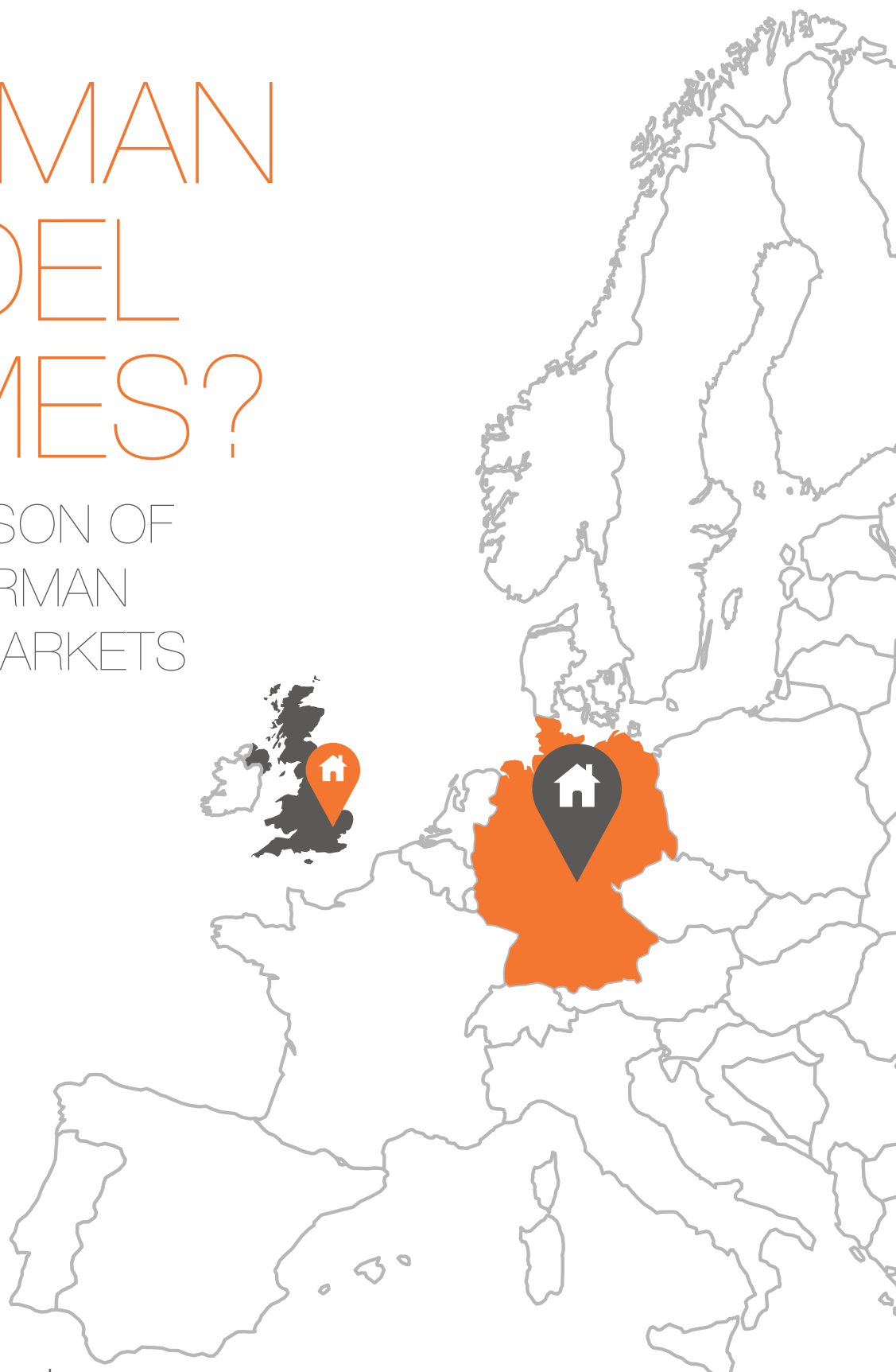


REPORT

GERMAN MODEL HOMES?

A COMPARISON OF
UK AND GERMAN
HOUSING MARKETS



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Ed Turner,
Susanne Marquardt
and Charlotte Snelling

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SUMMARY

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.

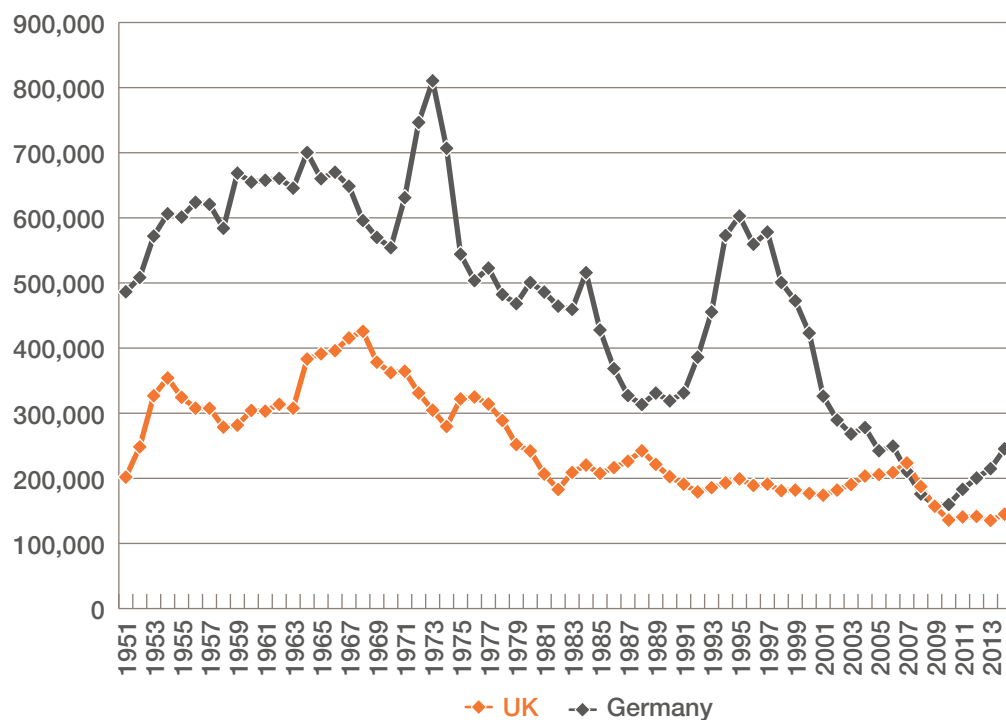
1. HOUSING IN GERMANY AND THE UK COMPARED

1.1 HOUSING SUPPLY: THE NATIONAL CONTEXT

Historically, Germany has achieved much higher rates of housebuilding than the UK. Between 1951 and 2014, 30 million new homes were built across East and West Germany, compared to 16 million in the UK (FSO 2015, DCLG 2016a).

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)

The volume of housebuilding has fluctuated substantially over time in both countries – at the end of the 1960s, the combined efforts of East and West Germany reached new building rates peaking to 800,000 per annum (FSO 2015). During the same period, the UK was delivering around 370,000 new homes a year (DCLG 2016b).

Since the 1970s both countries have seen periods of long-term decline in housebuilding numbers – interrupted by a short period of aggressive development policies in the wake of re-unification. In the early 1990s, Germany doubled the development of new apartments, funded by a combination of direct subsidies to private landlords, and non-profit housing associations, through low interest loans and tax reliefs on the condition that the homes built would provide submarket rents for up to 60 years (later revised to 30 years) (Haffner et al 2009a).

The stimulus in the 1990s was seen as a success: over the decade Germany delivered some 770,000 new affordable homes, some 250,000 more than were delivered in the UK over the same period. (IWU 2005, DCLG 2016a, 2016b)

Indeed, the generous development policies in Germany of the 1990s are credited by Haffner et al (2009b) with having contributed a gross housing surplus – around 500,000 more homes than households by 2002 – a problem particularly evident in the old East Germany, as people chased economic opportunities in the West after unification (Haffner et al 2009b).

The historical success of Germany means that the number of homes it has in supply more closely matches the population demand, and it means that it confronts any future housing supply problems from a stronger base: in 2014, Germany had 0.51 homes per person on average (41 million homes for 80 million people) compared with 0.43 in the UK (28 million homes for 64.5 million people) (ONS 2016). Ball concluded that Germany enjoys ‘relatively plentiful housing supply, except in a handful of city regions’ (2012: 33). In contrast, both the UK and England in 2013 ‘deliver[ed] fewer homes than in any peacetime year since the First World War’ and ‘faces a large and accumulating shortfall’ (Griffith and Jefferys 2013: 3).

Until recently, Germany was expected to need around 270,000 new homes per year until 2020 (Held and Waltersbacher 2015) – fairly close to levels of current housing supply (245,000 in 2014) (FSO 2016). However, in adjusting the figures to account for the refugee crisis, new housing demand may temporarily reach over 350,000 units per year (Bauministerium 2015:19) – warranting housing delivery levels last seen at the turn of the millennium.

In the short term, therefore, it appears supply may struggle to match demand in Germany. However, over the medium term, demand for homes in Germany is set to level off. By 2035 the country is expected to be home to an additional 3.3 million households, an increase of 8 per cent on current levels (Witkowski et al 2015).

Despite the UK’s smaller population, by the same date it is projected to have a further 5.1 million households, an increase of approximately 19 per cent (DCLG 2015a). As a result of continued expected immigration and continuing downward trends in the size of households, the most recent set of estimates suggest a need for at least 250,000 new homes per year, to address both the current household growth and the significant backlog of decades of undersupply (Holmans 2014). In London alone there is a need for 50,000 new homes annually, with current delivery at just 25,000 (LHC 2016).

1.2 HOUSING SUPPLY: REGIONAL PRESSURES

Both the UK and Germany have regional ‘hot spots’ where demand is growing quickly and supply is struggling to keep pace. In Germany, as in the UK, people are increasingly choosing to remain in urban centres rather than moving out to the suburbs upon starting a family. Demographic changes and the growth in individuals delaying starting a family – and so not yet considering the more typical, suburban offer – are further contributing to this.

In booming German urban centres such as Frankfurt and Munich, but also Dresden and Leipzig, growth in household numbers has substantially outstripped housing provision, putting pressure on local accommodation costs and labour markets. Similarly, forthcoming analysis by IPPR shows wide differences in household growth and housing provision across the UK – typically high demand areas, especially London, have failed to build the houses needed for their growing populations, while a number of northern cities, such as Leeds, have provided housing numbers far exceeding their levels of household growth (see Snelling and Davies 2016).

1.3 HOUSE PRICES

Traditionally, the cost of buying a house in Germany has been more expensive than it has in the UK, generally because house prices in Germany have historically been higher (Haffner et al 2009b).

Yet, the cost of a home in Germany has remained largely static for the last two decades. While prices in Germany have remained relatively stable, the UK’s housing market has been much more volatile, characterised by large price swings (see figure 1.2).

Unlike in other developed economies, German house prices were relatively unaffected by the 2008 financial crisis (BIS 2016). In the UK on the other hand, prices fell quickly by some 20 per cent, before recovering with periods of double-digit inflation between 2011 to 2015 (Land Registry 2015). Germany’s stability is the result of supply- and demand-side factors set out in the following chapters.

In both countries, national averages mask large regional differences, reflecting both the pressures on supply described above and also local economic activity. Although prices in Germany have risen by 17 per cent on average since 2010, some rural regions in eastern Germany have seen 15 per cent price falls, while in cities such as Hamburg, Munich and Berlin, prices have risen by more than one-third over the same period. The regional distinctions are also reflected in the rental market. In Munich, for instance, average rents for new tenants are some €18.39 per m² for new tenants, more than double the national average of €7.78.

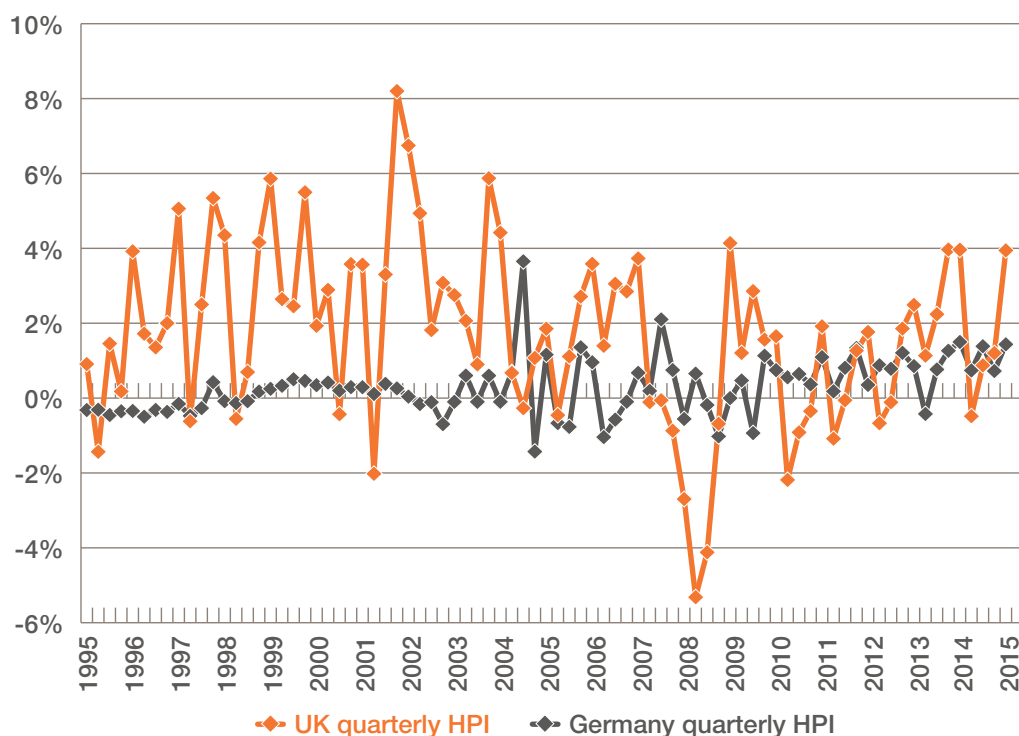
Similarly, while housing pressures are generally higher in the UK, demand is particularly high in the south of the country, most evidently (but by no means exclusively) in London and the South East. These regions are suffering from the most severe supply shortages, and relatedly the most rapid increases in house prices. In the 10 years prior to May 2016, average house prices in London rose by 90 per cent, while in the South East the

rate of increase was 47 per cent, in spite of the global financial crisis occurring in the intervening period (ONS 2016).

FIGURE 1.2

Over the last two decades house prices in Germany have been far more stable than in the UK

House prices in UK and Germany, 1995–2015 (quarterly % change)



Source: Bank for International Settlements, BIS Residential Property Price database (BIS 2016)

Similarly, parts of the UK have moved at very different speeds. Since the economic downturn in 2008 the North East has seen prices fall by 30 per cent, and in many areas remain more than 20 per cent below their pre-crisis peak levels. In other parts of the UK, most notably London, prices fell but bounced back sharply – London’s house prices fell by some 20 per cent after the banking crisis, but by 2016 were some 50 per cent above their pre-recession peak (LHC 2016).

1.4 MIX OF TENURE TYPES

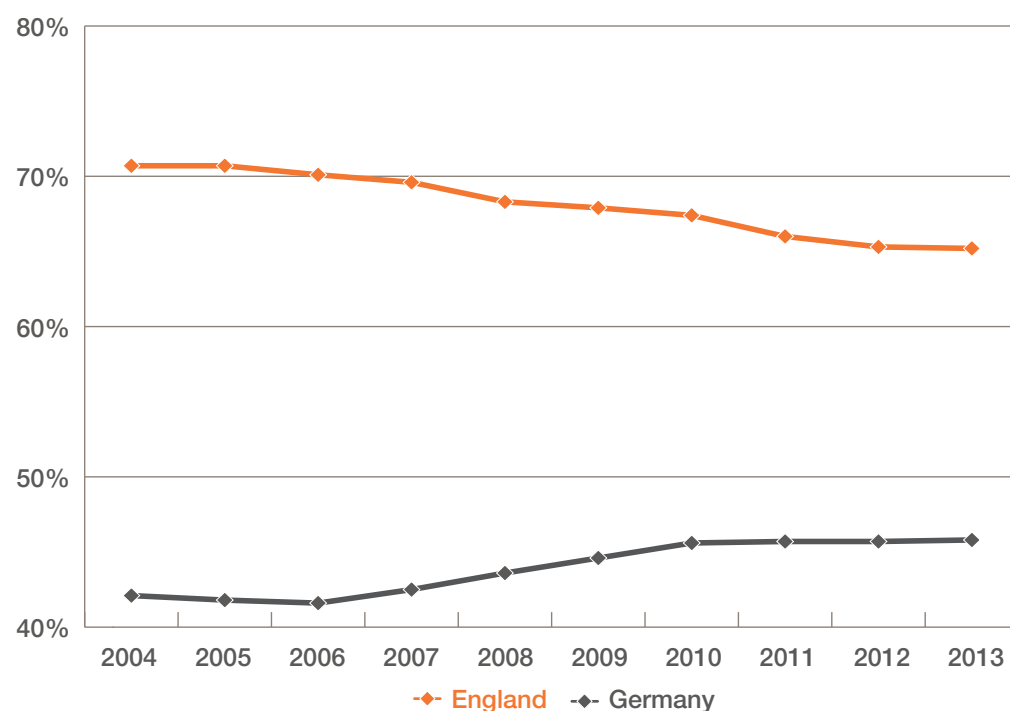
A further key difference between the housing markets in Germany and the UK is the tenure of households. The strengths of Germany’s rental market are widely known. Its large private rented sector houses some 40 per cent of the population (Eurostat 2016), near double the UK rented sector size of around 19 per cent (DCLG 2016c). It is also the case that the German rental and owner-occupation markets have held reasonably static over the past decade.

In contrast, the size of the English private rented sector has more than doubled in 20 years, while owner occupancy in England has fallen sharply. Seventy-one per cent of homes were owner occupied in 2004, but by 2013 this figure had fallen to 65 per cent (DCLG 2016c). This has been driven in particular by falling numbers of households accessing mortgages, and rising deposit requirements. Figure 1.3 illustrates the comparable figures for Germany and England for 2004–2013.

FIGURE 1.3

Owner occupation is falling in England yet remains higher than in Germany

Owner occupation, England and Germany, 2004–2013



Source: DCLG, 'FT1101 (S101): trends in tenure' (DCLG 2016d), SOEP, SOEP monitor Household 1984–2013 (SOEP 2013)

1.5 SUMMARY

Germany	UK
Historically high levels of new housebuilding, although completions have slowed since the mid-1990s. Activity has picked up sharply over the last five years.	Historically low levels of housebuilding, where new development delivered around half of what is needed.
Regional hot spots, particularly in prosperous cities such as Hamburg and Munich.	Regional hot spots, particularly in London and the South East.
Relatively high but stable house prices, with minimal price falls after the financial crisis. Significant price increases in recent years in cities with high demand.	Volatile house prices. Decades of house price inflation have been cyclically interrupted by sharp falls in house prices.
Significant private rented sector: 40 per cent of the population lives in private rented accommodation.	Significant home ownership sector: 65 per cent of households in England own, but ownership falling and rental sector growing quickly.

2. FACTORS DRIVING SUPPLY

There are a number of reasons behind the different drivers of housing supply in Germany and the UK.

2.1 MIX OF HOUSEBUILDERS

A potential explanation for Germany's more plentiful and responsive housing supply is the capacity of its housebuilding sector, in terms of both the number of developers, and types of developers.

This is a salient issue because the blame for the UK's housing supply malaise has been increasingly laid at the door of an uncompetitive development market – in particular its reliance upon the largest housebuilders, who are now responsible for nearly half of supply. This is compared to under 10 per cent in the 1960s (Jefferys et al 2014: 43). The challenge associated with a market which is dominated by larger actors, is that they typically build homes on larger sites, and do so slowly, building only at the rate at which they think the market can absorb them. This means housebuilding can find itself failing to keep up with – let alone get ahead of – housing demand, for the sake of preserving profit margins (Lyons 2014). Effectively, large housebuilders, in trying to minimise risk, appear to profit from scarcity.

This is less a problem for small builders who may often only be building one or a handful of homes. However, the UK has seen a long-term decline in the number of smaller developers. In 1988 there were some 12,000 small and medium-sized housebuilders; now there are just 2,800 (Tinker 2013), responsible for 27 per cent of completions (Lyons 2014). One argument is that repeated volatility in the housing market has resulted in the shake out of small and medium-sized builders at each recession (ibid) while new entrants simultaneously find it harder to access and participate in the post-recession market due to high land costs and challenging borrowing conditions (NHBC Foundation 2014).

This has raised concerns since in an oligopoly market, increasingly dominated by large firms, the sector becomes ill-equipped to respond to swiftly increasing demand (Lyons 2014) when they can make sufficient profits from building homes more slowly.

In Germany, smaller builders play a larger role. Data on the construction industry suggests the SME sector in Germany is significant, and growing: in 2013, 50 per cent of turnover in construction was generated by firms with between 1 and 49 employees, which represents an increase from 45 per cent in 1995. Firms with more than 250 employees accounted for just 22 per cent of turnover – having been 21 per cent in 1995 (Hauptverband der Deutschen Bauindustrie e. V. 2015).

Unlike in the UK, where the market is concentrated largely in the hands of a small group of players operating nationally, the German housebuilding industry is also far more regionalised than its English counterpart. In 2016, there were 1,200 housebuilders and developers active in the seven largest German cities alone (with around 1,600 members of the Federal Association of Property and Real Estate Companies).¹ Our tentative finding is that this relates to better access to finance and land availability than in the UK (although constraints upon land supply are still a challenge), and, crucially, a degree of regionalisation which privileges locally based actors.

2.2 MIX OF INVESTORS

What is also distinct about the German model of housing delivery is the greater diversity of organisations funding the housing stock. Both the UK and Germany have historically emphasised the role of direct state investment – Germany through significant grants and tax breaks to drive the major construction booms of the 1970s and also the 1990s – however, they have now shifted heavily towards personal subsidies and curbed direct capital investment.²

The UK used to play a substantial role in investing in new submarket housing, peaking in the 1970s through the delivery of around 200,000 units a year through local authorities building homes for rent far beneath market levels (DCLG 2016a, 2016b), with lifetime tenure for residents. Since the mid-1970s onwards, however, housing policy in the UK has gradually refocused, with a greater emphasis instead placed upon supporting renters in the available housing market, through provision of housing benefit to meet the needs of those who could not afford market rent (Jefferys et al 2014: 45). Simultaneously, capital funding has declined sharply (Cooke and Hull 2012, Webb 2012, Cooke and Davies 2014).

As the state has pulled back today, most private housing construction in the UK is financed by housebuilders for the ‘for sale market’. Backed up by a liberal mortgage market, the proportion of homes owned and occupied by private individuals in the UK is 63 per cent of the total housing stock, followed by around 19 per cent of privately rented stock, primarily owned by private individuals, with the remaining 18 per cent held by registered social landlords or local authorities (DCLG 2016c).

The German market is however more diverse. While the recording of data is different in Germany, as it groups together owner occupiers with individual buy-to-let landlords, the distinct features of the German market are the scale of the professional sector comprising housing cooperatives, municipal housing companies, public housing companies and private

1 Presentation by Andreas Beulich, Federal Association of Property and Real Estate Companies, London, 14 March 2016.

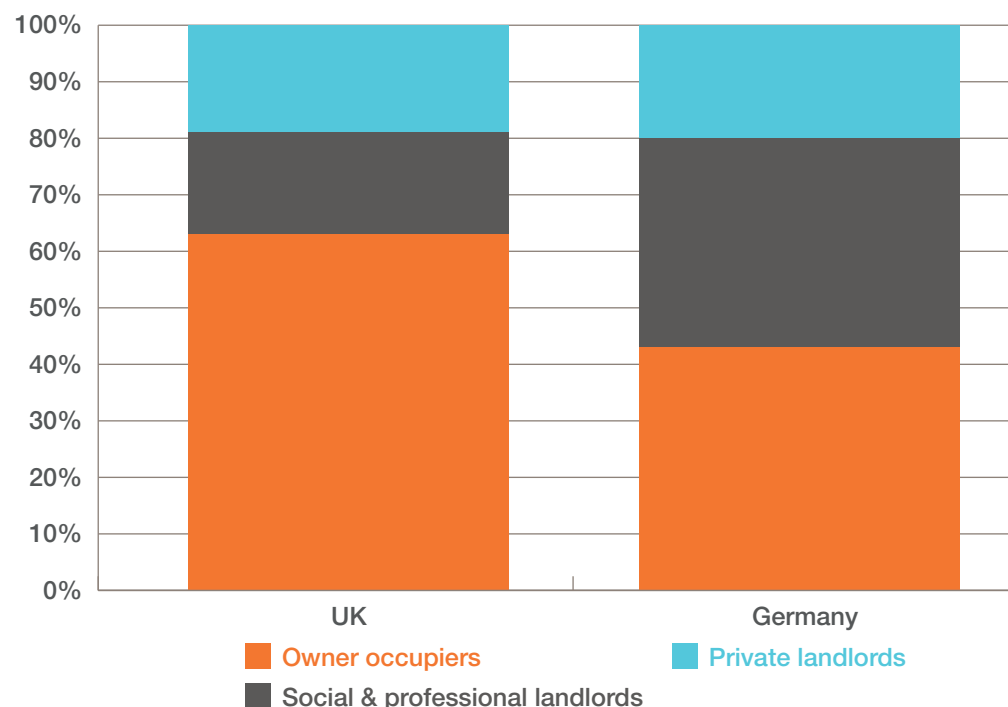
2 The terms of grants and lower interest rates used to drive the building of affordable housing have meant that the subsidised homes only have to be held at submarket prices for around 30 years, and a perceived surplus of affordable housing also led to some accelerated privatisation. As such, Germany is haemorrhaging its stock of affordable homes because replacement rates have failed to keep up. In 1987, in West Germany, there were 3.9 million social flats (those at a submarket rent) identified in the housing census at the time (Eggen and Rupp, 2006:125), whereas in 2013, across all of Germany, there were just 1.5 million – a fall of 62 per cent in 26 years. These figures continue to drop – the number is declining each year by 80,000 to 100,000 flats, compared to the construction of 10,000 new subsidised flats (Bauministerium 2015).

housing companies – who collectively own around 37 per cent of the housing stock. The nearest equivalent in the UK with housing associations and local authorities is just 18 per cent (Gdw 2014, DCLG 2016c).

FIGURE 2.1

Investment in the German housing market is far more diverse than in the UK

Housing stock ownership in Germany and the UK



Source: GdW, Anbieterstruktur auf dem deutschen Wohnungsmarkt nach Zensus 2011 (GdW 2014), DCLG Table 101: by tenure, United Kingdom (historical series)* (DCLG 2016c)

The other unusual feature is the role of large private housing companies who own around 2.1 million homes, or 6 per cent of the housing stock – the five largest companies collectively hold around 750,000 dwellings (Savills 2016). These companies are usually backed by institutional investors (ibid) and are a recent and important feature of housing demand in Germany. Up to date statistics are limited, but private housing companies accounted for around one-third of all new housing completions in Germany between 1998 and 2008 (Oxley et al 2010), and serve to compensate for the more constrained effective demand that results from the conservative mortgage market.

Build to rent is becoming a growing area of interest to UK policymakers, but as yet the market has failed to flourish, not least because such developers struggle to outbid builders of homes for private sale (DCLG 2012, LHC 2016).

2.3 THE PLANNING SYSTEMS

Both the UK and German housing planning systems are principally plan-led, meaning houses can largely only be built where local government has actively identified land in a local plan. In the UK the

planning systems differ by the devolved nations, so here we refer largely to England in comparison to Germany. In England, the Town and Country Planning Act (TCPA) of 1947 established a plan-led system for the control of development, at the heart of which were local plans adopted by individual local authorities. The situation in the intervening period has evolved, but this legislation still provides the core of planning in England today, as follows:

- those who wish to build housing in a particular area need to apply for permission from the local authority to do so
- the decision on whether such permission is granted will depend on whether the proposal is in conformity with local and national policies, as set out in the plan (the local plan will contain both general policies and provisions relating to particular sites; local plans need to conform to national planning policies and require the agreement of the secretary of state)
- applicants may appeal to the secretary of state (or, in some cases, their local mayor) if their planning application is refused.

While the TCPA 1947 is still the bedrock of planning in the UK, the tide has ebbed and flowed over whether there is a further tier of planning between the national and the local level, allowing for coordination and ‘strategic planning’ across local authorities and city regions. Such strategic planning means developments can be designed in such a way as to allow for appropriate linking of housing and employment, and also the development of supporting infrastructure, such as major transport routes and commuter hubs. In the absence of any full regional tier of government, unlike the Länder in Germany, these organisational governance tiers are meant to address the limitations of planning only to local authority boundaries, as well as provide scope for trading off housing need across borders where land availability allows.

Recently, a more formal regional tier of planning (‘regional spatial strategies’) was swept aside, described by the Coalition government as imposing ‘failed Soviet tractor style top-down planning targets’ (DCLG 2010). Instead, local authorities were given a new ‘duty to cooperate’ through the Localism Act 2011, and had to demonstrate – when their local plan was examined by the Planning Inspectorate (on behalf of the secretary of state) – that they had engaged with other local authorities. This is something the Royal Town Planning Institute (RTPI) argues has resulted, in some areas, in fewer homes being planned for or built where it allows reticent local authorities to blame neighbouring authorities (RTPI 2015).

The system in Germany is, in many ways, not that different, although it operates within more formal constitutionally fixed structures. Planning occurs within a strong legal framework and a decentralised decision-making structure (Monk et al 2013). The main actors involved in the process are:

- the federal government (Bund)

- the 16 state governments (Länder)
- the 114 planning regions, and
- approximately 12,000 municipalities (Gemeinden).

The federal government sets within the Federal Spatial Planning Act (Bundesraumordnung) the overall framework and policy structure for planning, but does not itself create or implement plans. Instead, this is the job of planning bodies in the Länder, in some cases regions within them, and the municipalities.³

In contrast to England, however, lacking as it is in a regional tier of government, the state governments also set housing targets which are translated into preparatory land use plans (Flächennutzungspläne) by the local government (ibid). These plans show, at a high level, where housing may be built. This initial land use plan does not grant any rights to owners but it is the base for the core ‘local plan’ structure, the legally binding urban land use plan (Bebauungsplan), produced by local authorities.

The distinction between the ‘preparatory’ and ‘urban land use’ plans may appear opaque, but generally:

- **the preparatory land use plan** sets out the local authorities’ objectives for future land use and the preliminary zoned areas for where housing developments and other types of buildings will go
- **the urban land use plan** contains binding designations for all urban development within a specific area at municipal level.

Once these final designations are set, it is then for developers to apply for a building permit (Baugenehmigung) from the respective municipality. The development must be given the green light if there is no legal impediment to the project, just as, in England, in theory development that accords with the relevant local plan should be given planning permission.

As the above shows, local authorities in Germany enjoy a high level of autonomy over planning decisions (under the so-called kommunale Planungshoheit, or ‘local authority primacy in planning’). While there are a number of strategic planning areas covering several local authorities (for instance, in the areas around Frankfurt, Hannover, Stuttgart and Munich), established by law in each of the Länder, these fulfil the function of coordinating existing local planning arrangements, rather than forcing individual municipalities to amend the content of their local plans (cf. Zimmermann and Heinelt 2012).⁴

While England had appeared to lose this feature of planning in recent years through the abolition of regional spatial strategies, a degree of pan-authority planning is returning to the system. Through combined authority spatial strategies in England, a new type of subregional

3 Not unlike England’s National Planning Policy Framework (NPPF), the overall framework follows guiding principles that describe planning priorities such as ‘growth and innovation’, ‘securing the provision of essential public services’ and ‘conserving resources, developing cultural landscapes’ (Pahl-Weber and Henkel 2008).

4 Complicating matters somewhat is that several Länder (Berlin, Hamburg, Bremen) combine the functions of a Länd with local government. These will often devolve decisions on planning to districts within them, but they reserve the right to overrule these, and it is legally possible for them to do so.

planning is re-emerging through the process of city and devolution deal agreements (see Snelling and Davies 2016).

On the surface, the planning systems appear similar. However, comparisons of the systems suggest the German system affords greater certainty to developers – if an application meets the conditions of the designated zone for where planning permission is being applied, permission for it must be granted – and this is legally enforceable through the courts.⁵ This reduces the number of case-by-case decisions, as policies for whole areas are set and the planning rules are clear – under local plans in England, the plans are set generally for the area at large, but there are more opportunities for case-by-case objections. At the same time, local authorities enjoy greater autonomy in taking decisions on the content of these plans, so local discretion is ‘front-loaded’ into the process.

If we are to view the number of planning permissions approved as being a marker of planning success, then in both cases the English and German systems appear to be delivering the volume of consents close to the housing supply levels needed – as illustrated in table 2.1.

TABLE 2.1

Stock of dwellings with planning permission and completed dwellings

Germany	2011	2012	2013	2014	2015
Permits	228,311	241,090	272,433	285,079	313,296
Completions	183,110	200,466	214,817	245,325	247,777
%	80%	83%	79%	86%	79%
England	2011/12	2012/13	2013/14	2014/15	2015/16
Permissions	N/A	N/A	230,974	261,000	265,000
Completions	118,510	107,980	112,330	124,640	139,650
%	N/A	N/A	49%	48%	53%

Source: Federal Statistical Office, ‘Building Activity’ (FSO 2016), DCLG, Planning applications in England: October to December 2015 (DCLG.2015c), DCLG, ‘Table 209: permanent dwellings completed, by tenure and country’ (DCLG 2016a)⁶

Around 310,000 homes were granted permission in Germany in 2015, while some 247,000 were completed (FSO 2016). In England, while 271,000 homes were approved, only half that number were delivered in completions in the same year (DCLG 2015c, 2016a). What appears to be a distinct challenge in England is not necessarily getting homes planned, but getting planned homes built (see LGA 2016, Molior 2012).

A particular concern in England is that there is a strong incentive to acquire planning permission – as it will greatly increase the value of a site – but far less incentive to then develop it. Therefore, land with planning permission can be sold on, and potentially make significant sums of money, without the need for the landowner to turn the planning consent into a shovel in the ground. In Germany, decisions on plans may be time limited and thus give a strong incentive to pursue development.

⁵ See <https://www.gesetze-im-internet.de/bbaug/BJNR003410960.html>

⁶ UK-wide data not available.

2.4 AVAILABILITY OF LAND FOR DEVELOPMENT

Unlike in England, where housing development around urban centres is strongly constrained by greenbelt restrictions set out in both the TCPA and the National Planning Policy Framework (NPPF) (to the detriment of development levels, see NLP 2014), the German spatial planning system has had no longstanding regulations for the containment of urban growth – aside from the principle in the Federal Building Code, which states that land shall be used sparingly and with due consideration (Monk et al 2013: 61). In theory, fewer land use restrictions mean the supply of land can be more responsive to demand in the planning system. Indeed, Oxley has argued that this was the case, stating:

‘In Germany, the reactions to increasing housing demand at the beginning of the 1990s were positive. However, land supply increases were sometimes an over-reaction and resulted in the excess supply of housing.’

Oxley 2009 et al: 32

Indeed, amid concerns of urban sprawl that arose from the oversupply of land and homes in the 1990s, the federal government took a stricter approach to urban containment via the National Strategy for Sustainable Development in 2002. Much like the English planning principle of ‘brownfield first’, this strategy sought to increase the rate of urban expansion by favouring (re-)development of existing urban areas.

In England, the use of brownfield is generally encouraged through restrictions on other land opportunities, rather than a proactive pursuit of development on these sites. There have been some exceptions in recent years. First ‘housing zones’ offer a fast-tracked, lower-risk planning process for developers, and potentially come attached with a very minor amount of development cash too. In addition, in order to make brownfield land more viable the Treasury has recently launched the Starter Homes land fund, which will pay local authorities some of the clean-up costs of brownfield sites, in exchange for delivering a significant number of ‘affordable’ houses for home ownership (DCLG 2016e).⁷

Contrastingly, Germany takes a more enabling approach to support brownfield development. Measures include providing simplified planning processes to make building on brownfield quicker (with significantly more liberal planning rules in relation to previously developed residential land) and more economically viable for investors (with the potential for lower financial requirements for infrastructure and affordable housing), as well as a proactive role for local authorities in land assembly (discussed below).

2.5. THE ROLE OF THE PUBLIC SECTOR IN BRINGING FORWARD LAND

A key difference in the planning systems of England and Germany is the extent that the German state participates in bringing land forward for development.

England’s planning rules tightly constrain what land can be used for development. In particular, the planning system strongly emphasises the re-use of developed land – irrespective of whether there is enough of it to

⁷ ‘Affordable’ under this definition includes a home to buy with a 20 per cent discount on its market price.

meet housing targets. Research has shown there is too little brownfield land left in the system to provide the scale of housing needed and there will not be sufficient land promoted nationally (NLP 2014). The Nathaniel Litchfield Partnership has identified land sufficient for circa 1 million homes over the next 15 years, but over the same period the country will require 3.3 million new homes. The research also highlights that, unsurprisingly, surplus brownfield sites are not located in the areas where housing need is highest (ibid). Moreover, the current planning system's designation of greenfield generally, and greenbelt specifically, as sites that should be protected from development prevent a realistic appraisal of available land, and so prevent a rational allocation of land for housing in local planning processes (see Snelling and Davies 2016).

The other challenge England faces is its reliance on the market to bring forward land, despite there being few incentives for landholders to do so other than at their own pace. This is significant in a market with rising house prices, as the price of land is a direct product of these house prices. The incentive in a rising housing market is therefore to hold on to the land until the owner thinks they can get the maximum value out of it. However, the dynamics in Germany are quite different. With house prices having been historically stable, the incentive for private landowners to hold on to a plot with the expectation of securing a higher price at a later date have been limited; however, following rising house prices in recent years the incentives may be changing.

Aside from the sparingly used compulsory purchase regime in England, no other incentives exist to bring land forward to the market, either by taxing land with or without planning permission. While land in Germany is not taxed, local authorities play significant roles in bringing land to market, and many bank significant tracts of land to maintain a healthy supply of sites, by buying off the market directly.

Locally driven land assembly can be achieved either voluntarily or through compulsory measures. It may entail a total reallocation of land to provide owners with plots suitable for building on – and to provide the local authority with land for local infrastructure, through the use of 'urban development measures'. This allows the local authority to influence the form of development, recover the costs of servicing and infrastructure, and possibly receive some uplift in land value, as well as to remove delays caused by a lack of infrastructure (see discussion on funding of infrastructure below). Alternatively, the threat of the local authority engaging in urban development measures may itself encourage landowners of brownfield sites to bring their land forward for development – the details of which are set out in the box below.

Urban development measures

'Urban development measures' (städtebauliche Entwicklungsmaßnahmen), allow the municipality to assemble land for development by paying private owners of the existing value of the plot (that is, not the value of the site once it has houses on it), and then sell it on after redevelopment at the final value. This is an area of policy of significant interest in England, given that equivalent compulsory

purchase measures are expected to compensate the landowner proportionate to the market value of the developed site.

The difference between the existing price of the land, and its final value, may be used to finance infrastructure and development costs, with any surplus to be returned to the original landowner.

In theory this makes land assembly (and land value capture) much easier because the costs are lower. There are strict constraints on the use of these measures: it can only be used if the land is not brought forward for development in other ways; that is, a power of last resort, and owners are able to prevent the process from happening if they themselves bring the land forward for development in accordance with the plans.

While this is a significant restriction, it does act as an incentive for landowners to bring land forward for development, and comparably speaking there is no equivalent system for land assembly in England – the closest model would be allowing compulsory purchase at the existing use value of the site.

The land assembly system should not be seen in isolation. While it is interesting that German authorities enjoy a higher degree of local autonomy in decisions about land allocation, and yet, seem to be more proactive around land supply than English ones, there are significant financial incentives to bring forward new sites. Local authorities, though, enjoy a financial stake in supporting new development (through increased tax and grant income), and local resistance to development may be lessened as there is a lower proportion of the population with an interest in higher house prices being maintained. Even without urban development measures, local authorities may also get involved in ‘land adjustment’, resolving issues of complex land ownership as part of the planning process.

Thus, while both systems are plan-led, the critical difference between the two is that while England struggles more with issues of land assembly, due to complex ownership structures and an opaque land market (Lloyd 2014), the German system appears to benefit from the state having a more active role in assembling land.

2.6 THE PROCESS FOR PROVIDING SUPPORTING INFRASTRUCTURE

All planning systems face the difficult question of who should fund the infrastructure that makes a site useable, which can include roads, telecommunications infrastructure, utilities, affordable housing and even schools.

In both England and Germany, there is some history of requiring developers to make a financial contribution towards the provision of infrastructure and affordable housing. This mechanism – often operated by taking some of the ‘planning gain’ (the increase in the value of the land associated with the grant of planning permission) – represents a potential funding stream for the state (albeit one tied, whether tightly or loosely, to the building project in question), alongside ensuring that new

developments have both a mixture of housing tenures, and appropriate infrastructure to support them.

During the postwar years in the UK, the state has played a relatively active role in funding both infrastructure for, and the delivery of, affordable housing. In recent decades, however, there has been an expectation that developers of new housing should pay the cost of infrastructure and also provision of affordable housing (TCPA 2014, DCLG 2011, 2013).

The key mechanism for capturing this has been through the inclusion of section 106 agreements (S106), whereby, as a condition of receiving planning permission, the developer is placed under an obligation to provide certain infrastructure – the thrust of which is often affordable housing.⁸ From 2010, the negotiated site-by-site agreements have been supplemented with a set charge (varying by property size and in each local area) called the community infrastructure levy (CIL) for infrastructure contributions not directly related to the site. This was intended to give greater predictability of likely costs to developers of housing, while making sure all developments, not only the larger ones, would contribute to supporting infrastructure.

At times, capturing land value uplift has been successful. Data is scant, but it was estimated that the value of developer contributions in 2007/8 in England was £4.9 billion, but by 2011/12, the figure had fallen to £3.7 billion (DCLG 2014) – in part due to fewer homes generally being built since the crash. However, while housebuilding has since picked up considerably, evidence produced for the Joseph Rowntree Foundation has shown that growing levels of development have been coupled with dwindling affordable housing contributions (Brownill et al 2015). This has been driven through increased claims by developers that the scale of contributions is rendering development unviable (Morrison and Burgess 2014, Brownill et al 2015), and also a stronger emphasis in local plans upon testing the viability of policies.

Central government may still pick up the bill if the maths of delivering affordable homes or infrastructure is challenging, for instance through the provision of capital grants for affordable homes via the Homes and Communities Agency, and more recently through funding for land remediation in exchange for providing submarket Starter Homes (set at 80 per cent of local market value). Infrastructure is funded either directly through government departments, or through the devolution of funding to individual local authorities or to local enterprise partnerships (LEPs).

In Germany, the provision of local infrastructure is the responsibility of the local authority which can charge landowners to recover parts of the cost. Landowners pay a maximum of 90 per cent when the site is to be developed for the first time and the local authority pays a minimum of 10 per cent (section 129 of the Federal Building Code).

⁸ This might be specific to the site in character (for instance, building an access road or supporting the connection of utilities), it might involve a payment for the provision of infrastructure in the wider area (for instance, to pay for transport improvements, educational or cultural provision), or it might involve the provision of affordable housing, whether onsite itself (by requiring some of the units to be rented out or sold below market value) or offsite (by means of payment to the local authority).

There are special local laws used by local authorities to vary the level of charges for landowners or developers. Landowners and developers cannot legally require an authority to provide local infrastructure, but they can offer to do it by making a legal agreement with the authority, which authorises the developer to provide the local infrastructure (section 124).

Known as an ‘urban development contract’ (Städtebaulicher Vertrag) they require payment for infrastructure or to deliver a proportion of affordable housing in a development, and are comparable to the instrument of the section 106 agreement in England. They are required, according to building law, to be proportionate, requirements must be related to the development, and they do not create a legal entitlement to a building permit (see section 11 Federal Building Code).

Unfortunately, aggregate data on the scale of such contributions is not available. However, by way of illustration, in Berlin new guidelines on planning contributions were issued in 2014 (as part of the ‘Berlin Model of Co-operative Land Development’); in September 2015, the Berlin senate estimated that 23,600 housing units were included in the planning processes reflecting the new provisions (which required 25 per cent affordable housing to be provided, and 50 per cent of land value uplift to remain with the owner), so it can be deduced that the use of these instruments can be extensive (Berlin City Parliament 2015). This contrasts with the 16,000 homes funded through section 106 agreements in England in the year 2013/14 (Brownill et al 2015) – albeit many more would be funded by a combination of S106 subsidies by grant too.

2.7 SUMMARY

Germany	UK
Small builders play more of a role, with a more regionalised market of housebuilders where smaller sites enjoy more attention.	Reliance on small number of large housebuilders operating nationally and focused on large sites which are typically slower to develop.
Diversity in investment with the for-sale market existing alongside a stronger for-rent market and cooperative-owned and private company-owned housing.	Housebuilding dominated by the for-sale market.
Plan-led, requiring planning permissions and work within national and regional targets.	Plan-led, requiring planning permissions and work within national and regional targets.
No hard and fast rules on urban growth containment.	Urban growth containment through greenbelt restrictions.
Use of brownfield land encouraged through enabling policies, for example simplified planning processes.	Use of brownfield land encouraged through restriction policies on alternative land – that is, greenbelt. Some exceptions in housing zones.
Urban development contracts designed to build infrastructure and affordable housing into development proposals.	Section 106 designed to build infrastructure and affordable housing into development proposals.

3.

FACTORS DRIVING DEMAND

As with supply, the stories of demand in Germany and the UK are driven by a range of factors.

3.1 THE MORTGAGE MARKET

Demand for housing is, among other factors, mediated by access to credit (see Dolphin and Griffith 2011). Germany has traditionally kept much tighter controls on mortgage lending, meaning that in order to access home ownership, German households have had to save up for longer periods of time than their British counterparts, who in contrast enjoy access to a liberal mortgage market (Haffner et al 2009b).

German federal legislation prescribes a maximum mortgage-to-value ratio of 60 per cent – that is, a deposit requirement of 40 per cent of the property value. Banks as well as savings and loan associations have some leeway to reduce deposit requirements to 30 per cent, depending on factors such as credit-worthiness and collateral. An additional mortgage can be used to finance a further 20 per cent of the loan value to increase the mortgage up to a value of 80 per cent. The absolute minimum capital requirement for a home is 20 per cent of the loan value and acquisition costs (such as fees and tax; see Kofner 2004).

The UK mortgage market allows for much higher loan-to-value ratios (LTVs). Before the financial crisis in 2008, around half of new mortgages were at LTVs of 75 per cent and above (BoE 2015). While this figure fell sharply after the recession with the tightening of lending and mortgage regulation, some 30 per cent of new mortgages exceed LTVs of 75 per cent (ibid), and 100 per cent mortgages have recently returned to the mortgage market. Excessive leverage is now ‘constrained’ via macro-prudential policy, which has imposed a limit on the percentage of new high LTV mortgages that can be offered by individual (large) institutions. However, is it unclear to what extent these restrictions will properly ‘bite’, given that they apply to new mortgage lending, not outstanding loans.

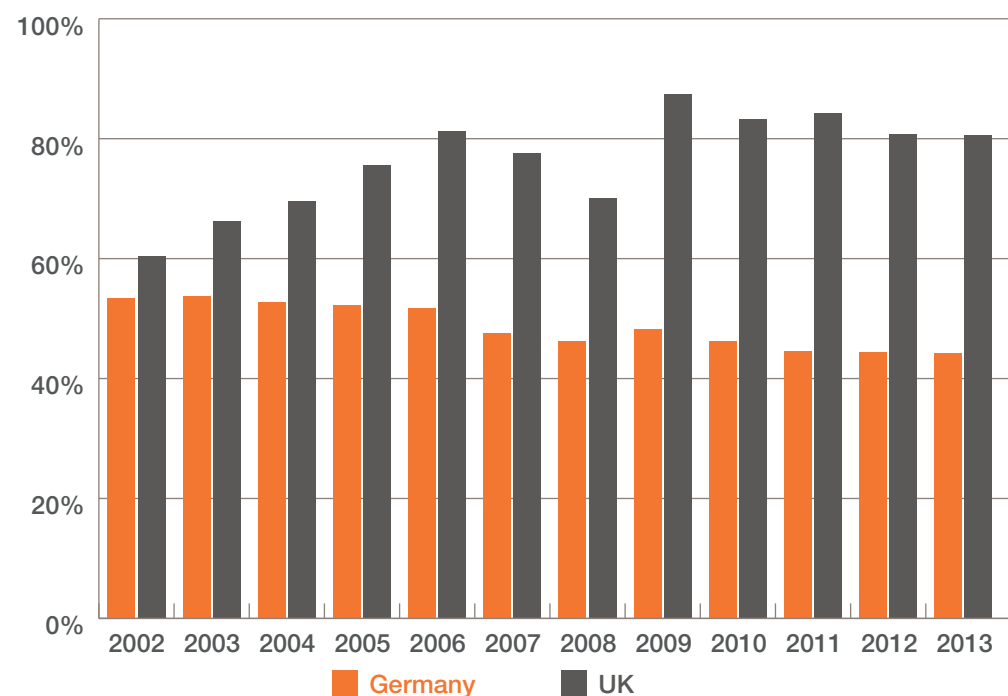
The contrast between the two mortgage markets is also reflected in who can access mortgage finance – in Germany there appear to be considerably more constraints on those with impaired credit histories, or those falling into ‘subprime’ categories of borrowers, than in the UK (Hess and Holzhausen 2008). It is therefore not difficult to see the connection between loose credit and asset bubbles, in this case house price bubbles. As the IMF succinctly explained: ‘housing booms and busts are intimately linked with the provision of credit’ (IMF 2011: 133). Germany’s more tightly controlled mortgage market may have limited the scale of house price falls in Germany, relative to the sharp falls witnessed in the UK after the financial crisis in 2008.

The impact of the limitations on German lending are stark at the aggregate – mortgage liabilities in Germany are valued at around 44 per cent of Germany’s GDP (Bundesbank 2013) – in the UK the figure is 80 per cent – and while Germany has reduced its exposure to mortgage debt over the last decade, in the UK it has grown considerably, as illustrated in figure 3.1.

It is interesting that in UK policy discussions, much emphasis has been placed on helping people access credit, through mechanisms such as Help to Buy mortgage guarantees, in order to boost housing supply, yet Germany has managed to deliver larger volumes of new homes despite having much tighter constraints on mortgage lending.

FIGURE 3.1

Germany has reduced its exposure to mortgage debt over the last decade, but in the UK it has grown considerably
Total outstanding residential loans-to-GDP ratio, 2003–2014



Source: Database for Institutional Comparisons in Europe, Total outstanding residential loans to GDP ratio, 2003-2014 (DICE 2016)

3.2 PROPERTY TAXATION REGIMES

3.2.1 Tax on purchases

Both countries impose levies on home buyers that serve to limit access to home ownership (as well as bring in significant revenues). In the UK (excluding Scotland), stamp duty is paid by the buyer at a rate dependent upon the value of the property being purchased. Rates vary between 2 and 12 per cent on transactions above £125,000 (HM Treasury 2016). There are different rules for buying affordable housing (shared ownership properties), while an additional 3 per cent stamp duty is levied on second

homes and buy-to-let properties in an effort to cool down substantial buy-to-let investment in the property market (HM Treasury 2015: 121).⁹

In Germany the purchase or transfer of property is also subject to a tax, called the real estate transfer tax (Grunderwerbsteuer), payable as a proportion of the value of the dwelling. The tax rate varies between 3.5 and 6.5 per cent, depending on the federal state, and, as is the case in the UK, must be paid up front.

In addition, holders of property in both countries pay taxes roughly associated with the value of the property. In the UK (excluding Northern Ireland), owners or tenants pay council tax, an annual charge based on property values set in 1991. Owners of higher-value homes pay more in cash terms, and owners of low-value homes pay less – with the value of the tax set as a ratio of the median (band D), while owners of second homes or empty homes may be liable to a discount. While the rules are set centrally, local authorities can increase council tax by 2 per cent, or more if they are prepared to hold a local referendum on it (DCLG 2016f). The system however has become regressive. Due to a failure to uprate council tax bands to new property values since 1991, higher-value properties are now proportionally undertaxed, while lower-value homes will typically be overtaxed.

Germany also operates an annual property tax (real estate tax (Grundsteuer), levied on any real estate. Fundamental for the calculation of the tax base is the assessed value (Einheitswert) which is determined by the Finance Authority. It refers to historical property values (1964 for West Germany and 1935 for East Germany) and is usually lower than the purchase price. The assessed value is taxed with rates between 2.6–3.5 per cent (Western Länder) or 5–10 per cent (Eastern Länder) and determines the base amount on which some municipalities apply a multiplier (for example Frankfurt/Main: 460 per cent, Berlin: 810 per cent). As with council tax in the UK, landlords can pass on the entire property tax to the renter.

In both countries therefore, the tax system creates barriers to buying property by levying a tax on purchasers and holders, and therefore may dampen demand and act as a drag on property prices (albeit one that discourages liquidity in the housing market).

3.2.2. Tax on sales

The German and British tax systems treat property sales rather differently. The UK system does not levy capital gains tax on gains made upon the sale of a 'principal private residence'. This exemption cost £18 billion in 2015/16 (NAO 2016). It may also drive housing demand (and with it house price inflation) as it creates a bias in the system towards owner occupation rather than tenancy (Mirrlees et al 2011).

Germany also allows homeowners significant capital gains allowances, but only once the owner has occupied the property for at least 10 years (Oxley and Haffner 2010, Oxley et al 2010). This in all likelihood reduces speculation, but increases housing market frictions by encouraging residents to stay in one home for longer than they might otherwise choose.

⁹ The Treasury is consulting on whether to exempt funds with more than 15 dwellings, and it is clear from the autumn statement that this change is aimed at small investors rather than large institutional investment.

3.3 GOVERNMENT INCENTIVES FOR HOME OWNERSHIP

Both German and British governments have introduced policies to promote home ownership. In Germany, the state supports individuals to meet the costs of their mortgage repayments through the pensions system (Riester housing pension), effectively providing a housing benefit payment for homeowners (Bauministerium 2016).

In addition, the German state subsidises saving for home ownership by providing a top-up on savings contributions where they are being put towards a deposit on a house (*Wohnungsbauprämie*) (Kofner 2014), a product that is generally similar to the UK's home ownership savings model, the Help to Buy ISA, and forthcoming Lifetime ISA.

Beyond this, some Länder regions in Germany provide loan guarantees for owner-occupied and residential building but there is no general federal guarantee scheme for mortgage loans in place. The UK on the other hand provides expansive support for first-time buyers through the complex system of Help to Buy products – such as Help to Buy equity loans, which provide a 20 per cent equity loan against a new-built property, and more controversially, a 20 per cent mortgage guarantee on any home (new build or otherwise).

In spite of all of the initiatives to support home ownership as a long-term investment in Germany, home ownership rates have not budged in recent years (see figure 1.3 in chapter 1). There are likely to be several reasons for this, including the conservative mortgage market described above, the limited capital gains to be made on most residential property, but also the relative desirability of renting versus owning, as described below.

3.4 REGULATION OF THE RENTAL MARKET

Germany has a much larger private rented sector than the UK, housing roughly double the proportion of the population. Furthermore, in both Germany and the UK, the housing cost overburden¹⁰ for tenants is more than it is for owner occupiers, and yet the difference between these is much greater in the UK where renting is considerably more expensive than owner occupation (Eurostat 2015). A more balanced mix of housing tenures reduces incentives to invest in owning a home, and promotes a housebuilding market that caters to build-to-rent investors as well as private owners.

Although the private rented sector in the UK has been growing rapidly in recent years and some attitudes are shifting (NLA 2016a), renting is still seen as a second-class housing option, and is primarily a consequence of potential owners being priced out of the market. A survey by the National Landlords Association in 2016 found more than half of tenants would consider moving to a new town or city and away from their current local connections in order to pursue home ownership (NLA 2016b). In Germany on the other hand, renting is an attractive long-term tenure option. It is attractive on two principal counts.

10 The housing cost overburden rate is the percentage of the population living in households where the total housing costs ('net' of housing allowances) represent more than 40 per cent of disposable income ('net' of housing allowances), see Eurostat, http://ec.europa.eu/eurostat/statistics-explained/index.php/Glossary:Housing_cost_overburden_rate

3.4.1 Secure tenancies

The first is that renting in Germany is relatively secure: tenancies are typically indefinite with lengthy break clauses on the part of the tenant (Kofner 2014); and there are also firm limits on how and when a landlord can evict a tenant. Further, tenants in Germany will typically rent a ‘shell’, and therefore be expected to decorate and furnish the property to their taste. Thus, with renting in Germany comes many of the features of home ownership, including autonomy over the interior, and security of tenure, but without the hefty mortgage payments.

In contrast, most tenancies in the UK are short, and offer the tenant relatively limited security. The standard model, the assured shorthold tenancy (AST) in the UK are time limited, and are typically short – usually only 6 to 12 months, although because contracts can roll over beyond these periods, the average tenancy (as opposed to tenancy contract) is 17 months (ARLA 2015). At the end of the contractual period, the landlord can evict the tenant without providing any justification, and repossess the property.

3.4.2 Regulating cost

The second reason why renting in Germany may be more attractive than owning a home is that rents are regulated, through both limits on how much a landlord can raise the rent on a sitting tenant, to limits on how much a landlord can charge to a new tenant.

The initial model, intended to prevent excessive rent increases for sitting tenants, served to significantly slow rent rises for those tenants (Deschermeier et al 2016), but because of the way the policy was designed rents could still follow the market upwards in high-pressure areas. As a result, in 2015 a new law was introduced to slow down rising rents via controls on new contracts. The so-called ‘rent brake’ (Mietpreisbremse) means that rents for new tenants cannot be set at more than 10 per cent above the level of the local reference rent (or the rent previously charged for the property, whichever is the higher).

So far, the brake has been enacted in all of Berlin and Hamburg, several major cities in North-Rhine Westphalia, and, interestingly – given its staunchly conservative outlook in which interventions into markets would typically be opposed – in over 100 municipalities in the state of Bavaria (Fabricius 2015). To prevent the adverse consequences rent caps would have on housing supply and on improving the quality of subsequent stock, new homes are exempt, and controls are limited on homes which have undergone extensive modernisation.

In the UK there are no state-imposed controls on rent: the only controls are those agreed between landlord and tenant during the contractual period. A landlord can therefore increase the asking rent significantly once a tenancy comes to an end, which may force the tenant to move if they have not experienced an equivalent increase in income. This, coupled with shorter tenancy agreements, means that tenants’ positions are much less secure, and makes renting much less attractive relative to owner occupancy.

3.6 SUMMARY

Germany	UK
Conservative mortgage market, for example tighter controls on mortgage lending with a maximum mortgage-to-value ratio.	Liberal mortgage market with flexibility in lending and high mortgage-to-value ratios permitted.
Levies on homebuyers through the real estate transfer tax.	Levies on homebuyers through stamp duty.
Capital gains tax levied on sales with exemptions for residences owned for at least 10 years.	No capital gains tax on the sale of principal private residence.
Large private rented sector supported by regulation, including regulation on rent increases and longer-term contracts.	Small, albeit growing, private rented sector with focus on assured shorthold tenancies, and no controls over rent increases.

4. CONCLUSION

This paper has identified some important shared challenges for housing policymakers in the UK and Germany. Most significantly, at the present time neither country is building enough dwellings to meet demand. Whereas this shortfall in the UK is longstanding, in Germany policymakers in the mid-2000s felt that the challenge of housing supply had been largely solved (outside a few thriving urban centres), with population decline expected. However, in both countries significant new pressures on their housing stock have emerged, through increased demand towards households living in urban centres, falling household sizes, and new and longstanding migration patterns.

Of the two countries, Germany seems manifestly better placed to respond. Although its development market has had a bumpy ride, the German government has been more successful in seeing continuous housing supply, and indeed saw a second delivery boom at the end of the cold war, rising to over 600,000 dwellings – way beyond anything achieved in the UK post-war.

In the UK, successive studies (for example Jefferys et al 2014, Lyons 2015) have called into question the capacity to respond to this shortfall in housing supply. Housing delivery is severely limited by the size and shape of the country's development sector – warped by decades of housing market volatility, the departure of local authorities from the housebuilding sphere, and cuts to capital grant – that collectively could have insulated the development market from significant shocks. Instead, the UK has both a pro-cyclical housing market, and a pro-cyclical development market.

By contrast, Germany is in a stronger position: its mortgage market has been more tightly regulated and consequently its market (and economy) is less vulnerable to economic downturns; and housing construction is undertaken by a far greater number of actors, including large housebuilders but also, crucially, many smaller, regionally based actors and a significant not-for-profit sector (both within and outside public ownership).

However, the strength of Germany's situation should not be overstated. Housing supply nationally is below housing need, and the shortage of housing has become especially acute in thriving urban centres, which have seen rapid growth in both house prices and rents, and major pressures on affordability. The consequences of this shortage are exacerbated by the rapid decline in the size of the social housing sector – here, a combination of privatisation and legal agreements to restrict rents reaching the end of their term have led to a dramatic decline in the availability of such stock. This has led, as in the UK, to a situation in which public expenditure on housing is increasingly being devoted to supporting low-income households with their rent, rather

than being invested as capital into the construction of new housing (especially of a submarket nature).

Looking at the situation from a wider lens, the two countries utilise the powers of government in quite different ways. In Germany, although private enterprise is crucial in housing finance, housing development and management of stock, the state, locally and nationally, plays a far more 'interventionist' role – in regulation (for instance, of rents and of the mortgage market), in land assembly, and in housing development itself (albeit often through locally owned companies).

However, in the UK, although the parameters of policy are set by government, the trend is towards stepping back the role of the state in housing provision, and then becoming active when markets cannot achieve satisfactory outcomes (for instance by providing mortgage guarantees, or through the provision of housing benefit to households unable to afford their rent). For some, this more active state would be anathema, at best, something deeply embedded in the nature of the German housing market, political culture and public expectations that could not be replicated elsewhere. For others, it is a necessary counterweight to housing markets generally, which are intrinsically unstable, prone to 'boom and bust', and which, left to their own devices, will lead to undersupply and unaffordability. Either way, we believe comparison of the two systems is well worth pursuing.

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