S&P Global
Ratings

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European Housing: Supply Shortfalls Limit Price Relief

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This report does not constitute a rating action.

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Key Takeaways

- We still expect European house prices to rise on average by about 4% in 2026 and by more than 3% in 2027. We have revised our near-term forecasts for most individual markets by plus or minus 1 percentage point (ppt).
- Lower real mortgage rates than we anticipated will support prices in the long term, while higher unemployment and weaker confidence in parts of Europe will act as a drag.
- In a milder macroeconomic scenario of faster disinflation, lower long-term yields, and slightly higher employment, European house prices would end 2028 marginally above our baseline forecasts on average.
- Housing starts remain too slow to materially ease price pressures. New national legislative packages acknowledge the shortage of housing, but meaningful supply gains will take years to materialize.

S&P Global Ratings continues to expect European house prices to outpace incomes in 2026, with an average rise of about 4% in 2026 and more than 3% in 2027. The revisions we have made since February 2026 are to our forecasts for individual markets. These revisions are within plus or minus 1 ppt in most markets, largely in 2027-2028 (see table 1).

Sweden and Portugal are the two exceptions. We have revised our forecast for Swedish house prices in 2026 down by more than 1%. This reflects a renewed rise in mortgage rates in the second quarter of 2026, uncertainty over job prospects following a slowdown in activity at the start of the year, and homeowners' rate-sensitivity as outstanding loans represent 173% of disposable income. Meanwhile, we have revised our forecast for Portugal up by 3%, as the stronger-than-expected house price growth in 2025 has continued. A combination of low supply, slow construction, and strong domestic demand accelerated house price growth to a multi-decade high last year in Portugal, while the price momentum barely abated at the start of 2026, according to the latest OECD data.

Some revisions to our house price forecasts in 2027-2028 stem from updated population growth assumptions (using IMF data), mainly for Germany, which contributed to some downward adjustments. Our macroeconomic baseline (that is, our forecasts for GDP growth, inflation, unemployment, and interest rates) translates into a further modest increase in house prices until 2029 across all the countries we monitor.

Table 1

S&P Global Rating economists' nominal price forecasts

	Year-over-year change in Q4 in nominal house prices (%)					Change compared with previous forecasts (Feb. 2026)			
	2025	2026f	2027f	2028f	2029f	2025	2026f	2027f	2028f
Germany	2.6	1.2	2.8	2.5	2.0	-0.1	-0.7	-0.6	-0.3
France	1.0	1.4	2.2	2.1	2.5	0.0	-0.4	-0.4	-0.2
Italy	4.0	2.8	1.7	1.8	1.7	0.9	0.6	-0.1	0.0
Spain	12.9	9.1	7.4	6.2	5.4	0.5	-0.2	0.0	0.0
Netherlands	6.1	5.3	4.4	5.0	4.7	0.4	0.0	-0.1	0.0
Belgium	3.4	3.0	3.0	2.8	2.7	0.1	-0.1	0.0	-0.1
Portugal	18.9	10.0	5.5	5.0	5.0	3.5	3.0	0.0	0.0
Ireland	7.0	5.0	4.1	3.9	3.5	-0.3	-0.1	0.0	0.1
Poland	4.3	5.3	5.7	5.4	5.3	-0.3	-0.3	0.7	0.9
Switzerland	5.2	2.6	2.6	2.0	2.0	1.3	0.5	0.0	0.0
U.K.	2.4	2.0	2.6	3.7	3.4	0.2	-0.6	-0.4	0.0
Sweden	1.2	1.5	2.5	3.1	3.0	1.1	-1.8	-0.7	-0.1

Red = downward revision | Blue = upward revision

Data as of July 2026. f--Forecast. Source: OECD, S&P Global Ratings.

Three Macroeconomic Revisions Explain Most Changes To Our House Price Forecasts

Inflation

The Consumer Price Index (CPI) is now 1 ppt-1.6 ppts higher across all European markets. For example, we now forecast the eurozone CPI at 3.1% versus 1.8% at the time of our previous house price forecasts. Inflation in 2027 is broadly unchanged. This reflects the conflict in the Middle East and the associated surge in energy prices, with a relatively quick pass-through to non-energy markets.

Rates

Ten-year sovereign yields have risen modestly by 20 basis points (bps)-30 bps in eurozone countries and Poland and by about 60 bps in the U.K. and have translated into higher mortgage rates. This reflects an upward shift in monetary policy expectations following the energy price shock.

Our baseline forecast is for the Bank of England to hike rates once in 2026, rather than resume cuts, and the European Central Bank to hike rates twice, with the second hike occurring in the second half of the year. On the other hand, we expect the National Bank of Poland to keep rates flat after interrupting its easing cycle due to the consequences of the Middle East conflict.

We don't expect the Swiss National Bank to hike rates this year, although it might do so later in 2027. We have also pushed back our expectation for the U.S. Federal Reserve's first rate cuts to 2027 from 2026, consistent with the global nature of the energy price shock.

Switzerland is the main exception. We kept Swiss long-term sovereign yields stable by contrast to other bond markets, as demand for safe assets rises during a global shock.

Because yields have risen less than the CPI, real mortgage rates are now materially lower than we assumed in November 2025. This supports house prices in most European countries.

Labor markets

Unemployment rates are higher in France (up 0.4 ppts by 2028), the Netherlands (up by 0.3 ppts), and Belgium (up by 0.3 ppts), weighing on housing demand. In contrast, the unemployment rate in Italy fell to 5%, which is more than we anticipated. This provides only a modest uplift to Italian house prices, as the improvement does not raise labor force participation materially. Labor force participation has hovered around 66.7% since 2023 despite an almost 2 ppt drop in the unemployment rate over this period.

A Milder Macroeconomic Scenario Will Lift European House Prices Slightly

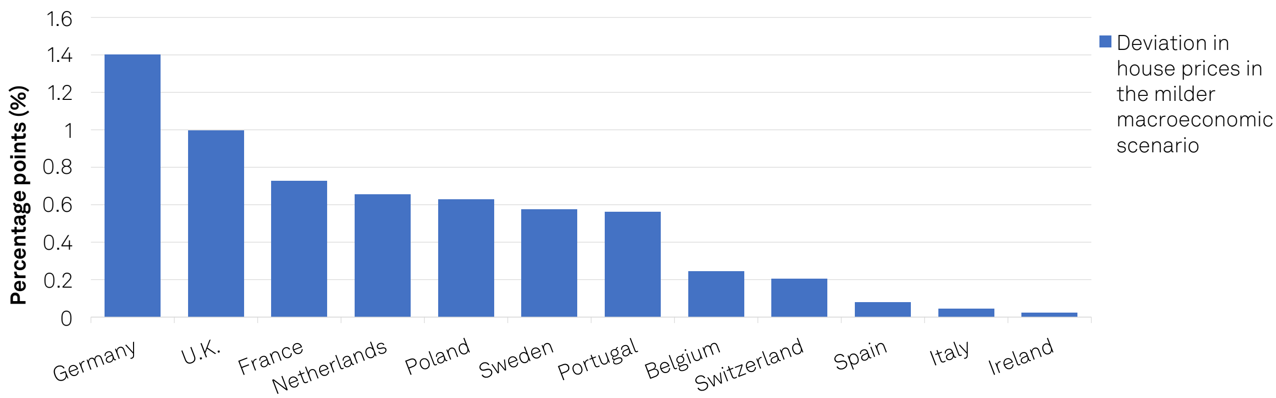
We have developed an alternative milder macroeconomic scenario due to the uncertainty around the recovery of seaborne trade through the Strait of Hormuz. Around one-third of global crude oil and one-quarter of global liquid natural gas transit through the Strait each year.

This scenario assumes lower global oil and gas prices from mid-2026, faster disinflation, lower long-term yields, and slightly lower unemployment (for detailed assumptions, see "Economic Outlook Europe Q3 2026: Energy Shock Rekindles Stagflation Risks," published June 24, 2026). Under this milder scenario, European house prices are 0.2%-1.4% above the baseline by end-2028, with Germany, the U.K., France, and the Netherlands seeing the most upside (see chart 1).

Chart 1

House prices are higher in our milder economic scenario than in our baseline scenario

Cumulative deviation in house prices by 2028



Source: S&P Global Ratings. Our milder economic scenario assumes lower inflation, lower interest rates, and a lower unemplyoment rate compared to the baseline. See: "Economic Outlook Europe Q3 2026: Energy Shock Rekindles Stagflation Risks," June 24, 2026.

There are two channels of transmission to the housing market

First, real mortgage rates. Nominal yields decline faster than inflation in 2026-2027. Inflation then rebounds in 2028 while nominal yields remain low, causing real yields to fall by up to 70 bps. Markets that are more rate-sensitive--particularly Germany and the U.K.--benefit the most, with cumulative deviations in house prices of +1.4% and +1.0% by end-2028, respectively.

Second, unemployment rates. The milder scenario envisages only marginal changes in unemployment rates. As a result, countries where prices are more tightly linked to labor market conditions--such as Italy and Spain--show only limited deviations from the baseline.

By 2029, the effects of the energy price shock have mostly dissipated. The milder scenario therefore primarily reflects a timing shift, with some house price growth occurring earlier, in 2027-2028, rather than gains accumulating until 2029, at the end of our forecast horizon.

The bottom line is that the milder scenario is supportive, but in an incremental way

The highest-growth markets of Spain, Portugal, Poland, and Ireland remain broadly near the baseline house price trajectory. Rate-sensitive markets facing demographic and unemployment headwinds--Germany and the U.K.--see the most significant rises. The milder scenario does not materially alter the medium-term structural outlook, with supply constraints, household formation trends, and construction cost pressures continuing to dominate.

Undersupply Is Likely To Persist Despite Policy Initiatives

Beyond cyclical drivers such as real mortgage rates and labor market conditions, the structural forces shaping European housing markets remain firmly entrenched. These forces include:

- Shifts in housing preferences and household formation that outpace population growth;

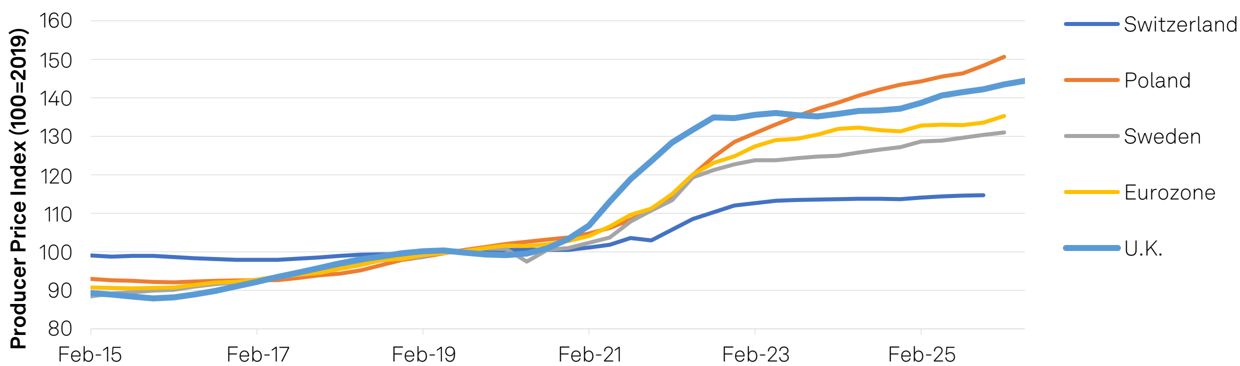
- Longstanding supply bottlenecks, from a fragmented construction sector facing administrative burdens, to tight labor markets and high costs of construction material; and
- Generally strong household balance sheets, translating into net wealth close to the historical peak, which supports demand in many countries.

In addition, the 2022 energy price shock has had a lasting impression on the cost of construction materials, which remains high (see chart 2). There is a risk that the effects of the ongoing energy price shock could spread to the housing sector if it persists. A European Commission survey showed that the construction sector quickly increased its price expectations following the surge in energy prices in March/April 2026 (see chart 3).

Chart 2

Higher construction costs point to persistent supply constraints

Producer Price Index for residential housing

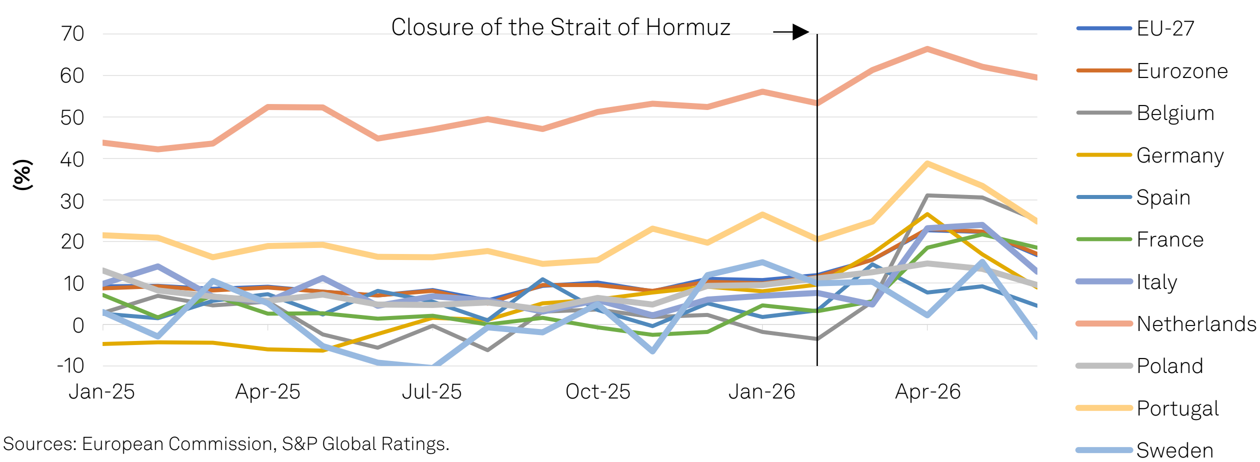


The chart shows the Producer Price Index (input prices - construction materials for new housing) for the residential housing sector in all countries except the U.K. Sources: Eurostat, national statistical offices, S&P Global Ratings.

Chart 3

Price expectations shifted rapidly in response to energy market conditions following Hormuz closure

European Commission survey of the building construction subsector



Sources: European Commission, S&P Global Ratings.

European governments recognize the deterioration in housing affordability and supply conditions, and several have announced legislative packages. However, the delivery lags are likely to be long, and the measures only partly address the root causes.

In Germany, housing construction has fallen significantly since 2020, and construction costs are high

Germany saw one of the strongest increases in construction costs over 2021-2022 of all countries we cover in this report. The bottlenecks are predominantly structural: shortages of skilled labor, limited buildable land, complex and only partly digitalized planning procedures, elevated energy and material costs, and demanding technical standards.

In October 2025, the German government responded with the Act to Accelerate Housing Construction and to Secure Housing (the so-called "Bau-Turbo"). This introduces temporary deviations from planning law and permits residential development outside designated construction zones until 2030. These are welcome steps, but their full impact on supply is likely to take years to materialize. Meanwhile, the extension of the rent price brake ("Mietpreisbremse") to end-2029 and the tighter rental regulations introduced in April 2026 may disincentivize new rental supply.

In France, new construction fell sharply in 2023-2024 due to higher financing costs, construction prices, land availability, and complex permit procedures

The expansion of short-term rentals has further reduced the long-term availability of rental property. Supply conditions stabilized only moderately in 2025, alongside a slight easing of construction costs. The "Relance Logement" plan that the government unveiled in early 2026 targets two million construction permits by 2030. This signals policy intent, but remains an aspirational medium-term objective rather than a near-term supply catalyst.

In Italy, the "Piano Casa" program adopted in May 2026 prioritizes the renovation of public housing and supports affordable housing

However, Italy also has the EU's highest share of unoccupied dwellings, implying that stock-focused renovation does not automatically ease supply pressures in locations where demand is strongest. At the same time, tighter rules on short-term rentals in the 2026 Budget Law are a constructive step to redirecting existing stock to long-term rental supply.

In the Netherlands, record-high sales in 2025 partly reflect private landlords exiting the rental market amid tighter regulation and higher interest rates

The key constraints remain structural: complex planning procedures, high costs, labor shortages, environmental limits on nitrogen deposition, and electricity-grid congestion. The STOER program aims to accelerate housing construction by reducing regulatory complexity, but the constraints are broader than regulation alone.

In the U.K., the 2025 Planning and Infrastructure Act and the 2024 National Planning Policy Framework aim to ease housing supply shortages by accelerating planning decisions

However, it will take time for these reforms to bear fruit, as other factors have had a more meaningful impact on housing construction in the short term. Higher interest rates and construction costs, labor shortages, and utility and grid constraints have meant that housing starts only picked up recently following a trough in the second quarter of 2024. That said, the 12-month figure in the first quarter of 2026 remains 30% below the peak in the second quarter of 2023.

In Spain, investment residential real estate has remained flat since early 2019, while economic growth is among the strongest in the eurozone

The buoyant labor market, characterized by strong employment creation and wage growth, has increased purchasing power and fueled immigration, exacerbating the gap between supply and demand. At the same time, administrative barriers in the construction sector weigh on new construction. In April 2026, the Spanish government approved the €7 billion State Housing Plan for 2026-2030, aiming to increase housing supply, improve affordability, and expand the regulation on seasonal and short-term rentals.

The Recent Flurry Of Policy Activity Is Welcome But Largely Reactive

It is unlikely to resolve two dominant supply-side frictions--construction inflation and labor shortages. Measures such as rent-price brakes or mortgage-guarantee expansions can inadvertently amplify demand-side pressure. Our forecasts therefore continue to reflect structural undersupply, keeping European nominal house prices on an upward trend through 2029.

Related Research

- Economic Outlook Europe Q3 2026: Energy Shock Rekindles Stagflation Risks, June 24, 2026
- European Housing Markets: Structural Pressures Persist, Forecasts Barely Shift, Feb. 3, 2026