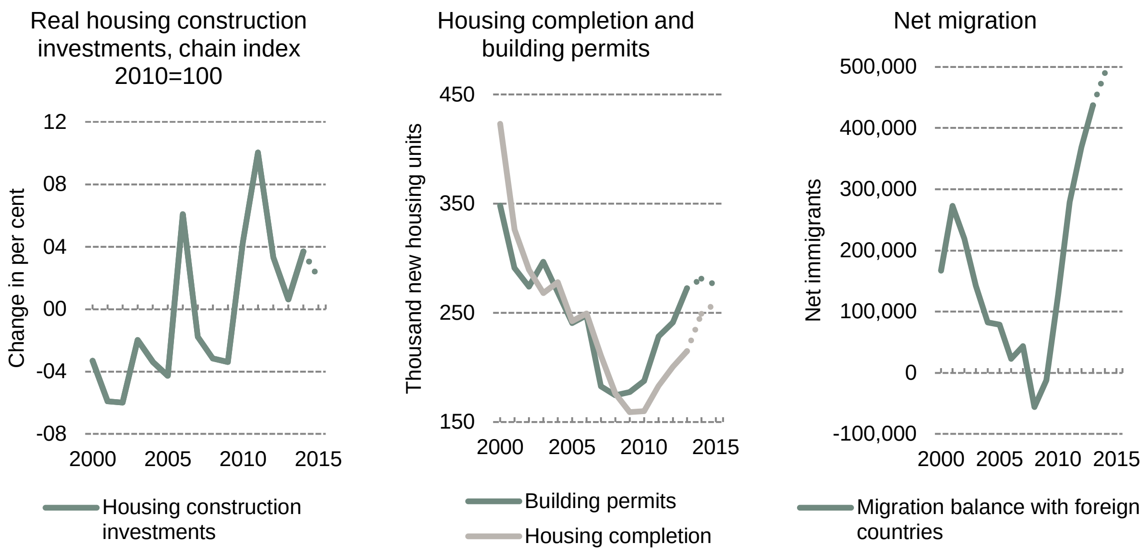
Frankfurt, 2nd March 2015

KfW Investment Barometer Germany: February 2015

Housing construction: high level of immigration and low interest rates are bringing about an exceptional boom

- ***The last five years have seen 1.7 million more immigrants come to Germany compared to emigrants leaving the country. This figure is expected to rise by a further 500,000 immigrants in 2015, with around 300,000 coming from EU member states. Demand for rental housing will grow as a result.***
- ***The increase in housing construction investments fell from 3.7 % in 2014 to 2.5 % in 2015. Around 249,000 homes were completed in Germany in 2014 – the highest number of new housing for ten years. Housing completion figures for 2015 are expected to total 259,000.***
- ***Property prices continue to rise more than rents. While financing may be sound, investments are also being made in higher-risk stock. On some regional markets, it is vital to keep a close eye on property price trends.***

Housing construction and migration balance for Germany



Source: Destatis, KfW Research.

Housing construction continues to drive the economy but with less of an impact

In 2015, immigration levels are expected to approximately equal those recorded for 2014, thus causing a higher demand for rental housing. Housing completion figures will continue to rise as a result. The same applies to investments made in housing stock, which currently account for some 70 % of housing construction investments. But year-on-year building permits and incoming orders indicate that investment growth will be lower. A 2.5 % increase in housing construction investments is expected in 2015.

Immigration is not the only stimulus for investments; rising income and the historically low interest rates also have an impact. At the end of 2014, the average effective interest rate for home loans to private households with a ten-year fixed rate was 2.3 %. The average yield for listed federal bonds was 0.6 % during the same period. The net rental yield from owner-occupied housing was around 3 % on average. Consequently, both the costs for home loans and the yields for low-risk, alternative investments in securities were at their lowest level since the Federal Republic of Germany was founded. Rental yields are, therefore, attractive, since the costs of owning a home are relatively low compared to renting a home.

The growing demand for housing is pushing property prices up, thus helping to offset some of the negative impact that low interest rates have had on the German private savings sector. From 2010 to 2014, the net fixed assets in residential housing increased by around 15 %, valued at current cost.

The rental cap for existing rental agreements, which the Federal Government and Federal States introduced in 2013, is primarily reducing the incentive to invest in existing buildings. This has not had any severe implications as yet. In 2014, basic rents in Germany saw a slightly stronger year-on-year rise of 1.5 % (compared with 1.3 % in 2013). The increase was consistent for both old and new-build housing developments. In the case of new rental agreements, rents are now rising more slowly, even in cities with high rent levels. The rent cap for new agreements, which is planned for 2015, is expected to take effect primarily in exceptional cases.

Potential property bubbles – but only in growth regions

Residential property prices continued to increase sharply in 2014. Private households' real assets are rising with the property prices – unlike risk-free financial assets. Market analysts are recording price increases of between 4 and 7 % for both old and new one or two-family houses or owner-occupied flats, with the increases in large cities being more of the top end of the scale. In some regions, rents are not keeping pace with the price increases, so we will still have to keep an eye on the markets there. The nationwide development is considerably more moderate. Neither housing nor loans are in a comprehensive state of oversupply. Rising incomes and historically low interest rates on loans mean solid financing. Meanwhile, the average loan-to-value ratio for home loans remains stable at 80 % and banks have become more cautious during the course of the year, tightening up their credit standards. However, yields in the popular housing markets are in decline due to the sharp increase in purchase prices. People, even international property investors, are increasingly buying higher-risk stock as they speculate that rents will rise. There is still an ongoing risk of regional property price bubbles.

Autor: Martin Müller, +49 (0) 69 7431-3944, martin.mueller@kfw.de

Press contact: Christine Volk, +49 (0) 69 7431-3867, christine.volk@kfw.de

About the *KfW Investment Barometer*. The KfW Investment Barometer is a quarterly reporting format relating to the three main components of gross fixed capital formation: corporate investment, public investment and private residential construction. This breakdown is not part of the standard programme for the national accounts prepared by the German Federal Statistical Office, but rather KfW uses a separate classification system that is consistent with the national accounts. Corporate investment comprises all investment carried out by the private sector in machinery, commercial construction and other assets (including intellectual property such as research and development as well as software). All investment in the public sector is summarised in its own grouping, as is private residential construction. The KfW Investment Barometer looks in detail at the three components for three of the issues and the fourth issue is reserved for the overall synopsis.