rent burdens, so that fewer households move.

Rent indices are an important instrument for checking the legality of residential rents and requests to increase rents. Around 1,000 municipalities (9 %) currently refer to a rental index. 53 % of the large cities have a qualified rent index.

Figure 8

Quoted rents of advertised homes according to county type 2004 to 2019



(Comments): Large unitary authority cities: at least 500,000 inhabitants. The quoted rents are based on advertisements for first-time and re-lettings taken from property platforms and newspaper websites. The graphs show net “cold” rents without utilities for unfurnished flats between 40 and 130 m². Rents from existing tenancy agreements are excluded.

Source of data: BBSR housing market monitoring, IDN ImmoDaten GmbH

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Social security of housing

Every tenth household receives support for housing costs

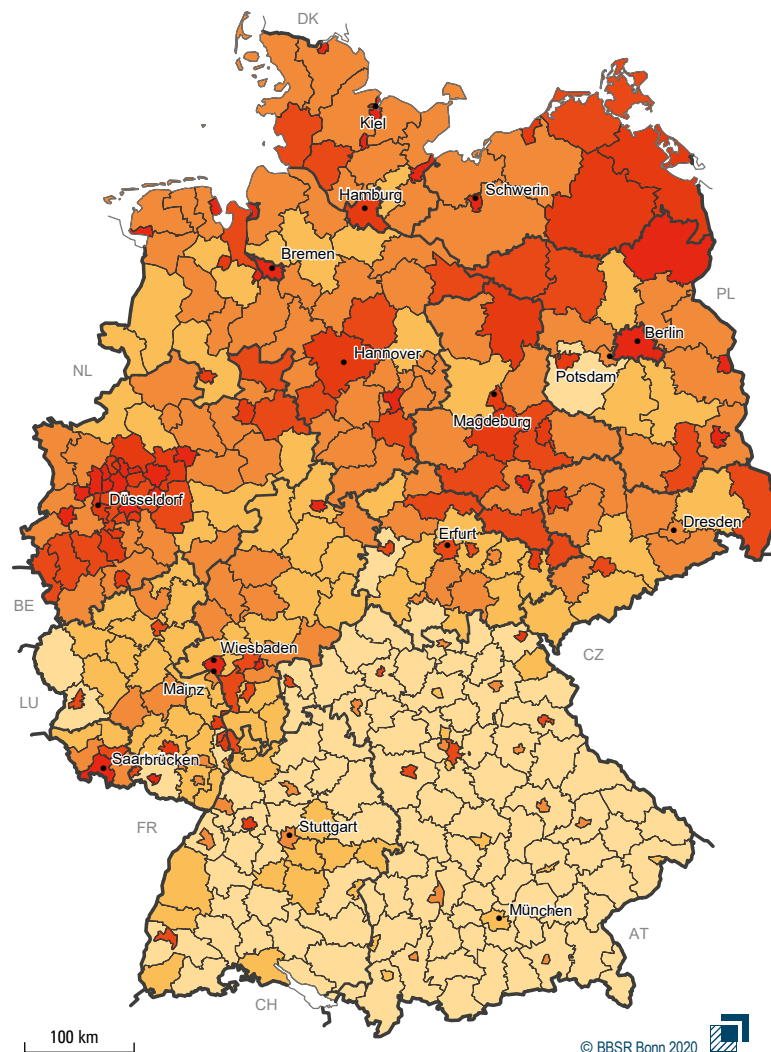
In 2018, 4.1 million households received state support with their housing costs. That corresponds to 10 % of all households. €18 billion was spent on housing benefit and accommodation costs (KdU). In structurally weak rural regions, but also in many conurbations, the proportion of households receiving assistance with their housing costs is above average.

The reform of housing benefit in 2020 with its index-linking, strengthens the performance and reach of housing benefit. In 2020, an estimated 660,000 households received housing benefit – including many single-person households and families with children. Further improvements are planned with a view to CO₂ pricing and allowances for basic pensions.

Following the amendment to the Basic Law in 2019, from 2020, the federal government will contribute €1 billion per annum to the financing of social housing. Especially in cities with a high demand for housing, there is an urgent need for the provision of land by means concept allocations and building land models for social housing. The regional differentiation of the maximum rents for price-linked homes facilitates the economic and target-group feasibility of projects in different market situations.

Map 4

Social security of housing 2018



People in private households receiving housing-related social security benefits in 2018 as a percentage of the total population

- 5,0 and below
- 5,0 to under 7,5
- 7,5 to under 10,0
- 10,0 to under 12,5
- 12,5 to under 15,0
- 15,0 and over

Note:
 Housing benefit: people entitled to housing benefit in private households.
 Basic income support for jobseekers (SGB II): People in households in need with ongoing accommodation costs.
 Basic income support in old age and in the event of reduced earning capacity (SGB XII): Recipients with expenses for accommodation and heating outside of institutions.
 Assistance with living costs (SGB XII): Recipients with expenses for accommodation and heating outside of institutions.

Source of data: BBSR housing market monitoring, Federal Statistical Office: Housing benefit statistics 2018 and social assistance statistics 2018, Federal Employment Agency: Statistics on basic benefits for jobseekers according to SGB II 2018

Geometric basis: Counties (generalised), 31.12.2018
 © GeoBasis-DE/BKG
 Processing: N. Oettgen

Prospects for the housing and property markets

Continuing high demand for new build homes

The need for new housing will remain high in the coming years. There will continue to be a high demand for housing as a result of international immigration, moves to the conurbations within Germany and the growth in the number of households due to their declining size. The high construction backlog suggests there will be a further increase in the number of completions in the coming years.

Continued favourable financing conditions, combined with a persistently high demand for housing in the cities, should ensure further increases in property prices. An increase in ownership rates and per capita living space is possible, depending on further economic development.

The ageing of the society alone will continue to increase demand for barrier-free homes in the coming years. Increasing building regulation requirements for accessibility in new construction mean that the number of barrier-free flats is currently rising in this segment and will continue to do so in the future. The financing of

necessary conversion measures in existing buildings often remains a major challenge for owners and tenants.

Uncertainties due to the coronavirus pandemic

Up until the autumn of 2020, there was hardly any sign of a crisis in the housing market. The prices for residential property and quoted rents continued to rise in the first three quarters. The number of building permissions also increased. So from January to October 2020, the number of homes achieving building approval increased by 3.4 %, compared to the same period in the previous year.

However, the risks are increasing: Short-time work, job cuts, lack of opportunities for secondary employment and the threat of insolvency for small businesses and the self-employed mean planning uncertainties and even severe financial losses. This can increase the housing cost burden for households or make it more difficult to repay current mortgages. Potential buyers may be reluctant to purchase a property due to growing financial and economic uncertainty.

Mobile working and teleworking are already changing the ways of working and living – and are also likely to reduce commuting. More working from home often also requires adjustments to the home, possibly even a move to a larger home or one with a different layout. Family-friendly and intergenerational housing is becoming more important.

Immigration from abroad has reduced in 2020 due to the pandemic. The level of future foreign immigration, which will be particularly noticeable in the growth regions, depends very much on how well Germany comes through the crisis economically.

While the residential property market has done well so far, the market for commercial property is changing. The demand for office space has recently declined, local retail is in crisis and competition from online retail will continue to increase. Against this background, the conversion of office and commercial properties offers additional potential to relieve housing markets – and at the same time strengthen inner-city housing.

The following publications are only available in German:



Wohnungs- und Immobilienmärkte in Deutschland 2020

BBSR, Bonn 2021

Orders from: forschung.wohnen@bbsr.bund.de

Reference: WIM 2020

This BBSR-Analysen KOMPAKT is a compilation of key findings from the German BBSR report „Wohnungs- und Immobilienmärkte in Deutschland 2020“, in which you will find further content and more de-tailed information. The report provides comprehensive, regionally differentiated information about the situation and development of the housing and property markets in Germany. His topics range from housing supply and demand, property prices, rents and property transactions, provider structures on the rental housing markets to state housing support services as well as barrier reduced and climate friendly living.



Kommunale Wohnungsbestände:

Mietgestaltung – Ausweitung – Investitionen

BBSR, Bonn 2021

Orders from: forschung.wohnen@bbr.bund.de

Reference: Kommunale Wohnungsbestände

In Germany there are around 2.3 million apartments in municipal ownership. This corresponds to around 10 % of the rental housing stock. These municipal apartments are of particular importance in terms of housing policy. Since 2009, the BBSR has been collecting information on the owner group of the municipalities and their housing stocks at the regular intervals of three years. The municipal surveys carried out by the BBSR, based on well-founded data, help to obtain a profound and informative picture of the owner group of the municipalities and municipal housing companies. The main focuses of the current survey were the structure of rents, the expansion of the municipal housing stock and investment in existing buildings.

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Contact

Alexander Schürt
alexander.schuert@bbr.bund.de

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