

# Germany

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## IN A NUTSHELL

- Real gross domestic product fell by 0.2%.
- Lower rates increased affordability; gross lending rose to EUR 205.9 bn (+5% y-o-y).
- Prices for owner-occupied residential property rose by 1.2%.
- Continuous increase in new rents due to high demand.

## MACROECONOMIC OVERVIEW

The economy contracted by 0.2%. The industry sector faced difficulties in adapting to the changed structural conditions and the volume of exports was restrained, due to the lower ability of German industry to compete with foreign manufacturers. The sharply increased wages provided room for additional consumer spending. Nevertheless, consumer spending remained cautious due to the ongoing uncertainty, which prevented a stronger recovery in consumption in the meantime. Despite a slight increase in unemployment rate, from 3.1% to 3.4%, particularly in the manufacturing sector, the labor market remained stable. The construction sector lacked significant growth drivers and remained subdued. However, modernization and new projects in roads, railways, and pipelines boosted underground construction activity (roads, railways, bridges, pipeline construction). Average annual inflation fell to 2.2% (5.9% in the previous year). Inflation is approaching the medium-term target of 2%, so the ECB reduced key rates four times from 3.75% to 2.75%.

## HOUSING MARKET

Housing Construction has had a difficult few years. The sharp rise in interest rates and soaring construction prices led to higher costs and made it more difficult to finance projects. This led to a decline in orders and approvals that began in 2022 and continued through 2024. Housing completions declined by around 14.4% y-o-y to 251,937 units. Only 215,293 building permits were issued (a 17.1% decrease) indicating a continued weakening of construction activity in the residential property sector. The persistent imbalance between demand and supply is contributing to rising new contract rents, which increased by an average of 5.5%. The number of transactions on the existing residential property market rose by 15.3%, which is reflected in an increase in mortgage lending. As a result of the sustained demand, residential property prices have continued to rise. Over the course of 2024, these prices stabilized and began to recover, with a 1.2% increase overall. Housing affordability has improved, supported by rising wages and stable financing conditions. This has made home ownership more attractive, especially in comparison to the consistent rise in new contract rents.

## MORTGAGE MARKET

The average interest rate for residential mortgage loans fell from 3.9% in Q1 to 3.6% in Q4 due to the slight easing of monetary policy as a consequence of lower inflation. The construction or purchase of a residential property has thus become easier and more attractive in comparison to increasing rents. After the significant decline in demand for mortgage loans in 2023, the first half of 2024 already saw a noticeable upturn in loan commitments for the construction and purchase of owner-occupied residential property, even if this was well below the level achieved during the low-interest phase before mid 2022. Therefore, gross lending in 2024 for housing grew to EUR 205.9 bn (+5% y-o-y). Outstanding loans increased by 1.1% to EUR 1.89 tn.

## MORTGAGE FUNDING

In Germany, banks' main funding instruments for housing loans are savings deposits and covered bonds (Pfandbriefe). Germany has a significant share of the total covered bond market. Volume outstanding in Pfandbriefe remained unchanged over the course of the year at around EUR 400 bn. Total Pfandbrief issuance volume was at EUR 56.2 bn (2023: EUR 65.3 bn). Since 2017 the total outstanding volume of Pfandbriefe increased by 9%. It is worth mentioning that during this time the total outstanding amount of Public Sector Pfandbriefe fell by 32% to EUR 101 bn, the volume of Mortgage Pfandbriefe increased by 38% to EUR 297 bn and the Ship Pfandbrief decreased by 35% to EUR 1.6 bn.

Mortgage Pfandbrief issuance was EUR 41.4 bn (EUR 51.5 bn in 2023), Public Sector Pfandbrief issuance was EUR 14.8 bn (2023: EUR 13.8 bn) and Ship Pfandbriefe accounted for EUR 1.0 bn. Outstanding Mortgage Pfandbriefe increased from EUR 295 bn to EUR 297 bn and Public Pfandbriefe decreased from EUR 104 bn to EUR 101 bn.

## GREEN FUNDING

The first ESG (Environmental, Social and Governance) Pfandbrief issued in September 2014 (EUR 300mn) pioneered a new sustainable covered bond market segment. Since then, German Pfandbrief banks have been very active in both, green and social lending and issuing Green and Social Pfandbriefe. Several Pfandbrief banks offer a discount on mortgage loans provided the building is energy efficient and fulfils certain requirements. In 2019, Pfandbrief issuers under the umbrella of the vdp published minimum standards for Green Pfandbriefe. They include requirements for the energy efficiency of financed buildings as evidenced by energy performance certificates. The minimum standards for Green Pfandbriefe were complemented by minimum standards for Social Pfandbriefe (March 2021) and minimum standards for the issuance of Green Public Pfandbriefe (June 2022). By updating the minimum standards for Green Mortgage Pfandbriefe and Green Public Pfandbriefe with effect from 1 January 2025, the requirements green cover assets must meet are more closely aligned with the EU taxonomy.

All minimum standards take account of the initiatives under way at the EU level regarding the taxonomy for sustainable economic activities and the introduction of the EU Green Bond Standard. Moreover, the minimum standards oblige Pfandbrief banks to provide a high degree of transparency. Issuers are required to establish their own Green or Social Bond Framework which must be based on the ICMA Green or Social Bond Principles. At the end of 2024, the volume of outstanding Green and Social Pfandbriefe was EUR 30 bn supplied by 14 issuers (EUR 24 bn and 13 issuers in 2023). Issuance in 2024 was EUR 7.1 bn.

	GERMANY 2023	GERMANY 2024	EU 27 2024
<b>MACROECONOMIC VARIABLES</b>			
Real GDP growth (%) (1)	-0.3	-0.2	1.0
Unemployment Rate (LSF), annual average (%) (1)	3.1	3.4	5.9
HICP inflation (%) (1)	6.0	2.5	2.6
<b>HOUSING MARKET</b>			
Owner occupation rate (%) (1)	47.6	47.2	68.4
Gross Fixed Investment in Housing (annual change) (1)	-3.4	-5.0	-4.3
Building Permits (2015=100) (2)	83.0	68.7	136.9
House Price Index - country (2015=100) (2)	161.1	158.5	179.8
House Price Index - capital (2015=100) (2)*	161.1	160.0	171.5
Nominal house price growth (%) (2)	-4.1	-1.6	4.9
<b>MORTGAGE MARKET</b>			
Outstanding Residential Loans (mn EUR) (2)	1,871,314	1,891,500	6,879,667
Outstanding Residential Loans per capita over Total Population (EUR) (2)	22,183	22,665	15,311
Outstanding Residential Loans to disposable income ratio (%) (2)	73.1	71.2	71.3
Gross residential lending, annual growth (%) (2)	-28.2	4.9	3.9
Typical mortgage rate, annual average (%) (2)	4.0	3.8	4.34

(1) Eurostat Data

(2) European Mortgage Federation – Hypostat 2024, Statistical Tables

\* Eurostat Reviewed

\*\* EU 2024 to be confirmed

## GERMANY FACT TABLE

**Which entities can issue mortgage loans in your country?** Monetary Financial Institutions, such as: Commercial Banks, Savings Banks, Mortgage Banks, Landesbanks, Regional Banks, Cooperative Banks, Building Societies, Development Banks; and Life Insurers

**What is the market share of new mortgage issuances between these entities?** MFI's: 96%, Life Insurers: 4%

**Which entities hold what proportion of outstanding mortgage loans in your country?** MFI's: 96%, Life Insurers: 4%

**What is the typical LTV ratio on residential mortgage loans in your country?** 70-80% (average for purchase of owner-occupied residential properties)

**How is the distinction made between loans for residential and non-residential purposes in your country?** Type of use (buildings with different types of use: predominant use)

**What is/are the most common mortgage product(s) in your country?** Mortgage loans with fixed interest rates for about 10-15 years.

**What is the typical/average maturity for a mortgage in your country?** About 25 - 30 years

**What is/are the most common ways to fund mortgage lending in your country?** Deposits, mortgage covered bonds, other bank bonds.

**What is the level of costs associated with house purchase in your country (taxes and other transaction costs)?** Transaction costs vary by federal state because of different land transfer tax rates and if a real estate agent is involved or not. Overall, transaction costs can vary between 5% and 15% of the house price.

The acquisition of owner-occupied housing is promoted through various programmes of KfW, Germany's leading promotional bank. Currently, subsidised loans are granted for the following measures in connection with the acquisition of residential property by private householdss:

- KfW Home Ownership Programme (For the purchase or construction of a home)
- Home ownership for families (For families with children who build in a climate-friendly way)
- Climate-friendly new construction - residential buildings (For building energy-efficient and sustainable houses and flats)
- Completion of an energy-efficient refurbishment or when buying a property that has just been refurbished as an efficiency house.

Besides that, the German states (Bundesländer) support home ownership within the scope of publicly assisted housing. Depending on the policy and cash balance of each State, several programmes are offered.

**What is the level (if any) of government subsidies for house purchases in your country?**