Finanzgruppe
Deutscher Sparkassen-
und Giroverband

**STANDPUNKTE
DER CHEFVOLKSWIRTE**

# Real Estate Market: Is Expropriation a Last Resort?


**The tight situation in the German housing market is leading to growing calls for government intervention—ranging from rent caps to the expropriation of large housing portfolios in Berlin. An analysis by the chief economists of the Sparkassen-Finanzgruppe shows that the causes of rising rents lie primarily on the supply side:**

- Without a significant expansion of housing supply through new construction—including in the social housing sector—it will not be possible to create a sufficient amount of affordable housing.
- Expropriations are not an appropriate means of curbing rent increases. On the contrary, they lead to less investment in housing construction and permanently undermine investor confidence in Germany as a business location. The result: housing would become even scarcer, and rents would continue to rise.
- Support for housing construction must become an even greater political priority. Initial measures such as the “Bauturbo” and recent announcements are important and necessary steps. However, they have not yet gained momentum. Rising interest rates and increased construction costs have so far counteracted these efforts.
- The focus must therefore be placed even more strongly on the issue of construction costs. Greater “standardization”—in the form of widespread adoption of mass production in construction and the establishment of a reasonable minimum standard—could help to sustainably limit the rise in construction costs in residential housing.


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## Affordable Housing: Expropriation as a Last Resort?

The provision of affordable housing is one of the major social issues of our time, particularly in German metropolitan areas. Especially given the sharp rise in rents in recent years, far-reaching government interventions in the housing market—such as the expropriation of large housing companies in Berlin—are increasingly being considered.

## "Socialization Initiative" in Berlin

In 2021, Berlin residents voted in a referendum organized by the "Expropriate Deutsche Wohnen & Co" initiative, with 57.6 percent in favor, to launch an initiative to expropriate large private housing portfolios in Berlin.

*Law Passed by Berlin's CDU/SPD Coalition Sets a Framework While Simultaneously Creating Obstacles*

In response to the referendum, the CDU-SPD coalition in the Berlin Senate passed a "Framework Law on Socialization" in March 2026. The law stipulates that land, natural resources, and means of production may be transferred to public ownership under certain conditions, provided that this serves the public interest. Expropriation must be appropriate and proportionate. This means that less severe measures must be used if they are equally suitable for achieving the intended public interest objective. This objective primarily consists of safeguarding public services, such as meeting general supply needs. Should expropriation nevertheless occur, the market value of the property would serve as the basis for financial compensation. The law is not scheduled to take effect until 24 months after its promulgation, in order to allow for a review of its constitutionality by the Federal Constitutional Court beforehand.

In addition, the "Expropriate Deutsche Wohnen & Co" initiative submitted its own draft bill, the Socialization Act (VergG), in September 2025. Unlike the governing coalition's framework bill, this draft provides for the immediate and concrete socialization of large housing companies with more than 3,000 apartments. The affected housing units are to be transferred to a new public-law institution to be established.

*Proposal "Expropriate Deutsche Wohnen & Co": Expropriation at 40–60 percent of the actual market value*

Contrary to what is provided for in the CDU/SPD coalition's Framework Act on Expropriation, the amount of compensation for the affected companies is not based on the current market value, but on an "expropriation value" to be calculated separately. This value could potentially be only 40 to 60 percent of the current value. The nationalization value is to be determined using a property value method, in which the arithmetic mean of land values from 2011 to 2013 is used and then adjusted annually starting in 2013 with a 3.5 percent increase. There are no plans for a direct payment of this compensation. Instead, the compensation is to be provided in the form of long-term bonds issued by the State of Berlin with a 100-year maturity.

In other major cities as well—including Hamburg, among others—measures to tighten market regulation, including the possibility of expropriation, are being discussed at the local level. Thus, in all federal states, it is possible to expropriate residential property under strict conditions. However, substantial hurdles apply, such as a compelling public interest—for example, in the construction of roads and railways. In such cases, other options—such as a direct purchase by the municipality—must first be exhausted, and adequate compensation must be paid.

*Compensation for Expropriation Through a 100-Year Bond Issued by the State of Berlin*

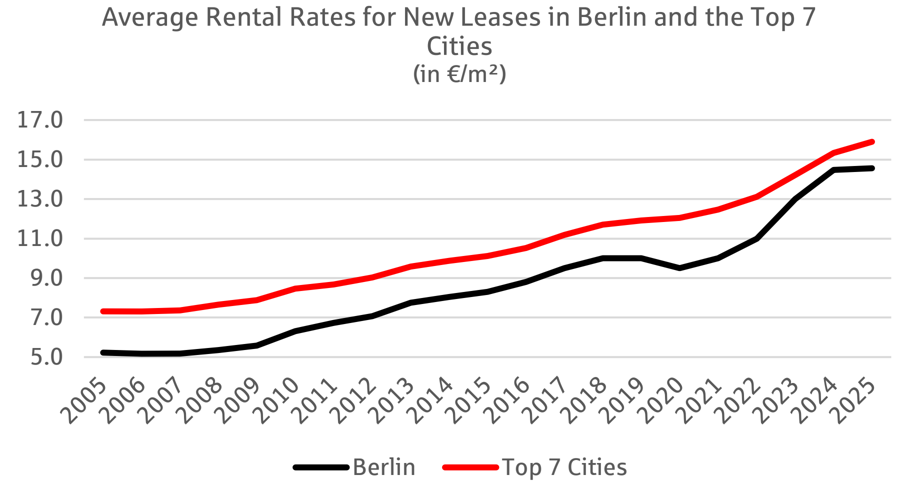
In addition, the Bavarian state government has launched an initiative aimed at securing a change in federal law through the Bundesrat. This change would preclude the expropriation of private housing companies and take precedence over the laws of the individual federal states.

## Rising Rent Burden in German Cities

*Sharp rise in rent prices over the past ten years in Germany and Berlin*

In recent years, there has been a significant rise in rents in German metropolitan areas. According to data from the real estate consulting and analysis firms empirica and Value, the average rent for newly leased apartments in the top seven cities will be 15.90 euros per square meter by the end of 2025. This corresponds to a 57 percent increase in nominal rents between 2015 and 2025; in Berlin, the increase will be as high as 75 percent. According to empirica and Value, the average asking rent for new leases in Berlin in 2025 will be 14.56 euros per square meter.[1]

Rent levels continue to rise



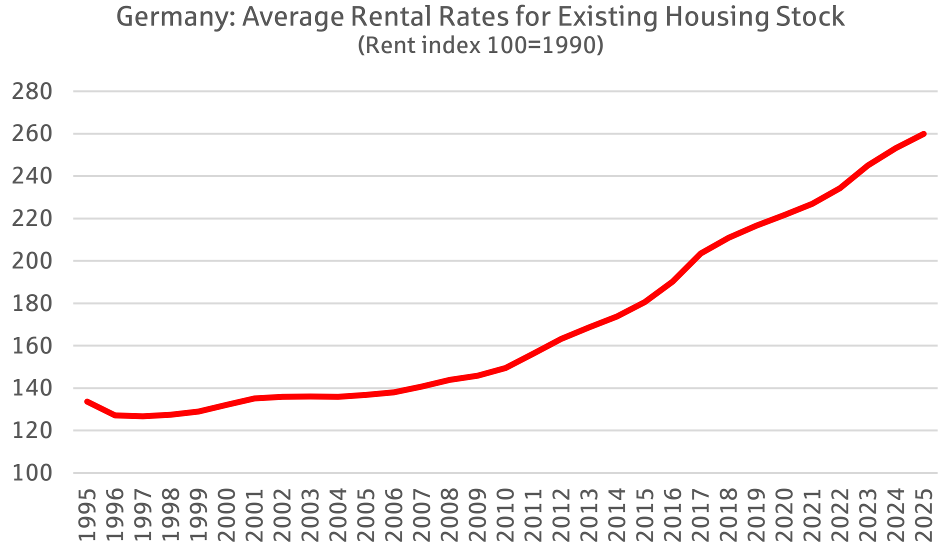

Source: empirica/Value

[1] The advertised rents were extracted by empirica/Value from more than 100 sources (online and print media) and adjusted to remove duplicates and unreliable listings. In addition, the calculation excludes, for example, furnished apartments, which often command very high rents. Furthermore, apartments that tend to fall toward the lower end of the price range are likely missing from the rent calculation, as these are often rented “under the table” without being publicly advertised.

In addition to rents for new leases, rents for existing leases across Germany also rose significantly. According to empirica and Value, the nominal increase in base rents alone amounted to just under 44 percent between 2015 and 2025. In absolute terms, however, rents for existing leases remain well below those for new leases.

According to the Federal Statistical Office, the average rent in Germany, based on the latest survey conducted as part of the 2022 Census, was 7.40 euros per square meter. In Berlin, the rent was 7.67 euros per square meter.

Significant Increase in Statewide Rental Rates




Source: Federal Statistical Office, bulwiengesa

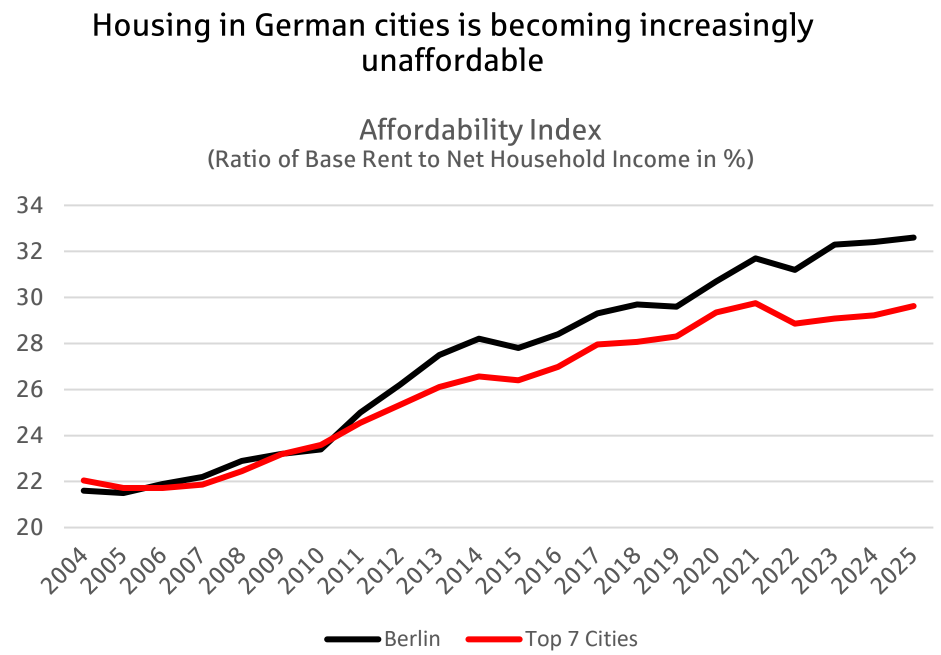
*Rent increases in Germany are expected to continue in the future*

Looking ahead, rents are expected to continue rising in Germany's major cities. According to vdpResearch, rents for new leases in Germany rose by an additional 3.0 percent in the first quarter of 2026 compared to the first quarter of 2025; in the top 7 cities, the increase over the same period was 2.4 percent. Based on a recent Reuters survey of German real estate experts, a nationwide increase in rent levels of 3.0 to 4.5 percent is expected for the full year 2026 compared to the previous year.

*Affordability Index for German Renter Households Reaches Critical Level*

To gain a more reliable understanding of the expected rental burden for the segment of the population currently looking for housing, it is also worth examining the affordability index. This index compares the level of rents for new leases in the respective metropolitan areas to the average net household income in the cities under consideration. This shows that, despite significant wage increases in recent years, incomes have not been able to keep pace with the sharp rises in rent.

According to data from the real estate consulting and analysis firm bulwiengesa, a household with an average income signing a new lease in one of Germany's top seven cities in 2025 would have to spend an average of 29.6 percent of its net household income on base rent. In 2015, this percentage was still 3.2 percentage points lower.




Source: bulwiengesa AG

While the actual increase in rent levels in Berlin has been similar to that in other major German cities, a closer look at affordability reveals a more nuanced picture: In 2025, a Berlin household had to spend an average of 32.6 percent of its net household income on rent—three percentage points more than the average for the other Top 7 cities.

Even the rent control measures introduced in 2015—which apply in over 600 cities and municipalities, such as Munich and Berlin, and were recently extended through 2029—have not been able to significantly curb the sharp rise in rent levels.

## Expropriation: A Useful Tool Against Rising Rents?

While government intervention in property rights could have negative consequences for Germany as an investment destination as a whole—and for the real estate market in Berlin in particular—the positive effects hoped for from the legislative initiative are also questionable.

*The debate on expropriation raises serious questions about property rights*

Even after a change in ownership, existing rents are unlikely to drop significantly. According to its 2025 annual report, the average rent charged by degewo—one of Berlin's seven municipal housing companies—stands at 7.18 euros per square meter, which is only slightly below the average existing rents and those charged by private housing companies in Berlin.

*A change in ownership alone does not lead to a significant drop in apartment rents*

Degewo serves as a good benchmark because its housing stock is spread throughout the entire city and is not concentrated in specific neighborhoods.

The public sector, too, must continuously invest in the housing stock to maintain living standards at a modern level over the long term. In addition, there are costs associated with administration and refinancing. Furthermore, persistently rising construction costs are driving up the cost of renovating existing buildings as well as the cost of new construction projects, which must be refinanced through adequate rental income.

*High rents for new leases and long apartment searches are not being addressed in the debate on expropriation.*

A potential expropriation would not address the major negative consequences of the housing shortage for the majority of Berlin's population, such as sharply rising rents—especially for new tenants—and the arduous, months-long search for housing due to the limited supply. Local businesses are also suffering from the housing shortage. They are burdened by the declining flexibility of potential employees in their job searches.

*Low activity in the housing market hinders the efficient allocation of housing*

The efficient allocation of housing in major cities also suffers from a rigid housing market, which is further entrenched by the enormous gap between rents for existing leases and new leases. In this phenomenon, known as the "remanence effect," older people—often living alone—who have old and frequently inexpensive leases occupy significantly larger living spaces that exceed their actual needs. In contrast, young families must pay significantly higher rents for smaller spaces under new leases and, for financial reasons, are unable to rent apartments that meet their needs.

Even though many older people could envision moving to a smaller, barrier-free apartment, the difference between existing and new lease rents is often so great—despite the smaller living space—that moving does not seem financially feasible. This pressing issue is also not addressed by potential expropriations. Consequently, only tenants of large private landlords would "benefit" from what would at best be a small "expropriation pension," regardless of their income.

*Institutional capital would put investments in Berlin on hold*

A potential expropriation of large housing portfolios in Berlin would also undermine the assumption that mortgages and property rights are politically sacrosanct in Germany. Even the mere prospect of such a law—not just its implementation—is likely to drive up risk premiums in the German residential real estate market and for mortgage bonds. This is also likely to increase the refinancing costs for banks active in the housing sector.

In addition to banks, institutional investors such as pension funds and insurance companies are also likely to increasingly withdraw from the affected real estate markets.

Without institutional capital, the urgently needed construction of new housing will remain at a low level. Due to the resulting high level of uncertainty regarding possible further political intervention in the housing market, both private and institutional landlords are likely to postpone investments in their housing portfolios, which is expected to lead to a decline in the quality of housing for tenants in the long term.

*Completion figures are also falling sharply in Berlin*

## Housing Shortage Is Worsening

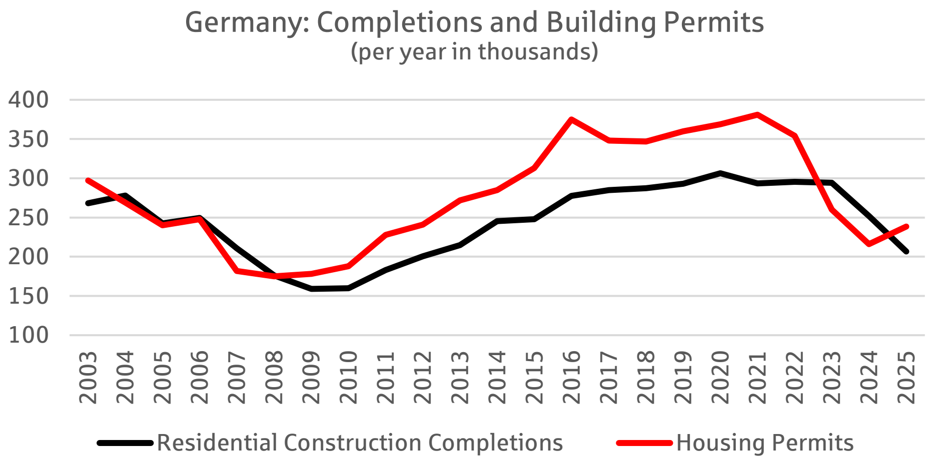
*Affordable housing is created by solving the primary issue of supply*

The points raised show that, in order to create affordable housing for large segments of the population, the focus should be on solving the primary issue of supply—that is, expanding the housing supply—rather than on managing the secondary issue of price through far-reaching government intervention in the market.

For example, a look at new residential construction shows why the burden of rent is continuing to rise significantly in Germany's major cities. While approximately 300,000 new apartments were still being built annually across Germany through 2023, completion figures have plummeted steadily since late 2022 as a result of the shift in interest rates. According to the Federal Statistical Office, only 252,000 new apartments were completed in 2024. In 2025, the figure dropped to just 206,600 new units. According to a forecast by the ifo Institute, the trend is expected to bottom out in 2026 with 185,000 new apartments.

In Berlin, the decline in completions was even more severe. According to the Berlin-Brandenburg Statistical Office, only 11,027 new apartments were completed there in 2025—a decline of more than 28 percent compared to 2024 and more than 36 percent compared to 2022.

### Construction cannot meet the demand for housing




Source: Federal Statistical Office

According to the housing demand forecast by the Federal Institute for Research on Building, Urban Affairs, and Spatial Development (BBSR), the number of new housing units needed to balance supply and demand across Germany is 320,000 per year through 2030. Since this figure will not be reached in the foreseeable future, the housing shortage and upward pressure on rents are likely to continue to increase in the coming years.

*The supply of housing cannot keep up with demand*

The only bright spot is the number of housing permits. In 2025, these rose by just over 10 percent compared to the previous year, reaching 238,500 units. However, the number of permits remains about 37 percent below the record high set in 2021.

*Building Permits Show a Slight Improvement in 2025*

Government measures, such as the introduction of the "Bauturbo" or the granting of "priority" to housing construction over other concerns as part of the amendment to the Federal Building Code, have the potential to increase the number of building permits. However, implementation takes time. For example, the "Bauturbo" requires a significant investment in training at regional planning offices. Overall, there is also a risk that municipalities will make only very selective use of the new opportunities, as was often the case with the previous amendment to the Federal Building Code (BauGB) and the Building Land Mobilization Act.

Even though the valley has been passed in terms of housing construction permits, due to construction timelines, a positive effect on completions will not be felt until 2028 at the earliest.

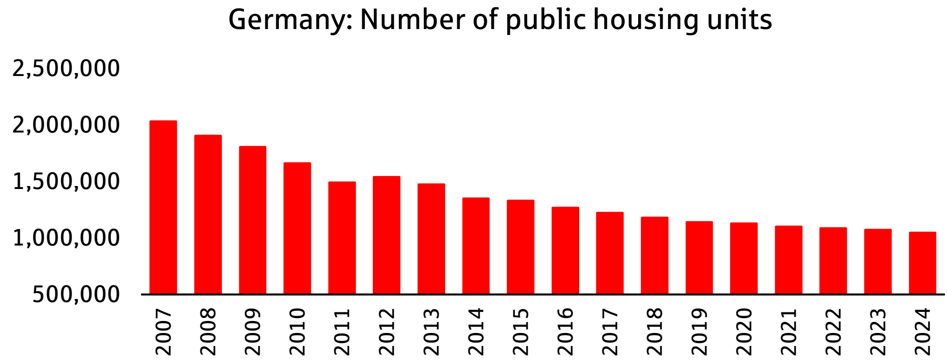
While housing construction can help curb the general rise in rents, housing will continue to be in short supply, particularly in sought-after areas of major cities that are already experiencing high population growth. This is especially true if urban development plans do not call for increased high-rise construction and opportunities for infill development have already been exhausted. Consequently, the construction of social housing is of particular importance in order to at least create more affordable housing for groups eligible for assistance.

## The number of public housing units continues to decline

In addition to the shortage in the general housing market, the situation regarding public housing in Germany is also worsening. This primarily affects lower-income households, for whom securing public housing—especially in Germany's metropolitan areas—is often the only way to find an adequate rental apartment in a central location. Since 1990, the number of rent-controlled apartments across Germany has already declined by two-thirds, from 3 million to just over 1 million by the end of 2024.

*A sharp decline in the number of public housing units is hitting lower-income households particularly hard*

The number of public housing units continues to decline




Source: Federal Ministry of Construction

*New construction cannot compensate for the loss of existing social housing*

Generally, rent controls for social housing are set for decades—often 25 to 30 years. After that, the owner can gradually offer the apartments on the market at standard rental rates. Without sufficient new construction, the expiration of these rent controls leads to a continuous decline in the housing stock. The current rate of new construction in social housing is not sufficient to stabilize the housing stock at its current level, let alone reduce the shortage of social housing in the future.

A similar trend can also be seen in Berlin. According to data from the Senate Department for Urban Development, Construction, and Housing, the number of rent-controlled apartments there actually fell by nearly 75 percent between 1990 and 2024, from just under 340,000 to about 85,765 apartments.

## Building land remains scarce and expensive

*Little activity in the real estate market amid persistently high prices*

Another bottleneck in the construction of new housing is the limited supply of land ready for development. According to the BBSR, the number of sales of land ready for development in 2024 stood at 46,200 lots for single-family homes and 2,600 transactions for multi-family dwellings. This means that the figures for single-family homes are about 50 percent below the level of the previous decade, while the decline was even greater for multi-family dwellings.

As a result of the shortage, average prices for building land rose from just under 144 euros per square meter in 2015 to 273 euros per square meter by mid-2025, according to the Federal Statistical Office. Prices in major cities are even higher. For example, the average land price in Berlin stood at around 705 euros per square meter by mid-2025, and in Munich it was as high as 2,900 euros per square meter.

## Recommendations for Action to Create Affordable Housing

*High refinancing and construction costs are slowing down new construction by private developers*

Fundamentally, the question arises as to why new construction activity remains low despite a severe shortage of housing. While in the years prior to the interest rate turnaround, construction times were primarily prolonged by excessive bureaucracy and long approval processes in German building and planning authorities, cost considerations on the part of private developers are currently the dominant factor. In addition to higher general interest rates and increased risk premiums, there is also greater general reluctance to extend credit, particularly in the real estate development sector. Furthermore, construction costs—which have risen rapidly, especially in recent years—are driving up the overall production costs in residential construction. In addition, the prolonged high level of ten-year construction interest rates, currently just under 4 percent, is leading to a decline in actual buyer demand.

*Removing bureaucratic hurdles is a positive step toward stimulating future new construction activity*

This increases the risk for private developers that they will be unable to offset the higher refinancing and construction costs at the end of the project through rising residential real estate prices. As a result, more and more developers are deciding to cancel new construction projects or abandon new plans. This also explains why the reduction of bureaucratic hurdles—such as the introduction of the "Bauturbo" or "Building Type E"—does not immediately lead to a significant increase in the number of permits issued. Nevertheless, the measures taken are important building blocks for moving more quickly from project concept to implementation in the future—especially during phases of renewed growth in buyer demand. Furthermore, deliberately deviating from comfort and technical standards, for example, helps to reduce construction costs in new buildings.

To counteract the current difficult refinancing situation facing private developers, municipalities could increasingly act as developers in housing construction themselves. In addition to their own land, they also have access to more favorable refinancing options. Currently, municipalities account for just over 5 percent of all new housing construction. According to the Federal Statistical Office, only 10,800 of the 206,600 new housing units built in 2025 were constructed by public entities and nonprofit organizations. Even taking into account the currently strained financial situation of many municipalities, placing a higher priority on allocating funds for the construction of new urban housing would help create more affordable housing.

One way to curb price increases in the rental market could be, at least to some extent, to promote homeownership. Improved government support for homeownership could help so-called "threshold households"—those that fall just short of the equity or income requirements—to successfully purchase a single-family home or condominium for their own use on the outskirts of major cities. This could potentially help create a "trickle-down effect," in which a series of moves would ultimately free up centrally located and affordable rental apartments. As a result, the rental housing market would also be relieved by the growth in homeownership. However, any potential relief—whether from the "trickle-down effect" or from the construction of rental housing at the lower end of the price segment—is limited by the ongoing influx of people into many metropolitan regions, as this could also further increase demand.

Government guarantees for private construction financing would be another way to make it easier for banks to structure construction loans for private builders—even when their equity ratios are low—and to offer them more favorable interest rates.

In addition, support for the construction of public housing should be expanded. In this regard, in addition to the level of funding, particular attention should be paid to ensuring continuous funding in order to provide planning certainty for private developers. To date, the amount of funding for public housing has been reset with each legislative term and varies significantly in amount.

*Accelerated designation of new development areas through capacity expansion in building and planning departments*

Since the rise in land prices in major cities is even more severe than the increase in construction costs, the designation of new development sites and the accelerated planning of new neighborhoods in metropolitan regions represent an effective lever for creating affordable housing. Therefore, local governments should invest more heavily in expanding their planning departments, prioritize housing construction at the administrative level as well, and strive to significantly accelerate planning processes that often take decades. Given the current economic strain on many real estate companies, hiring architects and construction planners in urban development and planning departments would be easier to achieve than it was a few years ago. The implementation of new digital processes, including the use of AI, could also help reduce planning times.

In addition, the expansion and, consequently, the widespread adoption of serial construction should be promoted much more actively by the government through targeted financial support and the removal of specific bureaucratic hurdles. Standardization and mass production of prefabricated components in multi-family housing construction could significantly reduce construction time and costs.

The European Commission also sees expanding the housing supply as the key to creating affordable housing. For example, the latest country report on Germany recommends simplifying bureaucratic hurdles and processes and making additional land available for construction in order to improve housing affordability.

The Banking Initiative for Affordable Housing in Berlin—comprising Berliner Sparkasse, Berliner Volksbank, Deutsche Kreditbank AG (DKB), and Investitionsbank Berlin (IBB)—has reached the same conclusion. They also emphasize that the key to affordable housing lies in new construction and that the potential expropriation of large housing portfolios in Berlin would result in significant disadvantages for the city as a business location.

## Conclusion: New Construction Is the Foundation for Affordable Housing

To create affordable housing, a significant increase in the number of new units completed in both the private and public housing sectors—especially in metropolitan areas—is of crucial importance. This would make more housing available to both lower-income households and the middle class, which could help curb the rise in rents for everyone. Radical measures such as the expropriation of housing are misguided. In addition to a host of negative consequences for the entire German real estate market, such measures are not even expected to provide significant relief to the tenants directly affected by them.

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# Disclaimer

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