



To the point!

Cross-Asset- and Strategy-Research

Housing construction is at a standstill

Building increasingly unattractive

Housing in Germany is in short supply. This is well known. [Currently, according to a recent estimate, there is a shortage of 700,000](#) apartments nationwide, the highest level in 20 years. The deficit is particularly large in the social housing and affordable housing segment. The resident population has grown significantly recently, mainly because of refugees from Ukraine.

The federal government had set out to tackle the identified problem head-on. A separate federal ministry of construction was created. The minister should ensure that the political target of 400,000 new homes per year is achieved. One quarter of this is to be allocated to social housing.

Government's housing target missed by a wide margin

Nothing will come of it. In fact, things have been going steadily downhill since the peak in 2020, when just over 300,000 homes were created. Completions were already down slightly in 2021. The main drivers of this were supply chain problems, a shortage of skilled workers and rising material costs.

In 2022, things got even worse. The Central Association of the German Construction Industry (ZDB) expects only around 280,000 completions. This year it becomes probably still more meager: the [ZDB](#) predicts less than 250,000 and makes also the expiration of the new building promotion as well as the risen energetic requirements partly responsible.

It is foreseeable that the decline in construction activity in the housing market will continue. The number of building permits issued has been in free fall since the summer. In November, the approved number of applications was 26% below the level of the same month last year (see figure). It is fitting that Germany's largest landlord, Vonovia AG, announced at the beginning of the



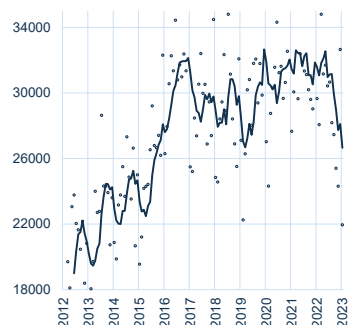
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The government's housing target is a distant prospect

Building Permits Apartments



Source: Destatis, LBBW Research, monthly values and six-month moving average

year that it would no longer be starting any new construction projects in 2023. German banks' new business in [home loans](#) for private households was almost 50% down in December compared with the same month a year earlier. All signs point to a deep recession in the residential construction market.

Housing shortage as social explosive

Housing is a basic need. It is true that residential real estate prices are now in reverse gear after the long boom phase. But in the rental market, it's a different story. Here, rising demand meets stagnating supply. The housing deficit is increasing, especially in metropolitan areas. Rents will continue to rise.

In terms of the proportion of households considered to be affected by "[housing poverty](#)", Germany occupies an inglorious top position in Europe. The price increases for electricity and heat are likely to have exacerbated this situation recently. Shortages of a commodity as existential as "housing" have the potential to radicalize political space.

A renaissance of social housing

The 400,000 mark remains out of reach for the foreseeable future. What is needed is an expansion of supply. The conditions for the construction sector must be improved. But the public sector should also invest in social housing itself. Social housing now accounts for only 3% of the total stock. Since 2006, 200 apartments have been lost every day in this segment. Reversing this trend would also be an investment in social stability.

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Building permits in 2nd half of 2022 down 11.8 percent

Public invest- ment in affor- dable housing must rise again
