

RETURNS THROUGH AFFORDABILITY

Affordable Housing as a Resilient Asset Class

VIEWPOINT

Affordable housing in Germany is not only shaped by regulation but also offers opportunities for visionary investors in the current market environment.

CBRE RESEARCH
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Market Entry as the New Scarcity

Access to affordable housing in Germany is increasingly turning into a structural barrier to market entry. Unlike in earlier phases, affordability today is determined less by the absolute level of rents and more by the conditions under which households can newly enter the housing market.

Rising asking rents, high construction and financing costs and a declining level of new construction, reinforced by falling building permits which also point to limited new supply going forward, meet a market structure in which a large share of households remains permanently dependent on the rental market. While rent-law regulation stabilises existing rents, the sharply rising new-contract rents directly reflect the current scarcity. The resulting divergence between in-place and market rents has significantly raised the entry hurdles for new users.

For these users it is no longer just the level of rents that matters, but above all the question of the market, cost and regulatory conditions under which access to housing is possible at all, and how it remains affordable alongside other expenses.

For institutional investors and developers, affordable housing is taking on new investment-economic relevance. What matters is no longer just rent growth, but the structural ability to deliver housing economically under changed cost and financing conditions. At the same time, the perspectives of some investors are shifting towards a long-term investment horizon, driven by volatile capital and money markets and the existing housing stock.

Against this background, this Viewpoint analyses the market-entry barriers and regulatory framework as well as their impact on the demand side of the German housing market. This gives rise to investment opportunities for different investor types, particularly in the segment of price-dampened and partially regulated housing models.

Share of tenant households in Germany (Eurostat, 2024)

53%

Change in building permits in Germany 2020-2025 (Destatis, 2025)

-40%

Rent growth in the top 7 markets, 2020-2025 (CBRE Research based on Value AG data)

27%

Average rent-to-income ratio (nationwide average, Destatis, 2022)

28%

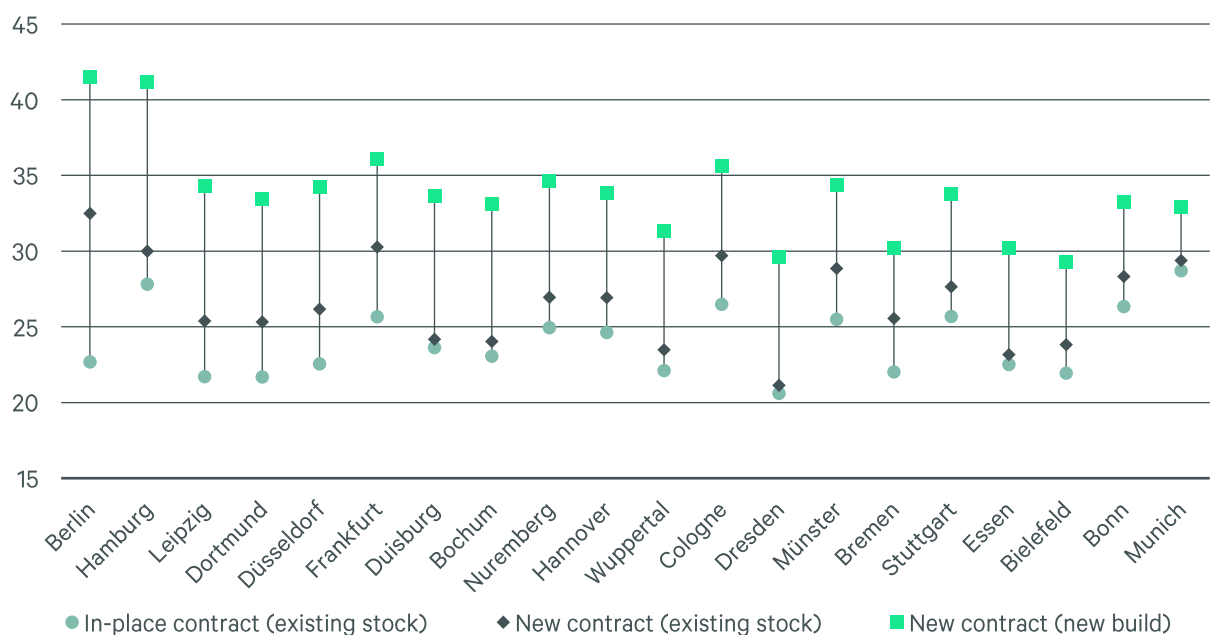
Definition, Reference Framework and Quantified Entry Hurdles for Affordable Housing

The question of affordable housing (housing affordability) is not only a pricing topic but a concrete access question. In this context, housing affordability is understood not as a static market indicator but as a mobility metric. Internationally, it is mainly classified via the housing cost burden ratio, i.e., the share of current housing costs (rent and all ancillary costs) in disposable household net income (incl. social transfers). However, common thresholds of around 30% (burden) and above 40% (overburden) are primarily suited to cross-sectional comparisons and only partially capture real market-entry conditions. The distinction from social housing is essential. While the latter is legally defined and income-restricted in Germany, affordability describes the relationship between housing costs and income under given market conditions.

The potential housing cost burden when signing a new rental contract can be contrasted with the burden under existing tenancies. The resulting new-contract premium (calculation methodology in the appendix, p. 11) illustrates how strongly the real burden situation changes when households move. This produces a central asymmetry: while burden ratios for sitting tenants remain moderate thanks to tenant protection, new tenants directly face current market rents with a significantly higher burden. In tight markets, this dampens relocation mobility and raises entry barriers.

Looking at German cities and regions, the asymmetry becomes spatially visible. While new contracts in newly built apartments (Berlin, Hamburg) can require more than 40% of household net income, the burden in other regions (e.g., Leipzig, Dresden, Dortmund) for sitting tenants is sometimes less than 25%.

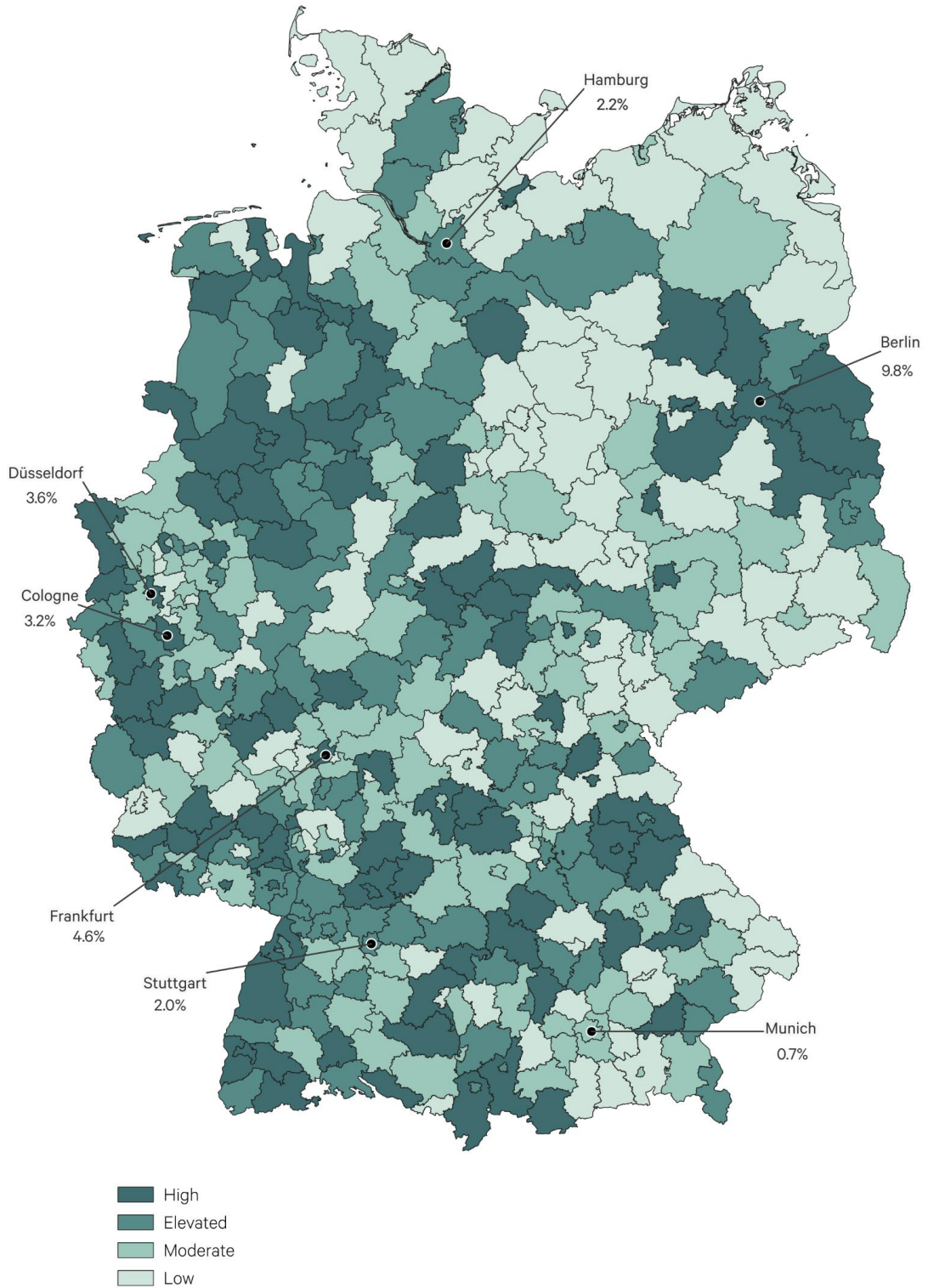
FIGURE 1: Rent burden* (in %) in the top 20 markets. Differences between in-place and new-contract rents



Source: CBRE Research based on Value AG and the Federal Statistical Office

*Note: The chart shows the potential rent burden that households would face if they signed a new rental contract today in an existing apartment or in a newly built apartment. For this, in-place rents were derived from let, for-sale condominiums per location and then set in relation to average household net income.

FIGURE 2: Size of the new-contract premium in rental housing in Germany at the district level



Source: CBRE Research based on Value AG and the Federal Statistical Office

The colours express the difference between new-contract rents in existing apartments compared with in-place rents. The darker the shading, the larger the affordability delta or new-contract premium between in-place and new-contract rents. The small-scale analysis of the new-contract premium reveals clear spatial polarisation. Four spatial types can be distinguished.

Cities in structurally weak regions, high delta

Particularly in East German cities (e.g., Halle, Leipzig, Chemnitz, Rostock, Jena, Erfurt, Eisenach, Cottbus), but also in some West German cities (e.g., Kaiserslautern, Hof, Bayreuth), an above-average new-contract premium emerges. Here, dynamically rising new-contract rents meet a historically low level of in-place rents, so that entry hurdles for new tenants are particularly pronounced. These cities show above-average population dynamics and absorb significant numbers of people from their surrounding regions.

Suburban areas of metropolitan regions, elevated delta

In the closer and wider surroundings of Berlin, Cologne, Munich and in the Hannover region too, the delta is clearly elevated. Demand spillover from the core cities is pushing new-contract rents in the surrounding areas, while in-place rents remain at a lower level. In the core cities of these regions, building land and shovel-ready land is only available to a limited extent, which further reduces potential future new supply there and pushes households into the surrounding areas. This dynamic is amplified by population growth in the core cities, which, in addition to local migration, is increasingly driven by interregional and international inflows.

High-priced in-place markets, smaller delta

In cities with already high in-place rent levels such as Munich, Nuremberg and Stuttgart, the new-contract premium tends to be small. Since existing contracts already reflect high rents, the difference to the new-contract rent level is smaller. Housing affordability has historically been low in these cities, and the gap to new-contract rent levels is therefore somewhat smaller than in the regions mentioned above.

Rural areas, small differences

Across large parts of the East German periphery, Lower Saxony, Schleswig-Holstein, northern Hesse and northern Bavaria, the differences between in-place and new-contract rents are small. Lower demand and declining population trends keep the overall rent level low, including for new contracts.

This spatial differentiation corresponds to the CBRE-Empirica vacancy index. In economically strong centres, the vacancy rate is particularly low, which further increases the pressure on newly entering households. In rural-peripheral areas with a low new-contract premium, vacancy is higher, an indicator of the weaker market tightness there.

Against the background of future population trends and the tightness of the housing market, particularly in the second and third clusters, building authorities will increasingly need to take measures to reconcile affordability with housing availability. Here, the historically strong social housing sector (sozialer Wohnungsbau) in Germany can be one way to also leverage private capital.

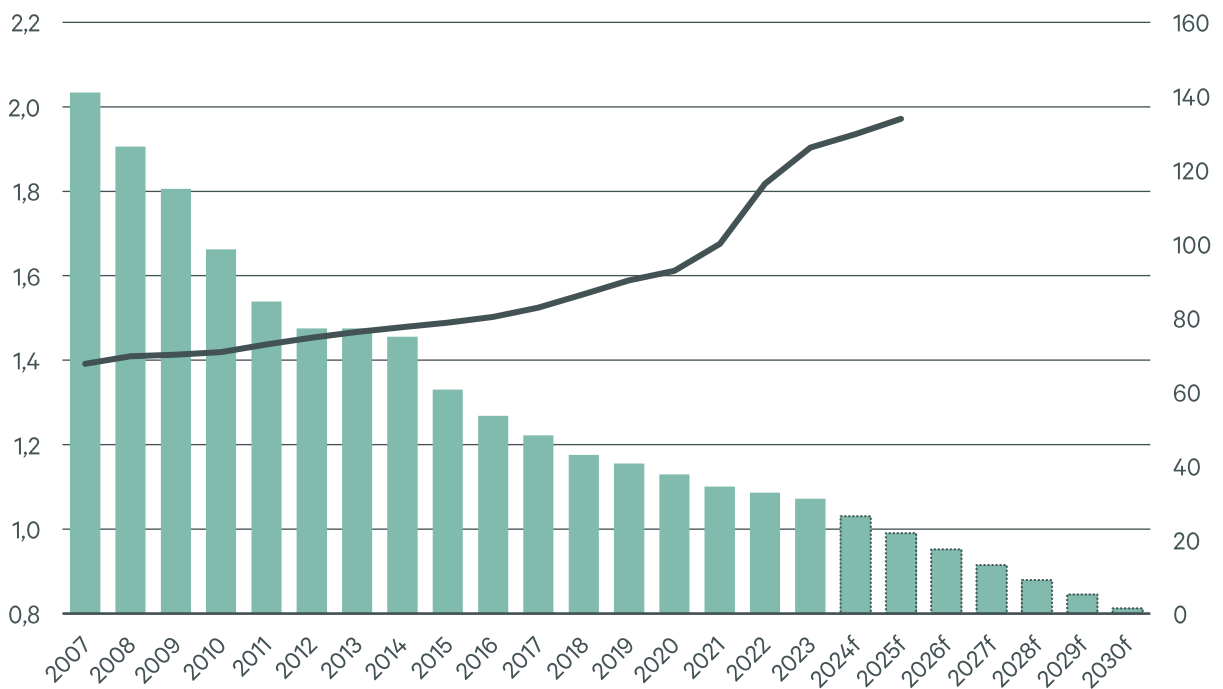
Social Housing: Structural Gap and Investment Relevance

The German housing market shows the characteristics of a classic market failure. Construction costs exceed the willingness to pay of broad demand groups, new supply is falling and demand remains unbrokenly high. Social housing (sozialer Wohnungsbau) is an established instrument addressing this dilemma. It regulates access via income thresholds, capped rents and time-limited occupancy restrictions.

Since the mid-1990s, the stock of social rental units in Germany has halved. By 2030, a further decline of around 20% is expected. At the same time, the actual regulatory demand has grown significantly due to the raising of income thresholds for the Wohnberechtigungsschein (housing entitlement certificate) in many federal states. The structural undersupply is widespread. Even in federal states with high absolute stocks such as North Rhine-Westphalia, with a coverage of around 26%, or Berlin, with around 24%, only a fraction of the potentially eligible households is served. Hamburg, with more than 40%, is an exception. In Baden-Württemberg, despite high economic strength, only around 54,000 social housing units are available for around 800,000 potentially eligible households, a coverage of only seven percent. The average across most federal states lies below 15%.

This constellation is precisely what makes social housing attractive again as an investment segment. Public subsidies cushion the recently increased construction costs, secured occupancy stabilises long-term rental income, and investors are offered a regulatorily anchored risk-return profile. Particularly attractive are those federal states where low coverage meets densely populated areas with low affordability. At the same time, a generous subsidy landscape opens up new opportunities for investors in this segment.

FIGURE 3: Stock of social rental units in Germany (in m units) and construction price index for residential buildings (2021 = 100)



Source: German Bundestag (2024), Federal Statistical Office, CBRE Research

Affordable Housing as a Functional Extension of Subsidised Housing

Against the background of the structural undersupply, the concept of affordable housing is gaining importance. Unlike subsidised (social) housing, affordable housing in Germany is not a legally defined category, but describes a spectrum of price-dampened or partially regulated housing models targeting households above classic subsidy thresholds. From a market and investor perspective, a functional interface between regulation and the free market emerges here. Affordable housing models complement social housing but do not replace it. Based on international empirical evidence, affordable housing can be defined up to a rent-to-income ratio of below 40%.

Investors have a wide range of subsidised options available in the current market environment. In addition to pure social housing, numerous subsidy institutions offer hybrid forms that give investors access to public capital while at the same time allowing free market mechanisms. This creates a broad spectrum of price-dampened or partially regulated housing models, oriented to income thresholds without being fully anchored in social housing.

In practice, this can result in a mixed approach to housing provision, in which subsidised and freely financed units are combined within a single project. This structure enables a targeted distribution of risk and return. Public loans and grants reduce capital and construction costs and stabilise the long-term base return. Freely financed units create additional earnings flexibility and increase the flexibility within the project structure.

In individual markets such as Berlin, subsidy programmes show that this logic is operationally viable. Long-term public loans with maturities of up to 30 years can carry an interest rate of 0% there or incur only minor administrative costs. This can cover a significant share of project financing.

These financing structures are complemented by tax effects in the initial phase. The recently passed declining-balance Sonderabschreibung (accelerated special depreciation) enables additional depreciation of up to 5% per year over four years, before the linear model with 3% AfA (straight-line depreciation) takes effect. The combination of depreciation forms specifically supports both the project start under elevated interest rates and capped rent levels, and secures the long-term return level.

Crucially, these models do not depend on maximum rent levels, but on stable demand. This creates a structural long-term competitive advantage on the demand side compared with purely market-based housing products, especially in an environment of constrained affordability.

In parallel, the logic of value creation is shifting. Ongoing cashflows are systematically used for deleveraging and lead to wealth accumulation over the holding period. The short- to medium-term exit is losing importance as the primary value lever, while forward-funding models become more attractive particularly for equity-strong investors. Value is created through the financing structure, the quality of demand and the stability of earnings. This results in a consistent investment model with predictable cashflows, reduced downside risk and structurally robust returns in prospering regions.

Transformation in the Transaction Market



While during the low-interest phase build-to-sale models within forward deals were preferred by developers, a fundamental transformation is currently taking place in the residential investment market. Due to cost increases combined with higher financing hurdles, particularly equity-weak developers can no longer bear the development costs themselves. At the same time, as outlined above, rent affordability is increasingly no longer achievable due to these cost increases. Investment pressure on the investor side nonetheless persists and is rising as equity, bond and money markets become more volatile. Equity-strong investors in particular are mostly long-term oriented and show heightened interest in long-term investments (e.g., pension funds, insurance companies, sovereign wealth funds). For these, investment in new residential portfolios represents a bond-like investment without significant additional costs.

This transformation is increasingly visible in the transaction market as well. Forward fundings are increasingly emerging as a complement to forward deals, financed by long-term equity. While the public sector has been active in the forward-funding market in the past two years, it is now increasingly limited by fiscal constraints.

Based on CBRE transaction data, between 2023 and 2025 around 25% of the total transaction volume in the residential investment market was accounted for by publicly subsidised or socially bound housing products. At the same time, impact- and ESG-oriented residential strategies, including public housing companies, Article 8/9 funds and affordability-focused platforms, reached a share of close to 30% of the overall market. The two categories are not mutually exclusive, since a substantial share of subsidised projects is at the same time part of higher-level ESG or impact strategies.

What stands out is not so much the absolute development of volumes as the constancy of relative market shares. Despite sharply fluctuating overall market size, the shares of regulated and impact-driven residential investments show no significant change over time. The segment thus acts less as a dynamic growth driver and more as a structurally stabilising component of the residential investment market, securing market liquidity especially in periods of heightened uncertainty.

Given the continued low construction activity and rising societal and political pressure, it can be assumed that the federal and state governments will launch further subsidy and support programmes. Today, individual state subsidy institutes are already responding with expanded programmes and higher budget allocations. This trend is likely to persist and further increase the share of subsidised and partially regulated housing products in the overall market over the medium term, thereby structurally expanding the investable volume in this segment.

<p>Value Creation at Entry</p>  <p>Disciplined acquisitions in periods of market stress</p>	<p>Deleveraging as a Value Driver</p>  <p>Wealth accumulation from ongoing cashflow</p>	<p>Tax Efficiency in the Portfolio</p>  <p>Return levers: AfA (depreciation), interest deduction and cost structure</p>	<p>The Structural Exit</p>  <p>Value Is Created in Holding, Not in Timing</p>
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Capital Allocation for Affordable Housing

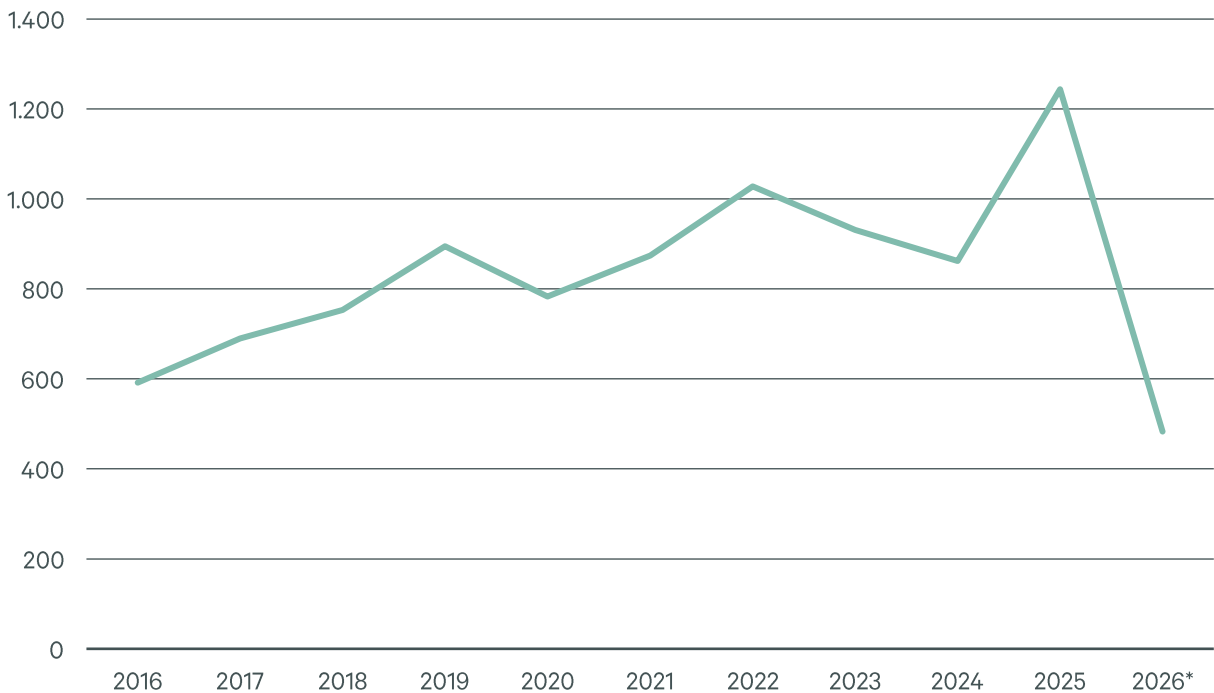
The growing importance of affordable housing is also reflected in media coverage. An analysis of more than 10,000 specialist articles shows a structural upward trend (Figure 4). Whereas in the 1990s an average of around 100 articles per year were published, the number rose to over 850 per year by the pandemic phase, an increase of more than eightfold within three decades.

This growing attention corresponds to significant capital flows into the sector. Our analysis of the investment volumes mentioned in the articles shows a clear dominance of public funds. Around 29 percent of the capital mentioned comes from public sources, particularly KfW (state development bank) subsidies, federal and state programmes and municipal housing companies. Private investors contribute around 14 percent. The remaining 57 percent are accounted for by mixed financing structures, an indication of the growing relevance of public-private partnerships in affordable housing.

The federal EH-55 (Efficiency House 55) subsidy programme alone has, since December 2025, with a volume of over €2.2bn for around 23,400 housing units, contributed significantly to the current momentum. At the same time, institutional investors, developers and impact funds are becoming increasingly active in the segment, often in combination with public subsidies, as described earlier.

Affordable housing is thus developing into a standalone asset class with growing capital depth. For investors who prioritise ESG criteria and long-term cashflow stability, this segment offers attractive opportunities, provided that the regulatory framework remains reliable.

FIGURE 4: Affordable housing: media attention (2016–2026)



Source: Immobilien Zeitung (IZ)

Note: Analysis of more than 10,000 articles on the topic of affordable housing. *Data January to May 2026.

Conclusion

The tight situation on German housing markets reflects a structural imbalance rather than short-term market cycles. Rising construction costs, declining new construction and persistently high demand meet a market with limited mobility and growing entry barriers. Affordability is increasingly becoming a question of market entry. While sitting tenants benefit from stable contract rents, households moving to a new apartment face significantly higher burdens. The resulting lock-in effects reinforce segmentation and shift demand towards regulated and price-dampened housing segments.

Social housing can only partially absorb this development. The structural decline of regulated stock and the widespread undersupply show that it functions primarily as a stabilising reference system, not as a market-clearing supply instrument. At the same time, public budgets are increasingly constrained, so that a purely subsidy-based solution is reaching its limits. The question of whether affordability can be achieved through additional subsidies or through marketable rental models is thus becoming the central strategic choice.

Affordability is not solely a user-side topic, but equally an investor-side one. Anyone seeking to economically develop and hold affordable housing in the current market environment needs viable financing structures, ranging from public subsidy loans and tax levers to mixed models combining regulated and free-market housing. Forward-funding structures, long-term equity and the combination of deleveraging and stable cashflows are replacing short-term development and exit models.

For investors and developers, this represents a clear paradigm shift. Value creation is shifting from short-term transactions to long-term portfolio holding, structured wealth accumulation and demand-stable earnings. Under these conditions, affordability does not become a drag on returns, but an integral component of a low-risk investment approach with predictable cashflows and structurally robust returns.

In a structurally undersupplied market, it is not timing that is decisive, but the ability to economically structure and hold housing for the long term under realistic market-entry conditions.

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Methodology (Appendix)

Calculation of the rent burden

To determine the potential rent burden in the top cities in Germany, asking rents from the housing market were used. The basis is asking rents from Value AG, differentiated by existing-stock and newly built apartments. A value of €3.50/sq m was assumed for ancillary costs. These gross rents were multiplied by the average apartment size at each location and annualised. The resulting annual rent burden was then set in relation to the disposable income of private households at the respective location. The income data is based on per-person disposable income for 2023, published by the Federal Statistical Office. These incomes were multiplied by the average number of persons per household at each location. To ensure comparability with 2025 rents, household income was adjusted in real terms. The resulting rent burden is reported as a percentage share of disposable income.

Calculation of the new-contract premium

The calculation of the new-contract premium follows the same methodology as the rent burden calculation based on asking rents, but focuses on the financial gap when entering the current rental market in the existing-stock segment. The metric relates the assumed current rent burden under an in-place contract to the conditions of a new contract for a comparable existing-stock apartment. The basis for representing existing contracts is rents from actually let, for-sale condominiums per location, used as a proxy for realised in-place rents. Unlike the classic asking-rent methodology, which often relies on flat-rate assumptions, the actually reported ancillary costs could be extracted directly from this data and included. This makes it possible to represent the effective gross rent burden of existing contract rents realistically, without model assumptions. The resulting housing costs were aggregated at the household level, annualised and set in relation to average disposable household net income at each location. The resulting new-contract premium thus quantifies the jump in the housing cost ratio that a household in the existing-stock segment has to bear when starting a new contract in the current market environment.