

Housing

PROMOTING ACCESS TO AFFORDABLE AND SOCIAL HOUSING

- ▶ A lack of access to affordable housing has emerged in Germany. Especially in the largest cities, a mismatch between demand and supply contributes to rising house prices and rents, creating challenges for housing affordability and inclusive growth.
- ▶ The “rental price brakes” introduced in 2015 have kept at bay sharp rental increases in some areas, but many tenants were effectively not covered.
- ▶ The decline in the social housing stock and increased migration have also contributed to a lack of affordable housing units.
- ▶ Working with private investors, property developers, local authorities and other stakeholders, the German Government should ensure that plans to build 1.5 million dwellings over 2018-2022 are effectively put in place.

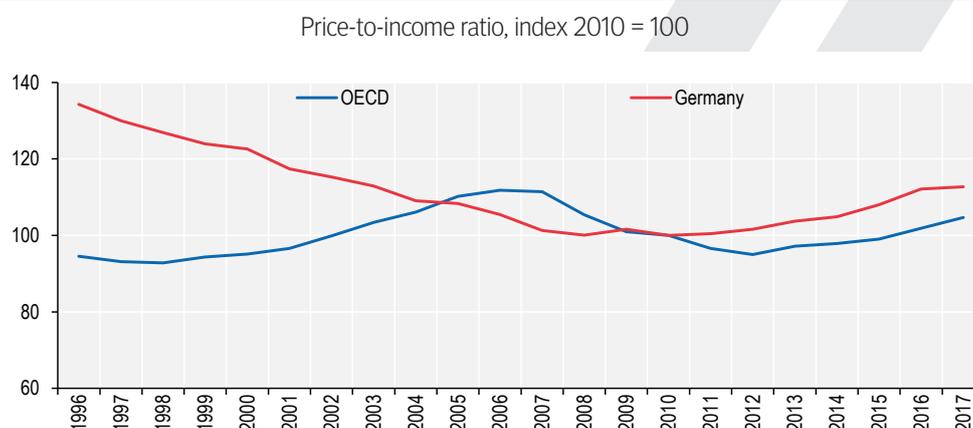
What's the issue?

On average across Germany housing affordability – measured as housing costs relative to income – is close to OECD average: the median mortgage burden (principal repayment and interest payments) is 19% of disposable income and the rent burden is 20% of disposable income (OECD averages are 18% and 21% respectively). However, a lack of access to affordable housing has emerged in Germany. House prices and rents have started to increase relative to income since 2012, as housing supply has not kept pace with increased demand in some parts of the country (see Figure). In the seven largest cities price increases between 2010 and 2018 were twice as high as for Germany on average (Bundesbank, 2018), due to population inflows into urban areas and decreasing

household sizes. According to Deschermeier et al. (2017), only 32% of housing units needed in the seven largest German cities were actually built between 2011 and 2015. New construction has taken place but often in the upper end of the market and not in smaller-sized, more affordable apartments.

The “rental price brakes” introduced in 2015 have taken the sharp edge off of rental increases in areas with high rents increases, thus many tenants were effectively not covered. Rental price brakes only applied to 313 of 11 000 municipalities in 2017. A recent study shows that by design the regulation is effectively binding only in districts where rents increased by at least 3.9% each

House prices have risen sharply since 2011



Source: OECD Analytical house prices indicators

year over the previous four years (DIW, 2018). Overall, housing is less and less affordable in some of the largest cities with the highest population densities. The social housing stock, which numbered 2.5 million units in 2000, has since declined by over 1 million units. The lack of available affordable and social housing, together with increased migration, has contributed to a sharp increase in homelessness, including among families with children. Housing shortages make it essential that government plans to build 1.5 million dwellings over the 2018-2022 period are effectively put into place.

In spring 2017, Germany reformed its urban planning law and lifted barriers to densification and mixed land use in urban areas with the introduction of the 'urban territory' category (Urbanes Gebiet) in the building code, which has been a step in the right direction. It could be complemented by further measures to ensure that all municipalities within urban agglomerations, rather than just the core cities, build enough new housing to keep up with demand.

Why is this important for Germany?

Lack of access to good-quality affordable housing can have wide-ranging effects across the life cycle. Fertility rates may be affected negatively; homelessness and overcrowding undermines child well-being and development; youth may find it difficult to establish themselves in housing and labour markets; and labour mobility of the working-age population can be impaired when workers are unable to afford housing in more expensive parts of the country. The lack of smaller housing options affects not only youth but also the elderly and those who experience a family break-up. In total, the lack of access to affordable, good quality housing observed in some parts of Germany can have a strong negative impact on sustainable inclusive growth.

What should policy makers do?

- ▶ Carry out planned investments in public social housing and increase the rental social housing stock of good quality.
- ▶ Work together with private investors, property developers, local authorities and other stakeholders to ensure that construction of new, and upgrading of existing affordable housing, will take place by providing financial incentives for the construction of such affordable housing units.
- ▶ Promote planning at the metropolitan scale to encourage all municipalities within large urban agglomerations (rather than just the core cities) to build new housing to keep up with demand.
- ▶ Further encourage infill development and densification in cities to reduce the existing shortfall in housing supply in order to prevent market prices and rents from rising significantly further.



Further reading

Bundesbank (2018), *Indikatorenssystem zum deutschen Wohnimmobilienmarkt: Preisindikatoren*.

Deschermeier P. et al. (2017), *Wohnungsmangel in den Städten, Leerstand auf dem Land*, IW-Kurzberichte 44.

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