High costs and standards with cumbersome procedures, highlighted in the 2025 country-specific recommendation, aggravate supply shortages, especially in growth regions, driving up prices and rents. To ensure insurability, construction projects have to adhere to common market practice, going well beyond legal minimum standards. This increases costs significantly. Transactional taxes and additional costs, like notary fees, are also high compared with the rest of the EU. Cumbersome and lengthy procedures for land-use planning and permitting, as well as limited digitalisation, result in costly delays. Against this background, the 2025 country-specific recommendations called for improving 'the conditions for housing investments by simplifying regulation and procedures, reviewing rental law and mobilising additional building land, with the concurrent aim of tackling the housing affordability challenges.' While first steps to tackle some of these problems are underway, implementation and uptake are not yet known.

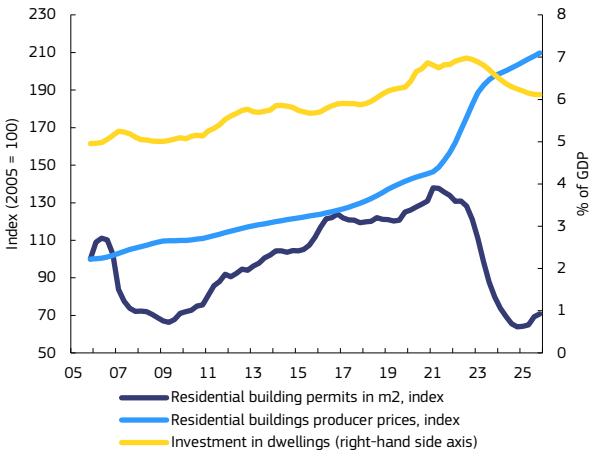
High house prices and rents for new rental contracts limit personal and labour mobility, partly due to policy measures. High prices of construction materials, shortages of skilled labour and scarcity of land have driven up construction costs. Since 2005, house prices and rents for new contracts have increased significantly more than inflation and income. However, average rents have increased less than inflation and income. As a result, personal and labour mobility are hampered, weighing on economic growth. The underlying reasons include policy measures that make investing in rental units less attractive, for example by limiting rents and rent increases, resulting in the real rents of existing contracts falling. Given the high share of tenants and the need for private capital to cover the housing gap, the sector's attractiveness for private investment is key.

Funding is being increased to start reversing the decade-long decline in social housing stock while misoccupancy could be reduced. The stock of social housing has been declining significantly over the last years and there is considerable misoccupancy ([492]). Federal funding is now being stepped up, but social policies remain mainly based on housing allowances despite their weaknesses.

Housing market developments

High prices and rents reflect low housing supply, exacerbating housing shortages. Housing construction has decreased by more than 20% in real terms since 2020 (see Graph A16.1.). This has exacerbated housing shortages and significantly dampened GDP growth. The decline reflects high construction costs and increased interest rates. In 2024, Germany had the highest price level for housing construction in the EU, at 147% of the EU average (see Graph A16.2). In 2025, 238 400 housing permits were issued, 10.8% more than a year earlier, but still 37% below the 2021 level, signalling low construction activity. The share of unoccupied dwellings was 7.7% in 2021, the second lowest in the EU after the Netherlands (4.1%).

Graph A16.1: **House supply indicators in DE since 2005**



Source: Eurostat

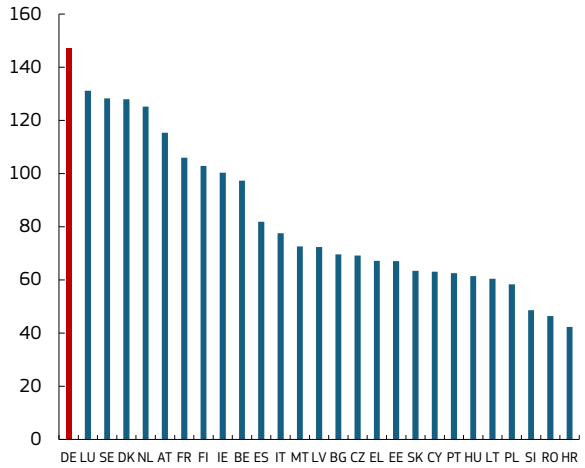
The German construction sector continues to face severe labour shortages ([493]). Both the job vacancy rate in the construction sector and the percentage of construction managers indicating that labour shortages are a factor limiting their business declined (to 3.9% in Q3 2025 and to

([492])Misoccupancy refers to people living in social housing whose circumstances have improved to the extent that they are no longer eligible for that housing. See German Council of Economic Experts, 2024, Annual Report 2024/2025, sachverstaendigenrat.de.

([493])BauInfoConsult, 2025, Jahresanalyse Deutschland 2025/2026 – 'Fachkräftemangel und Baukosten prägen 2025 und 2026'.

27.4% in January 2026, respectively). However, three out of four manufacturers and a large share of companies in the building sector consider the acute lack of skilled workers to be the central issue slowing down projects, driving up costs and limiting the urgently needed expansion of housing and infrastructure ([494]). At the same time, the sector struggles with precarious working conditions that make recruitment a challenge. Physically demanding labour, combined with comparatively unattractive wages and frequent use of subcontracting chains, creates risks of exploitation, wage dumping or violations of minimum standards, affecting migrant workers in particular.

Graph A16.2: **Price level for residential construction, % compared to the EU average**



Source: Eurostat [prc_ppp_ind_1]

Estimates of the housing shortage differ. While most experts agree that the 252 000 housing units completed in 2024 are insufficient, estimates of the housing shortage differ considerably. On the high end, the Pestel Institut identified a shortage of 1.4 million affordable housing units at the end of 2024 ([495]). The Commission estimates the additional housing investment need for 2025-2035 at about 80 000 dwellings annually, with two thirds in metropolitan regions ([496]). The need for new housing is very uneven across Germany, concentrated in areas such as urban centres with a growing population ([497]).

Rents for existing contracts have declined in real terms, but people signing new contracts face increasingly higher prices and lower rental affordability. Rental price developments are particularly important for Germany, as the country has the highest share of tenants in the EU, with 52.8% of people living in a household that rents its home, against the EU average of 31.6% in 2024 (see Table). As a result of rental price control arrangements such as the *Kappungsgrenze,* rental prices of existing contracts increased by only 18.6% between 2013 and 2024, i.e. much lower than inflation (30.1%) and disposable income (44.8%) ([498]). At the same time, prices for new rental contracts increased by 50.8% in Germany as a whole and by 76.3% in the seven biggest cities, reflecting strong demand in the face of restricted supply. High rents of new contracts in key regions weigh on rental affordability for a large share of the population, in particular those facing vulnerable situations (see below). In addition, the resulting gap between existing and new rental prices leads to a 'lock-in effect', creating a disincentive for people with existing contracts to move out, reducing housing and ultimately labour mobility ([499]).

After a temporary fall, house prices have started to increase again, weighing on purchase affordability. Between 2012 and 2022, nominal house prices increased by 80% (see Graph A16.3), significantly outpacing inflation and income growth, thereby reducing purchase affordability, and leading to overvaluation (based on the standard European Commission methodology). This overvaluation declined in 2022-2024, as prices fell by 10% amid a sharp increase in mortgage rates. However, higher rates also reduced households' borrowing capacity, and house prices remain relatively high, especially in urban centres. Price growth gradually resumed and, in 2025, house prices were 3.2% above their level a year earlier, supported by gradually

([494])DIHK-Fachkräftereport 2025/2026.

([495])Pestel Institut, 2026, *Sozialer Wohn-Monitor 2026.* Wohnungsmarktsituation, Wohnungsbedarfe, sozialer Wohnungsbau. mieterbund.de.

([496])Balouktsi et al., 2026, Housing investment needs in the EU. JRC Technical Report 144419.

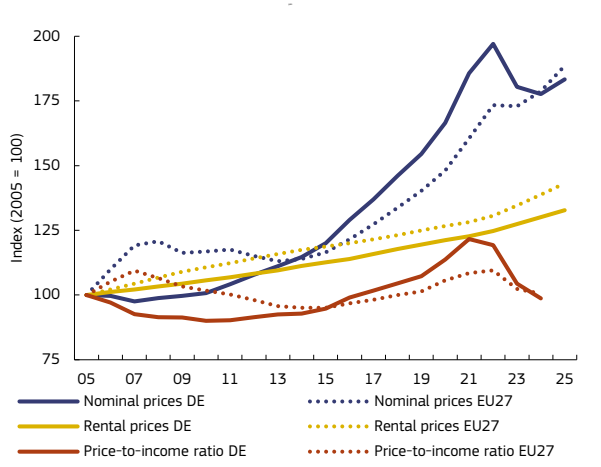
([497])BBSR, 2025, BBSR-Wohnungsbedarfsprognose. BBSR-Analysen *KOMPAKT* 16/2025. bbsr.bund.de.

([498])Adjusted gross disposable income of households per capita in percentage points.

([499])Falck, O., Krause, S., & Zamorski, P., 2025, Mieten–Wachstumshemmnis und sozialer Sprengstoff in deutschen Großstädten?. *ifo Schnelldienst,* 78(10), 04-16. Ifo.de.

declining mortgage interest rates and slowly-recovering real household incomes amid structurally staggered housing supply, which may weight on purchase affordability going forward.

Graph A16.3: **House prices, rents and price-to-income evolution in DE and EU27 since 2005**



Source: Eurostat

Structural policies

Housing investment remains constrained by regulatory complexity and limited land availability. Reflecting these challenges, the 2025 country-specific recommendations called on Germany to simplify regulation and procedures, review rental law and mobilise additional building land, with the concurrent aim of tackling housing affordability challenges (for regional aspects on housing affordability see Annex 18). In response, several measures were adopted in 2025, most notably the Act to Accelerate Housing Construction and to Secure Housing, which entered into force on 30 October 2025. The 'construction turbo' (*Bau-Turbo*) introduces a package of measures aimed at expanding housing supply and easing major bottlenecks, but key aspects for making it an effective tool remain unclear (see below).

The limited availability of building land and lengthy planning procedures are major obstacles to expanding housing supply. Land-use planning processes in Germany are complex and time-consuming, taking on average four to nine years, which stands in contrast to the urgent housing needs in many regions ([500]). To make additional building land available, the construction turbo introduces a temporary exemption until 2030 that allows deviations from planning law for housing projects. With municipal approval, projects can be authorised within three months without prior changes to land-use plans, covering new construction, extensions and repurposing. This has the potential to ease supply constraints in urban areas. However, its effectiveness will critically depend on uptake at municipal level, as local consent remains mandatory ([501]). In addition to the temporary exemption, the construction turbo also amends the Federal Building Code to facilitate housing construction, including allowing residential development beyond existing land-use plans and in areas without such plans or outside designated construction zones.

High construction costs are driven by complex building regulations and demanding technical standards. Beyond land scarcity, Germany's legal and contractual framework typically requires builders to meet costly technical and comfort standards, often exceeding what is legally necessary. These standards are widely applied to avoid legal disputes and ensure insurability, but they raise costs and slow down construction. To address this, the housing type E; approach proposes a new legal basis allowing contracting parties to agree on simpler, needs-based standards and to deviate from non-essential rules, based on the experience of Hamburg, which suggests that the building cost per square metre can be cut by a third ([502]). A concept paper was published in November 2025, but the timeline for implementation remains unclear ([503]). The uptake in practice will depend on the concrete formulations e.g. if the housing type E is defined as a temporary deviation from normal practice or as new legal standard. Lastly, building law is fragmented across federal, state and municipal levels, with regional differences in requirements and procedures that further increase

([500])BBSR, 2025, Verfahrensbeschleunigung der Bauleitplanung, bbsr.bund.de.

([501])ZIA, 2025, Stellungnahme Bau-Turbo, bundestag.de; BFW, 2025, Stellungnahme Bau-Turbo, bundestag.de.

([502])bezahlbarbauen.hamburg.de.

([503])BMJV/BMWSB, 2025: Gebäudetyp E, Gemeinsame Eckpunkte, bmjv.de.

costs and hinder innovation, including modular and serial construction methods.

Rent control does not address the underlying causes of housing affordability challenges. The federal government has prolonged the rent price brake (*Mietpreisbremse*) until the end of 2029. It limits rents for new leases in tight housing markets to no more than 10% above the local comparable rent, with exemptions for new buildings and extensively modernised dwellings. The rent increase within existing contracts is limited to 15% in three years in tight housing markets (*Kappungsgrenze*). Evaluations show that the rent price brake has been effective in curbing the increase in rents paid for regulated dwellings ([504]). At the same time, rent control comes with adverse effects, such as reduced mobility of tenants, and may further increase rents in the unregulated new-build segment. The rental law has therefore not been made more investment friendly, as recommended by the country-specific recommendation. Parallel to the controlled segment effectively covering mainly the renting of unfurnished housing, there has been an increasing share of furnished apartments offered, with considerably higher rent increases ([505]). In April 2026 the German government made the rental regulation even more restrictive including by regulating further renting of furnished units and imposing that landlords need to cover part of heating costs for certain installations, further weighing on incentives to offer and invest in rental units. The effect on housing affordability is therefore mixed ([506]). If rent control is too restrictive, it can weaken private investment incentives in the housing sector and hinder the efficient use of available housing ([507]).

Further possibilities to accelerate construction and reduce housing costs remain. The coalition agreement mentions that the construction turbo will be followed by a fundamental reform of the Federal Building Code to accelerate construction. Important levers include the digitalisation of land-use plans and further simplification and digitalisation of building permitting. To make additional building land available, improving links to suburban areas could expand enable the use of available land and housing outside cities ([508]). Lastly, there is room for improving taxation and regulation on housing transactions. Incentives to use available building land could be improved, by shifting taxation from transactions to recurrent taxation. Housing transaction costs, including notary and registration fees, acquisition tax and potentially agent fees, are high in international comparison([509]).

Vulnerable groups

Housing cost overburden, while declining overall, has increased for parts of the population. In 2025, 11.2% of the population lived in households spending more than 40% of their disposable income on housing (see Table)([510]). Older people are particularly affected (13.8%, compared with 8.5% in the EU), while close to one in three individuals in the lowest income quintile faces housing cost overburden (31.5% compared to 26% in the EU). Middle-income households are not shielded either. 7% spend more than 40% of their income on housing, more than double the EU average of 3.3%. Single-person households (22.6%, EU:20.1%) and people with disabilities (14.3%, EU: 9.9%) are also disproportionately exposed. Rising housing costs are especially challenging for students living away from home, who spent on average 53% of their

([504])DIW, 2018, Mietpreisbremse ist besser als ihr Ruf, aber nicht die Lösung des Wohnungsmarktproblems, diw.de.

([505])BBSR, 2026, Rental housing segments – significance and impact on the rental housing markets. bbsr.bund.de.

([506])Baye &Dinger, 2023, Investment incentives of rent controls and gentrification – Evidence from German micro data, uni-osnabrueck.de.

([507])German Council of Economic Experts, 2024, Wohnen in Deutschland: Knappheiten beheben und Zugang erleichtern, svr-wirtschaft.de; DIW, 2022, Rent Control Effects through the Lens of Empirical Research, diw.de.

([508])Projektteam STAWAL, 2024, Stadtstruktur, Wohnstandortwahl und Alltagsmobilität. Neue Befunde für die Stadt- und Verkehrsentwicklung. Berlin und Dortmund. zukunft-nachhaltige-mobilitaet.de ; Henger, R. et alM (2019), Mobilität und Wohnen – neue Perspektiven für die Stadtentwicklung. iwkoeln.de.

([509])German Council of Economic Experts, 2024, Annual Report 2024/2025, sachverstaendigenrat.de; Cousin, G., Frayne, C., Dias, V. M., & Vašíček, B., 2025, Housing in the European Union: Market Developments, Underlying Drivers, and Policies. *European Economy*, Discussion Paper 228. europa.eu.

([510])The overburden rate should be read together with the tenure structure (homeowner, tenants), that may differ across country and regions.

disposable income on housing in 2024 ([511]), more than twice the share of the population as a whole (24.5%).

Housing-related expenses represent a major driver of poverty and social exclusion. In 2025, 34.9% of individuals at risk of poverty also experienced housing cost overburden. In addition, 4.5% of the population reported arrears on utility bills, an increase of 1.2 percentage points compared with 2020 ([512]).

While the stock of social housing has significantly declined, public funding is being stepped up. Social housing fulfils an important supply function for households whose access to the regular housing market is difficult, such as single parents, large families and immigrants. A strategic expansion of publicly funded housing could also exert downward pressure on rents in the private sector ([513]). Over the past two decades, the number of social rental housing units in Germany has fallen from approximately 2.5 million in 2000 to around 1 million in 2024. This decline in social housing units is partly due to expiring time-limited social binding (*Sozialbindung*), which obliges landlords to rent at below-market rates and only to eligible households, in return for subsidies. The duration of this binding varies by federal state and funding programme but typically lasts around 15–25 years. In 2024 around 80% of the newly subsidized rental units come with a social binding of at least 30 years. Projections of the German Council of Economic Experts show that an average of 40 000 units will lose their social housing status every year up until 2035 ([514]). Between 2020 and 2024, around 41 000 to 62 000 units per year were newly designated as social housing. However, as a similar number lost that status when restrictions expired, the total number only increased in 2023 and 2024 ([515]). In addition, estimates from individual federal states suggest that between 10% and 30% of subsidised dwellings are occupied by households that are no longer entitled to social housing. As announced by the Minister for Housing, a misoccupancy levy (*Fehlbelegungsabgabe*) could be charged for tenants whose income exceeds the eligibility threshold, as is done already in some of the federal states ([516]), to help ensure that social housing units are distributed to those in need, for as long as social housing units remain scarce. Avoiding high administration costs and segregation are important considerations for implementation. The federal government has increased funding from around EUR 1 billion in 2020 to EUR 4 billion in 2026. At the same time, the low level of new construction is not due to funding constraints alone; several bottlenecks limit delivery. Construction costs have risen sharply due to the higher prices of materials, energy standards and labour shortages.

Housing allowances are an important element of social policies, but only partly substitute the provision of social housing. In Germany, more than 11 million tenant households are entitled to a housing eligibility certificate (*Wohnberechtigungsschein*) – and thus to social housing ([517]). While public expenditure on housing support has risen, much of this increase has taken the form of subject-based subsidies, such as housing allowances (*Wohngeld*), which were received by 1.2 million households at the end of 2024. These payments provide significant short-term relief but may also contribute to persistently high or even rising rents when supply constraints remain unaddressed.

Homelessness is rising and remains a significant challenge. Despite the government's objective to end homelessness by 2030 (formulated in the national action plan against homelessness, which seeks to combat homelessness through expanded affordable housing, stronger prevention measures, improved support services and closer cooperation between federal, state and local governments as well as civil society actors ([518])), around 47 000 people

([511])Destatis, 2025, Studierendenhaushalte geben im Schnitt 53 % des Einkommens für Wohnkosten aus, destatis.de

([512])Der Paritätische, 2025, Bericht zu Wohnarmut, der-paritaetische.de.

([513])OECD/European Union, 2025, Social Economy in Europe: Contributing to Competitiveness and Prosperity, Local Economic and Employment Development (LEED), oecd.org.

([514])German Council of Economic Experts, 2024, Annual Report 2024/2025, sachverstaendigenrat.de.

([515])Bundestag, 2025, Kleine Anfrage, Drucksache 21/3231. bundestag.de.

([516])This is used in Hessen for tenants whose incomes exceed the threshold for social housing eligibility by more than 20%.

([517])dgfm, 2023, Forderungen vom Bündnis Soziales Wohnen www,dgfm.de.

([518])bmwsb, 2024, Nationaler Aktionsplan zur Überwindung der Wohnungslosigkeit, www.bmwsb.de.

Table A16.1:**Housing affordability selected indicators**

		EU27				DE							
	unit	2000-25 avg.	2023	2024	2025	2000-25 avg.	2023	2024	2025	unit	2023	2024	2025
House price to income ratio	*2000-25 avg = 100*	100.0	102.0	100.2		100.0	103.2	97.6		YoY%	-12.5	-5.4	
Rent to income ratio	*2000-25 avg = 100*	100.0	85.1	83.5	84.5	100.0	81.5	80.0	78.7	YoY%	-2.5	-1.9	-1.7
Overburden rate, total	%	9.9	8.8	8.2		13.9	13.0	12.0	11.2	PPS/y	1.1	-1.0	-0.8
Overburden rate, tenant with market rent	%	23.8	20.3	19.2		18.4	14.9	13.8	13.2	PPS/y	1.1	-1.1	-0.6
Overvaluation gap	%					-2.0	8.3	3.0	3.0				
Deflated construction production price	*2010 = 100*	102.2	112.2	111.8	110.5	107.4	131.0	131.5	132.7	YoY%	2.9	0.6	1.2
Building permits	*m^2 per ths persons*	483.5	376.9	362.9	379.9	381.7	302.6	240.7	267.0	YoY%	-34.1	-20.5	10.9
Residential construction investment	*% GDP*	5.5	5.8	5.1	5.0	5.8	6.6	6.2	6.1	YoY%	-4.3	-6.1	-1.6
Share of ownership	%	70.0	69.1	68.4		50.8	47.6	47.2	47.2	PPS/y	2.4	-0.8	0.0
Share of people living in overcrowded homes	%	17.7	16.8	16.9		8.2	11.4	11.5	11.7	PPS/y	0.2	0.1	0.2

Source: Eurostat and European Commission calculations. The overburden rate should be read together with the tenure structure (homeowner, tenants), that may differ across country and regions.

were sleeping rough in 2024, with a further 439 500 in emergency accommodation and over 60 000 staying involuntarily with relatives or friends ([519]). Broader estimates suggest that more than one million people may be affected when insecure housing situations are included, reflecting the combined effects of poverty, high housing costs and shortages of affordable and social housing ([520]).

([519])bmwsb, 2024, Wohnungslosenbericht der Bundesregierung bmwsb.bund.de/.

([520])BAG Wohnungslosenhilfe, 2024, Mehr als eine Million wohnungslose Menschen in Deutschland, www.bagw.de.