Germany's housing market recovery clouded by uncertainty

The German Statistical Office just published its house price index for the first quarter of 2025. While the data points to a modest recovery, the outlook remains uncertain, even as the government begins to deliver on long-awaited reforms

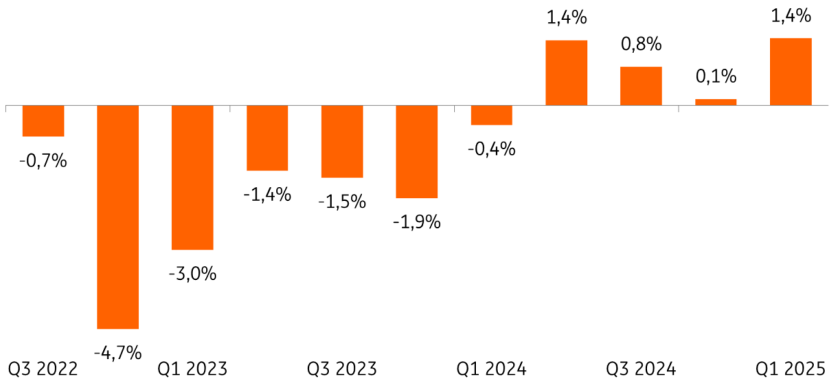
German house prices rose by 3.2% last year but that number masks a clear loss of momentum

German house price growth accelerated in 1Q 2025

German house price data is always published with a significant delay. Some three months after the end of the first quarter of 2025, the German Statistical Office just published its house price index update. The data shows that German house prices rose by 1.4% quarter-on-quarter in the first quarter of 2025, from a downwardly revised 0.1% QoQ rate in the fourth quarter of 2024. With that, house prices remain some 10% below their peak level reached in 2Q 2022 but are also some 4% above the trough in 1Q 2024. In other words, the recovery of the German housing market accelerated in the first three months of the year but remains far from robust.

House price index

(%QoQ)



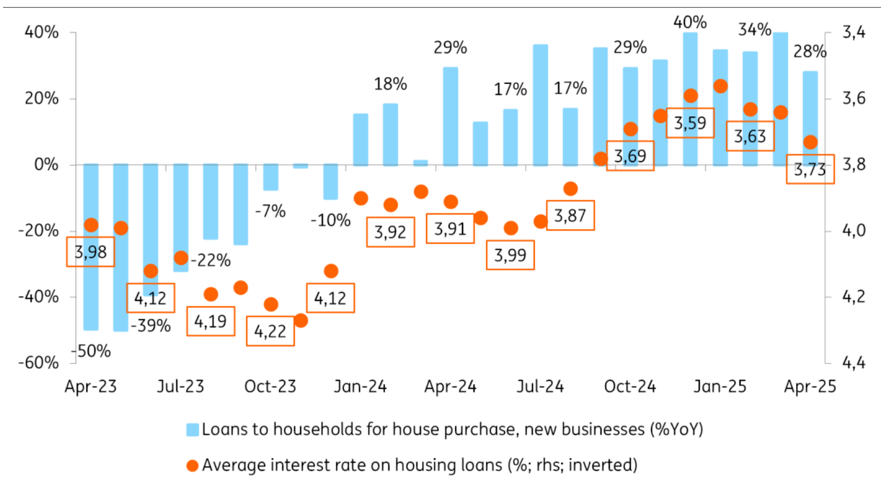
Source: German Federal Statistical Office; ING Economic & Financial Analysis

Yet in today's fast-moving environment, this data feels more outdated than usual - like a snapshot from a different era.

Looking back blinds, looking ahead blurs

Remember that when we talk about developments in the first quarter, we are talking about a world that had not yet seen 'Liberation Day' or the ongoing back-and-forth in the tariff saga. However, there had been the election of the new German government and the "Merz moment", meaning the announcement of the fiscal policy U-turn that was recently confirmed in the budget for the coming years, and which pushed up government bond yields significantly in mid-March. However, the rise in government bond yields was only really reflected in higher mortgage rates in April. The volume of new mortgage lending was up by some 35% year-on-year in the first quarter of 2025.

Average mortgage rates and demand for housing loans



Source: LSEG Datastream; ING Economic & Financial Analysis

The ongoing recovery of the housing market in the first quarter masks the fact that the affordability of purchasing a home has already stagnated at low levels. Slowing wage growth, volatile interest rates and rebounding house prices have lowered affordability.

Looking ahead, we see little room for a significant improvement in the affordability of purchasing a home. Although government bond market volatility is still high given the multiple sources of uncertainty, we see little downward potential for German government bond yields and, consequently, for mortgage lending rates. In fact, we expect rates to remain broadly stable this year and to rise in 2026 as the government's fiscal pivot takes full effect.

In addition, wage growth is gradually beginning to normalise again - the strong catch-up effects of recent years are waning and, given the tentative cooling of the labour market, the era of strong wage demands may be over. Add to this the expected further rise in house prices, also driven by structural factors such as the persistent mismatch between supply and demand, and it's hard to see how the affordability of purchasing a home could improve meaningfully in the near future.

A glimmer of hope ahead?

Another drag on the recovery of the housing market is that consumers continue to remain cautious. Surveys show that most households are still reluctant to make major purchases, while the savings rate remains elevated. Although recent government announcements have boosted business confidence, consumers remain wary, largely due to geopolitical uncertainty. For sentiment to shift, households will need either direct fiscal support or a clearer reduction in economic policy risks.

There is, however, a bright spot: optimism is returning to the construction sector. While sentiment remains below historical averages, expectations have improved, reaching their highest level in three years. A key driver is the government's proposed "Bau-Turbo" (construction accelerator), which aims to fast-track residential development in high-demand areas by streamlining approval processes.

Business climate in the residential construction sector

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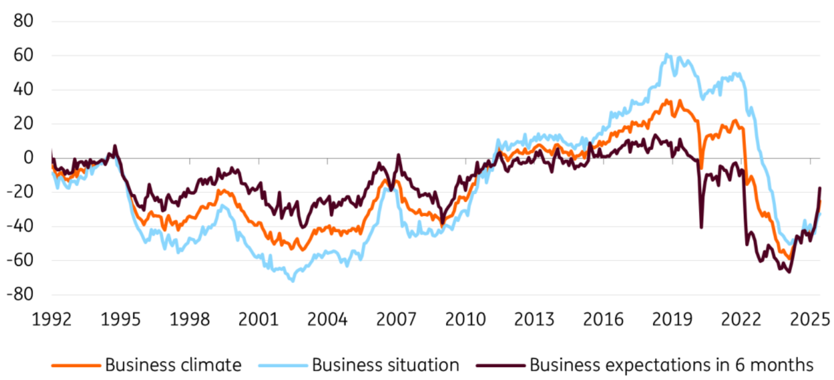

Source: LSEG Datastream

If implemented effectively, this reduction in red tape could bring relief for Germany's housing shortage in the longer run. However, it may take until well after the summer for improved sentiment to translate into real activity. For now, survey data points to only a modest rebound in construction output.

All in all, we expect the recovery of the housing market to continue, albeit at a subdued pace.

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