

European housing industry faces challenges



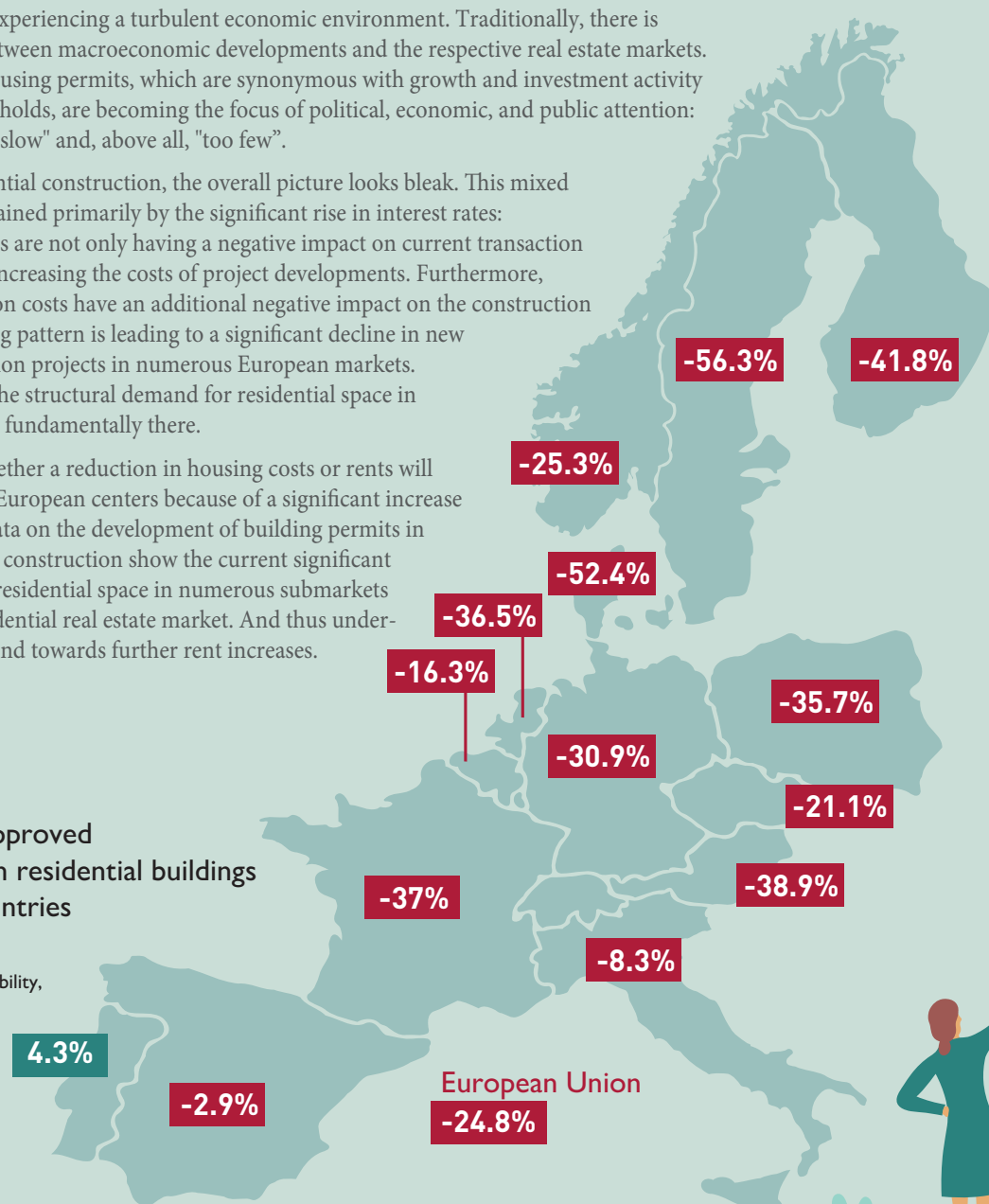
Europe is currently experiencing a turbulent economic environment. Traditionally, there is a high correlation between macroeconomic developments and the respective real estate markets. At present, falling housing permits, which are synonymous with growth and investment activity among private households, are becoming the focus of political, economic, and public attention: "too expensive," "too slow" and, above all, "too few".

For European residential construction, the overall picture looks bleak. This mixed situation can be explained primarily by the significant rise in interest rates: higher financing costs are not only having a negative impact on current transaction activity but are also increasing the costs of project developments. Furthermore, increased construction costs have an additional negative impact on the construction industry. This phasing pattern is leading to a significant decline in new residential construction projects in numerous European markets. This is even though the structural demand for residential space in metropolitan areas is fundamentally there.

It is questionable whether a reduction in housing costs or rents will be recorded soon in European centers because of a significant increase in supply. Current data on the development of building permits in European residential construction show the current significant decline in approved residential space in numerous submarkets of the European residential real estate market. And thus underpin the long-term trend towards further rent increases.

Development approved square meters in residential buildings for selected countries

(Selection of countries according to Data availability, Values Q1 2023, compared to Q1 2022)



In numerous European countries, the number of approved square meters of usable floor space in residential buildings in the first quarter of 2023 was significantly below the respective level of the previous year.

In Sweden, for example, the level of approved square meters of usable floor space in residential buildings in the first quarter of 2023 was more than 50% below the level in Q1/2022. Significant declines in approved floor space were also recorded in Denmark, Finland, Poland, Germany, the Czech Republic, Austria, and France. The southern European housing markets in Spain and Italy are comparatively robust.

Only Portugal recorded growth.

However, even in the Q2 figures - which are only available for individual countries - the Europe-wide trend of declining permits is continuing. In structural terms, this is creating a supply deficit, which on the one hand is causing rents to rise in the existing stock, and on the other is encouraging greater social disparity.

