German housebuilders hit by ‘perfect storm’

Key industry suffers crisis of confidence amid surging cost of materials and rising rates

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Wolfgang Schubert-Raab recalls a time when his firm could not build homes quickly enough. “Back in 2021, before we’d even poured the first cubic metre of concrete, we’d already had offers on more than half the complex,” said the managing director of the Raab construction company.

Two years later, the market for singlefamily dwellings is in what SchubertRaab describes as a state of “complete collapse”.

Across Germany, homebuilders are facing such a sharp reversal in their fortunes that the downturn in residential construction is threatening to have broader repercussions across Europe’s largest economy. Many have declared themselves insolvent, damping chancellor Olaf Scholz’s target of building 400,000 new homes a year to tackle a housing affordability crisis in several of the country’s largest cities.

Last week, the federal government combined with state legislatures to intervene, unveiling a package of measures aimed at speeding up housebuilding by cutting red tape. Industry representatives view the response as a step in the right direction, but are concerned that the measures are not strong enough and the rollout will be far too slow.

Tim-Oliver Müller, managing director of the German Construction Federation, said: “Based on past experience, we don’t believe that it will be implemented quickly. The federal structures are far too complex for that."

After a decade-long boom fuelled by strong demand, cheap credit and low costs for raw materials, German builders are now facing what Gereon Frauenrath, managing director of construction company Frauenrath Group, describes as a "perfect storm".

Raw materials are now more than 40 per cent more expensive than before the pandemic — the biggest surge in Europe. The credit-intensive sector must also grapple with 10 straight interest rate rises by the European Central Bank. While the country still has a shortfall of suitable homes, especially in the major cities, the higher cost of borrowing is pricing out many prospective buyers.

The result has been a devastating loss of confidence that has led to the country's residential property market being among the worst performers in Europe.

House prices were down 10 per cent year on year in the second quarter, while the number of building permits issued has sunk far more quickly than in the region as a whole. In October, 22.2 per cent of companies reported cancelled projects.

Construction output rose by more than 16 per cent between the first quarter of 2015 and the start of 2022. As demand soared on the back of low rates and relatively lax lending standards, house prices rose by 66 per cent, according to the EU's statistics office Eurostat.

Now the troubles of the sector, which made up more than 5 per cent of gross domestic product in 2021, are contributing to an outlook that has seen Germany fall to the bottom of the IMF rankings of leading economies. Companies whose fortunes are tied to residential construction are also feeling the strain.

Sabine Brockschnieder, managing director of the Baumann Group, which has built German bathrooms and kitchens for more than a century, says times have rarely been tougher. "Smaller companies will face serious difficulties with the drop in sales and increased costs," she said, adding that orders had fallen 15 per cent from a year ago.

Rising costs and weakened demand are expected to force Baumann to cut some of its 1,200 workers and put others on a furlough scheme.

"Unfortunately, we will be forced to part with the temporary workers we employ, because we expect next year to be even worse," said Brockschnieder.

The industry believes the government should intervene to correct what many housebuilders see as a market failure. They argue that, unlike the previous downturns of the 1990s or early 2000s, residents of large cities such as Berlin, Munich, Hamburg, Cologne and Frankfurt still face a shortage of affordable homes.

“The current conditions; — much higher construction costs and an increase of interest rates, are scaring off investors and builders,” said Jörg Hegestweiler, chief executive of BKL Baukran Logistik, which sells and rents cranes to the construction sector.

In September, the industry agreed a 14-point action plan with the federal government that included a mix of tax benefits, attractive subsidy programmes, the lowering of energy-saving standards and simplification of planning and approval procedures.

Building minister Klara Geywitz said the package of measures unveiled last week would speed up the sector’s revival by lowering bureaucratic and legal hurdles for builders.

Felix Pakleppa, managing director of ZDB, an association representing 35,000 construction companies, said the package of measures offered a “glimmer of hope” but more was needed.

Schubert-Raab, who is also president of the ZDB, said businesses still lacked certainty. “Our industry is not a greyhound track — it takes between two to three years for a property to go from the planning stage to being ready for occupancy,” he said. “People wanting to build need security. Without it, nobody will invest.”