



REAL ESTATE AND THE REAL IMPACT OF EUROPEAN FINANCIAL REGULATION

Across the EU, housing affordability has become one of the top political and policy discussions, driven by affordability pressures and the growing recognition that the housing challenges have profound social and economic consequences. A persistent gap between supply and demand, slowdown in construction activity, rising land and building costs, demographic pressures and regional disparities have made access to adequate and affordable housing increasingly difficult.

These structural challenges are closely intertwined with financial conditions. Access to mortgage credit, essential for both homeownership and investment in new or existing housing, have become significantly constrained due to Central Banks' higher interest rate policy, and rising borrowing costs linked to economic conditions and regulatory context. This affects particularly vulnerable and first-time buyers.

These pressures are amplified by the evolving prudential framework. The transposition of the Basel rules, combined with divergent national practices is creating additional strain on lending capacity at the very moment when Europe needs more, not less, investment in housing supply and renovation. The comprehensive report by the European Commission expected this year on competitiveness and the banking regulatory framework is a key opportunity to evaluate these aspects and their concrete impact.

Responding to these challenges requires systemic, long-term action. The European Affordable Housing Plan is the EU's first attempt ever to tackle these challenges across Member States. Its success will depend on ensuring that all relevant EU policies, including financial regulation, support, rather than hinder, the objective of improving housing affordability.

For these reasons, as representatives of the European mortgage sector and European real estate associations, we seek to draw attention to the significant impact of European prudential regulation on real estate lending. **As discussed among lawmakers and academia at the ESG Retail Banking Conference 2025, the current political focus on housing offers a unique opportunity to reassess whether the impact of EU capital requirements and risk-weighted asset frameworks adequately supports the credit flows needed to address Europe's housing challenges, while fully safeguarding financial stability.**

POLICY RECOMMENDATION

Preserving the transitional provisions for low-risk residential real estate exposures under the Capital Requirements Regulation Art. 465(5), removing national discretion to harmonise application at EU level and putting forward an extension to the banks which use the standardised approach while ensuring compliance with the low-risk criteria in Art. 465(8). Making permanent the transitional measures under the Capital Requirements Regulation which allow for a more risk-based prudential treatment for residential real estate, would significantly support access to credit and the objectives of the European Commission for real estate.

Prudential rules – preserving the transitional provisions for low-risk residential real estate exposures under CRR Art. 465(5)

The transitional measures in the Capital Requirements Regulation ([CRR3](#)), which transposes the latest set of Basel norms in the EU, allow to reduce the impact of the output floor. The output floor is a key measure that sets an additional requirement for banks which set their own risk parameters (Internal Ratings Based Approach) in the form of a minimum on the capital requirements. The output floor therefore constrains the prudential margin of manoeuvre of financial institutions on very safe assets such as residential real estate. It increases the prudential costs to a level that no longer reflects the reality of the risk profiles and limits the available capital for loans, thus putting an additional strain on lending.

As highlighted in the 2022 Copenhagen Economics study¹, without the transitional measures, there would be a 18% increase in capital requirements for mortgage portfolios. It estimates

¹ Copenhagen Economics for the European Mortgage Federation, May 2022.

an impact per lender of the output floor amounting to €30 billion increase. This increase in capital charges may create further pressure on Member States with a protective, fixed-rated model such as in France. This projected increase is confirmed by the latest public (Pillar 3) data released by banks in the second quarter of 2025. Over a representative sample of 10 impacted banks², the average individual impact is €36 billion RWA. This equals to €2.88 billion individual capital impact, itself equivalent to €20 billion of lending capacity on average per individual bank. Over the whole sample this equals to more than €200 billion of financing capacity, i.e. two thirds of the yearly cost of energy renovation across the EU, estimated at €300 billion.

Yet, this increase is hardly justified since real estate loans have shown a very stable and safe risk profile with historically low default rates that have allowed so far to hold very efficient and risk-differentiated capital charges, with the supervisor's control and consent. Should that not be sufficient, the CRR framework already allows competent authorities to increase requirements through ad-hoc macroprudential tools.

Transitional measures, under Art. 465(5) in CRR3, allow to temporarily apply more risk-sensitive risk weights to some types of loans that are low risk in the EU including residential real estate, recognising the safe and secured profile of such loans in the EU. The benefits of the transitional arrangements are conditional on “hard tests” where loss rates for the exposures must not exceed 0.25% on average for the past eight years.

Beyond this necessary measure, which is enshrined in the CRR3 and precisely circumscribed in risk terms, the Commission could, more fundamentally and in the current broader perspective of European competitiveness, reflect on the appropriateness of the particularly high standardised risk weights applied in Europe, based on the actual risk profile.

We therefore call on the European Commission to maintain this transitional treatment by making it permanent and not based on national discretion, beyond its end dates of 2029 and 2032, and putting forward an extension to the banks which use the standardised approach, while ensuring compliance with the low-risk criteria in Art. 465(8).

Besides, it could be explicitly outlined in the CRR that the so-called hard test for residential real estate is **continued by the NCAs without any supervisory discretion if the criteria for its application are met.** The hard test enables the application of lower risk weights for residential real estate exposures if the residential property market in a Member State does not exceed certain limits of overall losses stemming from lending collateralised by residential property. This measure has a positive influence on affordable housing as it leads to more favourable financing costs.

² BNP, GCA, SG, Rabobank, Unicredit, ING, BPCE, Deutsche Bank, Commerzbank, Nordea.

The European Commission should take advantage of the opportunity of the 2026 report on banking competitiveness to meaningfully assess this possibility. These measures would contribute significantly to freeing up capital for lending, thus supporting the vital mission of financing the housing sector beyond the scheduled expiry of the current provisions.

Towards a sustainable framework for housing and finance

Finally, we strongly encourage the European Commission to uphold a balanced and forward-looking approach to housing and financial regulation. The consequences of these regulatory constraints are far from abstract; they directly affect consumers, making it increasingly difficult for families and first-time buyers to access affordable housing. **Ensuring continuity of CRR3 transitional measures for real estate financing is crucial to maintain stability, support market confidence, and advance the EU's strategic housing goals.**

Beyond this matter, we encourage the European Commission to adopt a more proportionate and risk-based approach to financial regulation where it impacts residential real estate and access to property, while ensuring financial stability.

Supporting associations in alphabetic order:

[Build Europe](#) is the organisation representing residential developers and homebuilders in the European Union. Build Europe considers access to decent and affordable housing solutions that meet the needs and expectations of European citizens to be one of the main challenges that European governments and institutions must address as a priority.

European Commission's Transparency Register No. 80003592094-64

The [European Association for Investors in Non-Listed Real Estate Vehicles](#) (INREV) provides guidance, research and information related to the development and harmonisation of professional standards, reporting guidelines and corporate governance within the non-listed property funds industry across Europe. INREV currently has around 500 members. Our member base includes institutional investors from around the globe including pension funds, insurance companies and sovereign wealth funds that provide critical income security for more than 172 million people, as well as investment banks, investment managers, fund-of-funds managers and advisors representing all facets of investing in non-listed real estate vehicles in Europe. Our investment manager members manage more than 500 non-listed real estate investment funds, as well as joint ventures, club deals and separate accounts for institutional investors.

European Commission's Transparency Register No. 47748145557-46

The [European Association of Co-operative Banks](#) (EACB) is the voice of the cooperative banks in Europe. It represents, promotes and defends the common interests of its 29 member institutions and of cooperative banks in general. Cooperative banks form decentralised networks which are subject to banking as well as cooperative legislation. Democracy, transparency and proximity are the three key characteristics of the cooperative banks' business model. With 2,400 locally operating banks and 36,500 outlets cooperative banks are widely represented throughout the enlarged European Union, playing a major role in the financial and economic system. They have a long tradition in serving 228 million customers, mainly consumers, retailers and communities. The cooperative banks in Europe represent 91 million members and 737,000 employees and have a total average market share of about 20%.

European Commission's Transparency Register No. 4172526951-19

The [European Association of Real Estate Professions](#) (CEPI) supports the European real estate market and cross-border transactions by enhancing and strengthening the work and activities of real estate professionals. We represent 33 national professional organisations of estate agents and property managers based in 26 European countries. The association aims to raise standards in the real estate professions, promoting that real estate brokerage and property management be conducted by qualified professionals with high ethical standards.

European Commission's Transparency Register No. 1094652600-90

The [European Banking Federation](#) (EBF) is the voice of the European banking sector, comprising 33 national banking associations in Europe that together represent some 3,500 banks – large and small, wholesale and retail, local and international – employing about 2,7 million people. EBF's associate membership includes the national banking associations of 10 additional countries that cover the whole of Europe and beyond. The EBF is committed to a thriving European economy that is underpinned by a stable, secure, innovative and inclusive financial ecosystem, where financing is available to fund the future of citizens, businesses and innovators everywhere.

European Commission's Transparency Register No. 4722660838-23

The [European Federation of Building Societies](#) is an association of credit and other institutions supporting housing finance. EFBS promotes the idea of home ownership, represents the interests of its members in the European Union, ensures that its members are kept informed about progress in European unification and about the measures taken to this end by bodies of the European Union. Furthermore, the Federation supports and intensifies

mutual information and exchange of experiences among its members in the fields of housing finance and housing policy.

European Commission's Transparency Register No. 33192023937-30

Established in 1967, the [European Mortgage Federation](#) (EMF) is the voice of the European mortgage industry, representing the interests of mortgage lenders at European level. The EMF provides data and information on European mortgage markets, which were worth around 9 trillion EUR at the end of 2024 (EU27 + UK, Norway and Iceland). In 2004 the EMF founded the European Covered Bond Council ([ECBC](#)), a platform bringing together covered bond issuers, analysts, investment bankers, rating agencies and a wide range of interested stakeholders. ECBC members represent over 95% of covered bonds outstanding, which were worth over 3.3 trillion EUR at the end of 2023.

European Commission's Transparency Register No. 24967486965-09

The [European Savings and Retail Banking Group](#) (ESBG) represents the locally focused European banking sector, helping 32 savings and retail banks in 27 European countries strengthen their unique approach that focuses on providing service to local communities and boosting SMEs. Advocating for a proportionate approach to banking rules, ESBG unites at EU level some 859 banks, which together employ 620,000 people driven to innovate at 37,000 branches. ESBG members have total assets of € 6,35 trillion, provide € 3,72 trillion in loans to customers, and serve 163 million Europeans seeking retail banking services. ESBG members commit to further unleash the promise of sustainable and responsible 21st century banking.

The [International Union of Property Owners](#) (UIPI), the largest pan-European non-profit association of both homeowners and private landlords. UIPI comprises 27 organisations from 24 countries, which, jointly, represent more than 5 million private property owners and around 25 million dwellings all over Europe. The interests of the sector we represent correspond to the concerns and needs of a substantial part of the European population. As shown by Eurostat, almost 70% of EU citizens are owner-occupiers, whereas almost another 20% of the population is housed in the private rented sector.

European Commission's Transparency Register No. 57946843667-42
