

Press Release

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Pfandbrief banks report solid performance in 2024

- **vdp member institutions raise volume of mortgage loan commitments**
- **Real estate market turns corner after two years of falling prices**
- **Levels of new and outstanding Pfandbriefe remain high**

In their assessment of the 2024 financial year, member institutions of the Association of German Pfandbrief Banks (vdp) have drawn a positive conclusion. Two principal factors contributed to this development. On the one hand, the downward trend in property prices that began in 2022 gave way to a sideways movement over the course of the year, even showing modest signs of growth as 2024 drew to a close. This was reflected in a stabilisation or slight increase in property prices, as well as in a higher volume of mortgage loan commitments. On the other hand, 2024 once again saw strong demand for Pfandbriefe, with vdp member institutions registering another year of brisk Pfandbrief sales.

"Pfandbrief banks successfully navigated a challenging market environment in 2024"

Gero Bergmann

At the Association's annual media conference, **vdp President Gero Bergmann** emphasised that 2024 had been an exceptionally tough year for Pfandbrief banks. For its member institutions, the year was dominated by excessive regulation, the uncertainty following the collapse of Germany's previous governing coalition as well as growing geopolitical crises and risks: "Our institutions have once again successfully navigated a still challenging market environment. Among other things, this was thanks to their solid capitalisation and prudent risk management, with lending activities based on first-ranking mortgages."

In respect of the current state of the markets, he offered an upbeat picture: "On the whole, price developments over the last few quarters suggest the real estate market has plateaued. Prices for residential property are even returning to modest growth. There has also been a tentative rebound in our member banks' mortgage finance activity. Now, we are hopeful that an urgently needed boost from economic and housing policy will provide the necessary momentum for the real estate sector." Turning to the capital markets, he highlighted the encouraging trend that Pfandbriefe once again met with strong demand and that spreads on unsecured bank bonds had narrowed significantly - signs that investors have strong confidence in the resilience of German mortgage lenders.

"The multi-billion euro stimulus package announced by the German government may give a considerable boost to the economy. It is crucial that the additional funds are also invested in creating affordable housing."

Gero Bergmann

In terms of the current financial year, Bergmann presented a mixed outlook. According to him, the world had become even more volatile since the new US administration took office and this was weighing on business sentiment. He added that excessive red tape was a major burden for companies in Germany: "The multi-billion euro stimulus package announced by the German government may give a considerable boost to the economy. However, it is crucial that the additional funds are not only invested in security, infrastructure and tackling climate change, but also in creating affordable housing." He went on to stress that, at the same time, it was essential to make effective and dramatic cuts to bureaucratic red tape.

The vdp President does not expect any further increase in Bund yields and interest rates as a result of the planned multi-billion debt package announced by the German government and, consequently, of the investments that it will finance: "While the anticipated increase in Germany's national debt may slightly reduce the pace of the current recovery on the real estate market in 2025, it will not stop it completely." Altogether, he is optimistic about the prospects for Pfandbrief banks in the current financial year.

- **Trends on the real estate market**

Higher property prices in 2024

The price correction on the German real estate market that began in the middle of 2022 came to an end in 2024. Overall property prices actually recorded a modest increase of 1.8 % in the fourth quarter of the year compared to the same quarter of the previous year.

While prices for residential property recorded their third consecutive quarter-on-quarter increase in the final three months of 2024 (+2.1 %), commercial property prices continued to stabilise between October and December, posting their first slight increase in more than two years (+0.5 %).

"We are already seeing a turnaround in residential property prices."

Gero Bergmann

"The fact that there was a modest rise in property prices in 2024 is evidence that they have bottomed out," said Bergmann. "As prices for residential property have been gently trending upwards for several quarters, it is fair to say that we are already seeing a turnaround in this segment." The commercial property market, however, was still moving sideways, he added.

Bergmann noted that anaemic growth in the economy and an extension of work-from-home policies in the wake of COVID-19 had had a particularly adverse impact on demand for office space. However, he was confident that the proportion of people working from home would decline over the next few years: "There is a trend towards returning to the office, which is already more pronounced in other countries than in Germany." For 2025 as a whole, vdp expects residential property prices to continue growing at a moderate pace and those for commercial properties to stabilise further.

Total loan commitments by Pfandbrief banks in 2024 of € 121.1 bn

Greater demand for mortgages coincided with an uptick in property prices. Total commitments from vdp member banks for property loans amounted to € 121.1 bn in 2024 - an increase of 8.5 % on the previous year's volume (2023: € 111.6 bn). This encouraging growth was mainly driven by a 14.9 % rise in residential mortgage lending to € 74.9 bn. However, loan commitments for commercial properties were roughly on a par with the previous year at € 46.2 bn (-0.4 %).

Office properties retained their status of previous years as the dominant commercial asset class. With a total volume of € 23.8 bn, not only were loan commitments for offices marginally above the previous year's volume of € 23.4 bn, they were also nearly twice as high as that of retail mortgages which ranked in second place with a lending volume last year of € 12.3 bn. These were followed, much further behind, by loan commitments for hotel properties (€ 3.0 bn).

"There are signs of a recovery, primarily driven by the development of the residential property market."

Gero Bergmann

"Investors rediscovered the real estate market in 2024. While the transaction volume was - as expected - significantly below that of the boom years before and during the pandemic, there are meanwhile signs of a recovery, primarily driven by the development of the residential property market", Bergmann explained. He primarily attributed this to higher returns on real estate that had already come a long way to meeting the expectations of investors. With a view to the current year, he expects the recent trend to endure.

- **Current regulatory issues**

vdp calls for critical review of current regulation without prejudging the outcome

vdp CEO Jens Tolckmitt emphasised that excessive regulation and crippling levels of red tape were holding back the enormous potential for growth that still exists in Germany. In order to remove obstacles to innovation, a critical and open-minded review of current regulation was essential, especially in the financial sector, which is so vital to financing growth.

"It cannot be limited to a few isolated, showcase initiatives."

Jens Tolckmitt

"A moratorium on regulation is long overdue," stressed Tolckmitt. "Cutting unnecessary regulation must not just be a case of politics paying lip service to the problem. They need to take real action on it to create the conditions for boosting growth effectively. It cannot be limited to a few isolated, showcase initiatives."

Housing crisis: Political initiative required to stimulate market activity

For many years now, vdp has been raising the alarm over the increasing shortage of housing in Germany, which is taking on ever more drastic proportions - especially in major cities. In the opinion of vdp, existing administrative structures are not suited to tackling the complex housing policy challenges. While the previous government's decision to establish a stand-alone Federal Ministry for Housing was the right one, it does not have the necessary powers to provide the impetus needed. That is why vdp is in favour of retaining an independent Ministry for Housing and expanding its competencies to include, for example, the energy-efficient refurbishment of existing buildings.

Another obstacle on the housing market identified by vdp is the high level of additional costs for owner-occupiers when buying a home, which had added to the pressure on the rental market: "To boost demand for home ownership, it would make sense to reduce the real estate transfer tax and make it more flexible for owner-occupiers," said Tolckmitt. In view of the high cost of financing a property, making large housing projects difficult to realise, vdp advocates for temporary state default guarantees for 80 % of loans provided to finance affordable housing. This solution has the potential to revitalise the market, which is currently struggling as a result of higher lending rates, without placing an appreciable burden on public finances. In fact, according to the German financial supervisory authority BaFin, total losses in this segment recently amounted to as little as 0.02 % of the volume of loans extended by credit institutions. Consequently, there would be very few situations in which the guarantee would be triggered. There are indications that the ongoing coalition talks between the CDU/CSU and the SPD may include an examination of such a state guarantee scheme, which vdp welcomes as a

promising step. Despite this, Tolckmitt warns that the potential coalition partners are also planning to extend the law to cap rent increases - the so-called *Mietpreisbremse* or rent brake - and to impose tighter caps on rent rises. In his view, this would run counter to the pressing need for additional dwellings.

Macroprudential capital buffers: Supervisors should acknowledge favourable market developments

The Association has also called for urgent changes to macroprudential capital buffers imposed by BaFin, especially the systemic risk buffer on loans secured by residential property. Given a stable residential property market and the fact that mortgage lending does not present any structural risks, the arguments put forward by the supervisory authority when the buffer was introduced have long become obsolete.

"We call for the systemic risk buffer for residential mortgage loans to be rescinded."

Jens Tolckmitt

Supervisors were ignoring an improved market environment, Tolckmitt argued, and instead constantly amending their justification for capital buffers. This had to stop: "We call for the systemic risk buffer to be rescinded, as there is meanwhile no fundamental justification for it whatsoever." In his remarks, he highlighted the detrimental impact of the buffer on lending activities.

Sustainable Finance Disclosures Regulation: More workable regime needed

The Pfandbrief banks welcome the EU Commission's intention, in particular, to streamline the European Sustainable Finance Disclosures Regulation (SFDR). Tolckmitt noted that banks' primary criticism of the existing regulatory regime was centred on the fact that the EU taxonomy was unworkable in its practical application.

An example of this is the fact that the EU taxonomy and the EU Energy Performance of Buildings Directive (EPBD) adopt conflicting approaches to achieving the same goal. Here, vdp is strongly in favour of the EPBD's so-called "worst first" approach which mandates that buildings with the greatest potential for energy efficiency improvements are retrofitted first. As such, vdp also calls for the taxonomy's energy efficiency requirements for nearly zero-energy buildings to be aligned with national measures rather than the current lower threshold. Tolckmitt stressed that there were no grounds for stricter energy efficiency requirements at EU level than in national regulations.

"The Sustainable Finance Disclosures Regulation should be designed to actually contribute to achieving policy objectives."

Jens Tolckmitt

Furthermore, he pointed out that the benchmark for economic activities to be considered Taxonomy-aligned was currently far too high. Among other things, vdp argues that all renovation measures that achieve a reduction in energy consumption along a defined climate mitigation pathway should be classified as Taxonomy-aligned - not just those that reduce a building's Primary Energy Demand by at least 30 %. In addition, the importance of the so-called Do No Significant Harm (DNSH) criteria must be significantly reduced. Altogether, the Sustainable Finance Disclosures Regulation should be designed to actually contribute to achieving policy objectives.

Basel III: Level playing field becoming further out of reach

In respect of the impending entry into force of Basel III capital adequacy requirements agreed last year, Tolckmitt said that while countries such as the United Kingdom or the United States were going to postpone, or potentially suspend, their implementation, the EU was still not planning to make any amendments to its framework. He added that this was not in keeping with the Basel Committee's original objective of establishing a globally uniform standard and would not create a level playing field.

"The output floor leads to objectively unjustified capital requirements in the case of low-risk residential mortgage loans".

Jens Tolckmitt

Finally, he voiced concerns that the so-called output floor, when fully loaded, would lead to objectively unjustified capital requirements, for instance in the case of low-risk residential mortgage loans. In addition, he argued that the risk weights of project development finance, so-called ADC loans, were unreasonably high. Underlining vdp's position, he added that it was vital to avoid discouraging investment due to the burden this would place on banks, the real economy and the politically driven transition to net zero: "We call for the output floor level to be frozen at 50 percent or abolished completely".

● **Developments on the Pfandbrief market**

Total Pfandbrief circulation remains at around € 400 bn

The Pfandbrief market demonstrated its resilience and stability in the 2024 financial year. With total Pfandbriefe in circulation of € 399.5 bn at year-end, there was almost no change on the previous year's high figure (2023: € 400.3 bn).

The mortgage Pfandbrief once again proved to be the dominant category, accounting for 74 % of sales in 2024. Total Pfandbrief sales by vdp member banks in 2024 stood at € 57.3 bn. Although this was below the previous year's strong performance (2023: € 65.7 bn.), it was above the volume the banks had forecast at the beginning of the year. Sales

of so-called liquid Pfandbriefe, those with a volume of at least € 500 m, achieved their third-best result for the past decade with a total volume of € 29.9 bn in 2024.

Demand for sustainable issues continues to rise

Sustainable Pfandbriefe again met with keen interest among investors in 2024, with circulation of Green and Social Pfandbriefe climbing from € 24.1 bn to € 30.5 bn. The availability of loans eligible as cover pool assets proved to be a limiting factor, as demonstrated by a decline in Pfandbrief sales to € 7.1 bn (2023: € 8.5 bn). Despite this, the share of Green and Social Pfandbriefe as a proportion of benchmark issues grew to more than 20 % - with meanwhile 15 issuers of these Pfandbrief variants on the market. "Interest by issuers and investors in sustainable Pfandbriefe is undiminished," Bergmann noted.

In response to a significant jump in spreads on government and quasi-sovereign bonds in 2024, particularly in the final quarter, Pfandbrief spreads widened over the year as a whole by 18 basis points. However, this was a temporary development as spreads on Pfandbriefe had already narrowed by 6 basis points in the first two months of 2025. Throughout the previous year, spreads on Pfandbriefe were noticeably lower than those on other covered bonds. Overall, within a recently volatile spread environment, covered bond spreads have remained largely stable.

"2025 has got off to a very strong start in terms of Pfandbrief sales".

Gero Bergmann

According to Bergmann, 2025 had got off to a positive start: "January and February were very strong months in terms of sales, with total Pfandbrief issues by vdp member banks reaching € 22.2 bn - around 30 % higher than in the same period last year." The fact that demand from investors for long-dated Pfandbriefe was rebounding again was an equally encouraging trend: "This development clearly reflects the confidence of investors in the stability and safety of Pfandbriefe."

Bergmann also remarked on the fact that the Pfandbrief Act was set to celebrate its 20th anniversary this summer and recalled the major Pfandbrief milestones of the past two decades: "This year marks the twentieth anniversary of the Pfandbrief Act, twenty years in which issuers and investors have enjoyed a reliable framework within a challenging environment. And that is a key prerequisite for the continued success of the product," emphasised the vdp President.

vdp membership development

The vdp maintains a total of 52 member institutions, which together account for a market share of almost 96 % of all Pfandbriefe in circulation. An overview of all member institutions can be found here:

<https://www.pfandbrief.de/site/de/vdp/verband/mitgliedschaft/mitglieder.html>

About the Association of German Pfandbrief Banks (vdp)

The Association of German Pfandbrief Banks is one of the five associations that make up the German Banking Industry Committee. It represents the sector's most important providers of finance for residential and commercial property, governments and public-sector institutions. The vdp advocates for the continued success of the Pfandbrief and represents the specific, Pfandbrief-related interests of its member institutions vis-à-vis lawmakers, regulators and markets at national and international level.

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