

Press Release

KINGSTONE Real Estate and empirica regio: housing market between regulatory constraints and reality

- **The German economy: slowed growth in 2025 but bright outlook for 2026**
- **Residential market: supply trailing demand – mainly due to structural causes**
- **Incoming migration and demographics define the long-term market equilibrium**
- **Regulations and development land shortages the main inhibitors of housing construction**

Munich, 20 October 2025 – Despite auspicious GDP forecasts for 2026, major structural challenges remain: Demographic change, rising energy costs, and sluggish investments are putting the damper on growth. In a webinar called “MACRO MATTERS – The KINGSTONE Real Estate View,” Maximilian Radert, Head of Product Development & Research at KINGSTONE Real Estate, and Dr. Reiner Braun, Managing Director at empirica regio and CEO of empirica ag, shed light on macroeconomic trends, demographic developments and the structural causes underlying the persistent imbalance on the German housing market, including the gap between supply and demand.

Housing market under strain

Germany’s residential real estate market is undergoing a phase of structural upheaval. While demand for housing in metro areas nationwide remains high, the supply side is marked by stagnation. “State interferences such as rent caps or rent freezes as well as complex approval processes further exacerbate the situation,” said Dr. Reiner Braun.

At the same time, contractors and investors are increasingly wary of the uncertainties of the public funding landscape, the rise in financing costs and the shortage of skilled labour in the construction industry. This has prompted a drop in the number of planning applications and completions – especially in those cities where demand is strongest. Another bottleneck factor is the scant availability of development land.

The downstream effect is a steady decline in family-friendly housing as the market focus is on smaller units that are faster to build and easier to market. The trend fuels the emergence of a social and geographic rift that further raises the pressure on rents in central locations while also driving the flight to suburbia to relieve that pressure.

Immigration, internal migration and regional shifts

The structure of the German housing market is paced by the country's demographic trend and population mobility. While Germany's natural demographic balance has been negative for many years, incoming migration has had a stabilising effect – but is always hard to predict. This makes residential planning subject to serious uncertainty, according to Dr. Reiner Braun.

Residential flows are visibly shifting inside Germany as well. While young people keep flocking to the metropolises to enrol in degree programs or get their careers started, families are leaving the cities in large numbers. “The lure of country living, rather than representing a new trend, is a symptom of urban shortages,” as Braun emphasized. He pointed out that many families would actually prefer to stay but find it impossible to do so for space and cost reasons. The effect is a growth in demand in suburban communities where development land is in equally short supply.

Maximilian Radert also touched upon the demographic dimension of labour migration. “We noted how closely the housing market is linked to the shortage of skilled labour and demographic change. Migration is not just a social but also an economic issue.”

Collectively, these migration flows accelerate an ongoing process of geographic differentiation. Conveniently accessible mid-size cities and urban centres keep growing whereas peripheral regions are suffering a steady population decline. As a result, there is a growing pressure to develop infrastructure and the housing supply in a regionally more balanced manner. This is of key importance for restoring a market equilibrium marked by long-term stability.

Price growth and rental trend: red tape causing a rift in the market

New-lease rents have soared over the past years whereas the passing rents of many households have flatlined or even softened in real money terms. According to empirica data, the difference in rent between new leases and legacy leases in major German cities is approaching roughly one third now. Dr. Reiner Braun considers this effect the “consequence of an over-regulated market.” Rent increase caps and the auto-referencing logic of rent indexes make a free play of market prices virtually impossible.

This will ultimately trigger a so-called lock-in effect: Incumbent tenants hang on to their affordable legacy leases whereas housing units on the open market are becoming ever pricier for apartment seekers. It creates a structural bottleneck on the rental market that will barely respond to any short-term measure, as Dr. Braun argues.

Something Maximilian Radert emphasised in this context is that short-term rent caps alone will not be able to control the rental trend. “The debate concerning affordable housing falls short of the mark if it limits itself to the rent level. It is crucial to create an adequate supply – and this can only be accomplished by making investments a paying proposition again,” said Maximilian Radert.

While nominal rent rates have surged over the past years, the rent burden in real money terms has increased at a slower pace for many households because their income has grown as well. Nevertheless, regulatory constraints keep widening the gap between legacy rents and new-lease rents. “The market equilibrium will shift in proportion to the level of state interference,” as Maximilian Radert elaborated. “What we need is a system that protects tenants without paralysing the market.”

Conclusion

Germany's residential real estate market is facing fundamental structural changes. Economic uncertainties, high construction costs, a shortage in skilled workers and an excess of red tape are hampering the industry just as much as the widening rift between demand and actual supply. At the same time, housing demand is in the process of being permanently restructured by demographic trends, incoming migration and regional shifts.

The crucial thing in the year ahead will be to set up parameters that encourage increased investments in housing construction – via a reliable public funding policy, a roll-back of bureaucratic hurdles and the zoning of new development land.

Summing up, Maximilian Radert suggested: “We need less intervention and more facilitation – meaning a development and housing policy that gets us back up to speed. It is the only way to achieve a long-term balance between social responsibility and economic viability.”

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Our focus is on structuring and managing bespoke investment solutions. Ranging from transactions to asset management and all the way to developments, our spectrum of deliverables is aimed at institutional and private investors, including insurance companies, pension funds, banks, foundations and family offices, among others.

As an entrepreneurial business, we put a premium on quality, transparency and a trust-based long-term partnerships with our business partners.

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About empirica

empirica ag is an independent consultancy firm in the field of economic and social sciences. The company was formed in Bonn in 1990. It operates three offices located in Berlin, Bonn and Leipzig, respectively. The offices employ a collective workforce of around 40 professionals with a wide range of skills and experiences.

www.empirica-institut.de

empirica regio GmbH, a subsidiary of empirica ag, specialises in the business of processing, analysing and providing background data for the real estate industry. With the empirica regional database as our main product, we combine modern information systems, quality data and real estate market know-how into a one-stop service.

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