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Structures of residential property finance 2025

Results of a survey conducted among the member banks of the Association of German Pfandbrief Banks (vdp)

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The Association of German Mortgage Banks (vdp) has again, this time for the years 2023 to 2025, collected data on the structure of the financing of owner-occupied houses and con-do-miniums from its member banks that are actively engaged in this business field. On the basis of these data, the vdp obtains consistent information on use of borrowed funds, credit burden, duration of loans as well as home ownership financing conditions in Germany. The present study is the latest in a series of surveys conducted among the Pfandbrief banks on this topic, the previous one being in 2021.

Against the background of the change in the ECB's monetary policy course and, related to that, the considerable increase in the interest rate level, the years-long dynamic growth on the residential property market ended abruptly in 2022. Transactions involving existing properties and investments in new construction decreased significantly, resulting in an appreciable drop in loan disbursements by banks. Nevertheless, the demand for housing remains high. This assessment describes the most recent developments in the financing of home ownership in Germany within a longer-term context. Proceeding from developments in lending, it examines the trend of purchase prices in relation to incomes and rents as well as financing parameters (interest rate, initial amortization, fixed-rate period) and their effect on debt burden ratios and the duration of loans.

The study focuses on the following questions:

- How has residential property finance in Germany developed?
- What are the dynamics of the purchase prices of homes and the incomes of private households?
- How large is the proportion of borrowed capital used to purchase a residential property?
- What effect has the change in the interest rate level had on the affordability of purchasing a home?
- What proportion of their income do property buyers have to spend in order to service their loans?
- How high is the initial amortization and what fixed-rate periods do borrower households choose?

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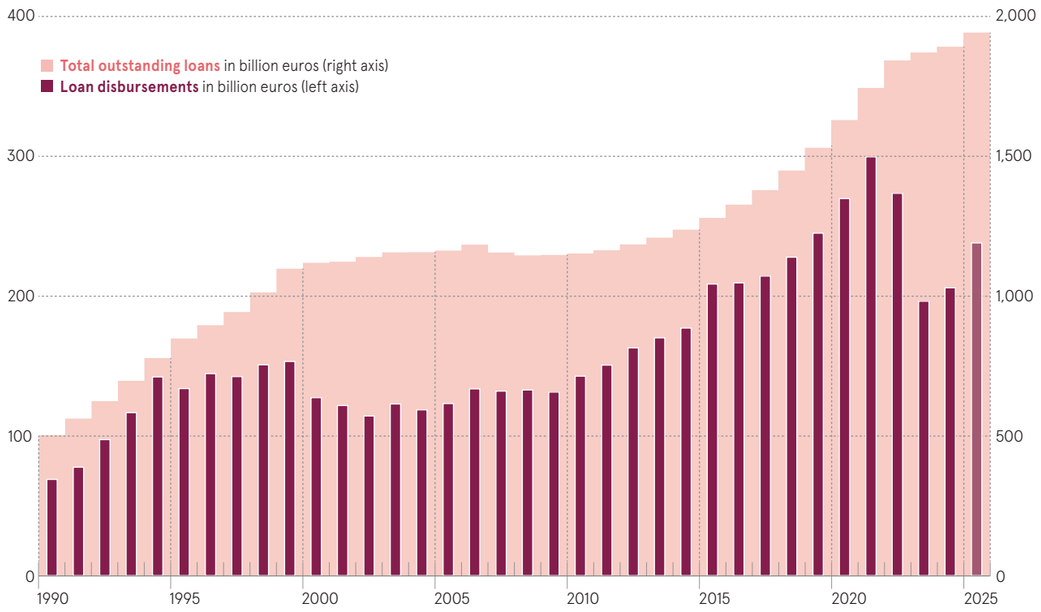
Residential property financing in Germany since 2009

Disbursements of new loans for the construction or purchase of residential properties rose rapidly from 2009 up to and including 2021, recording a growth rate of 7.4 % p. a. (cf. Figure 1). The interest rate shock of 2022/2023 brought this trend to an abrupt end, with loan disbursements in 2023 dropping below the 2021 level by around one third. The trend has stabilized again since 2024 and, based on lending volumes in the first half of this year, an increase is expected for 2025, though without yet reaching the level of the early 2020s.

The loan portfolio or total loans rose by an average annual growth rate of 3.5 % between 2009 and end-2021, from around EUR 1.1 trillion to around EUR 1.7 trillion. The slower growth in total loans compared with new lending stems primarily from the fact that the loan portfolio dates from further back, and the change in the loan portfolio is therefore determined not only by the disbursements but also by amortizations. As a result of the decline in disbursements, the loan portfolio saw considerably weaker growth and stood at around EUR 1.9 trillion as at mid-2025.

Figure 1:
Residential property financing in Germany 1990 – 2025



Sources: vdp (disbursements), Deutsche Bundesbank (total loans) Figures for 2025: estimate based on figures for Jan.–June

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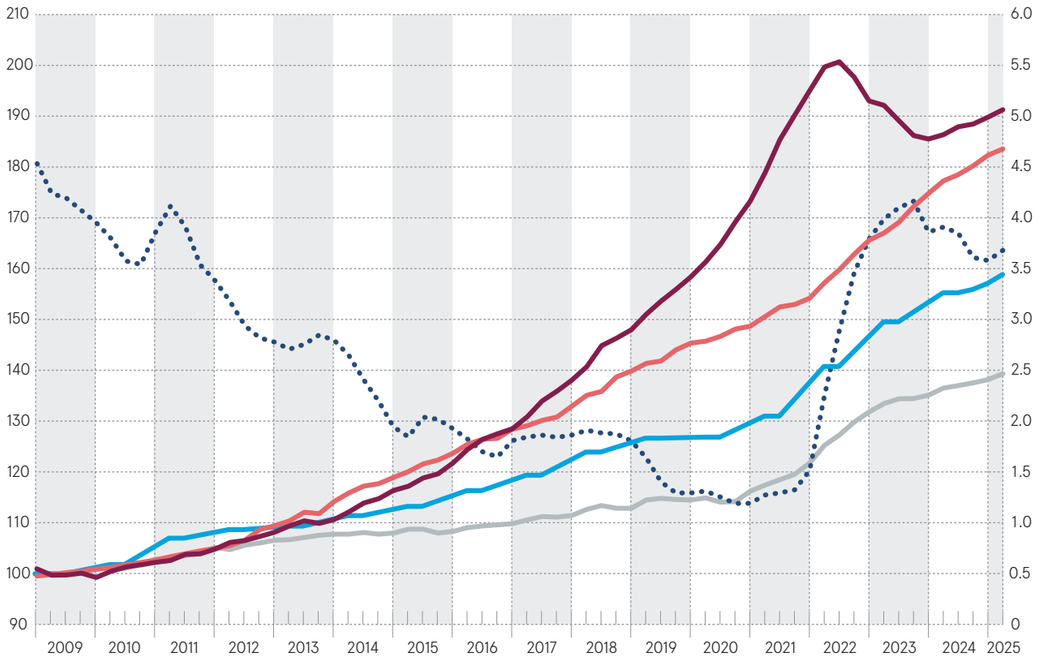
General circumstances surrounding residential property demand

The trend in the residential property financing business is a reflection of a persistently high demand for owner-occupied houses and condominiums. The general circumstances for this were exceedingly favourable until 2021 – on account, not least, of the consistently positive macroeconomic developments until early 2020. The labour market situation improved considerably, which in turn had a positive impact on households' income expectations. Demand for residential properties remained high despite the difficult economic setting due to the Covid-19 pandemic. This is because, on the one hand, households' incomes largely remained stable. On the other hand, the growing importance of having one's "own four walls" also as a workplace gave an additional boost to demand.

Financing conditions became increasingly favourable, and this also spurred buyer demand. The interest rate (effective interest rate, average across all fixed-rate periods) on housing loans fell from 4.3 % to 1.8 % between 2009 and 2015. Thereafter, interest rates on housing loans moved sideways for several years before dropping further to 1.2% p. a. during the course of 2020. They remained at this low level until the beginning of 2022 (cf. Figure 2).

Figure 2:
Development of prices for owner-occupied homes, rents under new contracts, incomes and interest rates 2009 – 2025



Index: Annual average 2009 = 100 (left axis)
Prices for owner-occupied homes
Rents under new contracts
Disposable household income
Consumer prices (memo item)
Interest rates on housing loans in percent (right axis)

Sources: Deutsche Bundesbank, Statistisches Bundesamt, vdpResearch

Prices for owner-occupied homes rose continuously in Germany from 2009 until mid-2022. During the early years of this boom period, until 2014, this trend was accompanied by an equally strong rise in the disposable incomes of private households. At the onset of the low-interest rate phase, however, residential property prices climbed considerably faster than households' incomes. Initially, the stronger increase in prices relative to growth in incomes had little effect on the affordability of home ownership, as financing conditions became increasingly favourable at the same time. However, the situation changed in the late phase of the real estate boom, the gap between growth in prices and incomes having widened even further. During this phase, interest rates on housing loans were already at historically low levels and could no longer offset the increase in prices.

The general circumstances changed abruptly in 2022. Russia's attack on Ukraine triggered an energy price shock at the beginning of that year which led to a massive increase in eurozone inflation. The ECB had to tighten monetary policy considerably as a result. The high inflation reduced households' financial scope due to the rising cost of living. The ECB's departure from a policy of low interest rates led to higher capital market and lending rates, which significantly increased financing costs. The outcome was a marked drop in the propensity to buy, an – initially – downward trajectory in property prices, and an appreciably reduced demand for residential property finance.

Home ownership financing structures 2009 - 2025

The changes in the general circumstances are directly reflected in the results of the vdp surveys on home ownership financing. Table 1 lists the key parameters for the purchase of a residential property in the period from 2009 to 2025. For each year in which the vdp conducted these surveys, Table 1 shows the buyer households' disposable income, the average purchase price of the properties financed, the interest rate on the loan, the initial amortization and the resulting annuity as well as the debt burden ratio (expenses for servicing the loan as a percentage of disposable income), the fixed-rate period, the calculated total duration of the loan and the borrowed funds ratio (loan to value ratio).

Buyers' income rose considerably over the period under review. In comparison, purchase prices saw an even stronger rate of growth until 2021, with the result that the price to income ratio increased significantly until then, likewise the need for borrowed funds, as the rise in the borrowed funds ratio shows. Interest on loans dropped to an all-time low in 2021, rose appreciably until 2023, and was again somewhat lower in 2024/2025; the initial amortization moved in the opposite direction. After higher rates in the low-interest rate phase, it recently fell to around 2.2 % (cf. Figure 3a.).

Table 1:
Financing of owner-occupied homes 2009 - 2025

		2009	2012	2015	2017	2019	2021	2023	2024	2025
Purchase price (excl. ancillary purchase costs)	(EUR)	219,000	242,000	274,000	305,000	339,000	422,000	448,000	441,000	449,000
Households' disposable monthly income	(EUR)	3,600	3,900	3,900	4,100	4,300	4,800	6,700	6,500	6,600
Borrowed funds (incl. loans from other banks)	(EUR)	168,000	182,000	209,000	240,000	277,000	338,000	340,900	354,600	374,500
Proportion of borrowed funds (borrowed funds incl. loans from other banks/purchase price)	(%)	76.7	75.2	76.3	78.7	81.7	80.1	76.1	80.4	83.4
Interest rate	(%)	4.70	3.47	1.80	1.86	1.82	1.21	3.96	3.58	3.50
Fixed-rate period	(years)	10	12	13	14	15	14	14	12	12
Initial amortization	(%)	1.85	2.32	3.12	3.23	3.01	3.04	2.19	2.20	2.15
Monthly burden resulting from all loans taken out to finance the property	(EUR)	900	900	900	1,000	1,100	1,200	1,750	1,710	1,760
Debt burden ratio (monthly burden resulting from all loans taken out to finance the property/households' disposable monthly income)	(%)	25.5	22.5	22.0	24.8	25.9	25.0	26.2	26.5	26.7
Calculated loan duration at conclusion of the agreement.	(years)	27.5	26.8	25.5	24.7	26.2	27.9	26.6	27.5	28.1

Source: vdp based on information provided by its member banks

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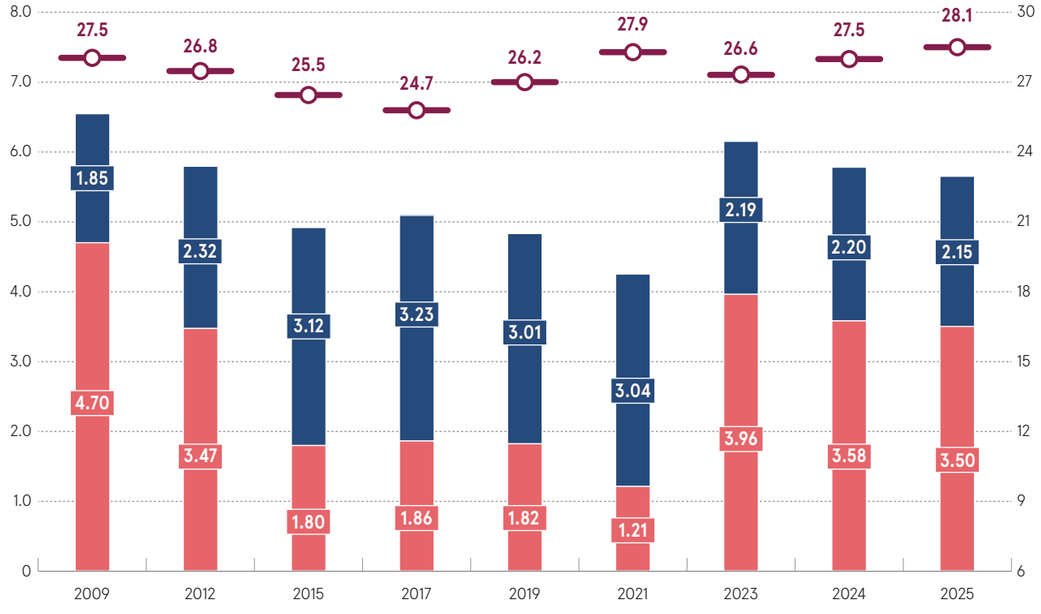
Figure 3:
Interest rate, initial amortisation and fixed-rate period

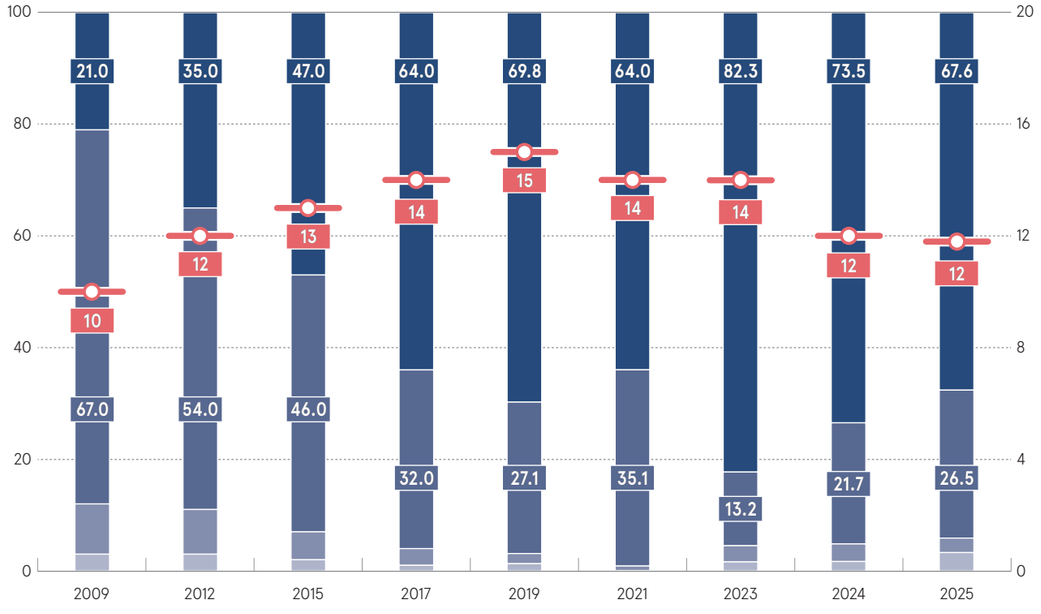
a) Annuity and loan duration



Calculated duration at conclusion of agreement in years (right axis)
Interest rate in percent (left axis)
Initial amortization in percent (left axis)

Source: vdp based on information provided by its member banks

b) Fixed-rate period



Average fixed-rate in years (right axis)
Percentage share of loan volume based on the calculated term in years (left axis)
up to 1 year
> 1 to 5 years
> 5 to 10 years
> 10 years

Source: vdp based on information provided by its member banks

Because the annuity increased because of the higher interest rate level, the calculated duration of the loan remained within a narrow corridor, although it was recently widened moderately and now stands at 28 years. The lengthening of the total loan duration meant that the debt burden ratio remained moderate even after the end of the low-interest rate phase. Although more short- and medium-term fixed-rate periods have again been agreed on of late, long fixed-rate periods continue to predominate. The average fixed-rate period for 2024 / 2025 came to around 12 years (cf. Figure 3b.).

The debt burden ratio and loan duration did not increase excessively after the low-interest rate phase ended. This is closely related to the fact that households with a higher income ac-count for a larger share of buyer households in the meantime. Thus, their average monthly net income rose from EUR 4,800 to EUR 6,700 between 2021 and 2023. Property buyers' income was slightly lower in 2024 and 2025, at EUR 6,500 and EUR 6,600 respectively.

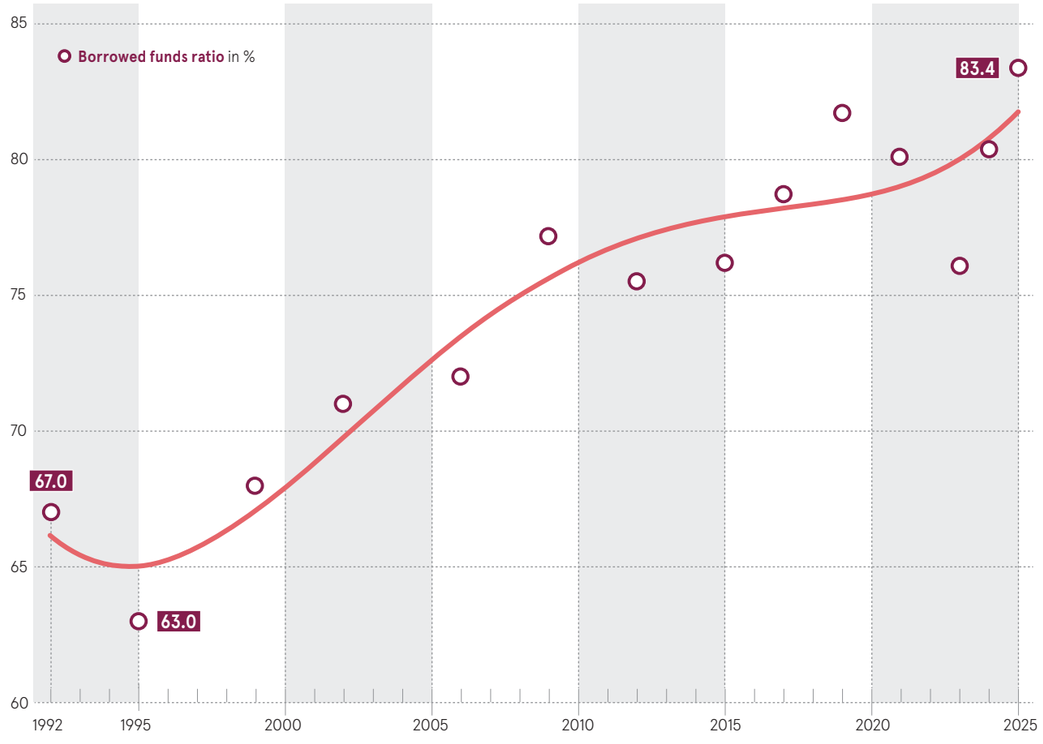
Affordability of home ownership

Figure 4 shows the long-term development of the borrowed funds ratio, the debt burden ratio and the interest rate on the loan upon purchasing a residential property since the early 1990s. Essentially, the lowering of the interest rate level over time has spurred the expansion of borrowing, and thus led to an increase in the average borrowed funds ratio. Moreover, shifts in borrowed funds ratio levels coincide with the incremental property transfer tax increases in the federal states. This is most noticeable between 2006 and 2009. The interest rate level was roughly the same in both years, but the proportion of borrowed funds rose considerably.

Since the Federalism Reform was passed in 2006, the federal states have been allowed to set property transfer tax rates autonomously. Many federal states implemented increases from 2007 onwards. Every increase means that ancillary purchase costs rise in relation to the property price, and the total borrowing requirement grows as a result. Because ancillary transaction costs have to be financed out of own funds, a higher property transfer tax reduces the maximum proportion of own funds that buyer households can contribute towards the financing. Consequently, the borrowed funds ratio rises. At the end of the low-interest rate phase, the borrowed funds ratio had risen to around 80 %, then fell considerably immediately after the interest rate shock (2023), and is now stabilizing at a level just above 80 %.

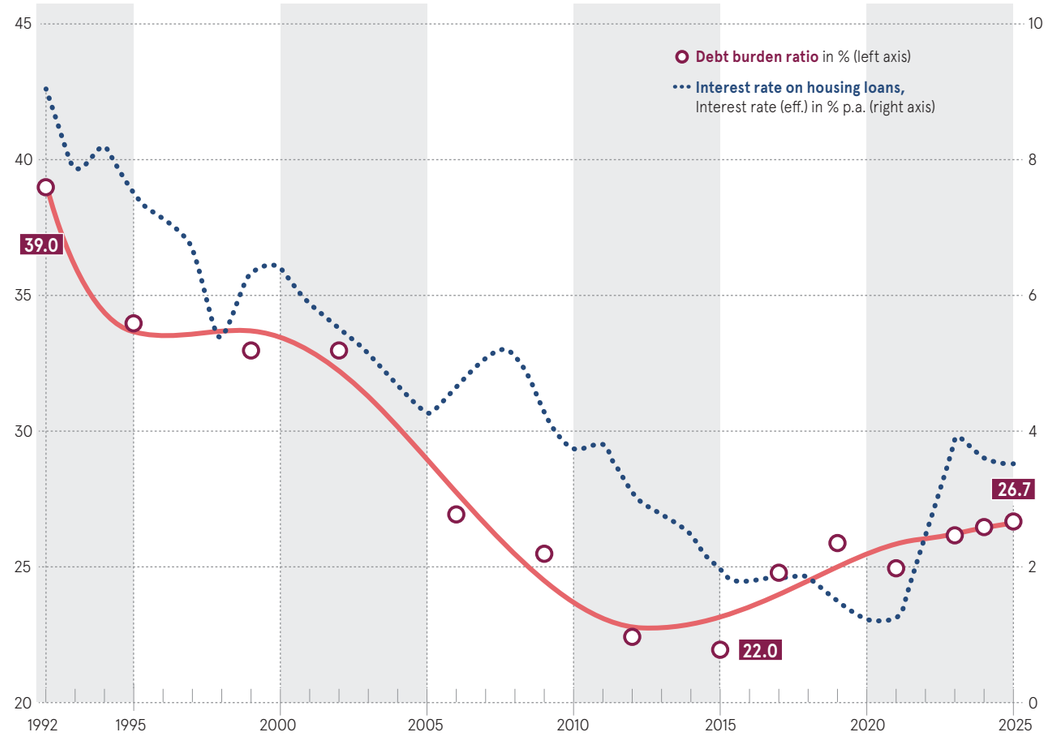
Figure 4:
Use of borrowed funds and debt burden 1992 – 2025

a) Proportion of borrowed funds 1992–2025



Source: vdp based on information provided by its member banks

b) Debt burden ratio and interest rate on the loan 1992 – 2025

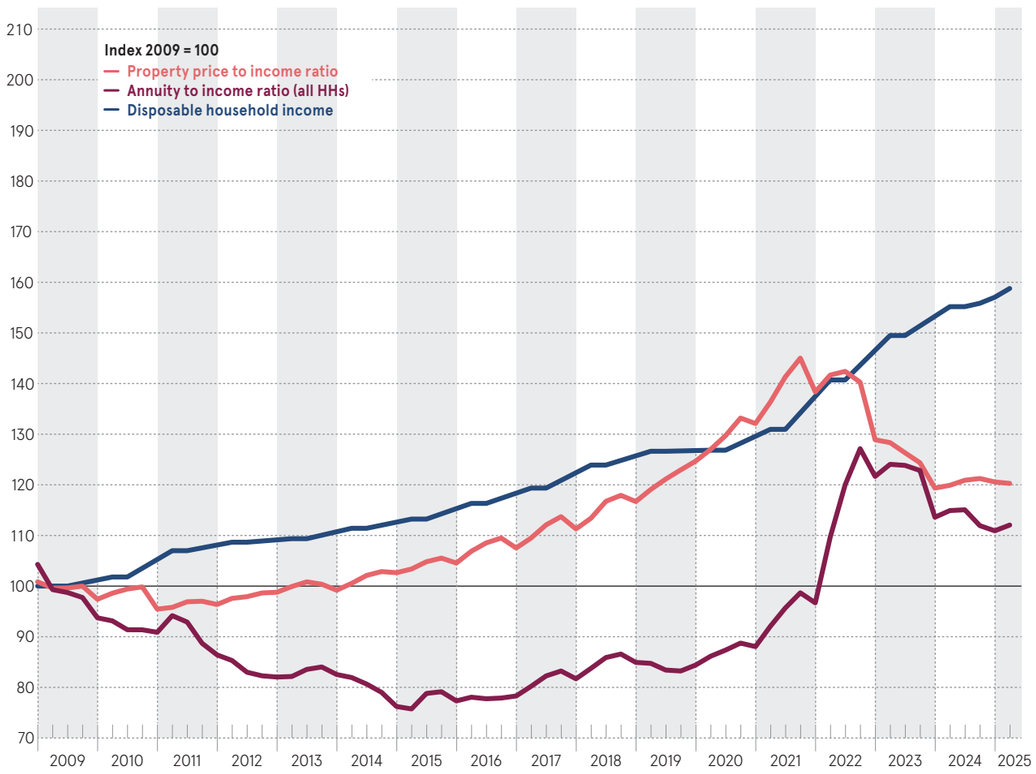


Source: vdp based on information provided by its member banks

The debt burden ratio (proportion of net household income used to service the debt) is directly affected by the movement of interest rates. The burden tends to decrease when interest rates on loans fall. Indeed, this occurred over a longer stretch of the low-interest rate phase, although towards the end of this phase loan amounts increased so much because property purchase prices rose faster than incomes that the debt burden ratio also rose. Generally speaking, rising interest rates lead to an appreciable increase of the ratio. The ratio went up only moderately after the interest rate shock due to both increased requirements with regard to buyer households' incomes and moderate adjustments to the initial amortization and the calculated duration of the loans.

Figure 5:
Disposable household income, property price to income ratio and annuity to income ratio: comparison of home ownership affordability in terms of the interest burden for all households with the debt burden for buyer households 2009 – 2025

a) All households

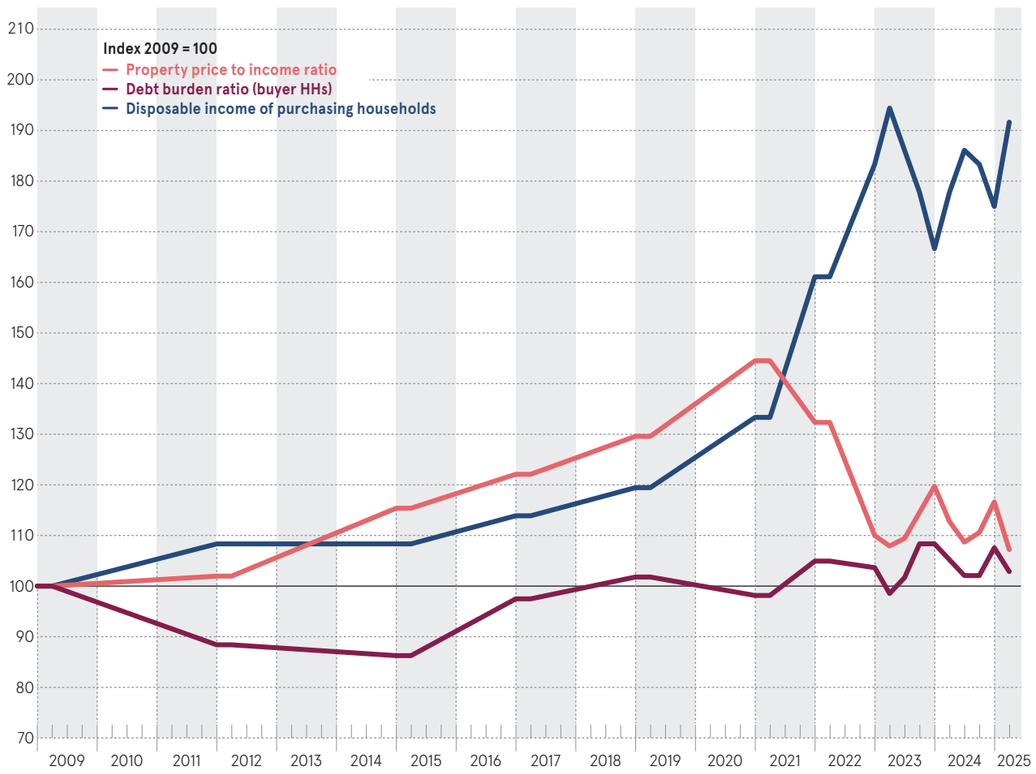


Source: vdp based on information provided by its member banks, vdpResearch, Statistisches Bundesamt, Deutsche Bundesbank

To show the extent of the adjustments to incomes and individual financing parameters due to the transition from the low-interest rate phase to the phase of normal interest rates, the hypothetical affordability of home ownership in terms of the interest burden for all households is compared with the actual debt burden for buyer households. Figure 5 shows the development of the affordability of home ownership in Germany between 2009 and 2025. For this purpose, disposable household income, the relationship between property price and income as well as the relationship between annuity (debt servicing) and income are compared.

Two perspectives are shown here: on the one hand, the general affordability for all house-holds at a given interest rate level (Figure 5a.); on the other, the actual debt burden for buyer house-holds (Figure 5b.).

b) Buyer households



Source: vdp based on information provided by its member banks, vdpResearch, Statistisches Bundesamt, Deutsche Bundesbank

It may be seen that, over time, property prices increased at a far greater rate than incomes. As a result, the price to income ratio rose appreciably, and the purchase of a residential property became increasingly more expensive in relation to income. The annuity to income ratio[1] is directly linked to the interest rate level. In the years of low interest rates, it initially decreased considerably despite high property prices; after the 2022 interest rate shock the annuity to income ratio experienced a rapid and significant increase.

Since private households – at a time, moreover, when real incomes are falling or stagnating – cannot step up their expenses for debt servicing at short notice as much as would theoretically be necessary (cf. Figure 5a.), the income threshold above which it is possible to purchase a residential property rose appreciably in 2022 / 2023. Figure 5b.) shows that buyer households – i.e. those that actually bought and financed a property for self-use – needed a markedly higher income from mid-2022 onwards in order to keep the relative debt burden within reasonable limits. But this also means that many households that could have bought their own home prior to the turnaround in interest rates could no longer do so after the interest rate shock.

With inflation under control, a stabilized interest rate level, and noticeably higher wages and salaries, the general circumstances for buying a residential property have improved again since 2024. Figure 5a.) shows that the annuity to income ratio has contracted again. At the same time, rents under new contracts have risen continuously amidst housing market tensions. Thus, buying a home has again grown more attractive because the general circumstances have brightened and the rental housing market is becoming increasingly tight. This is reflected in rising lending figures since mid-2024. Figure 5b.) indicates that income groups that withdrew from the market in 2023 are again increasingly active as homebuyers. The average income of the group of buyer households has decreased compared with 2023 without a significant increase in the debt burden ratio.

[1] Figure 5a.) assumes that 80 % of the property is financed through borrowed funds, and that the calculated duration of the loan is 30 years. Figure 5b.) shows the empirical average debt burden ratio for homebuyers.

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Conclusion

The interest rate turnaround from 2022 onwards abruptly changed the general circumstances for buying a home. Up until then, low interest rates made home ownership affordable for broad sections of society over a period of several years. The affordability of home ownership had already decreased considerably in the last two years of the low-interest rate phase, however, as property prices rose more strongly than disposable household incomes, and this could no longer be offset by falling interest rates. The turnaround in interest rates brought a sudden end to the dynamic growth of both property prices and lending. For a large proportion of (potential) homebuyers, the combination of high prices and high financing costs meant that home ownership by way of borrowed funds ceased to be affordable, and the desire to purchase had to be put on hold. The fall in buyer demand led to a moderate price correction which, together with rising incomes and stabilizing or slightly declining interest rates, have helped make home ownership more affordable again, although the general circumstances are still less favourable than before the interest rate turnaround.

That said, demand for loans to finance home ownership has picked up again since mid-2024, particularly in the first half of 2025. The average net income of buyer households is slightly below the level reached immediately after the interest rate turnaround. This is to say that the proportion of households in middle- and low-income brackets that are buying homes is rising again. In addition, buying a home is becoming more attractive than renting as rents under new contracts continue to rise.

The structure of residential property financing in Germany in 2025 is characterized by the growing use of borrowed funds together with stable debt burden ratios, accompanied by a moderate expansion of the calculated total duration of the loans. Loan conditions are no longer locked in over such long periods as they were during the low-interest rate phase, but long fixed-rate periods are still clearly the predominant choice, with the average fixed-rate period currently standing at around 12 years.

The fact that the debt burden ratio remains stable, that the borrowed funds ratio and the duration of loans are expanding only very moderately and that borrower households are securing for themselves what – in a long-term comparison – are still favourable conditions for relatively long periods is clear evidence that lenders and borrowers continue to put safety first.

Notes on the data basis

The Association of German Pfandbrief Banks (vdp) has conducted regular surveys on the structures of home ownership finance since the 1980s to obtain informative data on the development and distribution of the share of borrowed funds and the debt burden for borrower households as well as on loan conditions, and to make this information available to the professional public.

For this purpose, random sample surveys of individual financing agreements were carried out among vdp member banks at regular intervals of two to three years up until 2021. Details were requested on each financing agreement about various property features, the cost and financing structure, and the borrower households' economic situation. In particular, the evaluations focussed on indicators such as the proportion of borrowed funds, the debt burden ratio, loan conditions, the calculated total duration of the loan and fixed-rate periods.

Since 2023, banks have been required under a newly created reporting system, Data Collection on Housing Loans (WIFSta), to regularly report to the Deutsche Bundesbank partially aggregated data on new loans extended to natural persons for the purchase or construction of residential properties. The great majority of vdp member banks also make these data available to the vdp, where these reports now constitute the main basis for the vdp's analysis of the structures of residential property finance, since the key indicators are collected using identical definitions. The change in the data basis for the vdp home ownership survey has simplified the provision of data by member banks on the one hand and enabled a considerably higher frequency of evaluation on the other.

Imprint

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The member institutions of the **Association of German Pfandbrief Banks** (Verband deutscher Pfandbriefbanken, vdp) have been the market leaders in commercial real estate finance in Germany and hold sizeable market shares in residential real estate finance as well. As the representative of its member banks, the vdp performs this function vis-à-vis all executive bodies of politics on both the national and the European stage and a wider public.

The vdp's know-how is tailored towards the specific interests of the Pfandbrief issuers, namely, the Pfandbrief business and the underlying business fields property finance, public-sector lending, ship and aircraft finance. The vdp assists its member banks also in regulatory matters and represents them vis-à-vis national regulatory authorities. By means of group governance, member institutions exchange information and experiences in vdp committees, which are then summarized and developed into market standards. The vdp also assists its member banks in the efficient structuring of their specialized loan or issuance businesses.

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