

GERMAN MODEL HOMES?

A comparison of the UK and German housing markets

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60-SECOND SUMMARY

Germany has higher rates of housebuilding, a much less volatile housing market, and a larger private rented sector than the UK. This paper, the first of three, explores the reasons for these differences, looking at both supply- and demand-side dimensions.

- **On the supply side:** Germany has a more diverse mix of housebuilders, both small and large, who build a wide variety of homes; a broader mix of investors, including build-to-rent; and a planning system that facilitates the release of land and the translation of permissions into completions.
- **On the demand side:** Germany has a more conservative mortgage market with greater restrictions on loan-to-value ratios; a tax system that favours long-term property ownership while discouraging speculation; and a combination of longer tenancies and more rent control, which together make private renting an attractive alternative to home ownership.

Despite the many strong features of Germany's housing market and wider policy framework, there remain areas in which policymakers in the UK can learn from Germany's missteps.

- While Germany has managed to deliver more affordable homes in the last three decades, its model for delivering them, through the equivalent 20–30-year covenants, has led to a sharp drop in the availability of affordable rented homes.
- In addition, the private rented sector in Germany can be difficult to access, with lengthy property-search and application procedures, making entry difficult for prospective tenants and impacting on labour market flexibility. While the UK rental market may be too flexible, to the disadvantage of tenants, a full shift towards a German model could be problematic.

KEY FINDINGS

Supply

- Since 1951 30 million new homes have been built across East and West Germany, compared to 16 million in the UK.
- While both countries have seen long-term declines in development levels, Germany's housing supply has bounced back more quickly in recent years than the UK's.
- Housing completions in Germany now approach 250,000 a year, while in the UK they are struggling to exceed 170,000 a year.

Underpinning supply is more variety in the development market.

- There are stark differences in the nature of the countries' construction sectors, in particular in the role of small and medium-sized builders, who play a far greater role in Germany than they do in the UK.
- The wider purchasing and ownership structures in Germany provide a more stable foundation for housing demand.

- Historically, Germany had a recent history of delivering substantially more affordable homes than the UK, however the way they were delivered has resulted in poor outcomes – over the last 25 years their number has fallen by 62 per cent.

Planning systems are broadly similar, but Germany's planning consents are more likely to become homes.

- The UK and Germany both have a plan-led system, though in practice the national level is far stronger in England and the other parts of the UK, which practice a greater level of decentralisation.
- Both countries are nearing the level of planning permissions required to meet their housing supply targets; however, Germany appears more successful in turning planning permissions into housing completions.
- Both countries have seen an increasing reliance upon 'planning gain' to pay for affordable housing (though in the UK this has been in retreat in recent years) and also infrastructure.

Germany's land supply is more responsive than the UK's, with local authorities playing a more proactive role in the land market.

- German local authorities commonly act to intervene in the land market, buying up and assembling sites, and delivering infrastructure before returning them to the market.
- Both countries have attempted to prioritise re-use of existing sites ('brownfield development' and urban regeneration) over greenfield development, and particularly anything which might give rise to accusations of 'urban sprawl'.

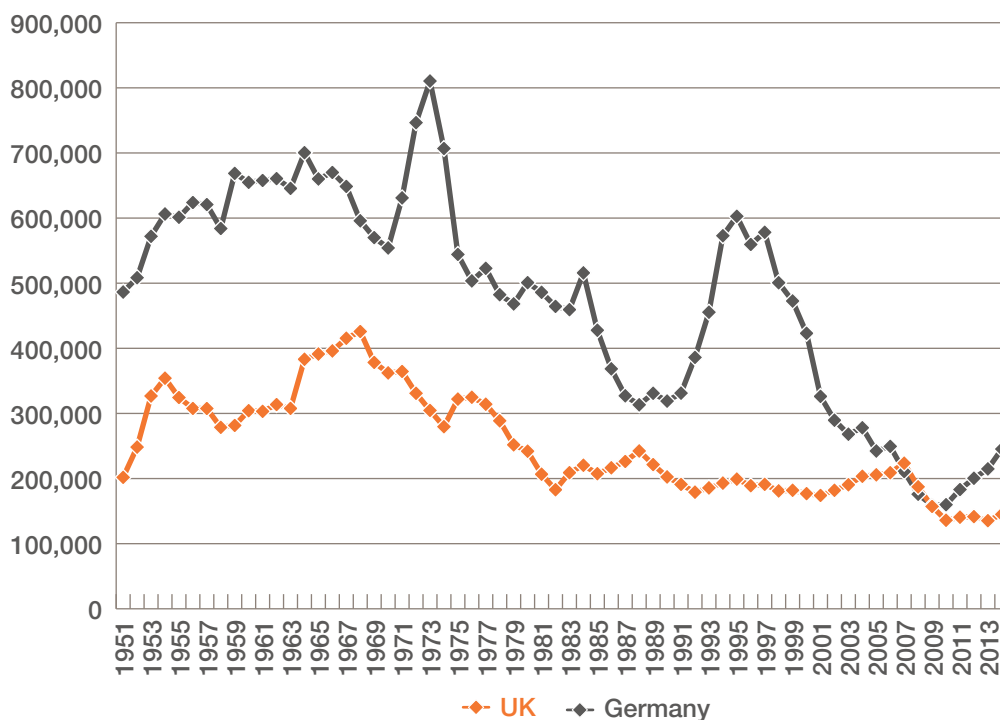
Demand

- While the UK's population is forecast to grow by more than 250,000 households a year for the next 20 years, over the medium term the populations and household numbers in Germany are set to decline after an initial

projected population increase. The scale of the future housing supply problem in Germany is therefore more modest.

- The German housing market is much less volatile than the UK – house prices since 1995 have risen by 50 per cent in Germany, in the UK they have gone up by 400 per cent.
- Underpinning this stability is a more conservative lending environment, where the proportion of mortgage debt to GDP in Germany is around half that of the UK.
- Tighter mortgage lending, and a more stable rental market has driven a more balanced approach to housing tenure, collectively reducing the demand for owner-occupied homes.
- The tax regime in both countries attempts to incentivise property investment, but the capital gains tax system in Germany puts a stronger emphasis on longer-term investment.

FIGURE 1.1
Since the 1950s Germany has built twice as many homes as the UK
New housing completions in Germany and the UK, 1951–2014



Source: Federal Statistical Office, 'Bauen und Wohnen, Table 9' (FSO 2015), DCLG 'Table 209: permanent dwellings completed, by tenure and country' (DCLG 2016a), DCLG, 'Table 241: permanent dwellings completed, by tenure, United Kingdom, historical calendar year series' (DCLG 2016b)

For the full report, including all references, data sources and notes on methodology, see: www.ippr.org/publications/german-model-homes

Citation: Davies B, Turner E, Marquardt S and Snelling C (2016) *German model homes? A comparison of the UK and German housing markets*, IPPR. <http://www.ippr.org/publications/german-model-homes>

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