

Germany

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Macroeconomic overview

From the second half of 2008 onwards, Germany also felt the impact of the worldwide economic downswing. The demand for capital goods, which make up a large portion of German exports, receded. German GDP fell in real terms by 4.9%.

As in previous years, private consumption recorded flat developments in 2009. Due to the extension of the generous wage support for underemployed people ("Kurzarbeitergeld") the economic crisis did not lead to significantly higher unemployment rates. The unemployment rate rose slightly from 7.3% in 2008 to 7.5% in 2009. Consumer prices increased by only 0.2% (in 2008 this was 2.8%).

Housing and mortgage markets

In 2008, investment in residential construction increased slightly (0.8%). In 2009, investments in residential construction slightly decreased (-1.1%). In recent years investment in housing was affected by several factors, for example households' ambition to meet tax deadlines⁴⁰, which resulted in housing demand being brought forward to 2006 thus having a negative impact on the following two years 2007 and 2008. Building permits fell in both these years, whilst in 2009 demand was not affected by such factors and the number of building permits rose somewhat by 1.9%. The number of transactions has been relatively stable for several years. In 2009 the number of transactions decreased slightly by 3.5% to 440,000 units.

House prices in Germany developed differently from house prices in most other European countries. The ability to gauge house price developments within the scope of the implementation of Basel II has become a major issue for the Pfandbrief Banks grouped in the Association of German Pfandbrief Banks (vdp). Together with its member banks, the vdp has set up a project aimed at producing property price indices for several regional and sectoral markets. Rent and purchase prices for individual properties as well as other price-determining factors are systematically collected in the vdp transaction database. On the basis of these data, hedonic methods are applied in order to produce property price indices. Starting from July the 1st, 2009, work on the transaction database was moved from the vdp to the newly-established "vdp Research". Finally, in February 2010, the new vdp price index for owner occupied houses was presented to the public.

With regard to measuring the developments in house prices, two quality-adjusted price indices over the period of 2003 to 2009 were produced for single family houses and apartments. Assuming 2003 as the base year, the figures show a price increase of 7% for single-family houses and 6% for apartments over the whole period. Time-series for both indices provide evidence of a recovery in 2008, which has turned into a sideways trend in 2009.

At the end of 2009 mortgage rates in Germany were lower than at the end of the previous year. The typical mortgage rate was 4.29%. Given a slightly lower demand for house purchases and renovation, gross residential lending declined by 5% in comparison with the previous year. Since repayments of existing loans equalled new lending business, the volume of outstanding residential loans remained almost unchanged compared to 2008 (with an increase of 0.1%). In 2009 outstanding loans amounted to EUR 1,147 million.

Funding

Germany has the largest covered bond market in the EU, accounting for 30.7% of the total market. The mortgage covered bond sub-sector is also very developed in Germany and accounts for 15% of the total EU market.

In 2009, Pfandbriefe were issued for a total value of EUR 110.4 billion (in 2008 the value was EUR 152.9 billion). Whereas Public Pfandbriefe with an aggregate volume of EUR 52.3 billion (89.5 billion in 2008) were sold. Mortgage Pfandbrief sales amounted to EUR 56.9 billion (57.3 billion in 2008). A total value of EUR 1.3 billion (6.1 billion in 2008) was issued. As repayments exceeded new sales, the outstanding volume of Pfandbriefe decreased to EUR 719.5 billion in 2009. Whereas the volume outstanding of Mortgage Pfandbriefe increased from EUR 217.4 billion to EUR 225.1 billion, Public Pfandbriefe declined from EUR 578.9 billion to EUR 486.4 billion. In 2009, Ship Pfandbriefe amounted to EUR 8.0 billion (in 2008: EUR 9.3 billion).

| | EU27, 2009 | Germany, 2009 | Germany, 2008 |
|---|---------------|------------------|------------------|
| GDP growth (%) | -4.2 | -4.9 | 1.3 |
| Unemployment rate (%) | 8.9 | 7.5 | 7.3 |
| Inflation (%) | 1.0 | 0.2 | 2.8 |
| % owner occupied | 68.2 | 43.2 | 43.2 |
| Residential Mortgage Loans as % GDP | 51.9 | 47.6 | 45.9 |
| Residential Mortgage Loans per capita, EUR thousand | 12.37 | 13.99 | 13.93 |
| Total value of residential loans, EUR million | 6,125,727 | 1,146,969 | 1,145,404 |
| Annual % house price growth | -6.8 | -1.3 | 4.3 |
| Typical mortgage rate (euro area), % | 2.71 | 4.29 | 4.83 |
| Outstanding Covered Bonds as % outstanding residential lending | 23.2 | 19.6 | 19.0 |

Source: EMF, EUROSTAT, ECB, Federal Statistical Office Germany

Notes:

- Typical mortgage rate in the euro area refers to the APRC (Source: ECB)
- The house price annual change data refers to the single-family house price index
- EU owner occupation rate average derived from EMF calculations based on latest available data.

Germany=2002

⁴⁰ For example, it was announced that the VAT in Germany would have been raised from 16% to 19% on January the 1st 2007, so that many housing starts were anticipated in 2006.