



We need a new housing policy – but what kind?

Everyone is talking about the issue of housing in Germany. Usually, those involved in the debate point out the fact that, today, hardly anyone can afford to buy their own home. But is this really the case?

After the bursting of the reunification bubble, German house prices remained – by and large – on the same level for many years. Since 2010, however, this has changed completely, with both house prices as well as the cost of building plots soaring in many regions. The main reason for this is the increasing scarcity of housing, because the number of new dwellings built has not kept up with a rising and increasingly urban population.

Despite higher prices, the home ownership rate has been rising gradually for decades. In the 1960s it was around 30 %, rising to 40 % by the 1990s. By 2014, it had increased to 46 %. Meanwhile, projections indicate that owner-occupiers now make up half of all residential units.

Clearly, tumbling mortgage rates have made buying property more affordable and, in many cases, have overcompensated for the rise in prices. In turn, this has led to a significant increase in the number of first-time buyers over the last few years.

This development applies to all German federal states, although there are big differences in the owner-occupancy rates from one region to another. Rural areas tend to have a higher proportion of home owners than cities. Traditionally, Saarland and Rhineland-Palatinate have had the highest rates, Berlin and Hamburg the lowest.

Despite the continued rise in prices, Germany continues to languish far behind other countries in this respect; only Switzerland had a considerably lower home ownership rate, at 36 %. Romania and Hungary, however, have noticeably higher home ownership rates of more than 90 %. These data alone show that ownership rates are not necessarily correlated with the wealth of a population. Historical factors play an equally important role as do geographic and demographic aspects.

It is apparent that demand for owner-occupied homes remains high in Germany and an end to the housing shortage is still not in sight. Interest rates appear to have bottomed out and the US Fed has initiated a turnaround in monetary policy. The European Central Bank is likely to raise its key interest rate in 2019. Thus, in terms of financing, buying property is set to become more expensive. Having said that, rents are also meanwhile on the rise in many areas.

Politically speaking, the issue of housing is at the top of the agenda. What is missing in the debate is the fact that at least a part of the price increase has been brought about by the authorities themselves, e.g. by additional regulation or by a massive hike in real estate transfer tax rates in most federal states.

There is no doubt that more dwellings need to be built. However, the effect of the government's help-to-buy scheme for families is uncertain since the millions spent are more likely to lead to deadweight loss effects or to benefit sellers by boosting house prices in the current market environment. It would make more sense to simplify standards and regulations that would make building a house cheaper for everyone involved.

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But there is another, completely different aspect to the debate: digital ways of working are facilitating an increasing flexibility in terms of where and when people work. In addition to a good transport infrastructure, though, this is also dependent on the overdue expansion in broadband networks. Both would make living outside overstretched metropolitan areas more attractive. ■