

POSITION PAPER

17 April 2026

TARGETED CONSULTATION ON THE
COMPETITIVENESS OF THE EU BANKING SECTOR

ZIA German Property Federation

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A. Executive Summary

ZIA – German Property Federation welcomes the European Commission's initiative to strengthen the competitiveness of the European banking sector. From the perspective of the German and European real estate industry, a competitive, resilient and proportionate banking framework is indispensable to maintaining investment capacity in residential and commercial real estate.

Real estate finance represents one of the most direct channels through which banking regulation affects economic growth, housing supply and infrastructure development. The availability of long-term bank lending is essential for delivering affordable housing, modernising existing building stock, supporting commercial activity and enabling the decarbonisation of the built environment in line with the EU's climate objectives.

European property markets face substantial investment requirements in the coming decades. These include large-scale residential development, energy-efficient refurbishment of existing buildings, and expansion of logistics and commercial infrastructure. These investment needs can only be met if banks remain capable of providing predictable, competitively priced financing under a proportionate regulatory framework.

While Basel III implementation through CRR III and CRD VI has strengthened financial stability, certain prudential calibrations risk unintentionally constraining lending capacity for residential and commercial real estate. The EU regulatory framework should therefore strike an appropriate balance between prudential resilience and economic competitiveness, ensuring that the banking sector can effectively support the real economy. In this context, avoiding regulatory gold-plating in the EU implementation of international standards is essential to maintaining a level playing field and preserving the global competitiveness of European banks, particularly in financing residential and commercial real estate investment.

B. Comments in detail

1. Competitiveness as a Secondary Objective for Supervisory Authorities

ZIA strongly supports the introduction of competitiveness as a formal secondary objective for European supervisory authorities, including the European Central Bank (ECB), the European Banking Authority (EBA), and the European Securities and Markets Authority (ESMA).

Supervisory frameworks play a decisive role in shaping the lending capacity of banks and the availability of financing for the real economy. While financial stability must remain the primary objective of supervision, the growing regulatory complexity and cumulative

prudential requirements risk reducing the global competitiveness of European banks compared to institutions operating in other major jurisdictions.

Europe's competitiveness has already weakened in global comparison. To prevent further erosion and restore a level playing field, regulatory calibration must prioritise risk sensitivity, proportionality and international consistency.

From a real estate perspective, this dynamic has direct consequences for residential and commercial property financing. Reduced competitiveness of European banks may lead to higher financing costs, reduced lending capacity, and increased reliance on non-European financial institutions—particularly in large-scale commercial and development projects.

Introducing competitiveness as a secondary supervisory objective would help ensure that regulatory and supervisory actions are systematically assessed not only for their prudential impact but also for their implications for economic growth, investment capacity, and international competitiveness.

Such an approach would align supervisory practice with broader EU economic priorities, including housing affordability, infrastructure development, and the transition to climate-neutral buildings.

2. Avoiding Regulatory Gold-Plating in EU Implementation

ZIA emphasises the importance of avoiding regulatory “gold-plating” in the European implementation of international banking standards. While Basel III provides a globally agreed prudential framework, divergences in implementation between major jurisdictions risk undermining the global competitiveness of European banks.

In recent years, the European Union has in certain areas implemented prudential standards more extensively than other major jurisdictions, including the United States. Such divergences may result in comparatively higher capital requirements for European institutions, increasing financing costs and reducing lending capacity relative to international competitors.

From the perspective of residential and commercial real estate finance, the cumulative effects of gold-plating can directly influence the availability and pricing of long-term financing. Higher capital requirements resulting from non-harmonised implementation may constrain lending for housing construction, commercial development, and large-scale renovation programmes required to meet EU climate objectives.

Ensuring international consistency in regulatory implementation is therefore essential to maintaining a level playing field for European banks and preserving the financing capacity necessary to support economic growth, housing supply, and the decarbonisation of the built environment.

3. The Role of Real Estate Finance in European Competitiveness

Residential and commercial real estate markets are central to the competitiveness of the European economy. Adequate housing availability supports labour mobility, social cohesion, and demographic resilience. At the same time, commercial real estate—including offices, logistics facilities, retail centres, and industrial assets—enables business activity, innovation, and supply chain stability.

Bank lending remains the primary financing source for real estate investment across the EU. Mortgage lending facilitates access to homeownership and housing supply, while development financing enables construction of new residential and commercial assets essential for economic growth.

The European real estate sector is currently facing several structural investment drivers, including:

- Increasing demand for affordable housing across Member States;
- Large-scale energy-efficient renovation to comply with the EU's climate and energy efficiency targets, including the Energy Performance of Buildings Directive (EPBD);
- Redevelopment of urban areas and brownfield sites;
- Expansion of logistics and industrial real estate to strengthen European supply chains;
- Development of modern commercial buildings supporting digitalisation and evolving work patterns.

Insufficient access to real estate financing would directly affect Europe's competitiveness by delaying construction activity, increasing costs, and reducing the availability of residential and commercial infrastructure.

4. Prudential Regulation and Residential Mortgage Lending

Residential mortgage lending remains fundamental to housing affordability and financial inclusion. Regulatory risk weights applied to residential mortgage exposures should remain risk-sensitive and proportionate to the historically strong performance of European mortgage portfolios. European mortgage exposures have shown strong performance, with NPL ratios around ~1.5–2.0% in recent years at EU level and below 1% in several core markets. Even in commercial real estate, long-term loss rates for senior, well-collateralised lending have remained modest in normal times, reflecting conservative underwriting and robust collateral frameworks.

ZIA emphasises the importance of maintaining transitional arrangements for mortgage exposures introduced under Basel III implementation. Abrupt increases in capital

requirements could significantly increase mortgage costs and restrict credit availability, particularly affecting first-time buyers and middle-income households.

From a competitiveness perspective, stable mortgage financing conditions are directly linked to the availability of housing and the stability of property markets. Regulatory uncertainty may lead to reduced lending capacity and increased financing costs across Member States.

5. Output Floor Calibration and Residential Portfolios

The introduction of the output floor represents a significant structural change for banks using internal models. Careful calibration is essential to avoid disproportionate increases in capital requirements for low-risk residential mortgage portfolios.

ZIA supports maintaining preferential risk treatment for low-risk residential markets where supported by robust historical performance data. Long-term regulatory predictability is necessary to support sustainable investment in housing supply.

In addition, the interaction between the output floor and evolving ESG-related prudential expectations requires careful consideration. ESG-related risks affecting real estate exposures—such as physical climate risks or transition risks linked to energy efficiency requirements—are already reflected in established risk categories, including credit risk, collateral valuation and market risk assessments.

However, as ESG considerations increasingly influence property valuations, collateral eligibility and risk parameters under the Standardised Approach, this may lead to higher calculated risk-weighted assets. Since the output floor is directly linked to the outcomes of the Standardised Approach, any ESG-driven adjustments may indirectly increase capital requirements for banks using internal models, even where underlying credit risk remains stable or is reduced through energy-efficiency improvements.

This interaction is particularly relevant for residential and commercial real estate financing, including large-scale renovation programmes and investments required to meet EU climate objectives under the Energy Performance of Buildings Directive (EPBD). Overly conservative calibration may unintentionally reduce financing capacity for energy-efficient refurbishment and the construction of high-performance buildings, thereby slowing progress towards the decarbonisation of the European building stock.

6. Commercial Real Estate and ADC Financing

Commercial real estate (CRE) financing—including Acquisition, Development and Construction (ADC) financing—plays a critical role in delivering both residential and commercial infrastructure across Europe.

Development financing is essential for addressing housing shortages, supporting commercial activity, and enabling infrastructure expansion. However, current prudential

requirements applicable to specialised lending may result in elevated capital requirements that limit banks' willingness to provide development finance.

This risk is particularly relevant for:

- Residential development projects delivering new housing supply;
- Urban redevelopment initiatives supporting regeneration and densification;
- Logistics and industrial real estate enabling European manufacturing and distribution;
- Sustainable commercial buildings supporting energy efficiency and climate targets.

ZIA recommends that ADC financing frameworks be reviewed to ensure that capital requirements appropriately reflect project-specific risk characteristics, including collateral quality, pre-sales levels, and developer experience.

A proportionate treatment of development finance is essential to maintaining construction capacity across Member States and preventing supply shortages in both residential and commercial markets. Overly restrictive capital treatment for ADC exposures risks undermining the EU's decarbonisation goals. If banks must hold excessive capital against financing for deep energy renovations or the construction of high-efficiency buildings, the EU will struggle to meet EPBD targets and the Renovation Wave objectives.

7. Capital Requirements and Credit Conversion Factors (CCFs)

Capital requirements significantly influence banks' capacity to provide real estate financing. Proposed increases in Credit Conversion Factors (CCFs) for unused credit facilities may negatively affect development financing structures commonly used in construction projects.

Many real estate developments rely on committed but undrawn credit lines that are utilised in phases. Higher capital requirements on undrawn exposures may discourage banks from offering such facilities, thereby limiting project financing capacity.

This may result in delayed project delivery, reduced housing output, and constrained commercial development, ultimately affecting the competitiveness of European markets.

ZIA therefore recommends maintaining proportionate CCF calibration for undrawn credit facilities associated with real estate development. Higher CCFs on undrawn facilities that back energy-efficiency CapEx or deep renovation programmes disincentivise banks from providing flexible funding needed to deliver EPBD-aligned upgrades. We advocate calibrations that reflect actual drawdown behaviour and risk, or preferential CCFs for clearly defined renovation and high-efficiency investment lines, to avoid penalising transition-critical finance.

8. Definition of Default and Borrower Restructuring Flexibility

The revised definition of default introduced under European Banking Authority (EBA) guidelines includes strict Net Present Value (NPV) reduction thresholds that may limit restructuring flexibility.

In real estate finance, temporary financial stress may arise due to market cycles, regulatory changes, construction delays, or macroeconomic disruptions. Premature classification of borrowers as defaulted may lead to unnecessary refinancing challenges and value destruction.

A more flexible interpretation of restructuring thresholds would allow banks to support fundamentally viable real estate borrowers during temporary stress periods, contributing to financial stability and market resilience.

9. Banking Union and Cross-Border Real Estate Finance

The further strengthening of the European Banking Union remains essential to enhancing financial integration and competitiveness across the EU.

Improved cross-border lending capacity would facilitate financing of large-scale residential and commercial projects, strengthen capital allocation efficiency, and increase market liquidity across Member States.

At the same time, maintaining a diverse banking ecosystem remains essential. Regional and local banks play a crucial role in financing small- and medium-scale residential and commercial projects. Their continued participation supports balanced regional development and stable housing markets.

ZIA supports policies that enable efficient capital mobility across Member States while preserving strong local lending capabilities.

C. Summary of Policy Recommendations

From the perspective of the European real estate sector, and in support of the objectives of the Competitiveness of the EU Banking Sector initiative, ZIA recommends the following actions:

1. Introduce Competitiveness as a Secondary Supervisory Objective

Establish competitiveness of the European economy, including the banking sector, as a formal secondary objective for European supervisory authorities. This would support

balanced regulatory decision-making and strengthen the long-term financing capacity of banks serving residential and commercial real estate markets.

2. Avoid Regulatory Gold-Plating

Ensure that EU implementation of international prudential standards remains closely aligned with global frameworks and avoids unnecessary gold-plating that could undermine the competitiveness of European banks and restrict financing capacity for residential and commercial real estate.

3. Maintain Transitional Mortgage Treatments

Preserve transitional arrangements for residential mortgage portfolios to support housing affordability and market stability.

4. Ensure Proportionate Output Floor Calibration

Avoid disproportionate capital increases for low-risk residential and commercial real estate exposures.

5. Review ADC and Commercial Real Estate Frameworks

Adjust prudential treatment of development and construction financing to maintain adequate credit supply for housing and commercial infrastructure.

6. Preserve Preferential Treatment for Low-Risk Residential Markets

Maintain regulatory certainty supporting long-term housing finance.

7. Avoid Excessive Increases in Credit Conversion Factors

Ensure workable capital treatment for undrawn development facilities.

8. Introduce Flexibility in Default Definitions

Enable restructuring of viable real estate exposures without unnecessary default classification.

9. Further Strengthening of the Banking Union

Support cross-border lending and efficient capital allocation across EU markets.

D. Conclusion

The competitiveness of the EU banking sector is closely linked to its ability to finance residential and commercial real estate effectively. From housing affordability to infrastructure delivery and climate transition, the real estate sector remains a key driver of economic growth and social stability across Europe.

ZIA – German Property Federation strongly supports the European Commission’s objective to enhance the competitiveness of European banking institutions. At the same time, regulatory calibration must remain proportionate, risk-sensitive, and aligned with the long-term investment needs of the real economy.

A balanced regulatory framework will ensure that European banks remain capable of financing housing supply, commercial infrastructure, and sustainable buildings—thereby supporting the competitiveness, resilience, and prosperity of the European Union.

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The German Property Federation (ZIA) is the leading umbrella association for the property sector. With its registered office in Berlin and a European office in Brussels, it speaks through its about 400 members, including 30 associations, on behalf of approximately 37,000 industry companies right across the value chain. ZIA provides comprehensive, unified representation for the interests of the real estate sector in all its diversity at both national and European level, including as a member of the Federation of German Industries (BDI) and the German Economic Institute (IW). The President of the association is Iris Schöberl.

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