Research Report

Housing Market Report Germany 2019
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The downturn in the global economy is also evident in economic development expectations in Germany. However, thanks to the robust labor market and increased domestic consumption, sentiment in the country’s economy remains optimistic.

Gross domestic product and disposable income

In 2018, the gross domestic product (GDP, adjusted for prices, seasonal and calendar effects) continued to develop in line with the positive trend of previous years. Although the growth in gross value added (GVA, price-adjusted) was lower than in the previous year at 1.5%, it was observed across most sectors of the economy. The GVA in the information and telecommunication (ITC, +3.7%) and construction industries (+3.6%) showed relatively significant upward tendencies and there was also particularly strong growth impetus in Germany in 2018 from private and government consumer spending (1.0% and 1.1%, respectively). However, GDP growth was slightly subdued due to a decline in the net export ratio (imports rose by 3.4%, while exports increased by just 2.4%).

Disposable incomes have also increased considerably, despite the economic upswing of recent years not being fully reflected in the development of net household incomes. With a price-adjusted increase of around 1.3% compared to the previous year, per capita disposable income (price-adjusted net income) stood at €20,697 in 2017. Net incomes are an important factor influencing demand in the housing market, driving up rents and purchase prices.

The outlook for economic development in Germany is determined by various global and European hotbeds. At the global level, the most important drivers are the trade dispute between the USA and China and the economic slump in China; although it remains unclear to what extent the Chinese government will intervene in the market in a similar way to 2016. In addition to global political unrest, these events are accompanied above all by efficiency losses, reduced productivity and ultimately subdued export expectations.

At the European level, it is the UK's withdrawal from the EU in particular that is driving economic inefficiencies, political unrest and a discrediting of the European Community. Combined with a changing political landscape at the European level, the EU is becoming less able to reach consensus and make decisions. At the national level, dissatisfaction is growing in many European countries and structural reform efforts, such as in France, are accompanied increasingly by resistance and protest on the part of the population. This political unrest is significantly increasing the level of economic uncertainty. Points of contention, such as Italy's high level of debt, could therefore trigger further political conflicts which, in the worst case, could bring about a European currency crisis. This would not only lead to economic productivity losses but would also considerably restrict the EU’s political room for manoeuvre in the event of a possible recession.
The ongoing downturn in the global economy is also increasingly making itself felt in Germany. After a boom phase lasting several years, there are currently signs of an economic slowdown. The ifo Business Climate Index recently showed a negative trend and reached a 2-year low of 99.1 points in January 2019 before rising again to a total index value of 99.6 points by the end of the first quarter. The ifo Business Climate Index for the construction industry also showed slight improvement after a sustained deterioration. Despite the global economic slowdown, sentiment in the German economy remains cautiously optimistic.

Overall, ifo business expectations have deteriorated somewhat more strongly and are slightly pessimistic again for the first time since 2012. This means that the economic slowdown is also directly reflected in the expectations for economic growth. On average, in Autumn 2018 the economic institutes’ growth forecasts for 2019 of around 1.75% were still at a relatively high level, but many were revised significantly downwards at the beginning of 2019. Growth expectations for Spring 2019 lie between 0.7% and 1.0%. Generally, it can be stated that after several boom years, there is a significant economic slowdown; although it is unclear whether this indicates the onset of a recession.
Unemployment and workforce development

Conversely, the German labor market remains optimistic. The number of people in gainful employment increased by 1.5% to a new high of 44.8 million in 2018 and a further rise is expected in 2019. However, growth in the labor market is also expected to be slightly subdued, as indicated by the ifo employment barometer which recently showed a decline.

The joint diagnosis by German economic institutes and the Federal Employment Agency forecasts a decline in the number of unemployed people to between 2.1 and 2.2 million in 2019 (corresponding to an unemployment rate of around 4.6%). Unemployment continued to fall in the first quarter of 2019 and reached 2.301 million (5.1%) in March 2019, its lowest level since reunification; this is significantly lower compared to March 2009 when the rate was 8.3%.

The fact that the current economic slowdown is not having a stronger impact on the labor market can be attributed to various factors. For instance, there is still a persistently high shortage of skilled workers in the domestic labor market and while this has had a restrictive effect on growth in recent years, it now offers the potential to counteract an economic slowdown. Conversely however, demographic trends will ensure that more workers leave the labor market in the coming years than new ones are added. By 2030, the large age cohort of the "baby-boomer generation", which today accounts for a significant proportion of the labor force, will have retired. These demographic effects are also dampening a slowdown in the labor market.

Unemployment and people in gainful employment (1992-2018)

Source: Federal Employment Agency, calculation: JLL
Mortgages remain very cheap. Due to persistently low core inflation, interest rate policies are not expected to normalize until 2020 at the earliest, and only if the economic momentum in the European currency area allows room for maneuver.

Key interest rates and inflation

The interest rate for the main refinancing business of the European Central Bank (ECB), known as the key interest rate, is the most important control variable for mortgage interest rates: a reduction in the key interest rate facilitates borrowing by commercial banks, which pass on these advantages to their customers in competition with other banks. This subsidized financing results in lower borrowing costs for bank customers, so higher prices can be offered for tangible assets such as real estate. This interdependence between monetary policy control and asset prices is the direct transmission channel of monetary policy. This is particularly relevant, as real estate is usually financed to a large extent by borrowed capital. In addition to this direct effect, other indirect transmission mechanisms of monetary policy have an impact on real estate prices. One notable factor here is the demand-induced price increase caused by portfolio restructuring: with key interest rates falling, bonds become less attractive than equities or tangible assets such as real estate. Consequently, demand for the latter is stronger and prices rise. Hence, with an expansionary monetary policy, inflation of tangible asset values generally occurs through various direct and indirect transmission channels.

The primary monetary policy objective of the ECB is to maintain price stability in the European currency area. The inflation rate has fallen from up to 6% in the early 1990s to around 2% since the mid-1990s. Triggered by the global financial crisis, it even fell briefly into negative territory (deflation) by the second half of 2009. Since this low, consumer price inflation rose again to around 2.0% in the course of the economic recovery in 2010 and 2011 but returned to negative territory in April 2016. Despite a slight dip in 2017, it started to rise again to reach a level of over 2% in 2018 - the ECB’s target figure. Nonetheless, the ECB is guided by core inflation, i.e. price increases excluding food and oil. Because price stability is the ECB’s primary control parameter, increased inflation should also trigger a rise in key interest rates. However, as core inflation was still well below the target, the ECB maintained its zero-interest rate policy in 2018. Therefore, while the ECB is maintaining its previous stance in terms of traditional monetary policy measures (interest rate policy), special monetary policy measures (additional purchases of assets and government bonds on the secondary market) were withdrawn at the end of 2018.
Mortgage interest rates and lending volumes

The interest rate for the main refinancing business of the ECB is the main benchmark for mortgage interest rates. For this reason, with successive key interest rate cuts over recent decades, mortgage interest rates in Germany also fell significantly from 9% in 1992 to 2% since the beginning of 2015. After falling to 1.6% in 2016, mortgage interest rates settled at around 1.95% in 2018. The historically low mortgage interest rates continue to be very favorable for both institutional and private investors on the financing side of residential property investments.

A reduction in key interest rates and capital costs is accompanied not only by asset price inflation, but also by an expansion in the volume of credit. An increasing credit-financed consumption of assets can further expand consumption through income and wealth effects, triggering strong price increases. A self-reinforcing mechanism of this kind means that an expansion in the volume of credit always harbors the risk of a property price bubble, as was observed, for example, in many European and US real estate markets before the 2007/08 financial crisis. In Germany too, the sharp decline in mortgage interest rates has led to an increase in the credit volume of private households. However, unlike in the run-up to the US housing bubble, this increase in housing loans is relatively moderate. The strong price increases in the German housing market are therefore only conditionally compatible with a credit-induced price bubble.
While the US Federal Bank has been successively raising its key interest rates for several years now, the normalization of interest rate policy for the European currency area (Eurozone) was expected in 2019. Due to the slowing economic momentum in the Eurozone and core inflation below the target, in Spring 2019 the ECB announced that no increase in key interest rates was to be expected for the current year either. This means that the ECB is currently at the mercy of current trends and will not have any further room for manoeuvre in its interest rate policy if the economy continues to cool down or falls into recession. A gradual normalization of traditional monetary policy is therefore not expected until 2020 at the earliest. But here too, a high degree of uncertainty remains in view of current economic trends. In light of this, demand for tangible assets such as condominium apartments is expected to remain high.
Demographic Trends

The sizes of households are steadily decreasing in response to demographic trends and changing lifestyles, so that despite a distinct decline in population, the number of households is expected to increase in the medium-term. However, the greatest demographic differences exist at the regional level.

Population development

Following reunification, the population of Germany grew to around 82.5 million by 2002. The growth in the 1990s was due particularly the immigration of 2.8 million ethnic Germans from Eastern Europe; however, the population decreased steadily between 2002 and 2010. The main reason for this was the negative balance of natural population growth. Between 2008 and 2009, Germany was even considered an emigrant country and only recorded a positive migration balance again in 2010. Since then, this balance increased steadily, reaching its highest level since reunification in 2015 at around 1.139 million. The introduction of the free movement of workers which included Eastern EU member states in May 2011 and the increasing attractiveness of the German labor market for workers from southern EU countries where the Euro crisis had a severe impact on the labor market, played a major role in this trend. There was also an increase in refugee migration in 2015. In recent years, the high level of immigration has mainly caused a short-term increase in the population. Since the end of 2012, the number of births in Germany has also risen more strongly, even though the number of deaths increased over the same period (in comparison: 785,000 children were born alive in 2017, compared to 933,000 deaths). According to calculations by the Federal Statistical Office, Germany’s total population was around 82.97 million at the end of 2018.

Despite the population trends of recent years, a decline in the population is expected in the long term. The actual extent of the population decline depends mainly on future developments in fertility rates, life expectancy and net migration. The chart "Development of the population" illustrates various scenarios depicted by the Federal Statistical Office.

The chart shows that the degree of population growth and structural demographic changes in the age structure can be mitigated by a high level of steady net immigration. With the same fertility rate (1.4 children/woman) and life expectancy (84.8/88.8), the population in 2040 will be between 82.28 million (with net migration of 300,000) and 73.39 million (with net migration of zero). The estimate of net migration in particular is proving difficult, as it is strongly influenced by economic and political conditions at home and abroad. While Germany recorded an average net immigration of around half a million people between 2010 and 2015, there had even been some migration losses in the years prior to that. This shows that it is difficult to assess whether the current high level of international immigration is a long-term trend.
Population structure

The gradual decline in the fertility rate and resulting negative balance in the natural population is also reflected in the age structure of the population. With a consistently low birth rate and increasing life expectancy, the relative share of older population groups has steadily grown. With the help of existing population figures and current birth rates, it is also possible to predict the future development of the age structure, as is done, for example, by the calculations of the Federal Statistical Office.

While in 1980 the proportion of under 20-year-olds was over a quarter of the population, by 2010 it had fallen to under a fifth. From 2040 onwards, the proportion of under 40-year-olds will be around 39% of the total population. Conversely, the proportion of over 65-year-olds increased from 15% in 1980 to 20% in 2010. In 2040, this share will grow to around 28%.

The increasing ageing of the population leads to an increasing old-age dependency ratio, which is the percentage ratio of the population at retirement age (number of 65-year-olds and older) to the age cohort of the working population (20 to under 65 years). An increasing old-age dependency ratio not only leads to a gradual reduction in the labor force potential, but also to an increasing burden on the social security system. While in 1980 the old-age dependency ratio was just under 0.25, i.e. four people between 20 and 65 years of age were responsible for a person of retirement age, in 2018 the dependency ratio was around 0.32. The ratio is expected to rise to almost 0.51 by 2040. This means that statistically there will only be around two employed people to one person of retirement age. However, as society ages, the youth dependency ratio, i.e. the proportion of young people under 20 years of age, is also declining, slowing down the increase...
in the proportion of the population groups to be cared for by the working population. Where today around 62% of the population is of working age between 20 and 65 years old, it will still be about 55% in 2040.

**Age structure of the population (2018 & 2060)**

The increasing ageing of the population also has a significant impact on housing markets. As the individual age groups represent different consumer groups characterized by special lifestyle concepts and ideas as well as income situations and housing preferences, they also exhibit very different housing demands. A structural change has a major impact on the housing market, especially if the gap between current housing demand and existing housing supply (e.g. in terms of living space and furnishings) widens considerably.

In addition, demographic trends also have an indirect impact on demand for housing through interest rates. The marked decline in interest rates in the western industrial nations, as observed for several decades, is partly attributable to the ageing of the population. There are two main reasons for this are the longer life expectancy at retirement age which forces people to save more money during their years of working, and the lower birth rate which has made capital more plentiful and therefore cheaper compared to work. The reduction in interest rates is leading to an increase in demand for unconventional asset classes such as tangible assets, and thereby to real estate becoming more attractive as an investment. Moreover, at the institutional level, the statutory pension insurance in Germany has been successively reformed since early 2000 to prevent a sharp rise in contribution rates in the wake of the rising old-age dependency ratio. As part of these reforms, private old-age provision has been given a much more significant role and the demand from private households for reputedly safe asset classes, such as residential property, has increased even further.
Regional population trends

The effects of demographic trends vary from region to region and must therefore also be considered on a spatial basis. Regional differences in population size and structure are also reflected in increased systematic internal migration. The labor market is the most important factor influencing internal migration. Young age cohorts in particular show increased mobility and greater flexibility in their choices of regional residential locations. The employment-intensive tertiary sector is to be found above all in metropolitan regions and regional centers, because companies there profit not only from the necessary agglomeration synergies, but also from the pool of skilled labor available to them. The same applies to people in search of employment. In addition, the growing service sector is characterized by a low demand for space and can therefore also settle in strategically favorable locations with a high land intensity. As the regional variation of trends in the labor market plays a decisive role in determining internal migration, it also represents an important driver of the regional demand for housing.

The main beneficiaries of this trend are conurbations and their environs, which are characterized by a high quality of life and a high demand for labor. Conversely, the losers are outlying rural areas and structurally weak regions with poor infrastructural connections, which must accept a loss of the young population to the conurbations.

According to studies by the Federal Institute for Research on Building, Urban Affairs and Spatial Development (BBSR), the following regions will benefit from population growth by 2025: southern Bavaria including Munich, the Stuttgart region, the regions along the Rhine river including Freiburg, Mannheim/Ludwigshafen, the Rhine-Main region and the Cologne/Bonn region, parts of north-western Germany and the Hamburg and Berlin regions including their neighboring districts. At the federal state level, the city states, the southern states of Bavaria and Baden-Württemberg and Schleswig-Holstein are expected to record population growth by 2020. This trend is expected to continue in these states until 2040, with the exception of Schleswig-Holstein, which means that there will be a considerable increase in the demand for housing, especially in areas where there is already excess demand for accommodation.
Development of households

The growth in the number of households is influenced not only by population trends but also to a large extent by structural demographic changes. Two main trends in household developments can be observed: firstly, there is a continuous decline in the size of the household, i.e. the number of people per household. This can be explained by the change in the age structure of the population. The older age cohorts, whose relative share of the total population is growing steadily, have smaller household sizes. But there are also more people of the other age groups increasingly living alone. This process of singularization is due to a changing way of life for people, characterized by an increased number of divorced and single parents, declining household sizes in younger age groups and a shift in the age of starting a family.

Closely linked to this development is the second observation, a steady growth in the number of households. While the population in Germany grew by around 2.9% between 2011 and 2017, the number of households increased by around 4.5% to 41.3 million over the same period (39.50 million in 2011). Reducing the size of
households can increase the number of households, despite the overall population declining. Even in the new federal states where the population has declined since reunification, the number of households has grown.

While the population is expected to decline from 2021 onwards, according to the projections by the Federal Statistical Office, the number of households is expected to grow to around 43.2 million (+5.9% by 2015) by 2035. As such, a steadily rising demand for housing can be expected in Germany until at least 2035 due to higher household numbers. However, here too the spatial differences are considerable, as can be seen from a separate analysis of the eastern and western states. While between 2015 and 2035 the number of households in the eastern states will decline by 7%, they are expected to grow by 3% in the western states.

The sizes of households will continue to reduce in the future. While in 2017 single-person households accounted for around 41.8% of all other household sizes, their share will rise to about 43% by 2030. The same applies to two-person households (33.5%, 2017), whose relative share of all households will increase in the future. Conversely, the number of households with three or more people is declining. According to the Federal Statistical Office, their share is expected to decrease from 24.7% to around 22% between 2017 and 2030. Accordingly, the average household size will decrease from 1.99 people per household in 2017 to around 1.93 in 2030.
Generally, the demographic trends in Germany over the coming decades can be summarized as follows: the population is expected to decline in absolute terms and to age at the same time. This change in the demographic structure, combined with changing lifestyles, will lead to a steady reduction in household sizes. In turn, this will lead to a rise in the number of households by 2030, despite an expected decline in population. Furthermore, people’s increased willingness to move triggers diverging internal migration, making regional differences in demographic trends even more pronounced. These demographic trends are also having an impact on demand for housing and therefore, also on the housing market and new construction activity. Due to the singularization and ageing of the population, there is a high demand for new smaller, centrally-located and age-appropriate dwellings.
The demand for housing is leading to a regional polarization of the housing markets; however, in tense markets, new construction activity is hampered by a shortage of land, stronger political intervention in the market and higher building costs. As a result, demand is expanding into the environs and more land-efficient living concepts such as Micro Living are gaining in importance in central locations.

New construction activity

New construction activity in the regional housing markets is mainly driven by the need for new buildings, which results from the correlation between housing demand and existing housing supply. Therefore, the need for new buildings is not only a reflection of the development of household figures, but also of the need for replacement, i.e. the qualitative match between supply and demand. Moreover, there are the regional differences between housing demand and supply: regional differences in housing demand in Germany are driven by demographic and technological changes in the labor market. Increasingly, this development is causing a regional polarization of the housing markets, which is reflected in higher vacancy rates in structurally weak regions and excess demand in economically strong regions. These developments are particularly reflected in new construction activity.

Construction completions and permissions* and forecasted demand (1997-2030)

*Housing in residential and non-residential buildings (all construction measures); source: Federal Statistical Office, calculation: JLL
A total of 284,816 new dwellings were completed in 2017, which corresponds to a 2.6% increase compared to the previous year. Of the dwellings completed in 2017, 245,300 were new dwellings in residential buildings (an increase of 4.1% over 2016). This increase resulted mainly from the increase in completions of dwellings in multi-family (+ 6.7%) and two-family houses (+ 5.1%). The volume of new accommodation in residential homes also increased significantly once again (+ 16.2%). Conversely, completions of single-family homes decreased by 1.5%.

However, at the national level, the aim of significantly increasing new construction activity once again fell short of expectations. Around 347,300 new dwellings were approved in 2018, roughly the same level as in the previous year.

**Completed apartments by type of residential building, 2017**

![Completed apartments by type of residential building, 2017](image)

In metropolitan regions new construction activity is therefore lagging behind demand and there is no relief in sight for the future. Although a rising number of completions can generally be observed and a further increase in residential completions is expected in the coming years due to the high level of surplus construction, this is still well below the estimated demand for residential space. This is because flourishing labor markets in Germany’s cities mean that the demand for labor and, as a result, the demand for housing in conurbations and regional centers remains high.
In addition to an increasing shortage of new construction capacity and the availability of large contiguous areas of land, the increasing conflict in housing policy can also be cited as the reason for the only moderate increase in construction activity, namely the need to maintain both sufficiently inexpensive housing and the incentives for privately-financed housing construction in equal measure. In the case of re-densification, efforts through urban housing policy are increasingly being hampered or even brought to a standstill by the confrontation between the individual interests of local residents and the common good. All in all, this creates a situation in the housing markets which are suffering from continuing pressure on demand, in which the goals of the market players are increasingly in conflict.

**Structure of the housing stock**

In 2017, the total housing stock in Germany was around 41.96 million residential units. Detached houses accounted for a share of 50.1% and therefore around half of this. Semi-detached houses accounted for 12% of the total stock and the proportion of terraced housing was 31.7%. However, large regional differences can be observed in the structure of housing construction and therefore, due to increasing population density, more land-intensive residential development can also be found. For example, as part of the Rhein-Ruhr metropolitan region, Düsseldorf has a very dense urban structure which is reflected in the local building structure. The proportion of terraced houses here is 74.1%, while detached houses account for just 11.7%. Conversely, the proportion of detached residential buildings in rural regions is usually significantly above 90%.

**Development of the housing stock (2013-2017)**

![Units in mn](chart)

Source: Federal Statistical Office (Microcensus), calculation: JLL

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A clear differentiation can also be made in the housing stock according to building age classes, the classification of which results from significant historical events. Hence, residential buildings can be roughly divided into three building age classes: the period before 1949, the period between 1949 and 1990, and new buildings constructed since 1991.

The first category of "pre-war buildings" accounts for around 27% of the total housing stock in Germany. The share of dwellings completed before 1949 is around 43% in the five eastern German states, while the share of this age class in the western German states is just 22%. This indicates that the proportion of pre-war buildings in eastern Germany is around twice as high as it is in western Germany.

The housing stock from the period from 1949 until German reunification in 1990 forms the second age class. Due to war damage, war refugees and a high birth rate after the Second World War, there was a massive housing shortage in Germany and consequently brisk construction activity. As a result, the post-war buildings (1949-1978) represent by far the largest housing stock in the country, at around 46%. In the former federal territory, almost 51% of all dwellings in today's housing stock were built during this period. By way of comparison, the proportion of dwellings completed between 1970 and 1990 is just 12.5%. In eastern Germany, the shares of these two periods are 31% and 13.2% respectively.

Due to different housing construction policies pursued in the socialist German Democratic Republic (GDR) and the market-economy oriented Federal Republic of Germany (West Germany), the housing stock also differs considerably in terms of construction quality. In the former GDR, private construction activities for the rental market almost ceased after the Second World War. Public investment in pre-war stock was politically undesirable until the 1980s and was very limited. Meanwhile, industrially prefabricated residential buildings were erected from the 1970s onwards and still characterize the townscape in many eastern German cities today. In West Germany, from the end of the war until the 1970s, attractive state loans and subsidies helped private, municipal and cooperative institutions to rebuild some pre-war stocks and to build new housing stock. Rental caps, so-called cost rents, were attached to state loans and subsidies, and remained applicable until the loans were repaid in full.

The third age class is made up of the housing stock constructed since 1991. On average, this accounts for around 14% of the total housing stock in Germany. The differences between the eastern and western states are narrower than in the previous decades. However, it is evident how immigration from eastern Germany resulting from reunification triggered a construction boom in western Germany, which then shifted to eastern Germany in the mid-1990s due to the offer of state subsidies.

Overall, the building age classes of the 1949-1978s dominate the country's housing stock. This applies the territory of the western states, while in the east, the dwellings from the pre-war period still dominate the housing stock. The post-war building age classes are currently in the phase of subsequent use of their lifecycle. On the one hand, this has the consequence that the housing stock of these building age classes is in increased need of modernization and renovation and on the other, these residential properties also increasingly appear on the supply side in the phase of subsequent use.
Home ownership ratio

According to the micro-census and calculations by the Federal Statistical Office, the home ownership rate in Germany in 2014 was around 45.5%. Considerable regional differences can be observed between western and eastern Germany on the one hand, and the city states and federal states on the other. For example, while Berlin and Hamburg have home ownership rates of 14.2% and 22.6% respectively, the average home ownership rate in the east is around 33.7% and in the west 46.8% (Saarland leads the field with a home ownership rate of 62.6%).

The difference between the two parts of the country results mainly from the different orientation of housing policy in the period after the Second World War.

The differences between the city states and federal states result from the development structure and the market entry restrictions. As the city states are more densely populated and have a higher land intensity, land and property prices are also higher there. In these markets, more equity capital is therefore essential for the acquisition of residential property. This means that income and property-dependent market entry restrictions exist there that prevent households in lower wealth and income groups from purchasing residential property. On the other hand, with higher land intensity, fewer detached residential properties (i.e. detached, semi-detached or terraced houses) can also be found which are predominantly occupied by owner-occupiers due to their individual characteristics.

In a European comparison, the home ownership rate in Germany is relatively low. Only Switzerland has a lower rate of 35%. By contrast, the highest proportions of homeowners are found in Spain (85%) and
Norway (77%). The low home ownership rates in Germany can be attributed above all to the institutional characteristics of the rental market, the origins of which can be traced back to the post-war housing initiative and to the lack of opportunities to own residential property in the former GDR. The German rental housing market has a high standard of rental housing construction, offers a broad and differentiated range of rental apartments, regulates the development of rental prices for existing dwellings and is characterized by a high level of protection for tenants. This makes the option of hedging against possible rental price risks through home ownership less attractive.

However, due to the increasing dynamism of the German housing market and declining bond yields, owner-occupied housing has become much more attractive to private households over the past decade. This is also evident from the fact that the home ownership rate has risen steadily over the period. According to studies by the Federal Institute for Research on Building, Urban Affairs and Spatial Development (BBSR), the ownership rate will stabilize at around 47% in western Germany by 2025 and increase to around 36% in eastern Germany.

In addition to a growing home ownership ratio, it is evident that this trend is not asset-neutral, but that the home ownership ratio is rising most strongly in the upper income and wealth groups. Especially in markets with strong demand, it is evident that the group of households capable of purchasing residential property is becoming ever smaller as prices rise.

This means that the upper income and wealth groups, which have relatively high home ownership rates in the high-demand residential areas, have been participating to an above-average extent in the price developments of recent years. This can also be traced back to the polarization of the regional housing...
markets: while very rural regions with high rates of home ownership have supply surplus, metropolitan regions with few and already relatively wealthy homeowners show high demand for housing and strong price increases for residential real estate.

Commercial and public housing companies

Owner-occupiers, i.e. homeowners who use their residential property for their own residential purposes, account for around 17.3 million residential units, which corresponds to around 43% of the total stock. In addition to owner-occupiers, two other main groups of homeowners can be identified: professional commercial landlords and private small landlords. Private small landlords who manage rental apartments independently, are the largest providers of rental apartments in Germany. These homeowners account for 13.9% of the total housing stock. Professional landlords who hold a total of 7.9 million dwellings can, in turn, be divided into three subgroups:

Firstly, the group of private-sector providers of rental apartments which together hold a portfolio of around 2.86 million dwellings (corresponds to a share of 7%) and is characterized by a high degree of heterogeneity. This group consists of a large number of different owners who can be roughly broken down into traditional owners of company housing, banks and insurance companies with their own residential portfolios and the players in funds and stock corporations who have built up their portfolios through investments and transactions. The largest private housing companies are listed in the following table.

**Largest private housing companies (2018)**

<table>
<thead>
<tr>
<th>Name</th>
<th>Location</th>
<th>Housing units</th>
<th>Property in € bn</th>
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<tr>
<td>Vonovia</td>
<td>Germany</td>
<td>346,644</td>
<td>33.4</td>
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<tr>
<td>Deutsche Wohnen</td>
<td>Germany</td>
<td>161,000</td>
<td>19.6</td>
</tr>
<tr>
<td>LEG Immobilien</td>
<td>Germany</td>
<td>130,085</td>
<td>9.5</td>
</tr>
<tr>
<td>Vivawest Wohnen</td>
<td>Germany</td>
<td>121,863</td>
<td>7.9</td>
</tr>
<tr>
<td>TAG Immobilien</td>
<td>Germany</td>
<td>83,140</td>
<td>4.3</td>
</tr>
<tr>
<td>Grand City Property</td>
<td>Luxembourg</td>
<td>82,869</td>
<td>6.9</td>
</tr>
<tr>
<td>Adler Real Estate</td>
<td>Germany</td>
<td>50,305</td>
<td>3.0</td>
</tr>
<tr>
<td>BUWOG*</td>
<td>Austria</td>
<td>48,828</td>
<td>n/a</td>
</tr>
<tr>
<td>Covivio**</td>
<td>France</td>
<td>39,060</td>
<td>n/a</td>
</tr>
<tr>
<td>Wohnbau GmbH</td>
<td>Germany</td>
<td>17,944</td>
<td>1.4</td>
</tr>
</tbody>
</table>

*Taken over by Vonovia in 2018. **On June 1, 2018, Immeo was merged with Foncière des Régions under the name of Covivio, so no annual reports (as of Jan. 2019) are yet available. Source: See individual sources.

Secondly, professional landlords include the group of public housing companies owned by municipalities, the federal states and the federal government, as well as housing cooperatives. The largest municipal housing companies are listed in the following table. Together, this group holds around 4.69 million dwellings (equivalent to around 13% of the total housing stock), which is primarily aimed at the target group of low-income and socially deprived households. As housing is a basic need from an economic perspective, interventions in the housing market are justified by the social responsibility of the state. The state has direct instruments at its disposal in the form of indirect (“Subjektförderung”) and direct (“Objektförderung” – social housing construction) subsidies to support socially deprived and/or low-income households. There are also other specific instruments such as occupancy controls (social housing construction), municipal housing subsidies and KfW (“Kreditanstalt für Wiederaufbau”) programs that support renovation and modernization efforts. Particularly, the number of dwellings subject to occupancy controls and rental caps
has reduced significantly in the last two decades from several million to just under one million. This is due to expiring social commitment clauses after the scheduled repayment of subsidized housing finance and the termination of most social housing programs.

Largest municipal housing companies (2018)

<table>
<thead>
<tr>
<th>Name</th>
<th>Location</th>
<th>Housing Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>SAGA GWG</td>
<td>Hamburg</td>
<td>132,592</td>
</tr>
<tr>
<td>Gewobag</td>
<td>Berlin</td>
<td>75,703</td>
</tr>
<tr>
<td>Degewo Konzern</td>
<td>Berlin</td>
<td>73,838</td>
</tr>
<tr>
<td>HOWOGE</td>
<td>Berlin</td>
<td>70,308</td>
</tr>
<tr>
<td>Nassauische Heimstätte/Wohnstadt</td>
<td>Hesse/Frankfurt</td>
<td>58,848</td>
</tr>
<tr>
<td>Stadt und Land</td>
<td>Berlin</td>
<td>53,075</td>
</tr>
<tr>
<td>ABG Frankfurt Holding</td>
<td>Frankfurt</td>
<td>51,616</td>
</tr>
<tr>
<td>GWH Immobilien Holding GmbH</td>
<td>Frankfurt</td>
<td>49,277</td>
</tr>
<tr>
<td>GAG Immobilien AG</td>
<td>Cologne</td>
<td>43,692</td>
</tr>
<tr>
<td>GEWOBA AG</td>
<td>Bremen</td>
<td>41,627</td>
</tr>
<tr>
<td>Gesobau AG</td>
<td>Berlin</td>
<td>41,269</td>
</tr>
<tr>
<td>Wiro Rostock</td>
<td>Rostock</td>
<td>35,160</td>
</tr>
<tr>
<td>Leipziger Wohnungs- und Baugesellschaft mbH</td>
<td>Leipzig</td>
<td>35,038</td>
</tr>
<tr>
<td>GEWOFAG Holding München</td>
<td>Munich</td>
<td>33,982</td>
</tr>
<tr>
<td>GWG Städtische Wohnungsgesellschaft München</td>
<td>Munich</td>
<td>27,188</td>
</tr>
</tbody>
</table>

Source: JLL

Residential vacancy

The vacancy rate indicates the percentage of the housing stock that is not currently used for residential purposes. The vacancy rate can refer either to the market-active vacancy rate, i.e. dwellings that are directly and actually available to the housing market, or to the structural vacancy rate which also includes properties scheduled for demolition and uninhabitable properties. The market-active vacancy rate is correspondingly lower. The vacancy rate can be used to determine whether there is a supply or demand surplus in a market. Housing markets with high vacancy rates are therefore characterized by lower price levels and low-price dynamics, while low vacancy rates increase the bargaining power of residential landlords and higher housing prices can be imposed. The vacancy rate is therefore an appropriate and important indicator to define the market equilibrium between current demand and existing supply. Even in a balanced market, the vacancy rate is above zero due to market imperfections such as the poor transparency of information, or refurbishments between tenant changeovers. However, vacancy rates within individual residential properties can deviate significantly from the aggregated vacancy rate of the local market, especially if the individual property stands out relatively positively or negatively from the respective housing market.

At irregular intervals, the Federal Statistical Office determines the vacancy rate for the housing stock in the federal states. No distinction is made between apartment buildings or owner-occupied homes. There is also no differentiation made between market-active vacancies which are directly and actually available to the housing market, and structural vacancies which include properties scheduled for demolition.
In contrast to the vacancy rate published by the Federal Statistical Office, JLL’s vacancy estimate refers to the district level and exclusively to the market-active vacancy rate. The overall vacancy rate for Germany in 2017 was around 3%. While the lowest market-active vacancy rates of less than 1% are recorded in prosperous large cities and their environs as well as in administrative districts in the northwest and south of Germany, they can exceed 5% in structurally weak rural areas and in urban regions affected by structural change. The highest vacancy rates of over 10% can be observed in outlying areas of the new federal states.

The increased vacancy rate in large parts of eastern Germany can be attributed to an oversupply of housing caused by increased new construction activity in the mid-1990s. After reunification, substantial subsidies were introduced under the "Aufbau Ost" program. Depreciable spending of up to 50% was approved for residential properties in these federal states in order to improve the quality of the housing stock. This state intervention in regional capital flows led to a misallocation in new housing construction, resulting in an oversupply of residential real estate and sharp price declines for eastern German property. Due to the longevity of real estate, such imbalances in the market can only be reduced over a very long period of time.

However, in the meantime, there have been significant declines in vacancy rates in the eastern German states due, not only to urban redevelopment programs, but also to the substantial dismantling of residential properties that are no longer marketable and the population influxes that some eastern German cities have seen in recent years. Regional and local differences play a significant role here too, with some

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1 Reliable annual statistics on vacancies are not collected by the official authorities and so various sources are used in this report for the analysis of vacancies: a survey of vacancies by the Bundesverband deutscher Wohnungs- und Immobilienunternehmen (GdW), the Federal Statistical Office’s vacancy survey and finally a vacancy estimate by JLL based on local market reports, valuation mandates and expert opinions.
prospering eastern German regions recording very low vacancy rates of less than 2%, while some structurally weak western German regions have vacancy rates of more than 9%.

**Prices and costs**

Rental and purchase prices in Germany continued to rise in 2018. Metropolitan regions which are characterized by catching-up processes, such as Leipzig and Berlin, and up-and-coming secondary cities were able to show particularly strong gains.

**Rental trends**

The following chart shows the indexed rental price trend according to spatial market classifications. Rental price trends in the Big 8 cities are particularly pronounced. Overall, there is also a clear tendency towards polarization in the housing markets: rents rose most sharply in the largest metropolitan regions, followed by the autonomous cities and regional centers, while rural regions recorded relatively small rental increases between 2012 and 2018. The strong price rises in urban areas can be attributed to the sustained high demand for housing which is confronted by an insufficient supply. Rental price trends in the conurbations are therefore not only driven by increased demand but are also reinforced by low supply elasticity.

The rental prices offered in the Big 8 cities in the second half of 2018 increased by an average of 6.5% compared to the previous year. Price increases for the individual cities ranged from 4.1% in Düsseldorf to 9.0% in Berlin. In terms of the rental prices offered, the top segment in particular was able to show strong price rises, while growth in the lower rental price categories was below-average.
Housing Market Report Germany 2019

Development of prices for condominium apartments

Prices for condominium apartments in Germany rose unabated in 2018. Here too, the large conurbations recorded the strongest gains in the period from 2012 to 2018. However, the differences in aggregated price trends are narrower for the regional groups than for the rental price trends. Recently, secondary locations, the environs of the conurbations and regional centers in rural areas have been able to show stronger price increases. This is also reflected in the fact that relative differences in price trends have remained fairly constant for a number of years.

However, the regional and local differences in annual price increases are very substantial. Apartments offered for sale in the Big 8 cities showed an average annual price rise of 9.6%. Berlin (16.1%) and Leipzig (19.9%) recorded double-digit growth rates, while in Düsseldorf (3.0%) and Cologne (2.9%) they were again significantly lower. In terms of purchase prices for condominium apartments, demand is now increasing at the local level, especially in the environs of urban areas with good public transport connections. Hence, it is the lower purchase price categories that have recorded the strongest increases in purchase prices for condominium apartments.

Development of rental prices* indexed

* Asking prices for rental apartments, median values weighted according to local offering volume; **Berlin, Hamburg, Munich, Frankfurt, Düsseldorf, Cologne, Stuttgart, Leipzig; *** Without the Big 8 cities; Source: empirica systeme, JLL
### Development of condo prices* indexed

<table>
<thead>
<tr>
<th>Index (H1 2012 = 100)</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>BIG8**</td>
<td>95.0</td>
<td>102.3</td>
<td>105.6</td>
<td>111.7</td>
<td>117.8</td>
<td>123.9</td>
<td>130.1</td>
</tr>
<tr>
<td>Germany</td>
<td>95.0</td>
<td>102.0</td>
<td>105.0</td>
<td>110.9</td>
<td>117.0</td>
<td>122.1</td>
<td>128.2</td>
</tr>
<tr>
<td>Cities not subject to district restrictions</td>
<td>95.0</td>
<td>102.2</td>
<td>105.3</td>
<td>111.5</td>
<td>117.7</td>
<td>123.8</td>
<td>130.0</td>
</tr>
<tr>
<td>Districts</td>
<td>95.0</td>
<td>102.4</td>
<td>105.4</td>
<td>111.6</td>
<td>117.8</td>
<td>123.9</td>
<td>130.1</td>
</tr>
</tbody>
</table>

*Asking prices for rental apartments, median values weighted according to local offering volume; **Berlin, Hamburg, Munich, Frankfurt, Düsseldorf, Cologne, Stuttgart, Leipzig; ***Without the Big 8 cities; Source: empirica systeme, JLL

### Residential service charges

Net rents excluding operating and heating costs are used in the analysis of rental trends, as they represent the gross income to the owner. Most operating costs and service charges are payable separately by the tenant and are therefore an additional housing cost burden to the household, not to the owner. However, such costs have an indirect effect on the affordability of rents and therefore also on the potential scope for rent rises.

The Federal Statistical Office shows an average share of service charges in total housing costs of 33.54%. The cost of energy supply, including electricity and fuels for heating, is the largest housing cost item. This is followed by municipal costs and the costs for various services such as maintenance and repairs. The Federal Statistical Office updates both the share of the net rent and the composition of service charges at regular intervals. Because the individual housing cost items are characterized not only by different price trends but also by significant differences in volatilities, an adjustment of the composition always has an effect on the dynamics of the overall development of housing costs.
With regard to service charges, two items developed significantly above the general price level in 2018: firstly, the costs for energy supplies and in particular liquid fuels, with a price rise of 16.6% (only the costs for gas decreased); and secondly, service-related costs for maintenance have risen at an above-average rate, which can be explained by the tense situation in the labor market, especially amongst skilled workers in the construction industry, and by the rise in building costs.
Investment market

A distinction is made between two different structural features in transactions of residential portfolios: the sale of a residential portfolio and the sale of an entire housing company. In the case of the former, the apartments are transferred directly to a new owner. The structure customary in the industry for this type of sale is the asset deal. The second structural feature is the sale of a company in which the shares in the company are sold. In such deals, the purchaser not only takes over the housing stock, but is also transferred ownership of parts or even the entire business. This form of structuring is usually undertaken as a share deal. Finally, project developments can also be sold to final investors before they are completed. These sales are particularly significant in tense housing markets such as Munich, Hamburg or Frankfurt, as they are usually the only means of gaining access to these markets. In the following analysis, the commercial residential investment market includes sales of residential portfolios and student residences with at least 10 residential units and 75% residential use, as well as the sale of company shares with the acquisition of a controlling majority without IPOs.
Despite the regulatory and bureaucratic changes, the institutional housing market recorded an above-average result in 2018 compared to the previous year and the 5-year average, with a total transaction volume of €18.7 billion (131,200 residential units). The annual increase is almost exclusively attributable to the rise in prices. Currently, around €142,000 per unit or €2,200 per sqm must be paid for residential investments, almost 20% more than in the previous year. Five years ago, it was 70% less. In the private market for condominium apartments, the transaction volume per household in the largest German cities in 2017 remained at roughly the same level as in previous years. The largest increase was recorded between 2012 and 2015.

Increasingly, the downturn in general economic conditions is affecting the situation in the real estate industry. Measured by the IW Real Estate Index, the climate in the residential sector reduced from 50.1 points in Q4 2018 to 37.4 points in Q1 2019. In addition, the increasing regulations and interventions by the state and local authorities are colliding with an increasingly scarce supply in the market for commercial residential investments. Even if new housing construction by developers, municipal housing companies and the large housing groups continues to rise, it can be assumed that the transaction volume will only increase due to higher achievable prices. Especially in large cities, new housing construction is becoming increasingly unattractive due to a lack of building land, bureaucratic obstacles and staff shortages in the construction industry. Consequently, many project developers are already focusing increasingly on the less regulated market for commercial real estate. Even the continuing price increases and the tendency to invest more in specialized segments such as micro living and student housing will not fundamentally change this. The gloomy economic outlook and the obstacles to project development are also reflected in the expectations of the players in the housing market. While these reached the peak of the current economic

Transaction Market Residential Properties and Portfolios*(Q1 2013-Q4 2018)

*incl. pre-sold project developments and student residences; source: JLL
cycle in Q1 2018, expectations in the course of 2018 were already well below the level of previous years and reached their lowest level since 2014 in Q1 2019, at 2.4 points. Nevertheless, the majority of market players expect there to be a sustained rise in rental and purchase prices. Overall therefore, a transaction volume at the 5-year level of around €17 billion appears feasible for 2019.

**Climate in the residential real estate market (Q2 2013-Q1 2019)**

![Climate Graph](image)

Source: IW Köln, Immocout24

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**Legal framework**

The continuing dynamism on the housing markets and public demand for affordable housing has also led to increased housing policy activity on the part of the federal, state and local governments. In addition to the legal amendments made in recent years, a large number of changes to the legal framework also came into force in 2019 or are planned for draft legislation\(^2\). As early as the beginning of 2019, the German Tenancy Law Adjustment Act (“Mietrechtsanpassungsgesetz”) on the rental cap and modernization levy came into force at the federal level, making it easier for tenants to report and enforce infringements of the rental cap regulations. This includes, for example, an obligation on the part of landlords to provide information on the amount of rent paid by the previous tenant. However, this change in the law is accompanied by a reduction in the modernization costs that can be passed onto the tenant. For 2019, further draft legislation which will have far-reaching consequences are also at the planning stage. These include the new property tax regulation. Here, the legislator is under pressure to present a new regulation by the end of 2019. Moreover, there are plans at the federal level for a new regulation on the collection of data for official rental schedules (“Mietspiegel”) and standardization, as well as draft legislation on housing benefit reform. A reduction in

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\(^2\) The overview of legal framework conditions presented here is neither complete, nor does it constitute legal advice.
real estate transfer tax is also being planned which is intended to tighten up the current "share deals" regulation. On the one hand, this will affect a change of the threshold above which no real estate transfer tax is payable (previously 95%) and on the other, affect the statutory time limit from which the new owner can purchase the remaining shares tax-free (previously 5 years). Various legislative changes are also planned at state level. For example, the federal states of Lower Saxony, Baden-Württemberg and North Rhein-Westphalia are planning to streamline their catalogues of requirements in the state building regulations to simplify the planning permission process.
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