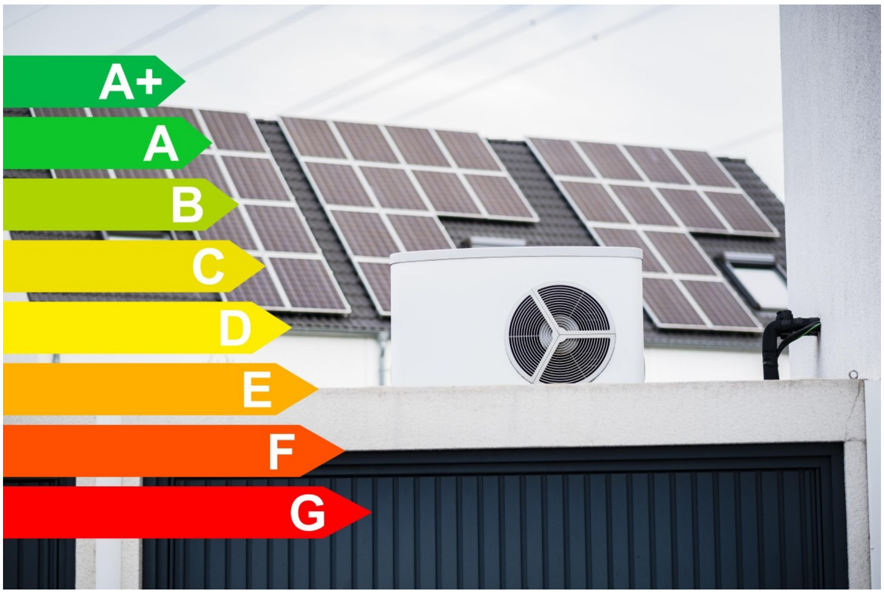
Carrot and Stick: The key to Germany's green housing transition

'*We'll only make energy-efficient home renovations if you force us*'; so say around a third of German homeowners, and that's just one result from a recent ING survey. We think that if you're going to make a success of the green transition in the country's housing market, you're going to need a carrot-and-stick approach



What's hindering the green transition in Germany's housing market?

The buildings sector has enormous potential to contribute to the German economy's green transition; after all, it accounts for some 30% of total greenhouse gas emissions. However, the path to 'greener living' has been anything but smooth. The last few years have been characterised by elevated policy uncertainty, with new rules, withdrawn rules, new subsidies, withdrawn subsidies.... you get the picture. And this back-and-forth is seriously not helping.

Financial considerations are the biggest barrier

But uncertainty isn't the main barrier preventing an acceleration in the housing market's green transition. Financing and the willingness to financially contribute to the green transition are. At least that's according to the results of the latest ING consumer survey.

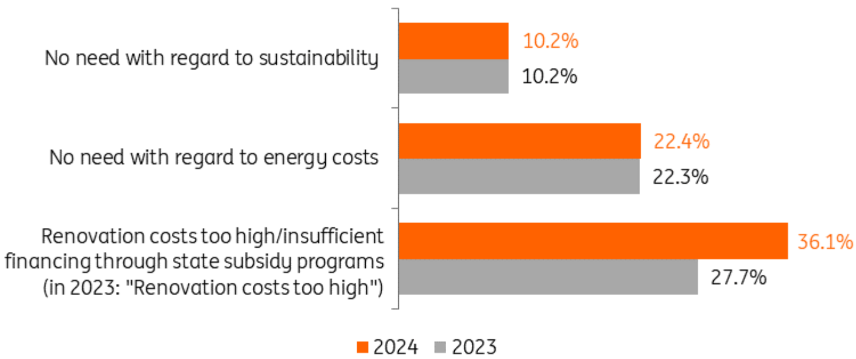
Two-thirds of the homeowners surveyed stated they'd taken measures to increase their home's energy efficiency in the past three years. However, most of these were related to reducing the energy consumption of their devices. Less than 50% of respondents carried out actual measures on the building, such as installing a new heating system or improving thermal insulation.

At the same time, a third of respondents had not taken any energy efficiency-improving measures in the past three years. According to the survey, financing costs are too high, and government support programmes are insufficient. More than a third of those who had not taken any green renovation measures in the past three years said that this was due to financial difficulties.

What prevented you from increasing the energy efficiency of your property?

Homeowners who'd stated they'd not carried out measures to increase the energy efficiency of their property in the past three years.

The top 3 answers



Source: ING Consumer Research

In fact, the green transition on the German housing market comes at a price. A back-of-the-envelope estimate yields an average cost of 350 billion to 1 trillion euros at current prices to achieve the required energy savings, depending on whether the energy savings are reached via deep renovations or smaller-scale measures. Thus, the average cost of a green renovation would range between 25,000 and 76,000 euros per home.

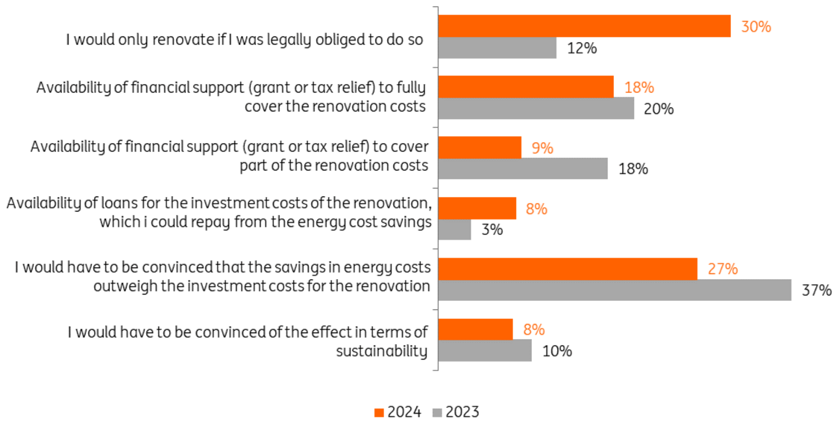
The green transition is still an uphill battle

So, it doesn't come as a surprise that the results of our latest ING consumer survey indicate that the green transition in the housing market will prove to be an uphill battle unless more financial support is provided. A quarter of those respondents who have not yet taken any measures to improve their homes' energy efficiency would only consider doing so in the future if the renovation costs were fully or at least partially covered by subsidies or tax relief.

A further 30%, however, would only take energy efficiency-improving measures under coercion. Neither energy cost savings nor financial support would suffice as an incentive for green renovations. The findings of our ING consumer survey thus suggest that, in addition to financial support, clear government guidelines are needed for the green transition in the housing market to gain momentum.

Would you consider taking energy-efficient measures under certain circumstances?

With regard to measures to increase the energy efficiency of their home, respondents were asked what their minimum requirement would be.



Source: ING Consumer Research

The European Commission has cracked the whip, but who's listening?

Interestingly, we are getting a clear message here. While the European Commission abandoned its goal of making all homes in the EU carry at least an energy label of D by 2033, it adopted the revised EU Energy Performance of Buildings Directive (EPBD) in April this year. This regulation requires that the average energy consumption of the entire housing stock should be reduced by 16% - compared to 2020 - by 2030. The European Commission also set out that 55% of primary energy savings should be achieved by renovating the 43% most energy-inefficient homes.

Government pressure to renovate is already here, at least in theory. In practice, it will probably still take until 2026 before the EU legislation is implemented into national law.

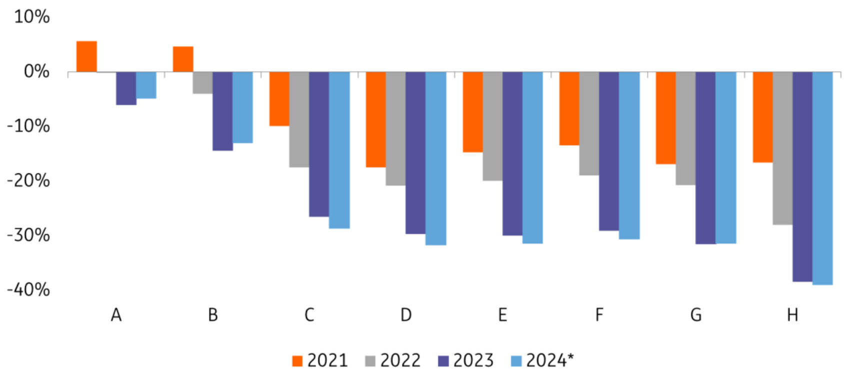
The green transition - or the lack of it - is making its mark

While a clear regulatory direction is still pending, the green transition, or the lack thereof, is already leaving clear marks in the housing market, and this impact could even intensify as regulation progresses. One in two respondents surveyed in our latest ING consumer survey expects the affordability of buying energy-efficient housing to deteriorate as a result of upcoming stricter regulations.

Over the past few years, the price gap between energy-efficient homes and their energy-inefficient counterparts has already widened substantially. However, given that financing and construction costs remain elevated, it might very well be that any savings resulting from buying a less energy-efficient home will be fully absorbed by high renovation costs.

Deviation in property costs per energy efficiency class

From energy efficiency class A+



Source: ING
*as of October 2024

On the other hand, the price premium paid for energy-efficient homes has increased significantly. Investing in an already renovated property or an energy-efficient new build instead of renovating an existing home may save the potentially high renovation costs, but a premium for the property's 'G-Factor', the degree of greenness of a home, will eventually be demanded. Looking ahead, this price premium could increase even further as regulation tightens.

Carrot and stick will be key for a successful green transition

The green transition of the German housing market will only gain momentum when the crack of the EU Commission's whip is heard clearly across Germany. However, simply mandating green renovations will not be enough. With financial issues and a lack of willingness to financially contribute being the main obstacles to a successful green transition of the housing market, those who push must also promote.

For the green transition to succeed, it needs both the carrot to reduce the barriers to green investments and the stick to get that investment activity actually moving at pace.

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