



German house prices on the rise

The rise in interest rates and the uncertainty caused by the war in Iran are also affecting the residential real estate market in Germany. Households are more cautious about taking out mortgages, which is dampening demand. However, the continued shortage of supply in many regions suggests that prices will continue to rise moderately.

Dr. Marco Wagner^{AC}

The war in the Persian Gulf is slowing down the German real estate market, ...

The war between the US and Israel on one side and Iran on the other has weighed on the German residential real estate market in recent weeks. For one thing, risk premiums on loans have risen worldwide, and in tandem interest rates on real estate loans in Germany, which has increased the financing costs associated with purchasing a property. In addition, higher energy prices have reduced real disposable income, which also makes it more difficult to finance a property.

... but likely only temporarily, ...

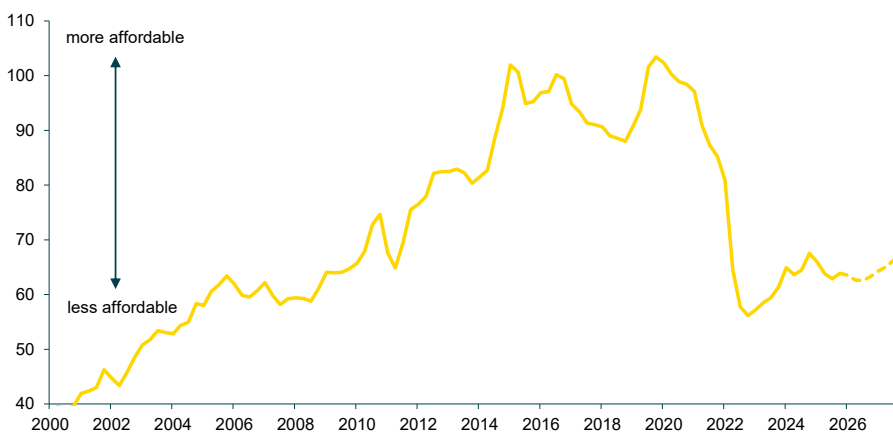
However, these headwinds are likely to prove only temporary. We expect the inflation rate to remain near 3% for some time, despite a decline in oil prices, as companies increasingly pass on a portion of their higher costs to customers—a trend that will eventually reach households as well, albeit with some delay. Next year, however, the inflation rate is expected to fall again worldwide. Against this backdrop, the Fed and the ECB are likely to lower their interest rates again starting in the middle of next year. As markets increasingly anticipate this amid a declining oil price, longer-term yields—which also strongly influence movements in mortgage rates—are likely to decline moderately again as early as the second half of this year.

... which suggests that home prices will continue to rise, ...

In addition, people's purchasing power is expected to recover as inflation falls again and incomes continue to rise steadily. This should lead to a slight improvement in the affordability of residential real estate, which suffered from higher interest rates in the first half of this year (Chart 1).^[1] This suggests that—following a period of weakness in the first half of the year—home prices will resume their upward trend later in the year and, as in the past two years, will rise at an average annual rate of about 2 to 2½% (title chart).

Chart 1 - Slightly falling interest rates and rising incomes will improve affordability in 2027

Affordability Index: disposable income as a percentage of debt service (interest payments and principal repayment), Commerzbank forecast starting in 2026



Source: Federal Statistical Office, Bundesbank, Commerzbank Research

... especially since the demand for housing far exceeds ...

In addition to declining interest rates and the recovering purchasing power, longer-term factors also point to rising home prices. For example, the demand for housing will continue to rise significantly in the coming years, despite the population declining in 2025 for the first time in a long while. The **Federal Institute for Research on Building, Urban Affairs, and Spatial Development (BBSR)** estimates an annual demand for 320,000 new housing units through 2030. The two main drivers of this trend are the growing number of private households and regional population shifts (see Box 1).

Box 1: Main Drivers of the Growing Demand for Housing



The Federal Institute for Research on Building, Urban Affairs, and Spatial Development identifies two main reasons for the continued rise in demand for housing:

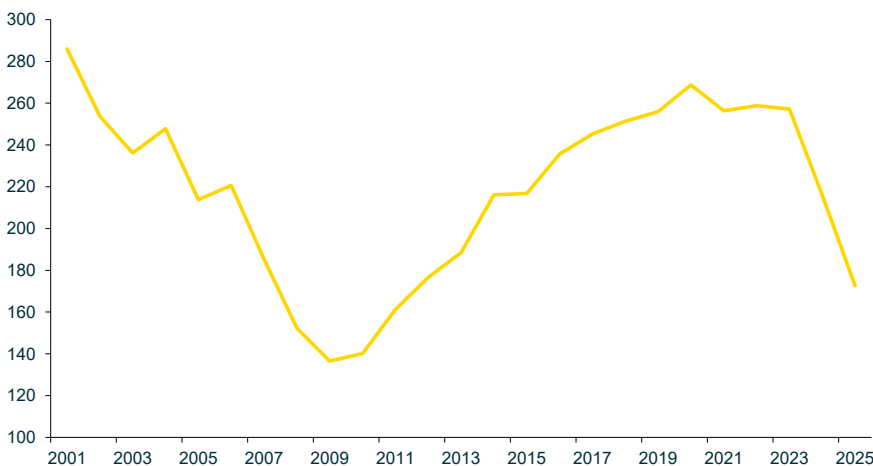
- **More Households:** The number of private households is expected to rise to 42.6 million by 2030 (+1.3% compared to 2022), primarily due to the increase in single-person households, which currently account for about 42% of the total. The most important factor here is social change and the desire for individualization: A shift in values means that personal independence and professional flexibility often take priority over starting a family early. The periods of living alone between moving out of the parental home and entering the first committed relationship with a shared residence are becoming longer and longer due to extended periods of education and training. In addition, marriages and partnerships are ending in divorce or dissolution more frequently and more quickly.
- **Regional Concentration:** The “Big Seven” (Berlin, Munich, Hamburg, Frankfurt, Düsseldorf, Cologne, and Stuttgart) alone account for about 20% of total demand (approximately 60,000 apartments per year).

... the number of homes currently being built, ...

As a result, the housing shortage is likely to increase even further in the coming years. This is because in none of the past 25 years were more than 300,000 housing units completed, and in the last two years, completions have not risen but have instead plummeted to 173,000 units (Chart 2).

Chart 2 - Number of Completions Plummetts in 2024 and 2025

Number of Housing Units Completed in Germany, Annual Figures in Thousands



Source: Federal Statistical Office, Commerzbank Research

According to estimates from various institutions, between 175,000 and 215,000 new housing units are expected to be built in 2026. Experts anticipate a further moderate increase in the coming years. One reason is the “Bauturbo” (see Box 2), which went into effect last year and allows municipalities to approve housing projects in areas with a housing shortage much more quickly and without having to comply with bureaucratic zoning requirements. However, the level seen in the early 2020s—approximately 250,000 homes built annually—is not expected to be reached for some time.

Box 2: The “Construction Turbo”

The “Construction Turbo” is a legislative package designed to accelerate housing construction, which took effect on October 30, 2025. At its core is the new Section 246e of the Building Code (BauGB), which enables municipalities in areas with tight housing markets to approve construction projects much more quickly and with less bureaucratic red tape. The Bau-Turbo is intended to reduce approval procedures—which used to take years—to two months in the best-case scenario. The regulation is set to expire on December 31, 2030.

- **Construction without a zoning plan:** Municipalities can approve the construction of housing even in areas where no zoning plan exists or where a different zoning plan (e.g., for commercial use) is in effect.
- **Simplified repurposing:** Vacant office buildings or commercial spaces can be more easily converted into residential housing.
- **In-place densification and adding stories:** It will be easier to add additional stories to existing buildings (e.g., supermarkets) or to fill vacant lots in urban areas.
- **Municipal decision-making authority:** The “construction fast-track” is not an automatic process. Every project requires the explicit approval of the municipality to ensure that its planning authority is preserved.

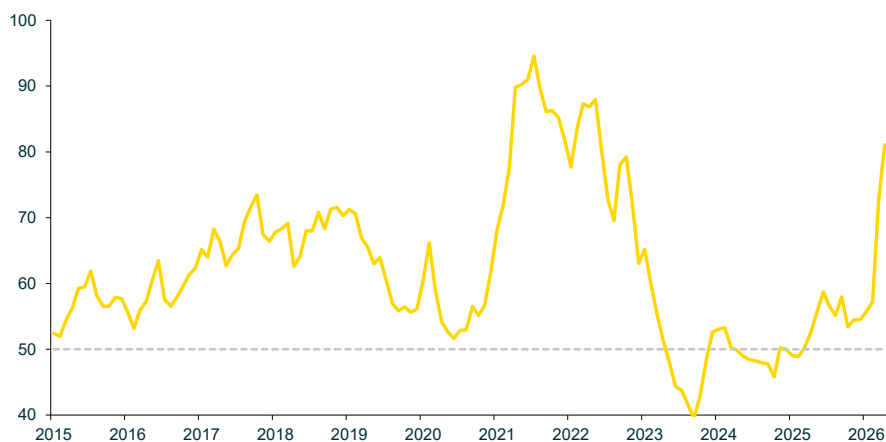


... partly due to rising material costs, ...

High costs remain a major obstacle to housing construction, which will ultimately also drive up prices for existing properties—which serve as an alternative to new construction. The federal government has indeed attempted to curb the rise in costs. So far, however, this does not seem to have had a significant effect. Instead, in the Purchasing Managers' Index survey, companies are once again reporting rising costs for materials and intermediate goods (Chart 3). According to data from the Federal Statistical Office, prices for rebar and copper ingots, for example, have risen noticeably, in addition to energy costs. As a result, many projects are likely to be postponed once again.

Chart 3 - Many construction companies report higher material costs

Purchasing prices, a sub-component of the Purchasing Managers' Index for the construction industry, seasonally adjusted monthly figures



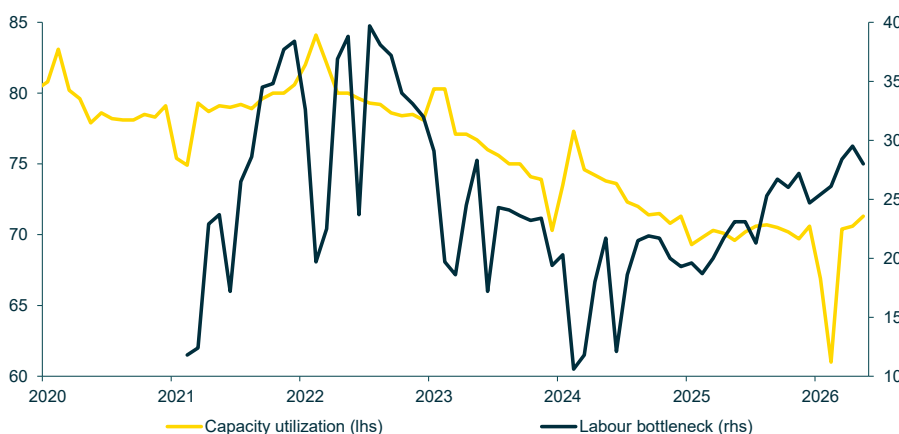
Source: S&P Global, Commerzbank Research

... and a shortage of workers among the remaining firms

At the same time, the residential construction sector is competing for workers with the civil engineering sector, which is benefiting from the federal government's infrastructure package. According to a survey by the Munich-based Ifo Institute, capacity utilization in the construction industry has fallen from just over 80%—the peak reached before the 2022 interest rate hike—to around 70%, so there is still room for growth in this sector. However, the labor shortage in residential construction has worsened again in recent months. Nearly one in three companies active in residential construction complains of a shortage of workers (Chart 4). Workers are evidently moving to sectors where more funding is available, and this is likely to be civil engineering at present. This is all the more true given that, by prioritizing infrastructure expansion, the government is likely to accept that some of its spending will be absorbed by higher prices.

Chart 4 - Nearly one in three construction companies faces a labor shortage

Ifo Survey of the construction industry: equipment utilization, as a percentage of production capacity; Ifo survey of residential construction: percentage of surveyed companies reporting a labor shortage, as a percentage of all companies



Source: Ifo, S&P Global, Commerzbank Research



[1] For the affordability index, we compare per capita disposable income to debt service (interest and principal payments), assuming an annual principal repayment rate of 2% of home prices. For the interest rate, we use the effective average interest rate for a ten-year mortgage loan as reported by the Bundesbank. For the forecast starting in 2026, we assume that interest rates will gradually decline beginning in late 2026 and that incomes will grow by just under 3% per year. ([Back to the text.](#))



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