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Turnaround in sight for the construction industry; political pressure for action is nonetheless increasing

- Real construction volume will fall for the fifth year in a row in 2025 by nearly one percent
- Despite an expected trend reversal in 2026, there is still an acute residential construction crisis
- Emergency program for social housing is necessary to combat the housing shortage

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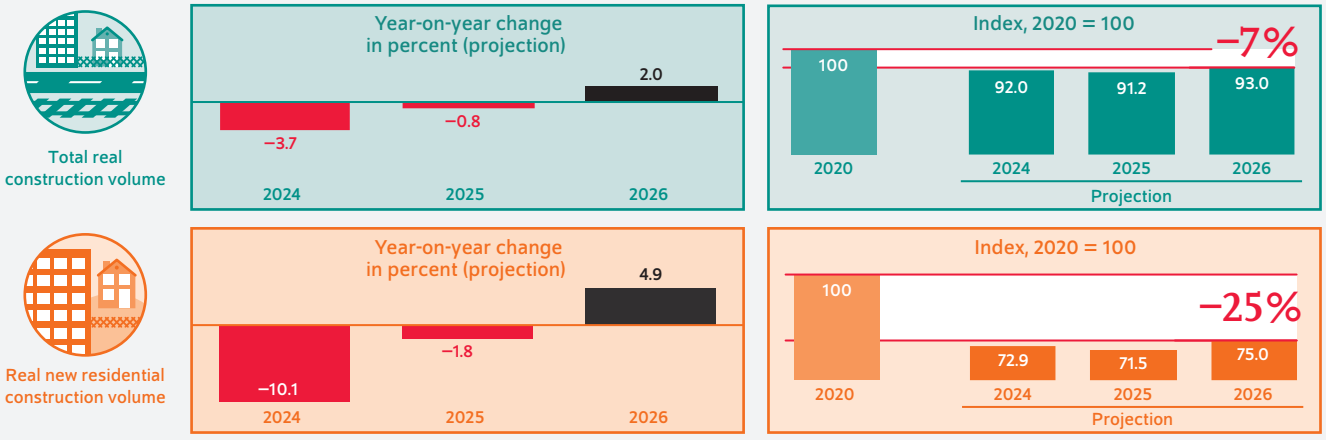
AT A GLANCE

Turnaround in sight for the construction industry; political pressure for action is nonetheless increasing

By Christian Danne, Martin Gornig, and Laura Pagenhardt

- Real construction volume to decline for the fifth year in a row in 2025 by nearly one percent
- Construction industry could manage a trend reversal in 2026, but will remain seven percent below its peak 2020 value
- The decisive factor is the new residential construction volume, which is likely to be around 25 percent below the 2020 level in 2026
- Housing shortage cannot be solved quickly by measures such as higher depreciation of investments and attempts to counter construction cost increases
- Emergency program for social housing is necessary to combat the housing shortage

A trend reversal is expected in 2026, but construction volume will remain far below the pre-COVID level, especially in new residential construction



Source: DIW Berlin Construction Volume Calculation.

FROM THE AUTHORS

"It is difficult to reduce construction costs by reducing the number of building regulations. However, the time it takes to obtain a building permit has increased significantly in recent years. We could reduce turnaround times by means of digitalization, simplification, and more experimentation. After all, faster approval procedures ultimately also reduce costs." — ***Martin Gornig*** —

MEDIA

Audio Interview with Martin Gornig (in German)
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Turnaround in sight for the construction industry; political pressure for action is nonetheless increasing

By Christian Danne, Martin Gornig, and Laura Pagenhardt

ABSTRACT

Real construction volume is expected to decline for the fifth year in a row: A decline of nearly four percent is expected for 2024 and it should fall by almost one percent in 2025. However, the construction industry may manage to reverse the trend in 2026, when real construction volume is projected to grow by two percent. However, this should not obscure the fact that the declines over the past years have created an even greater gap between construction demand and output. Infrastructure is ramshackle in many places, older buildings are frequently insufficiently insulated, and the housing crisis in cities has worsened. Political pressure, especially to fix the housing shortage, is increasing. Higher degressive depreciation on investments in new residential construction or measures to limit construction cost increases and to speed up related processes are important for improving the structural investment conditions in residential construction. However, these measures are not a quick solution to the housing shortage in cities; this issue requires an emergency program to restart social housing construction.

The German construction industry has endured a difficult past few years. High interest rates and exploding construction prices have led to increased costs and made financing construction projects significantly more difficult. This caused order and permit numbers to slump between 2022 and 2024. For the first time since the financial crisis, nominal construction volume declined in 2024. In real terms, however, construction volume declined for the fourth year in a row. The declines in residential construction were significant: Households were either scared off by the high costs or they simply could not afford construction projects anymore. In addition, real income developed weakly. The sluggish economy slowed the construction of non-residential buildings such as factories and office buildings. In contrast, infrastructure projects have been supporting construction volume until recently.

However, the situation will likely stabilize in 2025. Order figures are showing signs of bottoming out and interest rates have recently dropped again slightly. Nevertheless, significant growth is not yet expected, as the economy should remain weak overall in 2025. Households in particular are likely to remain cautious in light of labor market concerns and uncertainty around income development, especially in the first half of 2025. Civil engineering is the only sector that will continue to experience robust growth. In 2026, construction volume is expected to rebound in nominal and real construction terms, driven by an upturn in new residential construction, These are the results of DIW Berlin's construction volume calculations,[1] which include construction investments as well as repairs that do not increase value. Furthermore, in addition to construction in the narrower sense, the calculations encompass related sectors, such as steel and light metal construction, the manufacture of prefabricated buildings, building fittings, planning, and other services. As a supplement to the investment calculation of the Statistical Offices, DIW Berlin's annual construction

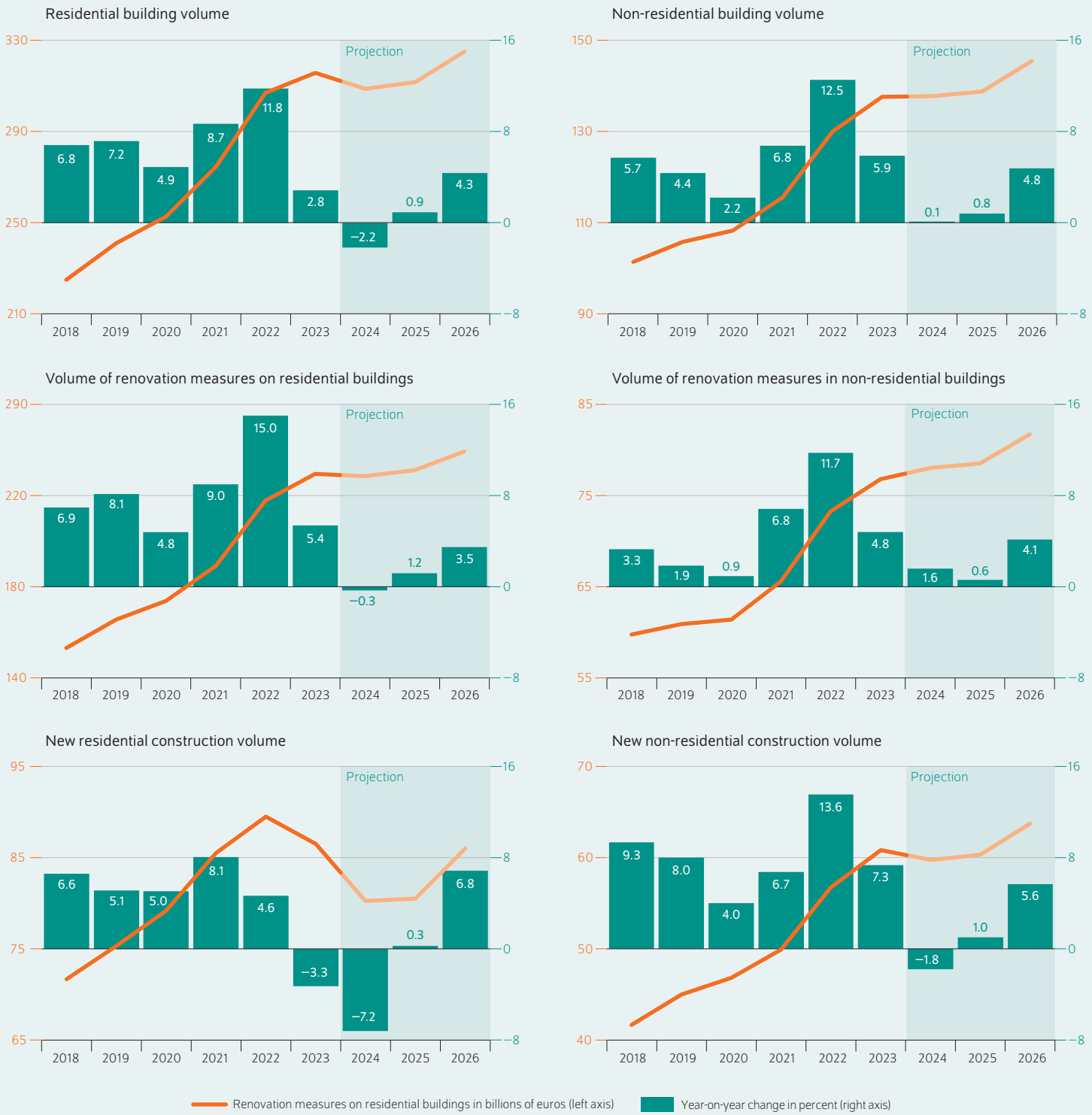
1 The construction volume calculation is financed with funds from the *Zukunft Bau* research initiative of the Federal Ministry for Housing, Urban Development and Building (*Bundesministerium für Wohnen, Stadtentwicklung und Bauwesen*, BMWSB). Also see the definition of *Bauvolumen* in the DIW Glossary (in German; available online, accessed on December 16, 2024. This applies to all other online sources in this report unless stated otherwise).

DOI: https://doi.org/10.18723/diw_dwr:2025-1-1

Figure 1

New and existing building construction in Germany

In billions of euros in current prices (left axis), year-on-year change in percent (right axis)

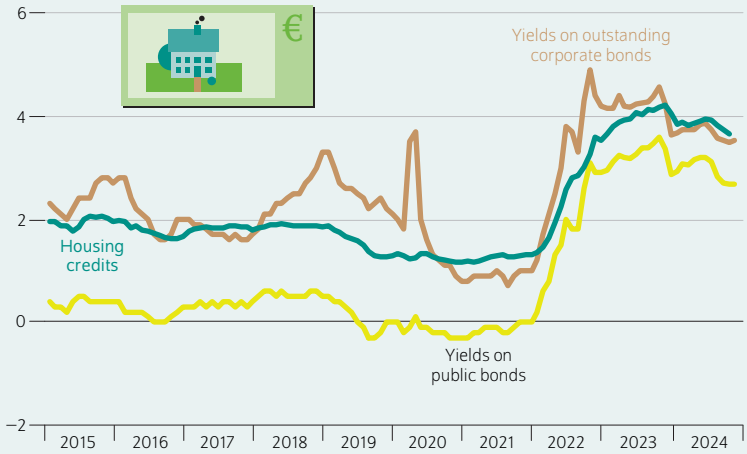


Source: DIW Berlin Construction Volume Calculation.

New construction activity in building construction should increase again in 2026.

Figure 2

Interest rates and yields
In percent, monthly average



Source: Deutsche Bundesbank.

Personal loan interest rates fell slightly under the 2023 average until autumn 2024, but have since remained markedly above the pre-coronavirus level.

volume figures differentiate between new housing construction activity and housing stock modernization.[2]

In addition to calculating and documenting the construction volume of past years, DIW Berlin also forecasts corresponding values for the current (2025) and upcoming year (2026) (Box). This forecast is integrated into DIW Berlin's Economic Outlook, particularly with regard to investment activity. On top of the present estimates regarding the development of total construction investment, the construction volume calculations include separate forecasts on the volumes of new and existing housing in the building construction as well as forecasts for the residential, and non-residential sector. Moreover, these figures are used to derive the development trends of the core construction industry and the renovation sector.

Residential construction is bottoming out

Residential construction remained the largest problem child of the German construction industry in 2024. Demand had already slumped dramatically in previous years due to rapidly rising prices and increasingly difficult financing conditions in the aftermath of the European Central Bank's (ECB) interest rate hikes. Residential construction did not recover in 2024, as the framework conditions remained very unfavorable (Figure 1). While personal loan interest rates fell slightly below the previous year's average towards the end

Box

Method for forecasting construction volume

Indicator-based statistical models are used to forecast the construction volume. The forecasting variable, for example residential construction volume, is regressed on an autoregressive term and on concurrent as well as lagged values of the respective indicator, for example new orders. The construction volumes of new and existing buildings are estimated separately.

The forecast equation is as follows:

$$y_t = \alpha + \sum_{i=1}^{n} \beta_i y_{t-i} + \sum_{j=1}^{m} \gamma_j x_{t-j} + \varepsilon_t$$

Indicator-based statistical models are used to forecast the construction volume. The forecasting variable, for example residential construction volume, is regressed on an autoregressive term and on concurrent as well as lagged values of the respective indicator, for example new orders. The construction volumes of new and existing buildings are estimated separately.

y_t stands for the value to be forecast, x_t for the indicator, and ε_t for the statistical error term. α, β_i, and γ_j are the estimated parameters. The numbers of lags n and m (years) are determined based on the autocorrelation or cross-correlation function. The approach of estimating a large number of individual models and using average values for the forecast has proved effective. For an individual series, up to 1,500 single models are estimated. Construction permits, new orders and the order backlog, production, interest, loan volumes, employment and income trends, and surveys of construction companies and freelance architects have proven to be suitable indicators.

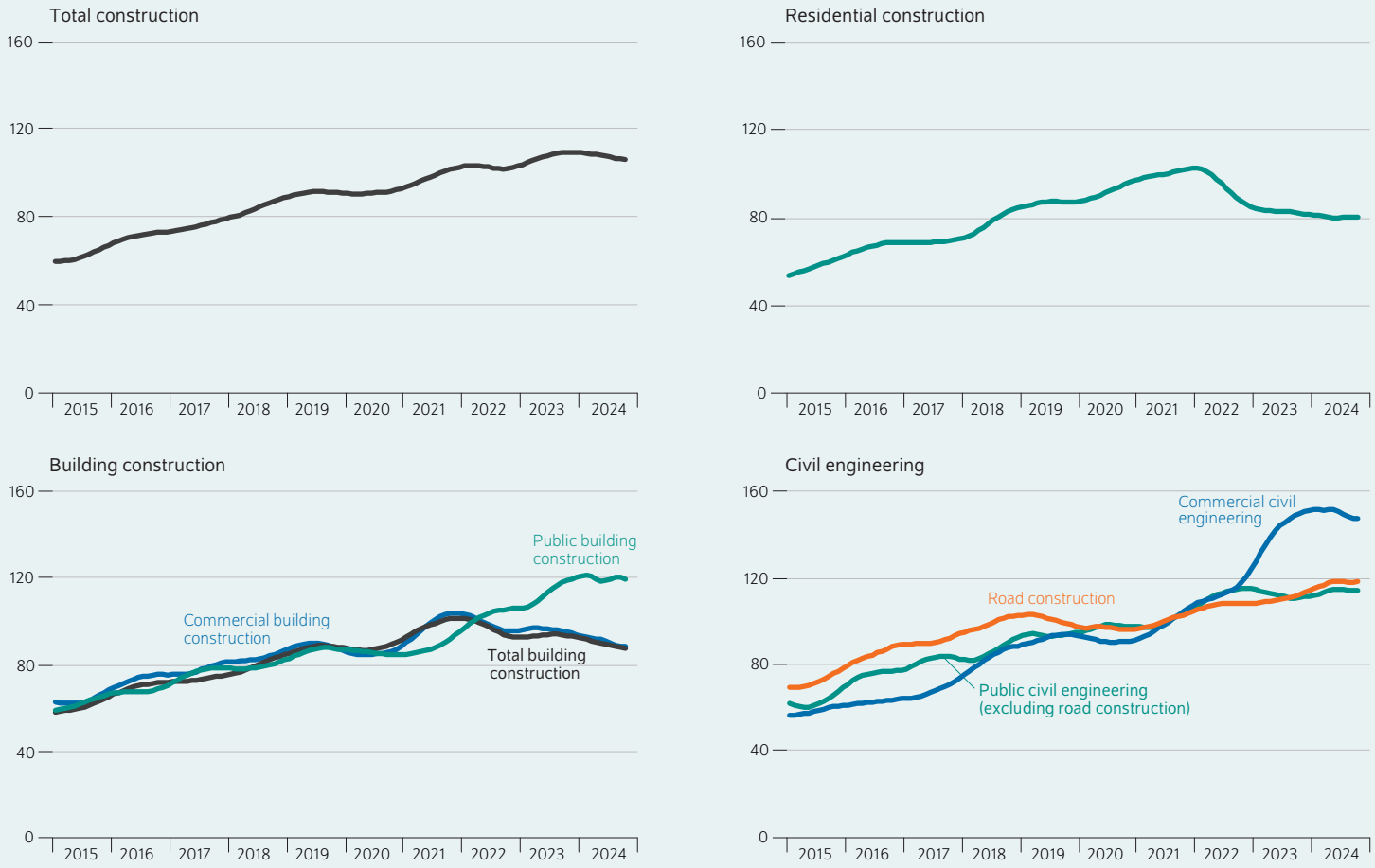
Using this approach, a forecast with a prediction capability of up to two years can be made for all aggregates. It should be noted, however, that the number of point estimates used for averaging decreases significantly as the forecast range increases due to the different prediction capabilities of the individual indicators. To provide the forecast with additional stability, expectations for employment and GDP for 2024 to 2026 are therefore also included in the models as concurrent indicators. Expected civil engineering work is equal to the difference between total volume and construction volume.

The construction volume forecast for 2024 is also calculated using this method (nowcast). The indicators are updated using statistical methods to obtain values for 2024. All model results are rationalized using the construction investment forecast. Assumptions about the development of construction prices are based on the Winter 2024 Joint Economic Forecast and the authors' calculations. Price forecasts are adjusted for each sector.

2 Martin Gornig and Hanna Révész, "Strukturdaten zur Produktion und Beschäftigung im Baugewerbe – Berechnungen für das Jahr 2023," *BBSR-Online-Publikation* no. 115 (2024) (in German; available online).

Figure 3

New orders in the main construction industry
Index 2021 = 100, current prices, trend component



Source: Federal Statistical Office.

In 2024, incoming orders in residential construction stabilized at around the 2014 level.

of 2024, they remained markedly higher than in the previous five years (Figure 2). Even though construction price inflation continued to slow down when compared to 2020–2023 levels, prices did not decline as expected despite the slump in demand. Construction projects became extremely cost intensive and were no longer possible for many households. The weak economy and decline in international competitiveness of key industrial sectors of the German economy became more noticeable on the labor market and likely dampened construction demand further. Employment declined in almost all sectors over the course of 2024, resulting in a noticeable increase in unemployment. Employment worries and uncertainty about future earning prospects may have encouraged many households to save and to not undertake construction projects.

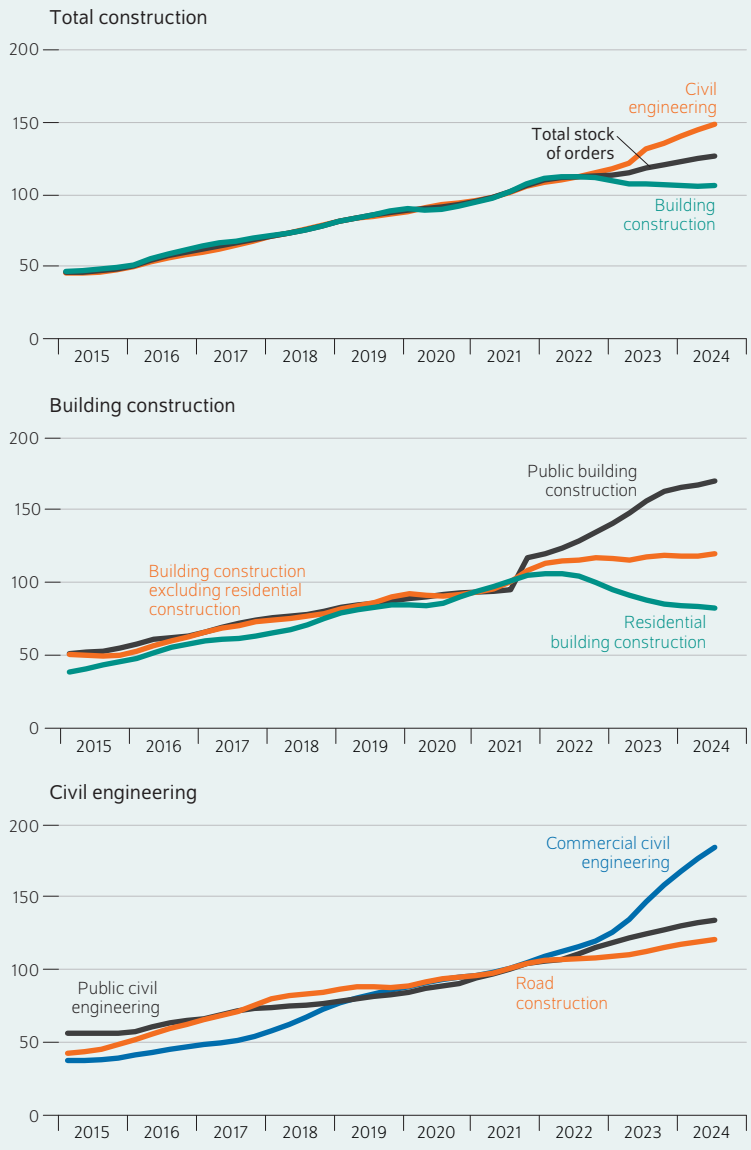
This rapid downward slide should lose speed in 2025, as residential construction seems to have reached an extremely low nadir: Incoming orders stabilized at a low level in 2024 (Figure 3). Project cancellations have also become a lesser problem as of late according to the ifo Institute.[3] As a result, the stock of orders has remained nearly constant for some months now (Figure 4). Moreover, recent survey data by the *Zentralverband Deutsches Baugewerbe (ZDB)* show that in autumn 2024, residential construction companies, on average, had project pipelines that will sustain them for five months, a number that has not declined any further since 2023.[4] However, major growth is not expected: Capacity utilization in building construction was still only slightly above 60 percent and significantly below the long-term average (Figure 5). According to ifo survey data, nearly half of residential construction companies are complaining about a lack of orders. The business climate is still considered to be

3 ifo-Institute, "Mehr als die Hälfte der Wohnungsbau-Unternehmen hat zu wenig Aufträge," press release from December 5, 2024 (in German; available online).

4 Zentralverband des Deutschen Baugewerbes, "Baukonjunktur 2024/2025," press release from December 6, 2024 (in German; available online).

Figure 4

Stock of orders in the main construction industry
Index 2021 = 100, current prices, trend component



Source: Deutsche Bundesbank.

The order backlog in residential construction has remained virtually constant in recent months.

extremely poor, but has improved slightly as of December 2024. The business expectations of residential construction companies have brightened somewhat recently but remain subdued.

From mid-2025 onwards, the economy is expected to stabilize and overall uncertainties should be declining.[5] This means that households can then spend their increased savings and begin new residential construction projects, which will come to fruition in the following years. The acute housing shortage and the skyrocketing rents in the cities, especially compared to the decline in real estate prices (Figure 6)[6] are likely to do the rest to support residential construction.

Overall, the nominal residential construction volume is expected to have decreased by 2.2 percent in 2024. Due to the continual rise in construction prices, this implies an even stronger decline in real terms of 5.1 percent. In 2025, the residential construction volume is expected to increase slightly (0.9 percent). However, as prices are also expected to continue to rise, the residential construction volume in price-adjusted terms will decline by another by 1.2 percent. Nominal growth of 4.3 percent and real growth of 2.4 percent are expected for 2026.

New residential construction to slowly pick up speed at the beginning of 2026

Residential construction continues to be most affected by overall weak development, with difficult financing conditions likely playing the decisive role. Many households consider new construction projects unfeasible. Building permits, especially for detached and semi-detached houses, continued their downward trend over the course of 2024, dropping to their lowest value in over ten years in the autumn, less than half of the highest value from the beginning of 2022 (Figure 7). New building permits fell significantly more than permits for renovation and modernization measures (Figure 8).

Modest growth in new residential construction is expected for 2025 due to the weak building permit and order figures of the past few years. Once the economy recovers in the second half of 2025, the labor market stabilizes, and the interest rate remains stable, households should be more confident about the future and invest more in new construction projects. Residential construction should increase even more strongly in 2026, in part because many projects can be implemented more quickly due to the currently weak capacity utilization.

Following a marked decline in 2024, construction volume is expected to slightly expand by 0.3 percent in 2025. A substantial expansion of 6.8 percent is likely for 2026. In light of stable price development, there will be a real decline of 1.8 percent in 2025 and and a real growth of 4.9 percent in 2026.

Work on existing buildings remains attractive

Renovation and modernization measures have supported the overall housing construction activity over the past years. Although there is also likely to be a decline in renovation and modernization in 2024, it will be significantly lower than in

5 Geraldine Dany-Knedlik et al., "DIW Berlin Economic Outlook: German Economy Stuck in Limbo While Trade Conflicts Threaten the Global Economy," *DIW Weekly Report* no. 50/51/52 (2024): 311–322 (available online).

6 Konstantin A. Kholodilin and Malte Rieth, "Preise am Wohnungsmarkt stabilisieren sich – Nachfrage hoch, Angebot weiter zu knapp," *DIW Wochenbericht* no. 51/52 (2024): 847–856 (in German; available online).

new construction. The decline in incoming orders for new construction, which has been ongoing for some time now, is presumably now also having an impact on builders' capacities to complete interior works, which only come into play later in the construction process. Accordingly, more builders will likely be available for renovation and modernization projects. A similar shift in capacity was seen in 2023 with the completion of new construction projects that had been started. This also explains why employment in the construction industry has fallen less sharply than construction activity.

The fact that households are increasingly switching to renovation and modernization measures is also reflected in the costs for approved construction projects: At the start of 2022, the costs for new construction and for work on existing buildings were still at similar levels. While new construction costs have since fallen by half, the costs for renovation and modernization measures remained virtually constant (Figure 8). Energy-related renovations may continue to play a key role, as energy prices remain high despite declines and carbon pricing is rising.

Measures on existing residential buildings should remain stable, supported in part by the moderate price decline in residential real estate, which makes the purchase and renovation of existing buildings more attractive than new construction (Figure 6). Moreover, specific funding opportunities such as in the *Jung kauft Alt* (Young Buys Old) program should have a positive effect.[7] Independent of the purchase of property, the German government promotes and subsidies energy-efficient building renovations via several funding programs. Subsidies were increased again in 2024 as a part of the Climate and Transformation Fund *(Klima- und Transformationsfond, KTF)*.[8] At the same time, the effects of the uncertainty regarding the amendment to the Buildings Energy Act are likely to fade more and more.

Renovation and modernization measures should develop robustly over the further course, increasing nominally by 1.2 percent in 2025 and by 3.5 percent in 2026. Price-adjusted, this equates to a decline of 0.9 percent in 2025, while the volume of measures is likely to increase by 1.5 percent in 2026.

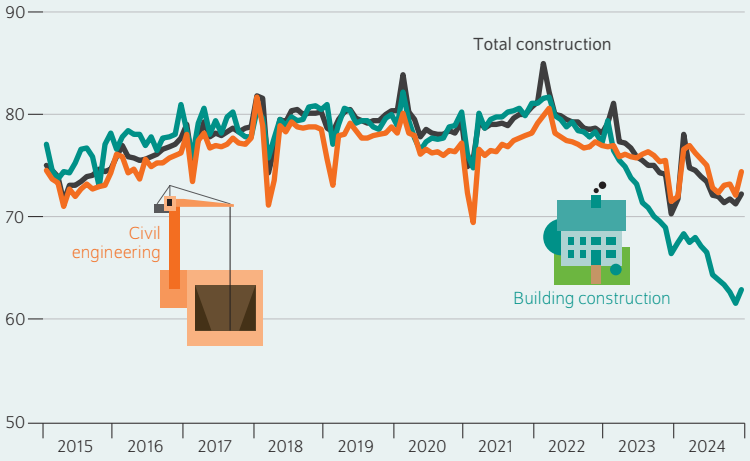
Non-residential construction still weakened by economic slowdown

Non-residential construction has also been experiencing weak growth over the past years due to difficult financing conditions for companies and, primarily, weak overall economic development. Incoming orders declined somewhat over the course of 2024, especially in commercial building construction, where the downturn is having a strong impact (Figure 3). Public orders declined slightly as well, although they remain at an overall higher level. The stock of public orders even reached peak values recently (Figure 4).

The ongoing weak economic development is likely to dampen non-residential construction and commercial building

Figure 5

Capacity utilization in the construction sector
As a percentage of normal seasonal machine utilization

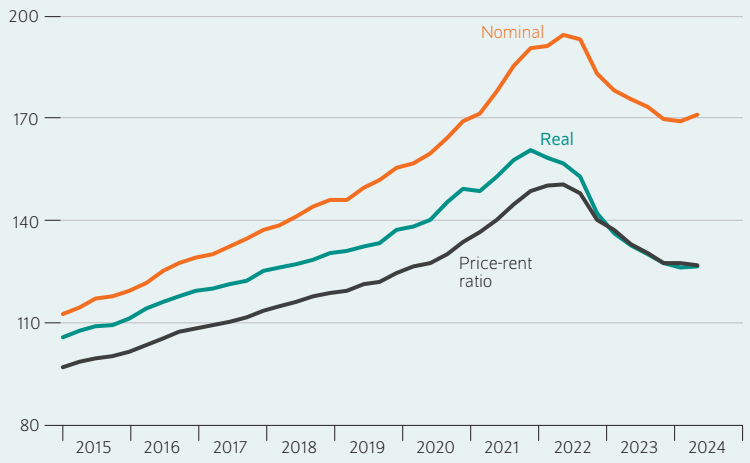


Source: ifo Institute.

Capacity utilization in building construction also experienced a sharp decline in 2024.

Figure 6

Residential real estate prices
Index 2010 = 100



Source: BIS, OECD.

Real estate prices fell once again over the past three years.

7 "Young Buys Old" is a funding scheme by the German government that grants low-interest rate mortgages for young families with at least one child under the age of 18 to buy existing properties that require a significant amount of investment into up-to-date energy efficiency. KfW, "On behalf of the German Federal Government, KfW provides funding for families buying residential properties in need of refurbish," press release from September 2, 2024 (available online).

8 Martin Gornig und Katrin Klarhöfer, "Energy-Efficient Building Renovation: PriceAdjusted Investments Declining; Trend Reversal Needed to Reach Climate Targets," *DIW Weekly Report* no. 46 (2024): 278–283 (available online).

Table 1

Residential construction volume in Germany

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2019	2020	2021	2022	2023	2024	2025	2026
	Current prices in billions of euros									Year-on-year change in percent							
New construction volume[1]	71.7	75.4	79.2	85.6	89.5	86.5	80.3	80.5	86.0	5.1	5.0	8.1	4.6	−3.3	−7.2	0.3	6.8
Construction on existing buildings[2]	153.1	165.5	173.5	189.1	217.6	229.2	228.5	231.2	239.2	8.1	4.8	9.0	15.0	5.4	−0.3	1.2	3.5
Total residential construction volume	224.8	240.9	252.7	274.7	307.1	315.8	308.8	311.7	325.2	7.2	4.9	8.7	11.8	2.8	−2.2	0.9	4.3
	Shares in percent																
New construction volume[1]	31.9	31.3	31.3	31.1	29.1	27.4	26.0	25.8	26.4								
Construction on existing buildings[2]	68.1	68.7	68.7	68.9	70.9	72.6	74.0	74.2	73.6								
Total residential construction volume	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0								
	Index, 2015 = 100																
Price development	110.3	115.2	117.3	127.3	145.7	155.0	159.5	162.8	166.0	4.5	1.8	8.5	14.4	6.4	2.9	2.1	1.9
	Real, chain index 2015 = 100																
New construction volume[1]	115.6	116.4	120.1	119.5	107.8	97.4	87.5	85.9	90.1	0.7	3.2	−0.5	−9.8	−9.7	−10.1	−1.8	4.9
Construction on existing buildings[2]	105.9	109.8	113.1	113.6	114.3	113.2	109.5	108.5	110.2	3.6	3.0	0.5	0.6	−1.0	−3.2	−0.9	1.5
Total residential construction volume	108.9	111.8	115.2	115.4	112.4	108.4	102.8	101.6	104.1	2.7	3.1	0.2	−2.6	−3.5	−5.1	−1.2	2.4

1 Estimated using the estimated construction costs (construction activity statistics), plus surcharges for architects' services and fees, exterior facilities, and internal activities of investors.
2 Buildings and housing modernization (incl. conversion and extension measures) as well as repair services in the construction industry.

Sources: Federal Statistical Office; DIW Construction Volume calculations.

Table 2

Non-residential construction volume in Germany

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2019	2020	2021	2022	2023	2024	2025	2026
	Current prices in billions of euros									Year-on-year change in percent							
New construction volume[1]	41.7	45.0	46.8	50.0	56.7	60.9	59.8	60.4	63.8	8.0	4.0	6.7	13.6	7.3	−1.8	1.0	5.6
Construction on existing buildings[2]	59.7	60.8	61.4	65.6	73.3	76.8	78.0	78.5	81.7	1.9	0.9	6.8	11.7	4.8	1.6	0.6	4.1
Total non-residential construction volume[3]	101.4	105.8	108.2	115.5	130.0	137.7	137.8	138.9	145.5	4.4	2.2	6.8	12.5	5.9	0.1	0.8	4.8
	Shares in percent																
New construction volume[1]	41.1	42.5	43.3	43.2	43.6	44.2	43.4	43.5	43.8								
Construction on existing buildings[2]	58.9	57.5	56.7	56.8	56.4	55.8	56.6	56.5	56.2								
Total non-residential construction volume[3]	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0								
	Index, 2015 = 100																
Price development[4]	110.5	114.6	116.9	126.6	145.7	155.8	161.0	163.6	167.7	3.7	2.0	8.4	15.1	7.0	3.3	1.6	2.5
	Real, chain index 2015 = 100																
New construction volume[1]	118.9	124.0	126.5	124.6	122.7	123.2	116.9	116.2	119.8	4.3	2.0	−1.5	−1.5	0.4	−5.1	−0.6	3.1
Construction on existing buildings[2]	93.0	91.3	90.4	88.3	85.3	83.5	82.1	81.2	82.6	−1.9	−1.0	−2.3	−3.3	−2.2	−1.7	−1.0	1.6
Total non-residential construction volume[3]	102.1	102.8	103.0	101.1	98.5	97.5	94.3	93.5	95.7	0.6	0.2	−1.9	−2.5	−1.1	−3.2	−0.8	2.3

1 Estimated using the estimated construction costs (construction activity statistics), plus surcharges for architects' services and fees, exterior facilities, and internal activities of investors.
2 Buildings and housing modernization (including conversion and extension measures) as well as repair services in the construction industry.
3 Construction volume in commercial and public building construction.
4 As no detailed information on price developments in civil engineering is available, the same price changes are assumed for civil engineering and non-residential building construction.

Sources: Federal Statistical Office; DIW Construction Volume calculations.

construction in 2024 as well. The manufacturing industry in particular is faltering considerably and will probably refrain from investing in maintenance measures for the time being. Provisional budget management in 2025 could hinder public projects if they have not already been budgeted. At the same time, local authorities, who are largely responsible for public building construction, are running into large deficits.[9]

Overall, nominal non-residential construction volume stagnated in 2024 (0.1 percent), while it declined by 3.2 percent in price-adjusted terms. Slight nominal growth is expected in 2025 (0.8 percent), while there will be a real decline of 0.8 percent. Only once the economy has recovered in 2026 is non-residential construction likely to expand in both nominal (4.8 percent) as well as real (2.3 percent) terms (Table 2).

9 Deutscher Städte- und Gemeindesbund, "Kommunalfinanzen in freiem Fall," press release from October 2, 2024 (in German; available online).

Non-residential construction: Uncertainty results in no construction

Corporate uncertainty regarding economic policy framework conditions as well as Germany as a business location increased continually over 2024. This uncertainty, coupled with sustained weak economic growth, will noticeably thwart the demand for new commercial buildings until a new government has been formed, but probably more likely until a new federal budget is passed. For example, permits, measured in pure construction prices for factory buildings, have been stagnating for a long time. In light of the strong increase in construction prices, this suggests considerably fewer approved buildings. Moreover, the possibility to work from home, which has become more prevalent since the coronavirus pandemic, is dampening the need for office buildings. According to the most recently available statistics, nearly a quarter of all employees partially worked at home in 2023. This figure was stable in 2024 and is not expected to decline much. Thus, the number of building permits for office and administrative buildings has also declined continually since 2020 (Figure 7).

As the economy recovers in 2026, more construction projects should be started. As non-residential construction projects can be realized more quickly than residential buildings due to being somewhat less complex, they could be finished and prepared for production as early as 2026.

Public building construction should benefit from a high stock of orders in 2024, provided that the funds have already been budgeted. However, the economic downturn due to reduced tax revenues is exacerbating the strained cash situation in the public sector and is likely to slow down development there too.

New construction activity in non-residential buildings is likely to increase slightly by 1.0 percent in nominal terms in 2025 before experiencing a greater increase of 5.6 percent in 2026. In price-adjusted terms, there will be a decline of 0.6 percent in 2025 as well as growth of 3.1 percent in 2026.

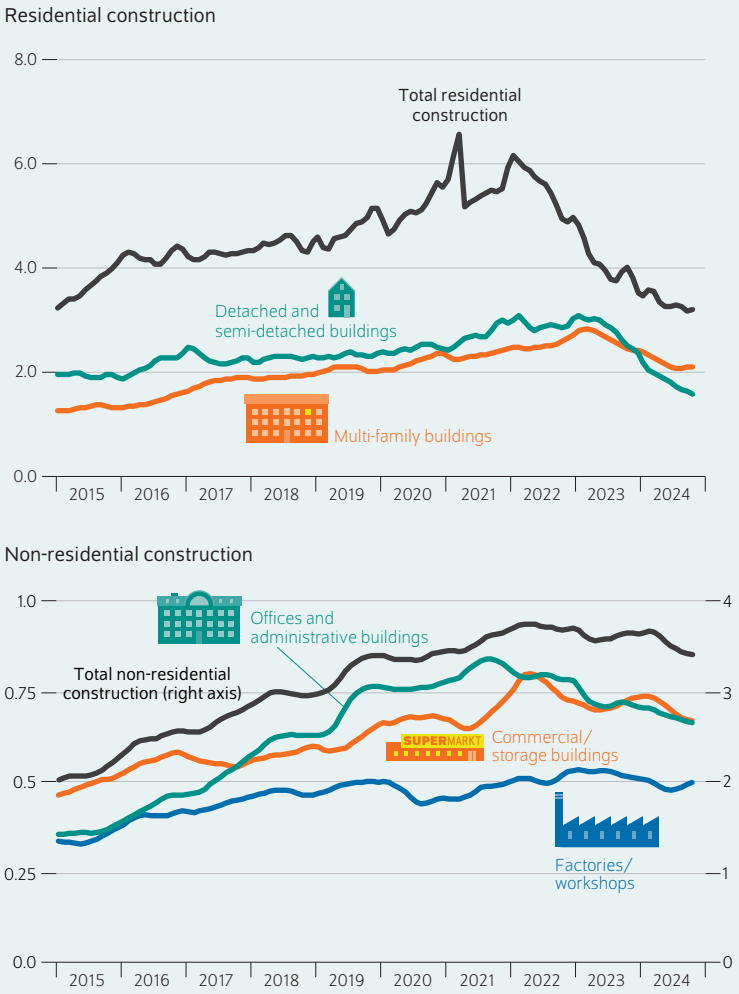
Existing buildings: Owners prefer to renovate than pay high energy bills

In contrast to new construction, construction work on existing non-residential buildings is expected to have expanded in 2024, thereby supporting non-residential construction. Instead of building new buildings, companies and public authorities seem to have invested more in retrofitting existing ones. Despite repeated declines, energy costs remain high and increase the incentive to perform energy-related renovations. In some cases, however, due to the short useful life of non-residential buildings, old buildings may be demolished and new ones built to save heating energy.

Renovation and modernization measures on non-residential buildings should grow by 0.6 percent in 2025 and by four percent in 2026. Due to ongoing price inflation, there will be a real decline of one percent for 2025. In 2026, real construction volume in this sector is likely to increase by 1.6 percent.

Figure 7

Building permits in building construction in Germany
Monthly values in billions of euros at current prices, trend component



Source: Federal Statistical Office.

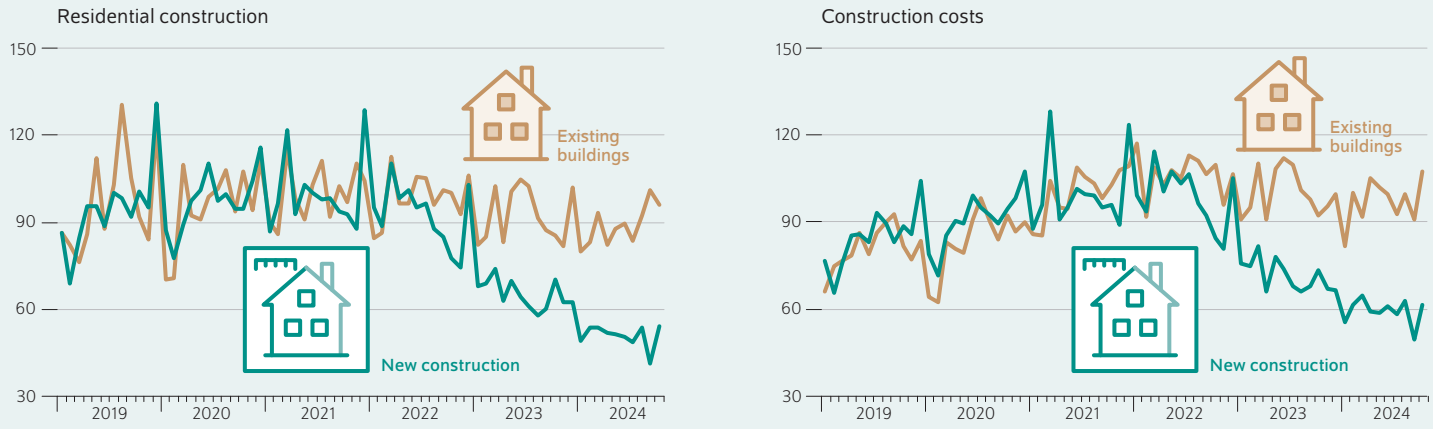
Building permits for new residential construction projects reached a ten-year low in fall 2024.

High stock of orders supporting civil engineering

In the past years, strong growth in civil engineering absorbed the sustained weak growth in building construction. In 2024, too, civil engineering is likely to have increased, though not as dynamically as in previous years. For example, capacity utilization declined in both sectors, but the decline in civil engineering was significantly less and capacity utilization remained above 70 percent (Figure 5). Civil engineering production increased on an annual average (as of October 2024), while building construction production declined markedly (Figure 9).

Figure 8

Building permits for construction measures in Germany
Indexed, monthly average 2021 = 100

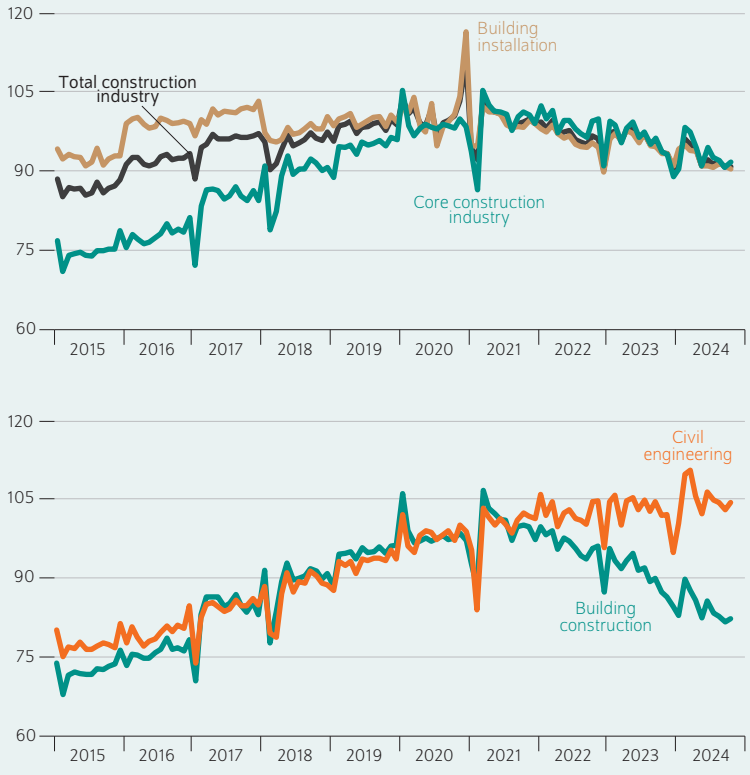


Source: Federal Statistical Office.

In 2023 and 2024, significantly more building permits were issued for existing buildings than for new construction projects.

Figure 9

Production in the construction industry
Indexed, monthly average 2021 = 100



Source: Federal Statistical Office.

Civil engineering production rose in 2024, while it fell significantly in building construction.

Civil engineering will experience a split development in 2025 and 2026: Commercial civil engineering should grow thanks to major infrastructure expansion projects as a part of the energy transition in addition to broadband expansion works. Incoming orders in this sector continued to grow in 2024 (Figure 3), resulting in existing orders recently being nearly 30 percent above the 2023 level (Figure 4).[10] Fewer growth stimuli are expected from the public sector currently. There, the number of incoming orders has recently only been developing reservedly. Following the *Bundestag* elections in February 2025, it could also take some time for new projects to emerge, even if intentional. Overall, civil engineering should have increased by 3.2 percent in 2024 and should increase by over two percent in both 2025 as well as in 2026. As prices should develop similarly, civil engineering will stagnate in price-adjusted terms. Primarily negative real rates in public civil engineering are expected in the next years, which should weigh on overall development. Commercial civil engineering is likely to increase nominally during the same period, but must deal with rising construction prices (Table 3).

End of the recession is in sight

Real construction volume is expected to decline for the fifth year in a row in 2025. It is expected to have declined by nearly four percent in 2024, and the price-adjusted decline is likely to be moderate at 0.8 percent in 2025. However, it is projected that the construction volume will expand noticeably in 2026

10 It must be noted that construction measures on the rail network, which have been reclassified as public investment in the national accounts (*Volkswirtschaftliche Gesamtrechnungen*) since the revision in summer 2024, are still recorded under commercial construction in the incoming orders and also in this Weekly Report's construction volume calculation.

Table 3

Civil engineering in Germany

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2019	2020	2021	2022	2023	2024	2025	2026
	Current prices in billions of euros									Year-on-year change in percent							
Commercial civil engineering	35.0	37.2	39.2	43.2	50.7	55.9	56.9	58.9	61.2	6.1	5.6	10.1	17.4	10.3	1.6	3.7	3.8
Public civil engineering	34.4	36.5	37.7	38.7	45.1	48.9	51.3	51.5	52.2	6.0	3.2	2.9	16.5	8.3	5.0	0.4	1.2
Total civil engineering	69.5	73.7	76.9	81.9	95.8	104.8	108.2	110.5	113.3	6.1	4.4	6.6	16.9	9.4	3.2	2.1	2.6
	Shares in percent																
Commercial civil engineering	50.4	50.5	51.0	52.7	52.9	53.4	52.6	53.4	54.0								
Public civil engineering	49.6	49.5	49.0	47.3	47.1	46.6	47.4	46.6	46.0								
Total civil engineering	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0								
	Index, 2015 = 100																
Price development[1]	113.0	118.2	119.94	127.6	149.08	160.84	166.11	169.49	173.37	4.6	1.5	6.4	16.8	7.9	3.3	2.0	2.3
	Real, chain index 2015 = 100																
Commercial civil engineering	105.7	108.1	112.0	115.2	115.2	118.9	116.8	119.6	121.0	2.3	3.6	2.9	−0.1	3.2	−1.7	2.4	1.1
Public civil engineering	111.3	112.0	114.5	111.2	111.6	111.1	113.1	110.3	109.6	0.6	2.3	−2.9	0.3	−0.4	1.8	−2.5	−0.6
Total civil engineering	108.4	110.0	113.2	113.4	113.5	115.2	115.1	115.2	115.6	1.4	2.9	0.2	0.1	1.5	−0.1	0.1	0.3

1 As no detailed information on price developments in civil engineering is available, the same price changes are assumed for civil engineering and non-residential building construction.

Sources: Federal Statistical Office; DIW Construction Volume calculations.

Table 4

Key figures for the development of construction volume in Germany

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2019	2020	2021	2022	2023	2024	2025	2026
	Current prices in billions of euros									Year-on-year change in percent							
Total construction volume	395.7	420.4	437.8	472.2	532.9	558.3	554.8	561.0	584.1	6.3	4.1	7.8	12.9	4.8	−0.6	1.1	4.1
Residential construction	224.8	240.9	252.7	274.7	307.1	315.8	308.8	311.7	325.2	7.2	4.9	8.7	11.8	2.8	−2.2	0.9	4.3
Commercial construction	116.3	122.0	124.8	135.1	154.4	164.6	164.3	167.5	175.5	4.9	2.3	8.2	14.3	6.6	−0.2	2.0	4.8
Public construction	54.6	57.5	60.3	62.4	71.5	77.9	81.7	81.9	83.3	5.4	4.9	3.5	14.5	9.1	4.8	0.2	1.8
	Index, 2015 = 100																
Price development	110.8	115.6	117.7	127.3	146.5	156.4	161.2	164.4	167.8	4.3	1.8	8.2	15.1	6.8	3.0	2.0	2.1
	Real, chain index 2015 = 100																
Total construction volume	107.0	109.1	111.6	111.2	108.8	106.6	102.7	101.8	103.8	2.0	2.3	−0.3	−2.2	−2.0	−3.7	−0.8	2.0
By construction sector																	
Residential construction	108.9	111.8	115.2	115.4	112.4	108.4	102.8	101.6	104.1	2.7	3.1	0.2	−2.6	−3.5	−5.1	−1.2	2.4
Commercial construction	103.3	104.6	104.9	104.8	102.7	102.6	99.2	100.0	102.0	1.2	0.3	−0.1	−2.0	−0.2	−3.3	0.8	2.0
Public construction	107.5	108.0	112.0	108.3	107.3	107.8	109.4	106.5	106.5	0.5	3.7	−3.2	−1.0	0.5	1.5	−2.6	0.0
By producer group																	
Core construction industry	111.0	114.0	117.9	116.1	115.2	113.6	110.6	109.1	110.8	2.7	3.4	−1.5	−0.8	−1.4	−2.6	−1.3	1.6
Renovation sector	104.1	104.9	107.2	106.3	103.5	103.5	99.4	98.5	100.5	0.7	2.2	−0.9	−2.7	0.0	−3.9	−0.9	2.0
Other producers	110.2	112.6	114.1	114.9	110.8	106.4	102.2	102.2	104.5	2.2	1.4	0.6	−3.6	−3.9	−4.0	0.0	2.2

Sources: Federal Statistical Office; DIW Construction Volume calculations.

(Table 4), and real growth is likely to be two percent. This trend reversal will be carried by residential construction, followed by commercial construction. Public construction, in contrast, is expected to stagnate in real terms.

The main construction industry is suffering in particular due to the weak development of public construction. Real growth rates are around 0.5 percentage points below the average of overall construction volume development in 2025 and 2026. Slight, above-average growth is expected for other construction work. Architectural and planning services in particular should benefit from more new construction projects.

Conclusion: Residential construction crisis remains acute, measures must be taken quickly

The construction industry is facing a turnaround and could expand again in 2026. However, this should not hide the fact that the declines over the past years have created even larger gaps between construction demand and construction output. Infrastructure is ramshackle in many places, older buildings are frequently insufficiently insulated, and the housing crisis in the cities is acute.

Even if positive growth rates are achieved again in 2026, the real construction volume will be a good seven percent below the peak value of 2020 on average. Residential construction is ten percent below its peak value, mainly due to new residential construction. Its real volume is expected to be around 25 percent below its 2020 value.

Political pressure for action, especially to solve the housing crisis, has increased. Measures such as higher degressive depreciation on investments in new residential construction seem to be having a positive effect.[11] Approaches to limiting increases in construction costs and accelerating procedures within the framework of building type E have also been initiated.[12]

These measures improve the structural investment conditions in residential construction but do not help much with getting the housing shortage in the cities under control in the short term. To do this, an emergency program for social housing construction is needed. The aim of this program would not only be to make more federal funding available to municipalities with tight housing markets, but also to create the legal framework[13] for accelerated implementation at the federal level.

11 Claus Michelsen, Simon Junker, and Ferdinand Fichtner, "Simulation des Wachstums chancengesetzes: Richtung stimmt, Effekte zu gering," *Vfa Economic Policy Brief*, no. 9 (2023): (in German; available online).

12 Stefan Leupertz, *Bezahlbar Wohnen und nachhaltig Bauen. Rechtsgutachten zu neuen Regelungskonzepten für die kostengünstige und nachhaltige Durchführung von Bauvorhaben im Bereich des Wohnungsbaus* (2023) (in German; available online).

13 For example, a special regulation based on the general clause of Section 246, Paragraph 14 of the German Building Code (*Baugesetzbuch*, BauGB).

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