

PRESS RELEASE

Expanding supply in the housing market and reducing barriers to relocation

- Residential construction in urban areas can be increased by mobilising building plots, removing obstacles to densification, increasing incentives to build and reducing construction costs.
- The gap between existing and new rents has widened, which reduces tenants' financial incentives to move. If barriers to relocation are reduced, the existing housing stock can be utilised more efficiently.
- In social housing policy, subject- and object-oriented policies complement each other. However, the targeting of object-oriented policies should be improved.

Wiesbaden, 13.11.2024 – Housing is particularly scarce in urban areas. This is not only a social but also an economic problem. The shortage of housing inhibits the influx of labour into productive regions. In order to reduce this shortage, the supply of housing should be increased and the housing stock should be utilised more efficiently. Mobilising more building plots and lowering the barriers to residential density can contribute to an increase in the supply of housing, as can measures to reduce construction costs. The housing stock could be utilised more efficiently by lowering social and financial barriers to moving. In order to improve access to housing for low-income and disadvantaged population groups, subject- and object-oriented social housing policies should complement each other.

Prices for residential properties in Germany have more than doubled since 2010. Newly agreed rents have risen by around 60 per cent and rents based on existing contracts by around 20 per cent in the same period. Demand for housing has risen sharply in urban areas and economically strong rural regions. The number of households rose even faster than the population, as the number of single-person households increased particularly strongly. At the same time, not enough new housing has been built. In contrast, demand for housing has fallen in structurally weak rural regions, which are more likely to be affected by vacancies.

Strengthening new residential construction

„New residential construction can be increased by mobilising availability of building plots, providing stronger building incentives and reducing construction costs through harmonised building regulations,” says council member Veronika Grimm. „The introduction of building type E, which offers a legally secure option to deviate from existing standards, could also reduce construction costs.”

In order to create more housing, more building plots must be mobilised. In addition, higher residential density should be facilitated by reducing restrictive building regulations. Building incentives can also be increased by adjusting the property tax. The plot size could be weighted more heavily when calculating property tax in order to make denser development more attractive. In regions with high demand for housing and limited potential for denser building, external development could also be utilised. At the same time, construction costs

should be reduced by standardising building regulations so that serial and modular construction is increasingly used.

Utilising the housing stock more efficiently

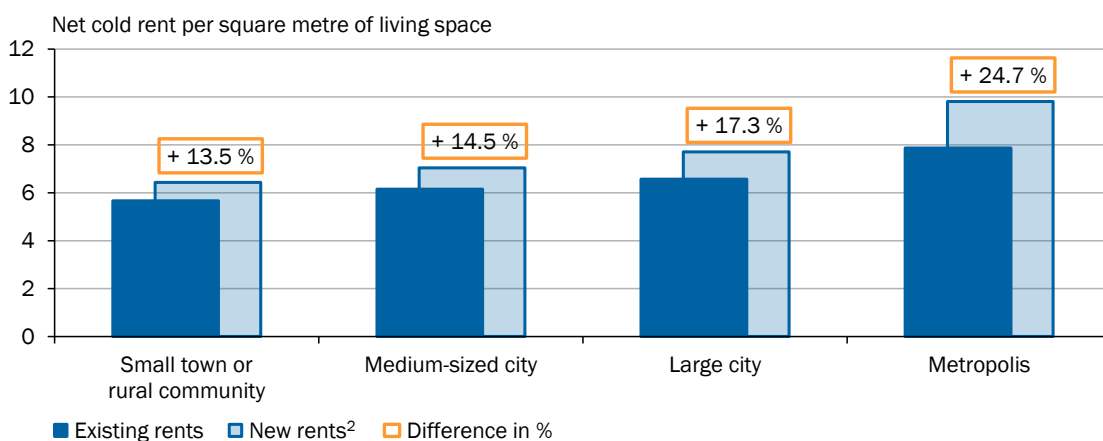
The gap between rents for new rental contracts and for existing rental contracts has increased in Germany, reducing the financial incentives to move. The possibility to increase rents up to a locally defined maximum, which is derived from local rent indices, is limited by rent caps. In tight housing markets, the gap to rents for new rental contracts is further widened as the caps on rent increases for existing rents are often lowered from 20 per cent to 15 per cent. Such a reduction in the rent cap should be avoided. In addition, regulated existing and new rents would better reflect the market price if new rents would have a higher weight in the rent indexes.

In general, restrictive rent regulation with lowered rent caps and a rent brake should only apply temporarily and must be accompanied by effective measures to create new housing. To ensure that such measures are actually implemented, the rent brake should not be extended beyond 2028.

Ensuring access to housing for low-income and disadvantaged households

In the housing market, low-income households are disproportionately affected by price increases. Housing benefits (subject-oriented policy) make it easier for these households to access the housing market in a targeted manner. For households who are disadvantaged on the regular housing market regardless of their income situation, social housing (object-oriented policy) improves access to adequate housing. This applies, for example, to single parents, large families or immigrants. Subject- and object-oriented policies thus complement each other. However, social housing is less targeted than housing benefits are, as it becomes more and more likely that the property is misoccupied the longer the tenancy period is. The targeting of the subsidy can be improved by means of a market-oriented misoccupancy levy.

High gap between existing and new rents in major cities in Germany¹



1 – Size by population: small town or rural municipality up to less than 20,000 people; medium-sized city 20,000 to less than 100,000 people; large city 100,000 to less than 500,000 people; metropolis 500,000 and more people. 2 – New tenants are tenants who moved into their current home less than two years ago. Based on the supplementary housing survey of the 2018 microcensus.

Sources: RDC of the Federal Statistical Office and Statistical Offices of the Länder, DOI: 10.21242/12211.2018.00.00.1.1.3, own calculations

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