Germany

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IN A NUTSHELL

- → Real gross domestic product increased slightly by 0.2% in 2025.
- → Residential mortgage interest rates remained broadly stable, improving planning certainty; gross lending rose to EUR 239.1 bn.
- → Prices for owner-occupied residential property increased by 3.2% on average over the year.
- → Continuous increase in new contract rents due to high demand for rental apartments.

MACRO-ECONOMIC OVERVIEW

The German economy grew slightly by 0.2% in 2025, following two years of contraction. Private consumption boosted the economy, as rising wages supported households' purchasing power, while parts of the services sector also supported economic activity. However, the recovery remained weak, as the volume of export business declined again and investment activity remained subdued. The industry continued to face difficult conditions, with manufacturing output continuing to decline, although the decline was less severe than in previous years. Despite an increase in the unemployment rate, from 3.4% to 3.8% on an annual average basis, the labour market remained broadly stable, with employment standing at around 46 million persons. The construction sector lacked significant growth drivers as building construction, particularly new residential building, remained subdued. However, civil engineering activity benefited from the new construction and repair of roads, railway lines and energy grids. Average annual inflation was at 2.3% for 2025, a small change from the previous year. With inflation stabilising close to the medium-term target of 2%, the ECB reduced its key interest rates in the course of 2025, bringing the deposit rate down to 2% by June.

HOUSING MARKET

Housing construction in Germany remained subdued in 2025, following the sharp downturn in building permits and housing completions in 2024. After declining for two consecutive years, housing completions fell by a further 18.0% to around 206,600 units. Building permits, by contrast, showed initial signs of stabilization: after just 215,293 permits had been issued in 2024, around 238,100 dwellings were approved in 2025, representing a 10.6% increase compared with the previous year. However, despite this year-on-year improvement, permit levels remained low by historical standards and continued to point to a constrained future supply pipeline. The continued mismatch between strong housing demand and limited supply supported further rental growth. New-contract rents in the residential property segment increased by 3.7% y-o-y in 2025. Residential property prices rose by 3.2% over the same period. Transaction activity in the existing residential property market also increased, rising by 9.6%. Overall, the market shifted from stabilization in 2024 to a slight recovery in 2025, although affordability remained sensitive to construction costs, financing conditions, and the continued shortage of housing supply.

MORTGAGE MARKET

MARKET DYNAMICS

The average interest rate for residential mortgages remained largely stable in 2025, fluctuating within a narrow range of around 3.6% to 3.7%. Although there was no significant decline, interest rates rose slightly in the second half of the year and remained at around 3.7%. The mortgage market environment benefited from the further decline in inflation and the slight easing of monetary policy in 2025. However, lower policy rates did not translate into a substantial decline in mortgage rates, as mortgage rates are also influenced by long-term capital market rates, such as German federal government bond and Pfandbrief yields. Since these rates remained relatively elevated and mortgage rates moved broadly sideways over the course of the year, financing conditions stabilized rather than improved. The stable interest rate environment improved planning certainty. The construction or purchase of residential property became relatively more attractive compared to renting, as new contract rents continued to rise, driven by ongoing strong demand for residential property.

Therefore, gross lending for housing grew to EUR 239.1 bn in 2025. Outstanding loans increased by 2.1% to EUR 1.93 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 increased over the course of the year from around EUR 400 bn to EUR 411 bn. Since 2017 the total outstanding volume of Pfandbriefe increased by 12%. It is worth mentioning that during this time the total outstanding amount of Mortgage Pfandbriefe increased by 40% to EUR 303 bn while the total outstanding amount of Public Sector Pfandbriefe decreased by 28% to EUR 107 bn. Total Pfandbrief issuance volume in 2025 was at EUR 67 bn (2024: EUR 57 bn). In 2025, Mortgage Pfandbrief issuance was EUR 47 bn (EUR 41 bn in 2024), Public Sector Pfandbrief issuance was EUR 20 bn (2024: EUR 15 bn). More than half of the issuances qualified for the benchmark segment. This implies an individual minimum issuance size of at least EUR 500 mn.

GREEN FUNDING

The first ESG (Environmental, Social and Governance) Pfandbrief issued in September 2014 (EUR 300 mn) pioneered a new sustainable covered bond market segment. Since then, German Pfandbrief banks have been very active in both green and social lending and in 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 that 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 in a gradual manner. 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 2025, the volume of outstanding Green and Social Pfandbriefe was EUR 33 bn supplied by 14 issuers (EUR 30.5 bn in 2024). Issuance in 2025 was EUR 4.7 bn.

	GERMANY 2024	GERMANY 2025	EU 27 2025
MACROECONOMIC VARIABLES			
Real GDP growth (%) (1)*	-0.2	0.2	1.5
Unemployment Rate (LSF), annual average (%) (1)	3.4	3.8	6.0
HICP inflation (%) (1)	2.5	2.3	2.0
HOUSING MARKET			
Owner occupation rate (%) (1)	47.2	47.2	68.5
Gross Fixed Investment in Housing (annual change) (1)	-3.8	-2.9	2.8
Building Permits (2015=100) (2)	68.7	185.1	86.9
House Price Index - country (2015=100) (1)	158.5	162.7	161.92
House Price Index - capital (2015=100) (2)	160.0	165.2	n/a
Nominal house price growth (%) (1)*	-1.6	2.7	5.5
MORTGAGE MARKET			
Outstanding Residential Loans (mn EUR) (1)	1,891,500	1,930,600	5,617,435.11
Outstanding Residential Loans per capita over Total Population (EUR) (2)	22,665	23,130	12,472.10
Outstanding Residential Loans to disposable income ratio (%) (1)	71.2	74.68	81.39
Gross residential lending, annual growth (%) (1)	4.9	2.6	2.8
Typical mortgage rate, annual average (%) (2)	3.8	3.7	3.31

(1) Eurostat Data
(2) European Mortgage Federation – Hypostat 2026, Statistical Tables
* Eurostat Reviewed
** EU 2025 to be confirmed

GERMANY FACT TABLE

Which entities can issue mortgage loans in your country?	MFI's and Life Insurers.
What is the market share of new mortgage issuances between these entities?	Among MFI's it is 96% and among life insurers it is 4%.
Which entities hold what proportion of outstanding mortgage loans in your country?	See above.
What is the typical LTV ratio on residential mortgage loans in your country?	Around 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?	The distinction depends on 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, and 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.
What is the level (if any) of government subsidies for house purchases in your country?	The acquisition of owner-occupied housing is promoted through various programmes of KfW, Germany's national promotional bank. Currently, subsidised loans are granted for the following measures in connection with the acquisition of residential property by private households: • 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). • Energy-efficient refurbishment, including the purchase of a newly refurbished efficiency house or the purchase of existing residential property subject to subsequent energy-efficient refurbishment. • Temporary reintroduction of support for less stringent standards, but still in line with the energy-efficient new-build standard (EH-55). 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.