

Current impact of Covid-19 on new building permits in Germany

In Germany, the number of permitted cubic meters declined slightly in the period from July to October 2020 for newly constructed residential buildings and increased moderately in the non-residential area, both compared to the previous year. Overall, the trend is thus considerably weaker than in the first half of the year.

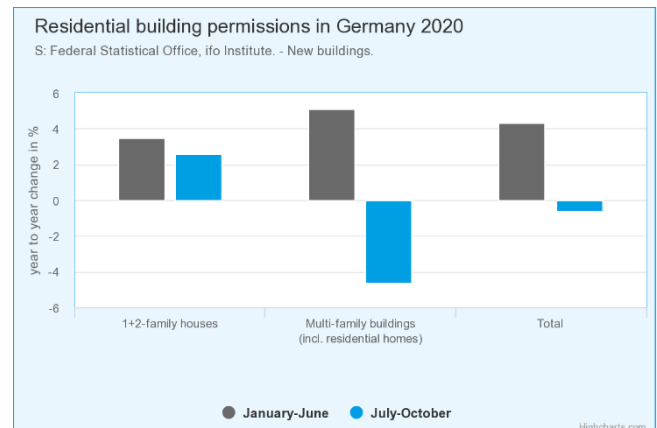
In fact, it took a while for the corona crisis to be reflected in the German approval figures. In many places, the administrative process was noticeably delayed, with the result that the figures for June skyrocketed, including pending applications. For residential buildings the permitted cubic metres shot upwards by 16% in June 2020 compared to same month last year. For the non-residential sector, the increase even amounted to 23%. For the second half-year the statistics are now showing expected but also astonishing developments. Actually, the demand for 1+2-family buildings experienced another plus so far, whereas the volume numbers for multi-family buildings came under pressure for four months in a row starting from July 2020. On the other hand, however, there are anticipated developments like the increasing problems for trade, hotel, office and industrial buildings. For the storage buildings, the persistent increase in the second half-year 2020 came not surprisingly, as well. But the ongoing high pace is really impressive, especially when thinking about the complaints by developers regarding the shortage of building land due to reluctant municipalities.

Fewer permissions of multi-family houses as of July 2020

In any case, no dramatic consequences were expected for the housing sector. It is true that rising unemployment and the dwindling reserves of tradesmen are likely to dampen demand for 1+2-family buildings in the mid-term. At the same time, however, there is a noticeable surplus demand for flats in many urban areas. Contrary to the fears of some market observers, property prices have not fallen this year, but have continued to rise.

In the period from January to June 2020, the approved volume for new residential buildings increased by around 4% compared to the same period in the previous year (cf. Chart 1). However, in the second half of the year – figures are currently available up to and including October – the momentum came to a standstill (-0.6%). This is exclusively due to the decline in the number of permits for multi-family house construction, while 1+2-family house construction was able to almost maintain the pace of the first half of the year.

Chart 1: Development of building renovation in Germany



Source: Federal Statistical Office of Germany, ifo Institute.

Nevertheless, the development in multi-family house construction is not a major cause for concern. Admittedly, the permission activities are likely to calm down again somewhat in the medium term, after the approved number of cubic metres more than doubled between 2011 and 2019 and various capacity bottlenecks in the areas of administration, planning and the construction have now set in. There is also growing resistance at the local level to new construction projects and especially to redensification. In single- and two-family house construction, on the other hand, a moderate restraint is expected to spread in the medium-term due to the economic consequences of corona, which is likely to be insufficiently offset by the additional demand for houses away from the city.

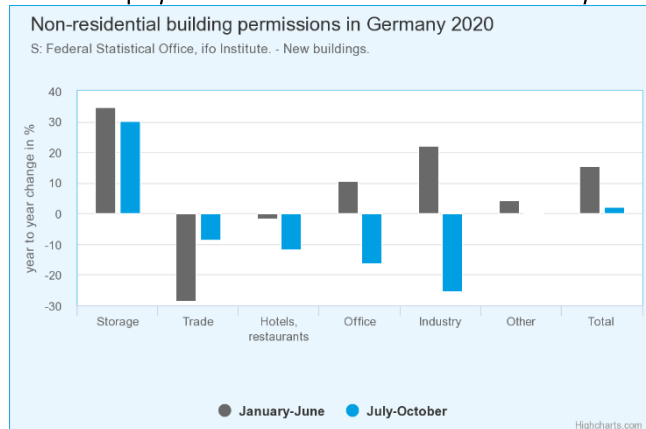
In the second half-year 2020 a number of important non-residential building categories registered negative permission figures

The demand for new non-residential buildings should suffer much more from the consequences of the corona crisis than the housing market. This is supported by the partly even heavy losses in turnover of companies in the manufacturing and service sectors, but also by declining taxes, increased social spending and efforts to support municipal enterprises on the part of the public sector. Both, the previously good equity base of many companies and the improved financial situation of German municipalities until the beginning of 2020 won't be able to cover up these negative developments.

Surprisingly, the approval figures for newly constructed non-residential buildings still increased by 2% overall in the period from July to October – compared to 2019. However, this is mainly due to the increased demand for storage/logistics and

agricultural buildings. The latter are part of the 'other buildings' category in Chart 2.

Chart 2: Employment in the German construction industry



Source: Federal Statistical Office of Germany, ifo Institute.

While the further growth of online trade and considerations by manufacturers and retailers regarding increased warehousing continue to fuel the demand for logistics buildings (July-October: +30.1%), the approval figures for some other building sectors have meanwhile turned negative. These include hotels and restaurants (July-October: -11.7), office and administrative buildings (-16.5%), as well as, industrial buildings (-25.6%).

Trade properties were already doing quite poorly in the first half of 2020 in terms of permitted cubic metres (-28,7%). This had to do with the temporary revival in 2019. Stationary retail, as well as the construction of corresponding buildings, has already been facing a noticeable headwind for some time. In the wake of the corona crisis, voices increased that the office sector will have to prepare for similarly difficult times in the long run. The significant increase in remote work, the often expressed desire for more flexible working conditions, the widespread uncertainty of (potential) office tenants and the reluctance of banks seem to prove them right. However, vacancy rates at the beginning of 2020 were unhealthily low in many important locations and the short-term switch to work from home quite often happened without sufficient consideration of regulations on data or health protection.

Moreover, the increased use of home-based offices actually incurs costs (space, equipment, energy) that are actually the employer's responsibility. And a common contact point for the important personal exchange between employees is by no means rendered obsolete. Against this background, the chances for office construction, once the crisis is overcome, are not as bad as claimed. And the hotel sector is also likely to see extensive use

again after the final triumph over the virus, since many business activities and sectors simply depend on personal contact in the long run. In addition, for broad sections of the population, holidays and dining out make up an important part of their leisure time. And after the second hard lockdown within 12 months people are increasingly longing for their old life.



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