

Residential real estate – Will demographic aging alleviate the housing shortage in Germany?

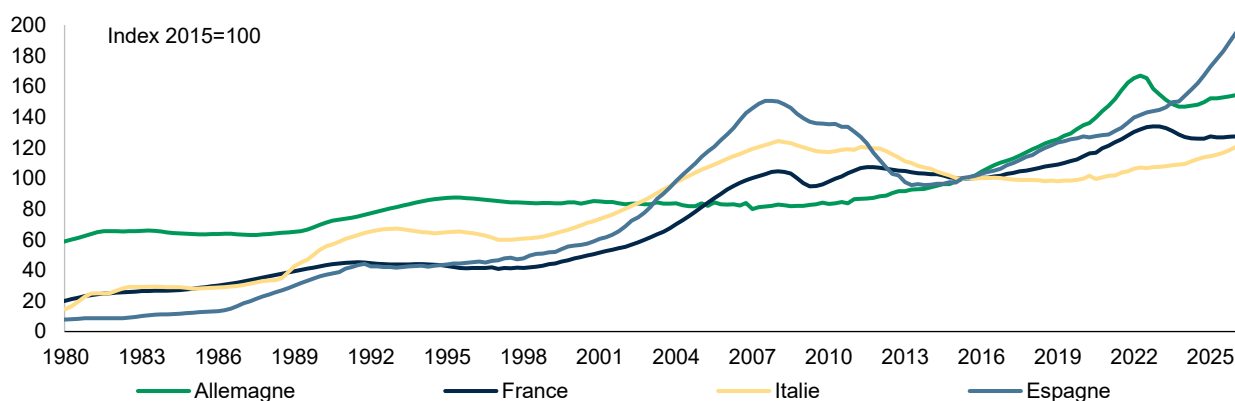
On September 20, 2026, *Die Linke* won the regional election in Berlin, a first for the radical left-wing party in the capital. The housing crisis was at the heart of *Die Linke*'s campaign, and **this victory reflects Berliners' frustration with skyrocketing rents and difficulties in accessing housing**. The German housing market is indeed facing significant cyclical and structural constraints, which today result in an estimated **shortage of 1.4 million housing units, a continuous rise in rents, and an insufficient supply of affordable housing**.

Trends in the Residential Real Estate Market Since the 2000s

Following the *boom* of the 1990s, the German housing market remained stable in the early 2000s, in contrast to the sharp increases seen in other major European countries. This stability can be attributed to an abundant housing stock at the time, a legacy of post-reunification investments, slowing population growth, a prudent lending system, and public policies favoring renting.

The 2010s were marked by an unprecedented upward cycle in housing prices. Historically, low interest rates, a strong labor market, and sustained labor immigration fueled strong demand, which was, however, constrained by a rigid supply. As a result, home ownership became difficult to achieve: the share of owner-occupiers fell from 53.2% to 46.5% between 2010 and 2022. Urban rents doubled between 2015 and 2025, prompting the government to tighten rent controls.

Residential real estate prices in Europe



Sources: OECD, Crédit Agricole S.A./ECO

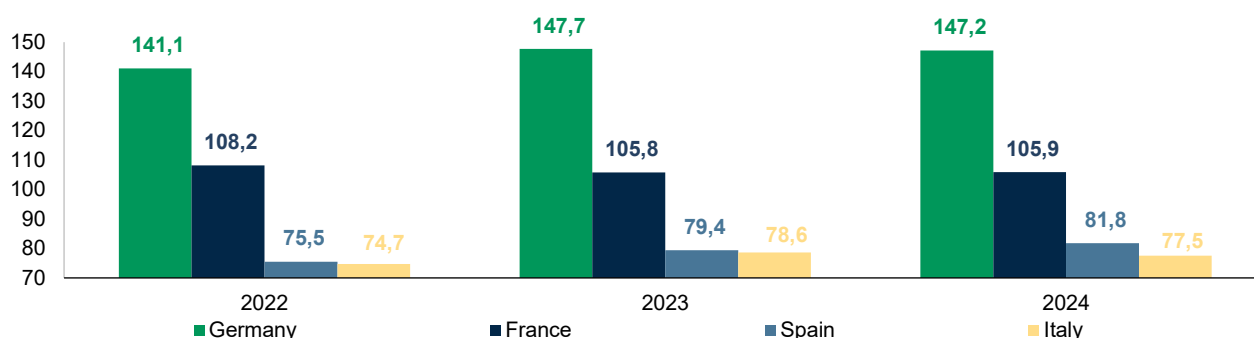
In 2022, high inflation and a rapid rise in interest rates put a halt to this trend: prices fell by 8.4% in 2023, and many households unable to afford homeownership turned to renting. But after two years of correction, prices begin to rise again starting in 2024, supported by stable employment, disinflation, and rising real wages. In 2026, prices continue to rise (+1.2% in Q1 compared to Q1 2025 and +0.6% in Q2) but remain more than 8% below the 2022 peak.

The construction sector is struggling to meet housing needs

Residential construction is struggling to recover after years of recession. Building permits have been on the rise since 2025 (+12% in January–July 2026 compared to the same period in 2025) but remain well below their pre-price-drop levels (-33% compared to January–July 2021¹). New housing completions are expected to hit bottom in 2026, followed by a very gradual recovery in 2027 and 2028².

Residential construction costs compared to the EU average

Index EU=100



Sources: Eurostat, Crédit Agricole S.A./ECO

Construction costs are a major obstacle: up 21.5%³ between 2021 and 2025, they are the highest in the EU.

In urban areas, the scarcity of buildable land constrains the expansion of the residential stock and fuels price increases. While 85% of the identified construction potential⁴, would rely on internal densification, this approach faces lengthy planning procedures, limited administrative capacities at the municipal level, citizen resistance (NIMBY effect), and speculative land retention, whereby continued land appreciation discourages owners from selling. Regulatory standards further drive-up construction costs: in the absence of an exhaustive legal definition of these standards, builders apply the most stringent requirements as a precautionary measure. Energy performance requirements, governed by the Building Modernisation Act (GModG), add to these constraints, although the government partially relaxed its provisions on heating systems in July 2026.

As a result, the construction sector is struggling to address an estimated housing shortage of 1.4 million units by 2024⁵, limiting housing affordability for households, particularly in major cities.

A housing stock ill-suited to changes in long-term demand

By the end of 2025, Germany had a population of 83.5 million. In the central scenario of the demographic projections⁶, the population is projected to decline by 3.7% between 2025 and 2045. In all scenarios considered, the proportion of people aged 67 and older is expected to increase.

Despite this demographic decline, housing demand will continue to grow due to a slight increase in the number of households between 2022 and 2045 (+560,000) and the geographic mismatch in supply. According to the BBSR⁷, demand will be concentrated in urban and economically attractive

¹ Destatis Data

² [EUROCONSTRUCT forecasts \(101st Country Report – Summer 2026\)](#), cited by the Ifo: [European construction sector to grow by 2% in 2026](#), Ifo (2026)

³ [Eurostat data](#): residential construction cost index relative to the EU average, in purchasing power parity

⁴ [More Housing Construction! But How?](#), B. Faller, Vhw (Federal Association for Housing and Urban Development), 2024, and [Potential for Building Land and Urban Redevelopment in German Cities and Municipalities](#), BBSR, 2022

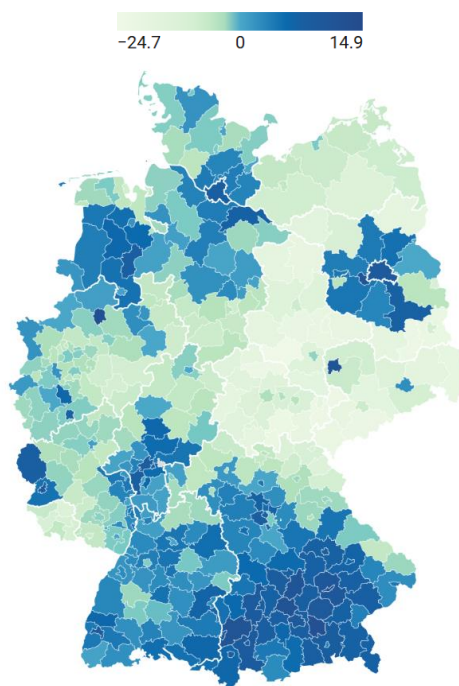
⁵ [Social Housing Monitor 2026](#), Pestel Institute, January 2026

⁶ In the baseline scenario, the assumptions are as follows: a total fertility rate of 1.47, a net migration of 250,000 per year, and life expectancy at birth of 84.5 years for men and 87.7 years for women.

⁷ The BBSR is a federal agency responsible, among other things, for conducting research on construction, urban affairs, and spatial development. It is also responsible for the Spatial Planning Report, which provides information on medium- and long-term economic and demographic developments in Germany. Its French counterpart is the SDES.

areas, where housing vacancy rates are low. The number of households is projected to decline⁸ by 4.4% in the former GDR and increase by 2.8% in the former FRG⁹. When also considering housing that cannot be technically or economically renovated¹⁰ to achieve climate neutrality, the Pestel Institute projects construction requirements exceeding 300,000 homes annually by 2050. The Pestel Institute forecasts a need to build more than 300,000 housing units per year by 2050¹¹.

Projected Population Trends by District in Germany between 2022 and 2045 (in %)



Sources: Destatis, Crédit Agricole S.A./ECO calculations

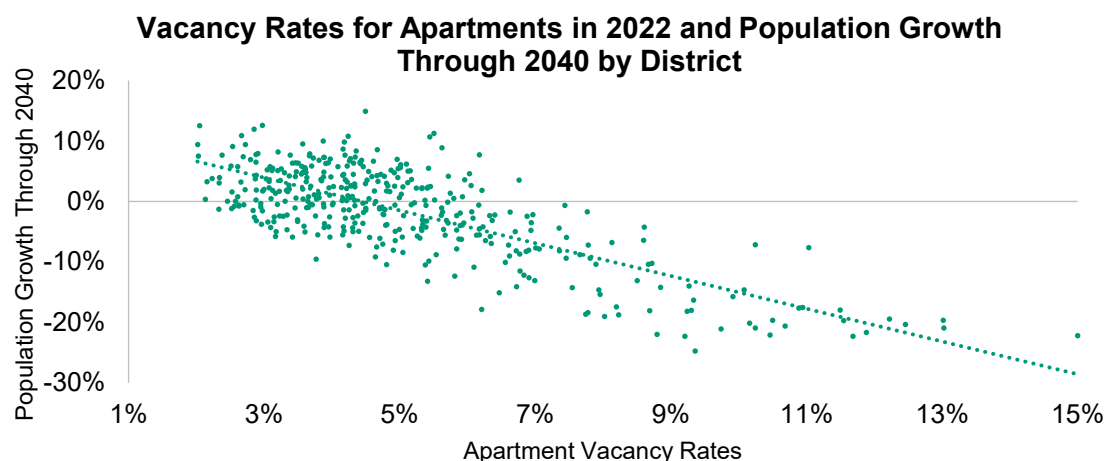


Figure: Each data point represents one of Germany's districts¹², with the x-axis showing the vacancy rate for apartments and the y-axis showing population growth. The graph shows that the districts with the highest vacancy rates are those where the population is declining and, conversely, the districts with the highest population growth have very low vacancy rates.

Sources: Destatis, BBSR, Crédit Agricole S.A./ECO calculations

⁸ [Spatial Planning Forecast 2045: Updated Population Forecast](#)

⁹ For more details on projections of the number of households by 2045, see: [Spatial Planning Forecast 2045: Household Forecast](#)

¹⁰ Around 4 million

¹¹ [Social Housing Monitor 2026](#), Pestel Institut, January 2026.

¹² The district (or "Landkreis" in German) is the intermediate administrative level between the municipality and the federal states. Germany has approximately 400 districts: 294 are rural and 106 are urban.

Is the “Bau-Turbo” a Solution?

To promote housing construction, the Merz administration proposed the “Bau-Turbo,” which took effect in October 2025. The plan gives municipalities greater flexibility in managing residential areas. They will now be able to approve residential projects in zones not designated for construction. Exemptions from urban development plans will allow for the creation of housing through building height increases, extensions, or “second-row” construction. The timeframe for issuing permits has been reduced to 3 months, with automatic approval granted in the absence of a decision.

While the plan aims to boost residential construction, it does not provide specific solutions to the affordable housing crisis facing Germans. Indeed, increasing construction alone is not enough to lower rents: demand may remain too high for supply alone to rebalance the market. This shortfall constitutes a significant economic obstacle for young working adults seeking housing.

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