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367 Report by Konstantin A. Kholodilin and Malte Rieth

Real estate market remains tense – Rents and Apartment prices are rising

- Building plots and single-family homes nominally one percent cheaper than last year
- Row houses and apartments half a percent more expensive
- Rents nationwide up by an average of four percent

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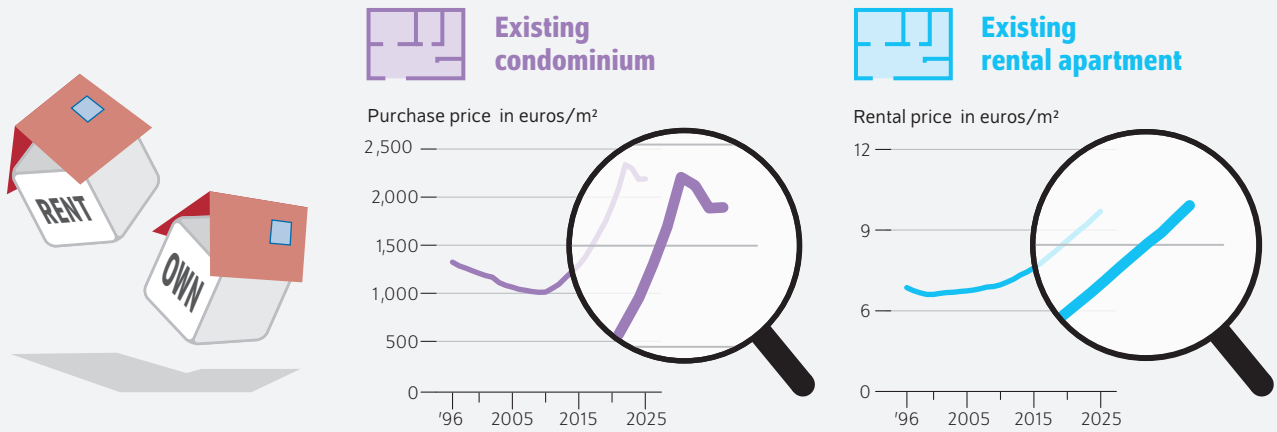
AT A GLANCE

Real estate market remains tense – Rents and Apartment prices are rising

By Konstantin A. Kholodilin and Malte Rieth

- Real estate market in Germany remains tense – purchase prices almost stable, rents continue to rise nationwide
- Building plots and single-family homes nominally one percent cheaper than last year; row houses and apartments half a percent more expensive
- Rents rose by an average of four percent nationwide, in some cases by up to eight percent in major cities, for both existing and new apartments
- Population grew, number of new buildings fell – housing remains scarce
- Politicians called to strengthen housing construction, speed up approval procedures, and simplify bureaucratic regulations

In Germany, average housing prices are stabilizing after two years of decline, while rents continue to rise



Source: Own calculations based on data from the real estate association IVD.

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FROM THE AUTHORS

"In view of expensive financing, we expect little movement in the next two years. There have been many bankruptcies in the construction sector, and capacities have been reduced. Some indicators point to a slight upturn in the housing market, but supply is growing far too slowly to meet the high demand."

— Malte Rieth —

MEDIA

Audio Interview with Malte Rieth (in German)
www.diw.de/mediathek

Real estate market remains tense – Rents and Apartment prices are rising

By Konstantin A. Kholodilin and Malte Rieth

ABSTRACT

After two years of significant price declines, the German real estate market is showing signs of slight stabilization. Once again, building plots and single-family homes have become slightly cheaper – nominally by one percent compared to 2024. In 2024, the declines were four and seven percent, respectively. Prices for row houses and apartments, on the other hand, rose slightly by 0.5 percent. Price developments vary depending on the type of location: In major cities, building plots have fallen in price by five percent, while apartments and single-family homes have become slightly more expensive. Prices remained largely stable in all other regions. Rents rose by an average of around four percent nationwide, both for existing and new buildings. The increase was particularly strong in major cities, where it soared by up to eight percent in some cases. The population is growing, while the number of constructed apartments continues to decline. Thus, housing remains scarce. Together with a weak macroeconomic environment, this is likely to cause rents to rise in the future, as fewer and fewer people can afford to buy property. Politicians are urgently called upon not just to promote housing construction but also to simplify procedures and regulations that hinder construction in order to counteract the housing shortage.

After two years of decline, prices on the German real estate market stabilized in 2025. While rents continue to rise, purchase prices have also begun to increase in many segments. Improved financing conditions, among other factors, are contributing to this. The European Central Bank has now lowered key interest rates from 4.5 to 2.00 percent, thereby achieving a neutral monetary policy for the eurozone. As inflation in the eurozone is back at the target rate of two percent, no further interest rate cuts are expected for the time being. Construction and purchase projects can be financed somewhat more cheaply than about two years ago thanks to key interest rates that are low. Nevertheless, mortgage interest rates remain significantly above the level of 2012 to 2022, at around 3.8 percent. Taking inflation into account, real mortgage interest rates are currently around 1.5 percent. From 2012 to 2022, however, they were close to zero. With key interest rates remaining constant, construction interest rates are unlikely to fall in the foreseeable future. The domestic economy is also weak. Although real wages have risen noticeably in recent quarters, the number of private insolvencies continues to increase. Thus, banks are unlikely to adjust their lending standards significantly. The volume of new residential construction loans is recovering sluggishly, remaining around a third below the March 2021 peak.

The development of prices and rents on the German housing market is a critical factor for private households and companies. For this reason, the dynamics of real estate prices are researched extensively.[1] Since 2014, DIW Berlin regularly analyzes price developments across Germany looking

1 The number of academic articles on the question of a possible bubble in the real estate market remains manageable. The results of previous studies are controversial and do not paint a consistent picture. No price bubble can be identified for Germany based on aggregated data series. See Xi Chen, and Michael Funke (2013): Renewed Momentum in the German Housing Market: Boom or Bubble? CESifo Working Paper No. 4287 (available online); Philipp an de Meulen, and Martin Micheli (2013): Droht eine Immobilienpreisblase in Deutschland? Wirtschaftsdienst 93(8), 539–544 (in German; available online). This study analyzes aggregated series for the seven largest cities in Germany. The analysis suggests that speculative motives play only a very limited role in real estate pricing. Another study, however, concludes that prices are in some cases significantly above their fundamentally justified level, by up to 25 percent. See Florian Kajuth, Thomas A. Knetsch, and Nicolas Pinkwart (2013): Assessing house prices in Germany: Evidence from an estimated stock-flow model using regional data. Discussion Paper of the Deutsche Bundesbank 46/2013 (available online). Empirica AG has been publishing its bubble index regularly since 2018.

DOI: https://doi.org/10.18723/diw_dwr:2025-51-1

at local districts.[2] This study updates the evaluations based on a data set from the IVD real estate association, which includes rental and purchase prices for residential real estate (Box). The data set is unique for Germany in its breadth, as it covers almost half of all districts and all relevant housing market segments. This allows for a detailed regional analysis differentiated by rents, house prices, and land prices.

Rents again rise significantly; Purchase prices remain virtually unchanged

Net rents have continued to rise unabated in 2025 – both for existing properties and for new builds by around four percent, as in 2024. This means that there are no signs of a slowdown in the rental market. Since 2010, rents have risen by an exorbitant 70 percent on average.

After almost two years in which the rental and purchase markets diverged, most segments have now reached their lowest point. In 2025, prices for building plots and single-family homes fell by around one percent on average nationally, but the decline has slowed significantly. In 2024, prices fell by four and around seven percent, respectively. Prices for row houses and condominiums in multi-family houses rose slightly by just under half a percent.

As a result, the price correction was short-lived. Real estate prices remain well above the 2010 level, which is when the market started its upturn. Building land is now around 104 percent more expensive, single-family homes are around 75 percent more expensive, and row houses are around 84 percent more expensive. Condominiums have seen the sharpest increase, at 116 percent (Figure 1).

This suggests that speculative price overvaluations in some segments and regions are not yet completely overcome.[3] Even before the monetary policy turnaround, when interest rates were still high, there were doubts as to whether price developments were covered by fundamental market factors.[4]

One indicator of overvaluation is the ratio of prices to rents. In 2022, this ratio reached 27 for apartments in good locations, its highest level since the mid-1990s.[5] This means that the purchase price is 27 times the annual net rent excluding utilities. In mid-range locations, three years ago the ratio was still 24, this has since fallen to 23 and 20, respectively. This is mainly due to the massive increase in rents, rather than the moderate decline in prices. Thus, a consolidation

Box

Price data

Compared to other countries, access to data on real estate price trends in Germany is quite limited. At the local level, in particular, there are few sources that allow for analysis over a longer period of time. Typically, the time series are very short, cover only a few locations, or contain only asking prices.

For the present study, rental and purchase price data from the "Immobilienverband Deutschland IVD Bundesverband der Immobilienberater, Makler, Verwalter und Sachverständigen e. V." (German Real Estate Association IVD Federal Association of Real Estate Consultants, Brokers, Administrat ors, and Experts) are used. The company has been providing real estate data and indices for individual real estate market segments since 1975. The data comprises average purchase prices and rents for apartments and land in 685 German municipalities from 1975 to 2025. This makes it a unique source of information in terms of geographical and temporal coverage of the market. For this Weekly Report, data for over 407 municipalities from 1996 to 2025 is used. The data is collected throughout the year. For some cities, it is collected in the first half of the year.

The present analysis takes the following six variables into account:

- Purchase prices for building plots for single-family homes in average locations and with average residential value,
- Purchase prices for owner-occupied homes in average locations and with average residential value,
- Purchase prices for row houses in average locations and with average residential value,
- Purchase prices for existing owner-occupied apartments in good locations and with average residential value,
- Net cold rents for existing apartments in average locations with average residential value,
- Net cold rents for new apartments in average locations with average residential value.

In addition, the variables mentioned are used to calculate the ratio of purchase prices to annual rents for existing apartments (average and good locations with average and good living standards).

The number of municipalities in the data set may vary from year to year, as reporting is voluntary (and can only be reported if there is sufficient transaction data). Berlin is missing in 2025 due to an adjustment in the collection methodology, which is why cross-year validations and comparisons are not yet possible here.

2 See Konstantin A. Kholodilin and Claus Michelsen (2017): No Germany-wide housing bubble but overvaluation in regional markets and segments. DIW Economic Bulletin No. 25/26, 255–265 (available online).

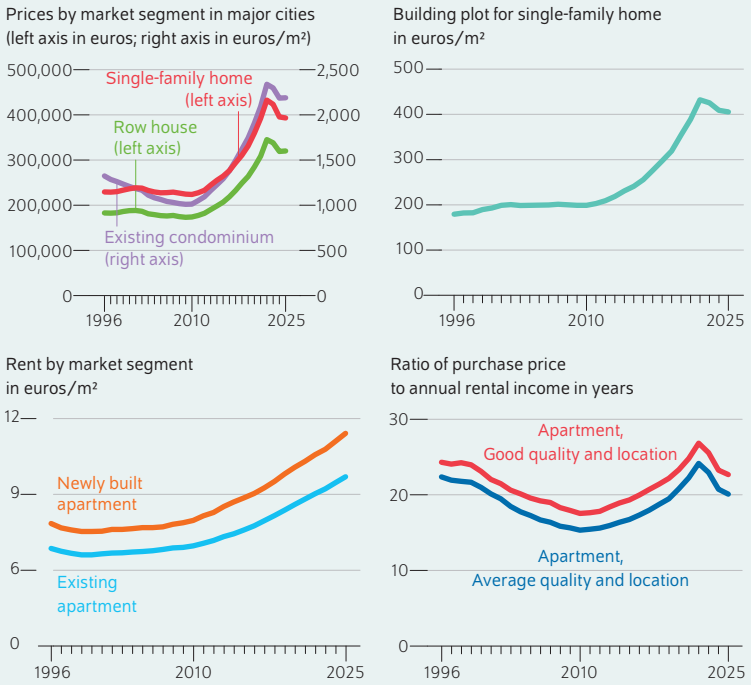
3 On the existence of speculative price bubbles, see, for example, Konstantin A. Kholodilin and Malte Rieth (2022), Immobilienmarkt bisher stabil – aber Risiko für Preiskorrekturen hat zugenommen. DIW Wochenbericht, 47, 611–620 (in German; available online).

4 European Central Bank (2022): Financial Stability Review, May 2022 (available online); Deutsche Bundesbank (2021): Financial Stability Report 2021 (available online).

5 The purchase price-to-rent ratio is calculated as the quotient between the purchase price and the annual rent. It indicates approximately how many years it would take to recover the purchase price of the property with the rental income.

Figure 1

Development of real estate prices and rents in 407 German municipalities



Note: Unless otherwise stated, the figures shown represent real estate types of average quality and location.

Sources: Own calculations based on data from the IVD real estate association.

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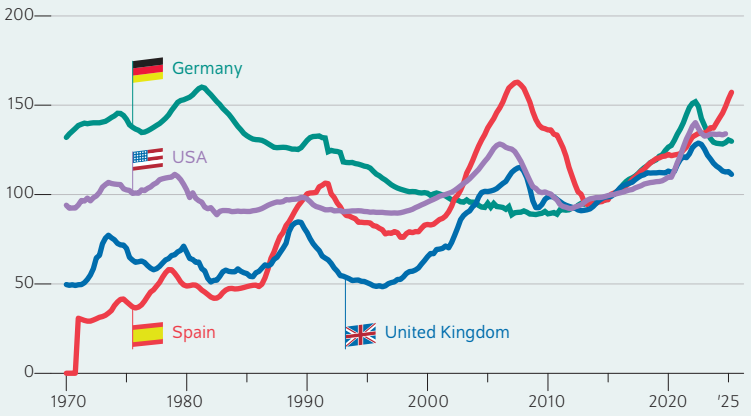
Home ownership costs between 75 and 116 percent more today than it did in 2010.

Figure 2

Ratio of real estate prices to rental prices in international comparison

In percent (index 2015=100)



Note: Nominal house price index divided by the nominal rent index.

Sources: OECD; own representation.

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Germany shows a slight increase in the price-to-rent ratio.

as long as the one that followed the bursting of the bubble in the 1990s is unlikely.[6] Housing remains scarce.

Quarterly data from the OECD already indicate a slight increase in the price-rent ratio for Germany (Figure 2). It is still at the level of the 1970s and 1980s, significantly above the values of the 2000s and 2010s. For other countries, the picture is quite heterogeneous. While the ratio is falling in the United Kingdom, it is rising sharply in Spain and stagnating in the United States.

Financing conditions remain difficult

The development of the housing market is closely linked to financing conditions. After a decline in interest rates for housing loans from 4.1 percent in December 2023 to 3.6 percent in January 2025, interest rates have now risen slightly to 3.9 percent (Figure 3). As the European Central Bank's key interest rates are unlikely to change significantly within the next two years, mortgage interest rates will also remain largely stable. The increased interest rates are slowing the number of new housing loans: after an interim high in July 2025, volumes fell in August and in September; December 2025 rates are a good third below the March 2021 level.

The proportion of loans with a fixed interest rate for more than five years has stabilized at around 80 percent. However, this is still below the peak of 85 percent in the first quarter of 2022 (Figure 4). There are currently signs of a slight decline. Nevertheless, a sharp decline is unlikely due to the expected stability of mortgage interest rates. In relation to economic output, the volume of new residential construction loans rose to 5.5 percent. However, this is still well below the long-term average of 7.3 percent.

The volume of real estate transactions shows a similar picture, albeit somewhat more dynamic. After slumping by around 40 percent between the first quarter of 2021 and the second quarter of 2023, by the second quarter of 2025 it rose by over 26 percent (Figure 5).[7] Despite this growth, it remains a good quarter below its peak in the first quarter of 2021. Currently, however, there are no signs of a slowdown in the upward trend.

Population growth is slowing, but housing remains too scarce

Since 2010, the population in Germany has grown steadily, with an average annual increase of around 225,000 people. This increase is occurring even though deaths have exceeded births every year since 1972. This means that natural population growth is negative and the entire increase

6 See Claus Michelsen, Dominik Weiß (2010): What happened to the East German housing market? A historical perspective on the role of public financing. Post-Communist Economies, 22 (3), 387–409 (available online).

7 The nominal transaction volume was calculated from land transfer tax revenues and an average land transfer tax rate weighted by population, as this varies in Germany depending on the federal state and year. The real transaction volume is calculated from the ratio between the nominal transaction volume and the OECD's house price index for Germany.

in population is exclusively attributable to net immigration from abroad. Immigration is contributing increasingly to population growth, particularly in urban centers, and is exacerbating the need for housing.[8] Between 1991 and 2024, net immigration was clearly positive: each year an average of about 345,000 more people immigrated to Germany than left the country.

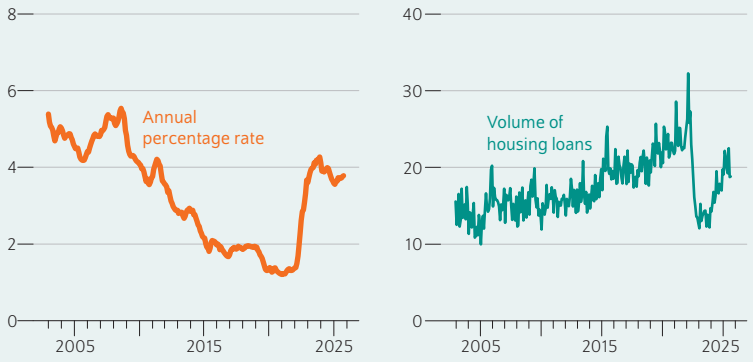
However, it is becoming evident that net immigration will be lower in 2025.. Preliminary data shows that, in the first nine months of the year, only around 172,000 people moved to Germany on a net basis – slightly above 50 percent of the figure for the same period in 2024. Although growth is slowing, it remains positive, indicating a continued, albeit more moderate, expansion of the housing market.[9]

In contrast, growth in residential is slowing. In 2024, the number of completed apartments fell by 14 percent to around 252,000 apartments – significantly below the demand created by population growth and normal wear and tear.[10] The forecasts for construction output for 2025 offer little hope: real investment in residential construction is expected to decline by three percent.[11] The number of building permits also remains low. After three years of decline, only a slight increase is expected for 2025. High interest rates and construction costs are slowing construction activity. In addition, the number of insolvency proceedings opened in the construction industry has fallen slightly after a rapid increase in the past three years, but remains at a high level (Figure 6). This is likely to have a negative impact on completions in the coming years.

Overall, demand continues to rise, while the supply of housing is not being expanded sufficiently. Housing remains scarce, as shown by the historically low vacancy rate. [12] It has fallen sharply since 2022, nationally standing at 2.2 percent.[13] Vacancy rates are even lower in large cities: In A cities, with the exception of Düsseldorf, they are below one percent. If the proportion of vacant apartments is below three percent, the housing market is considered tight.

Figure 3

Housing loans to private households (new business)
In percent (left) and in billions of euros (right)



Sources: Deutsche Bundesbank; own calculations.

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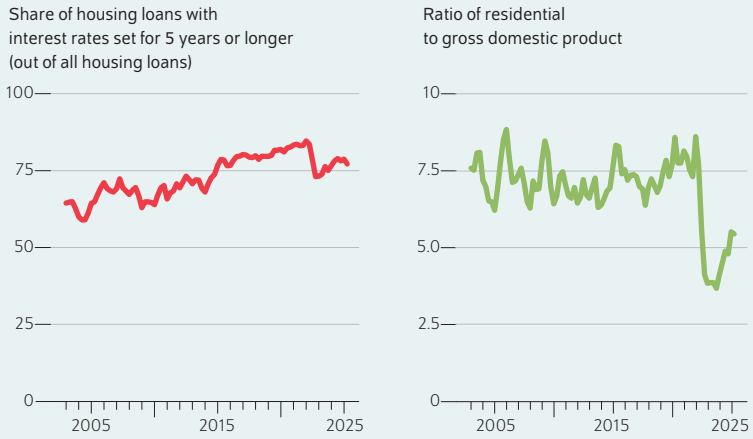
The dynamics of the housing market are closely linked to financing conditions.

Figure 4

Lending for housing to private households
In percent



Sources: Federal Statistical Office, Deutsche Bundesbank; own calculations.

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Around 80 percent of loans have a fixed interest rate for more than five years – slightly less than the record level of 2022.

Differences in regional market development

Analysis of price developments in the housing market often begins with a look at individual indicators and the national market. However, since real estate markets are strongly regional in nature, it is equally important to consider various city and regional clusters in addition to the segments of land, owner-occupied homes, apartments, and rental properties.

8 Demand for housing in cities is influenced by immigration from abroad and within Germany. For several years now, migration within Germany has tended to be out of cities and into the surrounding areas. In addition, housing demand depends on changes in the number of households, such as an increase in single-person households. Since around 2011, however, their share in metropolitan areas has stabilized at 50–55 percent; in Berlin and Hamburg it has even declined. This means that immigration from abroad plays the most important role for population growth in large cities.

9 See data from the Federal Statistical Office in the GENESIS-Online database.

10 For demand, see, for example, Deschermeier, Philipp, Ralph Henger, and Julia Sprenger (2024), Zunehmende Marktanspannung in vielen Großstädten. Aktuelle Ergebnisse des IW-Wohnungsbedarfsmodells, IW-Report, Nr. 39, Köln (in German; available online).

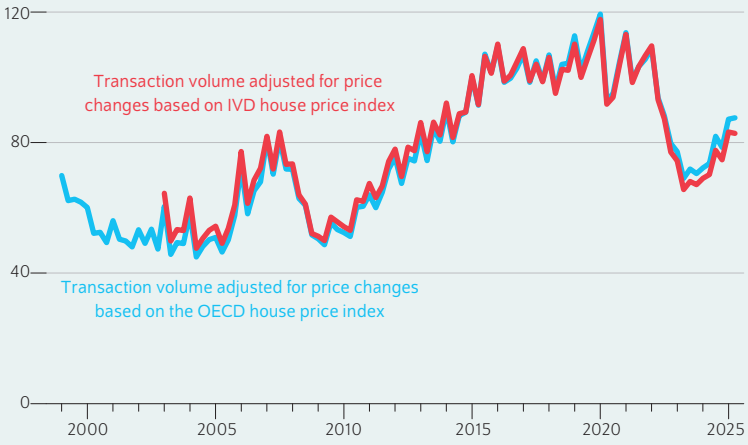
11 Geraldine Dany-Knedlick et al. (2025 German Economy in the Starting Blocks—Global Economy Holds Its Own. DIW Weekly Report 50 (available online)

12 The market vacancy rate is stated here. "The market vacancy rate includes vacant [multi-story] apartments that are immediately available, as well as vacant apartments that are currently not available for rent due to defects but could be activated in the medium term (<6 months)." See CBRE-empirica vacancy index 2025 (in German; available online).

13 The figure given here is the market vacancy rate. "The market vacancy rate includes vacant [multi-story] apartments that are immediately available, as well as vacant apartments that are currently not available for rent due to defects, but could potentially be activated in the medium term (< 6 months)." See CBRE-empirica vacancy index 2025 (available online).

Figure 5

Real transaction volume on the real estate market
In percent



Notes: The nominal transaction volume was adjusted for inflation using two alternative real estate price indices. Slight differences between the OECD and vdp house price indices result in slightly different trends in real transaction volume. The OECD house price index is five years longer, while the vdp index is published a few months earlier.

Sources: Federal Statistical Office; OECD; Association of German Pfandbrief Banks (vdp); own calculations.

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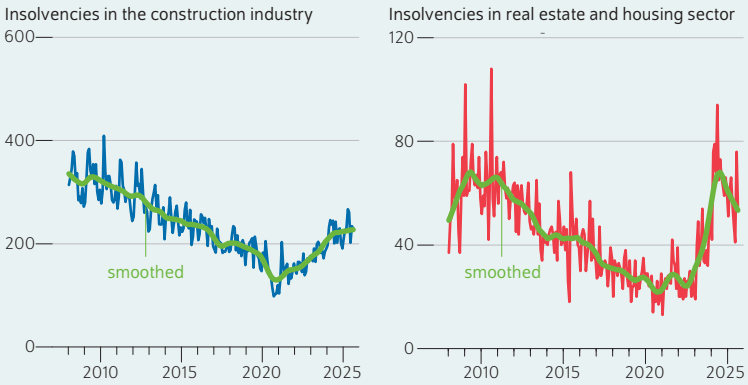
Real estate transactions have risen recently, but remain a good quarter below their peak.

Figure 6

Insolvency proceedings initiated in the construction and real estate industry
Monthly absolute figures



Note: Real estate and housing encompasses all activities related to the acquisition, development, management, and marketing of land and residential properties.

Source: Federal Statistical Office.

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Despite a slight decline after three years of increases, the number of insolvencies in the construction industry remains high.

Price developments are examined according to so-called A, B, C, and D locations. This is a proven classification based on population figures and sales revenues from real estate sales in the respective markets.[14] Typical A locations are metropolitan centers such as Munich or Hamburg, B locations are medium-sized cities or well-connected suburbs such as Heidelberg or Mainz. C locations include small towns or outskirts of larger cities, such as Kaiserslautern or Worms, while D locations cover rural regions or structurally weak cities such as some municipalities in Mecklenburg-Western Pomerania or Saxony-Anhalt. Price developments for new and existing apartments, owner-occupied homes, and building plots are considered separately.

At present, purchase prices for land continue to vary greatly from region to region (Table 1). Although they fell in all locations in 2025 compared to 2024, the decline was particularly sharp in the major cities, at up to 5.4 percent – presumably because the exaggerations had previously been greatest there. In B to D locations, price declines were mostly between zero and one percent. The trend for single-family homes in A locations was also slightly different from that in other locations. Here, prices rose slightly, while elsewhere they mostly fell marginally. Prices for condominiums rose by around zero to one percent in most types of locations. Only in B locations did the decline in prices continue.

In contrast, rents rose in all locations. The strongest rent increases were in A, C, and D locations: from 3.6 percent in D locations to 7.8 percent in A locations. Rents for new apartments rose slightly more than rents for existing apartments.

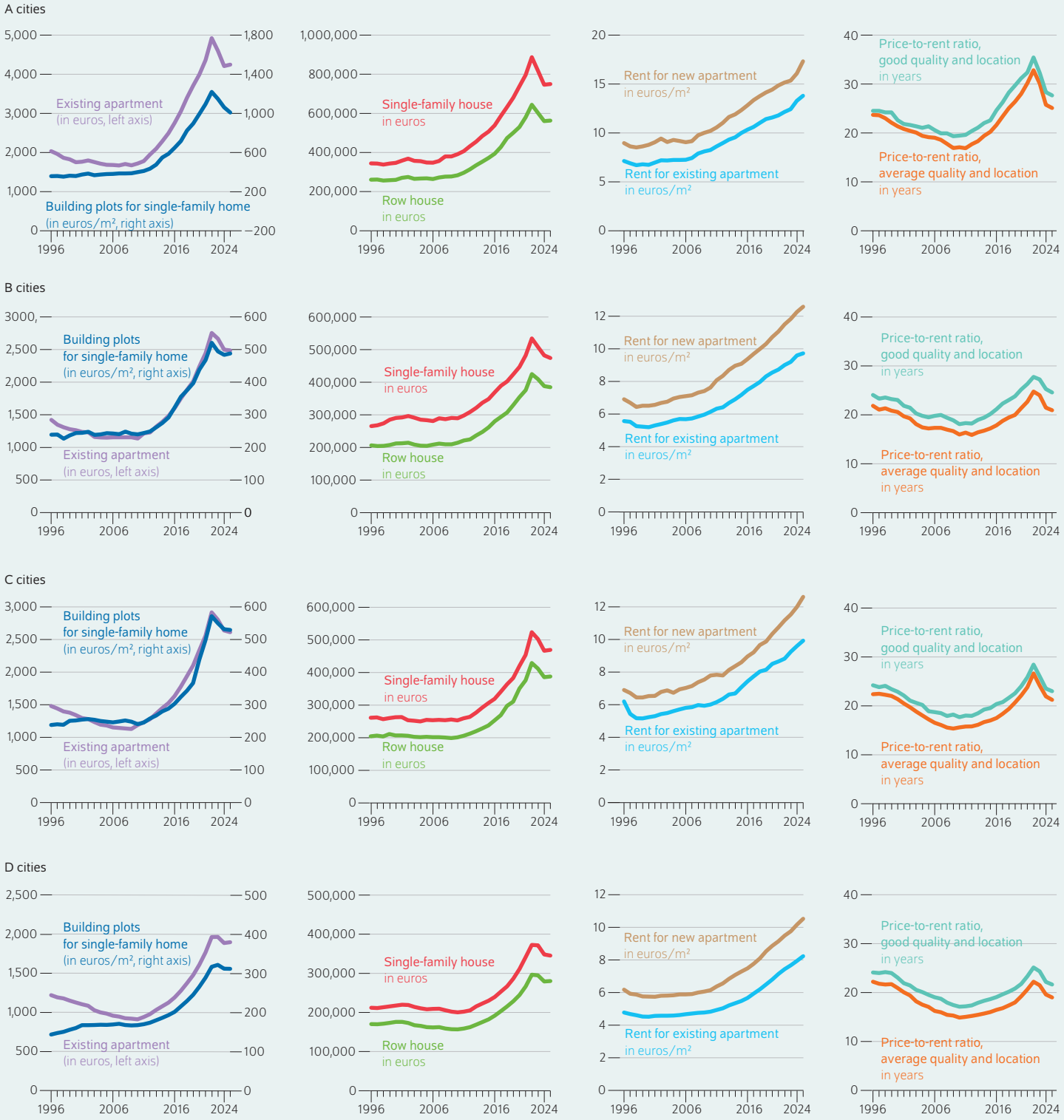
As purchase prices are still falling or rising only slowly and rents are rising across the board, price-to-rent ratios continue to decline. Nevertheless, they remain significantly higher than in the past for all locations, indicating continued overvaluation (Figure 7).

There are also geographical differences (Figure 8). In western Germany, land prices in larger cities continue to fall, while smaller cities and areas along the Baltic Sea coast are again seeing rising values – as is the market for owner-occupied homes. In eastern Germany, the trend is mixed: purchase prices are still falling in some locations, while in others they remain stable. The picture is much more uniform when it comes to rents: prices are rising in almost all regions. Only in a few isolated cases – mainly in North Rhine-Westphalia and parts of eastern Germany – are prices stagnating.

14 A cities: Major German centers of national and, in some cases, international importance. Large, functional markets in all segments. B cities: Large cities of national and regional importance. C cities: Important German cities of regional and limited national importance, with a significant impact on the surrounding region. D cities: Small, regionally focused locations with a central function for their immediate surroundings; lower market volume and turnover. See definitions on the RIWIS Online website.

Figure 7

Real estate price development by location type in 407 German municipalities



Notes: A cities: Major German centers of national and, in some cases, international importance. Large, functional markets in all segments. B cities: Large cities of national and regional importance. C cities: Important German cities of regional and limited national importance, with a significant impact on the surrounding region. D cities: Small, regionally focused locations with a central function for their immediate surroundings; lower market volume and turnover.

Sources: IVD; own calculations.

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As purchase prices are hardly rising and rents are growing continuously, the price-rent ratio is shrinking.

Table 1

Price and rent trends by city type from 2024 to 2025
In percent

Segment	Germany	Locations			
		A	B	C	D
Building plot for single-family home, average location and residential value	−0.9	−4.9	0.9	−0.4	−0.1
Building plot for single-family home, good location and residential value	−1.3	−5.4	−0.3	−1.1	−0.4
Single-family home, average location and residential value	−0.6	0.4	−1.7	0.5	−0.8
Detached house, good location and quality of living	−0.3	0.7	−1.3	−0.3	−0.3
Row house, average location and residential value	0.3	0.6	−0.9	0.5	0.4
Existing apartment, average location and residential value	0.2	0.9	−0.5	−1.0	0.6
Existing apartment, good location and residential value	1.0	0.9	−0.6	0.3	1.5
Rent for existing apartment, average location and living standards	3.5	3.9	1.4	3.4	3.6
Rent for new apartment, average location and quality of living	3.9	7.8	2.6	5.1	3.6
Price-rent ratio, apartment, average location and residential value	−3.1	−2.7	−2.4	−3.2	−3.1
Price-rent ratio, apartment, good location, and quality of living	−2.5	−2.4	−2.7	−2.3	−2.3

Notes: A cities: major German centers with national and, in some cases, international significance. Large, functional markets in all segments. B cities: large cities with national and regional significance. C cities: important German cities with regional and limited national significance, with a significant impact on the surrounding region. D cities: small, regionally focused locations with a central function for their immediate surroundings; lower market volume and turnover.

Sources: Own calculations based on data from the IVD real estate association.

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Conclusion: Owner-occupied housing remains expensive, rents are becoming a considerable financial burden

Housing prices evolved differently in 2025 depending on the segment: land and single-family home prices fell slightly, but the decline of recent years seems to be almost over. Prices are already rising again in individual segments and regions. Although there are currently no signs of an accelerated price increase, the corrections of the past three years have been minor. Prices remain well above the level of about five years ago. Price-to-rent ratios are correspondingly high.

The housing market situation is still tense. The number of insolvencies in the construction sector remains high. Although the volume of construction loans has risen slightly in the last two years, it remains at a low level. Mortgage interest rates remain at around four percent. The supply of housing is scarce and an expansion in the coming years is unlikely. Demand continues to grow, even though net immigration is declining slightly.

High prices for land and single-family homes, coupled with weak and uncertain macroeconomic development, seem to be driving people toward row houses and condominiums. Prices for these have already risen again. Above all, however, rents are skyrocketing unabated, with another four percent growth this year. These are rising in both segments (new construction and existing stock), in all locations, and in the vast majority of regions. Once again, the average rent burden is particularly high in the lower income brackets.[15] This can lead to social tensions and pose risks to social cohesion, and drive people into homelessness in the worst cases.

Politicians should respond to the very tense situation on the housing market. The construction boom is an important step in the right direction, as it means that zoning plans can be dispensed with and approval procedures can be accelerated. However, these are only the first steps in a marathon that should consist of continuously reducing building regulations, clearing the bureaucratic jungle, and investing in affordable housing—especially for the poorer sections of the population.

15 Konstantin A. Kholodilin and Pio Baake (2024) Mietbelastung in Deutschland: In den letzten Jahren nicht gestiegen, aber ungleich verteilt. DIW Wochenbericht 41, 627–633 (in German; available online).

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JEL: C32; E27; E32

Keywords: speculative real estate price bubbles; explosive root tests; German cities and municipalities

Figure 8

Real estate price development from 2024 to 2025 in 407 municipalities in Germany
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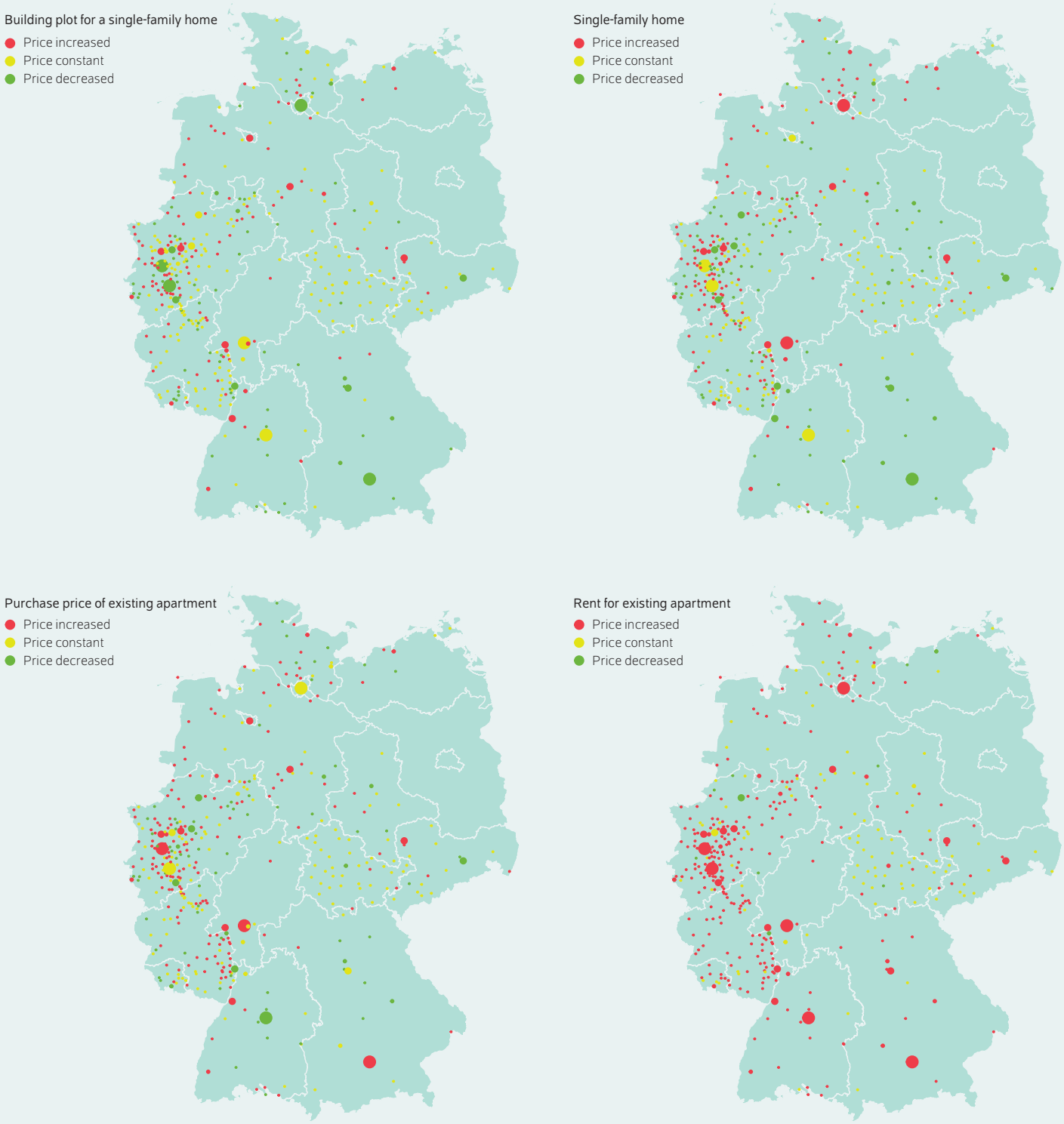

Notes: The chart shows price trends for properties in average locations with average residential value.

Sources: IVD; own calculations.

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Rents are rising almost everywhere, with only a few regions in North Rhine-Westphalia and parts of eastern Germany experiencing stagnation.