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"Depopulation to affect regional real estate prices": Seven questions for Markus M. Grabka

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Dr. Markus M. Grabka, Research Associate in the Socio-Economic Panel (SOEP) research infrastructure at DIW Berlin

SEVEN QUESTIONS FOR MARKUS M. GRABKA

»Depopulation to affect regional real estate prices«

1. Mr. Grabka, you have studied the effects of the demographic shift on residential real estate prices in Germany. What does population growth in the coming decades look like? We based our work on the population forecast coordinated by the German Federal Statistical Office (Statistisches Bundesamt), which currently extends to 2060. According to that projection, the population of Germany will shrink by between eight and 13 million persons by then, depending on the level of migration to the country.

2. Your study's goal is to generate a model-based projection of residential real estate prices dependent upon the demographic trend until 2030. What exactly does this involve? Residential real estate prices are influenced by both supply- and demand-side determinants. In the case of demand-side determinants, changes in overall population as well as changes in population structure should have an effect on residential real estate prices. This means the level of depopulation we expect Germany to experience in the coming decades should have an effect on residential real estate prices by region.

3. Are you saying that supply will remain the same, demand will drop, and the price of residential real estate will fall as well? That is a simplified yet accurate explanation. The supply side of the residential real estate market changes very slowly. The real estate market is special because its "goods" cannot react quickly to market trends. The advance-planning phase for new buildings is rather long. Accordingly, the market reacts to strong demand-side determinants such as depopulation quickly and decisively in comparison.

4. So will residential real estate prices in Germany plummet in the future? According to our calculations, prices will develop very different regional patterns. We presume that in Germany's rural regions aging and depopulation will have a significant impact. In regions such as Saxony-Anhalt, for example, residential real estate prices will plummet in affected rural districts. At the same time, residential real estate prices in regions with population growth—in Germany, mainly large cities—will probably rise slightly.

5. Is there a general difference between eastern and western Germany in this regard or only between rural and urban regions? The relevant differences are no longer between eastern and western Germany. Instead, they are between regions that show population growth and those in which are trending toward depopulation, depending on the rural district in question and its population structure.

6. Which type of residential real estate will be most affected by a decline in price, single- and two-family homes or condominiums? Our simulation supports the findings described in the literature, which indicate that the price of condominiums reacts more strongly to demographic change than the price of single- and two-family homes. This is primarily because most condominiums are located in urban centers and the demographic shift exercises a stronger effect there than in rural areas.

7. What does a shift in residential real estate prices mean for the distribution of wealth in Germany? Owner-occupied real estate is still the most important component of wealth in Germany. Due to the increasing polarization of residential real estate prices, the inequality associated with this component of wealth will increase. Overall and for purely demographic reasons, this will probably lead to a slight increase in inequality in wealth in Germany until 2030.

Interview by Erich Wittenberg

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