Housing policy concepts in Germany

Only minor overlaps between the plans of left-wing and right-wing parties

The current election platforms are largely similar to those of 2017. The FDP, the AfD, and the CDU/CSU continue to support supply-oriented housing policies, the Left, the Greens, and the SPD prefer demand-oriented approaches.

The CDU and the FDP promise to reduce price and rent pressure by providing additional supply and to offer incentives for renovation and retrofitting.

The AfD’s main goal is to increase the number of homeowners. However, with new supply being limited, much of the potential additional demand will focus on existing properties and thus increase rent and price pressures.

People who are living in rented homes and do not want to move will probably find the plans of the SPD, the Left or the Greens attractive. All three parties want to put a cap on rent increases. The Greens’ proposals might even imply a decline in rents – something the Left are calling for anyway. The programmes of the Greens and the Left in particular are highly detrimental to investment, which means that any maintenance investments will be small – or even nonexistent.

Private households might see the ancillary costs of buying a home decline after the elections. This time round, not only the AfD, the FDP, and the CDU/CSU, but the Greens, too, are proposing to cut property transfer taxes.

The biggest surprise is perhaps that the FDP, too, are now against share deals used by large-scale investors to reduce property transfer taxes.

Overall, the election programmes provide the usual bunch of broad, vague and sometimes incompatible demands in the area of housing policy. None of the parties has prepared a comprehensive concept. And none of them has paid attention to what their demands may mean in terms of necessary labour, funds, space, etc.
CDU/CSU and FDP want to boost construction, AfD aims to increase number of homeowners

The CDU/CSU simply stick to their goal of 2017 and promise to build 1.5 million new residential units by 2025. This goal has clearly not been reached during the current legislative period. Despite healthy construction activity in 2020, it will remain ambitious, not least because any supply-oriented stimulus will be small even if the new federal chancellor is a CDU/CSU politician. Digitisation, climate change, economic competitiveness and the ageing of society will probably be more important issues for the conservatives than a supply-oriented housing policy. And this is just as true, or even more true, for any potential coalition partners. That is why we estimate that only about 1.35 million new residential units will be completed during the coming legislative period. The other parties have not given out explicit goals for new construction in the market as a whole.

The SPD intend to build 100,000 new social housing units per year. Since capacity utilisation in the construction sector is quite high at the moment, the realisation of this goal will squeeze out new construction on the free market and thus increase the difficulties of medium-income earners to find a new home, be it as tenants or new homeowners. The Greens plan to provide “one million additional rental properties” and propose a “100,000 Lofts and Homes” programme for the inner cities. The Left want to create at least 250,000 additional residential units which are to be “affordable in the long run”. However, what the Greens and the Left probably both mean is that the government will simply provide the residential units – i.e. buy them on the market and let them, not build them from scratch. This appears particularly likely in view of the fact that both parties support generous tenant protection in their electoral programmes, but do not really address issues such as construction costs, construction permit procedures or investments.

The CDU/CSU, the FDP, and the AfD propose new write-down rules to encourage investment. The CDU/CSU want to extend the special 5% p.a. write-down on procurement and building expenses for rental property construction, which was introduced in 2019 and will run out by the end of 2021. The FDP hope to make investment in residential construction more attractive in general by raising the linear write-down rate from 2% to 3%. Both proposals should boost construction activity further. The CDU/CSU concept in particular is attractive for many investors who might create new residential space and thus dampen price and rent pressure.

Other supply-oriented measures: Reduce construction costs and cut red tape

The FDP and the AfD are the only parties which address construction costs. The AfD plans to reduce fire, heat and noise protection standards to a minimum in order to decrease construction costs. The FDP, too, plans to lower standards from their current level to that of the EU regulation on these issues. Moreover, it wants to implement the recommendations of the Commission to Reduce Construction Costs (“Baukostensenkungskommission”) and review any rules that increase construction costs. The Commission’s report of July 2019 contains numerous proposals on construction costs and other issues. It is therefore difficult to gauge

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1 The section “Redesigning city centres” of the Greens’ election programme does not mention “rental properties”, but states: “One million new social housing apartments should be built in our cities in the next few years.”
the impact on new construction and the housing market as a whole.

The CDU/CSU, and the FDP also make interesting suggestions about the permit procedure. Both parties want to introduce the “assumption of approval”. This means that a construction permit is to be regarded as granted if the authorities do not respond to the application within a fixed period; the CDU/CSU propose two months. This might indeed make things easier for builders and the construction sector as a whole. Expenses might decline as well, as planning security increases. However, the proposal leads to obvious legal problems, too. For example, there may be some inconsistency, as the assumption of approval may allow an applicant to start building, even as their neighbours’ earlier applications were rejected. In the case of particularly controversial projects applicants may simply wait for the summer holidays or for a time when many public servants are sick to file their applications. Or applicants may implicitly or explicitly collude and file their applications at the same time in order to overstretch the building authority’s capacities and thus push through the assumption of approval. Policymakers will have to pay close attention to detail to make the assumption of approval a success; otherwise, cutting red tape may increase instead of reducing the number of legal controversies.

The AfD do not want to introduce an assumption of approval, but call for lowering construction standards and rules and cutting red tape. Moreover, they intend to work towards more streamlined and uniform construction rules across Germany. Even if the party formed part of a coalition, this effort would require agreement from all federal states, since construction law falls into the domain of the states under the German constitution.

All parties want to improve citizens’ mobility by providing them with better access to public transport. However, only the CDU/CSU address the issue within the scope of their housing construction policy plans. This is particularly surprising because the pandemic has revived the discussion about whether life is more attractive in rural areas or in cities in an era when working from home and hybrid working models gain ground. Good access to public transport is of major importance in this context – and not just for commuters, but for everybody who wants to attend cultural or sports events. The CDU/CSU intend to create more affordable housing and to support the suburbs of large cities and metropolitan regions by improving the public transport situation. This makes sense and is one of the few housing-policy measures which may help to eliminate housing bottlenecks quickly by redirecting demand. More details about the plans would be helpful for a reliable assessment of the impact on the housing market.

Increase the number of building plots or introduce a state land policy

All parties have opinions on property policy. The CDU/CSU, the AfD, and the FDP want to increase the number of construction plots. In contrast, the SPD, the Greens, and the Left are calling for a stronger position of the government. They want to introduce a strategic land policy, which foresees that the government no longer sells state properties to the highest bidder, but buys new land to build new residential units and meet ESG targets. The Left are the only party to set an investment volume, which is to reach about EUR 2 bn per year for the federal government, the state governments and the local governments combined. This amount is equivalent to just above 2% of total government construction
investment. If the government buys plots for which it has the right of first refusal, this strategy may help to reduce price pressures – at least if it puts the plots back on the market for building purposes or as leaseholds. If, however, the government becomes an active player on the market, it will increase demand and, in turn, prices. This will run counter to its original goal, at least at the beginning.

Moreover, there is the question of whether the government is a good manager of the assets. A non-profit fund would quickly generate deficits and increase public-sector debt. If policymakers seriously consider setting up a state property fund, they should take a look at successful sovereign wealth funds. While such funds often pay considerable attention to ESG targets, they are also expected to generate high returns. A proposal made by the SPD and the AfD might be helpful in this respect. Both parties want to increase the number of leaseholds. The SPD aim to make leaseholds the only instrument under which public land is to be provided for residential construction, and the AfD want to make it easier for families to buy their own homes. Leasehold rights may increase public-sector wealth and generate regular income from leasehold rents. The AfD also propose giving preference to housing associations in the plot awarding procedure. As construction expenses are usually lower for housing associations than for private-sector builders, this proposal may make housing more affordable, particularly for lower-income households. In principle, other parties may support these ideas. Generally speaking, leasehold rights may be one of the housing-policy instruments which provide an ideal combination of state support and market economy aspects. Any future government may be well advised to pay more attention to leasehold law.

Subsidy plans of the CDU/CSU and the AfD

The AfD support a special tax write-down on owner-occupied homes. It is unclear whether this write-down is to be applied to purchase prices or construction costs. In addition, the write-down rate has not been specified yet. This measure will probably increase demand for existing properties much more strongly than it will boost new construction. It might therefore lead to more price and rent pressure. The same applies to subsidies to loan repayments and to cheap interest rates for KfW loans to support families – both suggestions by the AfD and the CDU/CSU. Again, neither of the parties has provided more details. The CDU/CSU have at least given up the idea to grant subsidies to families. This measure has cost the government about EUR 7 bn during the current legislative period. While many families have applied for the subsidy, the lion’s share of the money was probably used to pay higher purchase prices. Thus, house prices and rents increased at the expense of all citizens.

The AfD want to introduce a state guarantee for 10% of a property’s value to make it easier to buy housing space. This additional guarantee may reduce interest expenses somewhat and thus enable some households to buy their homes at better prices. However, this measure, too, will boost demand for existing properties and push up prices and rents. Moreover, it is likely that the government will be the first guarantor in case of insolvency. This implies that risks taken by individual households are socialised to some extent. A state guarantee may therefore create incentives for riskier financing constructions, from which only a very small number of risk-hungry households will benefit. Overall, the proposal does not seem very well thought-out, not least because the AfD usually refuses to socialise risks.
Ancillary costs of buying a home: Property transfer tax may decline

As in 2017, the FDP, the CDU/CSU, and the AfD are calling for lowering property transfer taxes. The FDP again propose to make up to EUR 500,000 tax-exempt for natural persons. The tax exemption will apply again if the property is resold. This may be attractive for voters who move often. In contrast, the CDU/CSU suggest a tax-exempt amount of EUR 250,000 per adult and EUR 100,000 per child, with the tax exemption only applying for the first purchase of a home. The AfD want to abolish property transfer taxes (and, by the way, property taxes) completely for owner-occupied homes. What is new is that the Greens are calling for changes to the property transfer tax regime, too. They are planning to enable the federal states to reduce property transfer taxes for owner-occupiers and raise them for large housing corporations. As a result, relief for households has become much more probable for the next legislative period.

Overall, lower property transfer taxes are a good idea. At the same time, however, buyers will be willing to accept price increases up to the value of the tax relief. The supply bottlenecks imply that at least part of the tax relief will line the coffers of the sellers.

The Greens also want to reduce brokers’ commissions, although they have not yet provided any details on the plans. They want to apply the (quite justifiable) principle that the party who commissions the broker has to pay the broker fees to property transactions, too. However, the final price level will remain unchanged if the broker commission is simply added on top of the sales price. It remains a mystery to us why none of the parties has proposed to reduce notary fees and land registry costs, which have doubled during the cycle even though the work and the involved efforts have remained the same. The Greens also want to abolish the landlords’ option to pass on property taxes to tenants. This brings us to the issue of tenant protection and possible further return losses for investors.

Tenant protection – or, more precisely, anti-investment policy

The SPD, the Left, and the Greens seem to think that the concept which has clearly lengthened the real-estate cycle and increased pressure on rents is also the best approach for the future: more tenant protection. The Greens want to introduce rent caps for existing properties, extend the “rent brake” indefinitely and tighten the rent brake restrictions. In addition, regular rent increases are to be limited to 2.5% per year within the rent index. The base period for the rent index is to be extended to 20 years – a change which may lead to rent declines in many regions. The SPD’s proposals are similar; the party already lengthened the base period from 4 to 6 years during the current legislative period and now proposes another extension to 8 years. The party aims to introduce an indefinite rent brake, too. Moreover, the SPD call for provisions to ensure that rents (probably for existing properties) can be raised only in line with the rate of inflation for some time. Experience with “time-limited” measures tells us that rent growth would be limited again and again over the coming decades; just think of the “time-limited” rent brake and the solidarity surcharge.

As expected, the Left are calling for the nationwide introduction of a rent cap, similar to the unconstitutional measures implemented in Berlin, and for cutting particularly high rents (a measure they hoped to introduce in Berlin). A red-green-
The red coalition might be able to agree quickly on this issue. In that case, any rent increases would be very small, and rents might even decline in some cases. As the example of Berlin has shown, investment activity and new construction would slide. At the same time, current tenants would benefit, provided that they do not intend to move and are not particularly interested in maintenance investments. Tenants who are looking for a new home are to be promised a constitutional right to housing (at least according to the plans of the Left and the Greens), but this right will do nothing to alleviate the housing bottlenecks, which may even intensify in many regions.

The Greens and the Left are proposing even more hurdles to investments

The Greens’ and the Left’s other proposals are highly detrimental to investment as well. The Greens want to reduce the modernisation surcharge from currently EUR 2 to EUR 1.50 per sqm and to extend the conversion ban set out in the Building Code. Terminations of tenancy agreements for the owners’ own needs are to be restricted or even prohibited completely. The Greens also want to take measures against the incorrect use of buildings and speculative vacancies. In addition, they call for “genuine co-determination rights and tools” in order to “promote an orientation to the common good on the housing market”. The Left’s demands go in the same direction and sometimes even further. Both parties seem to have entered a competition for strengthening tenants’ rights.

Reading the parties’ programmes makes one wonder just who may be willing to invest hundreds of hours into planning a multi-family home, deal with building authorities, architects, workers, energy advisers and complex building laws, go through legal controversies, pay off loans worth millions of euros over the years and take on economic risks if they run the risk of being ultimately disowned. Both parties’ approach to the market for rental properties seems to be shaped by the situation in the metropolises, where the number of “black sheep” among landlords is probably excessive. Still, the same applies probably to tenants.

We would like to point out that legal conflicts about tenancy contracts are rare in Germany. In fact, the number of tenancy suits has declined steadily in the recent years. Assuming that the total number of rental units in Germany comes to about 20 million, only 0.9% of all tenancy contracts were the subject of legal conflicts in 2020, down from about 1.4% in 2010. Many landlords let only a small number of apartments. They know their tenants personally and are often interested in the tenants’ welfare apart from the business side of the relationship.

In view of these potential hurdles to investment, another demand by the Greens raises questions as well: an obligation to build on vacant plots. People who want to build new homes have to overcome numerous hurdles, and now those who do not are to be obliged to build as well.

Another demand: Sift off “unproductive gains”

The Greens, the Left, and the SPD also want to tax “unproductive gains” by claiming part of the capital gains from rising property prices and abolishing the current rule that sales returns are tax-exempt if ten years elapse between the purchase and the sale of a property. It is true that low interest rates, high immigration figures and the inelastic supply have many property owners enabled to increase their wealth.
without taking on additional risk since 2009. In many cases, however, the wealth gains are only on the books; no money has actually flown into owners’ pockets. The intended measures may therefore have undesirable side effects: owners may have to sell their plots or take out loans to pay off the tax debt, and if it comes to operative capital, companies may become less competitive.

Several other aspects have to be taken into account as well. First, home and property prices in Germany were relatively low at the beginning of the cycle, both in an international and in a historic comparison. They simply caught up to the average during the first few years of the cycle. Second, people usually use their savings to buy properties. Since these savings are built from income which has already been taxed, the introduction of a new levy would regularly lead to double taxation. Third, the ten-year rule rewards long-term investors, i.e. those landlords who are interested in long-term, smooth tenancy agreements and a good relationship with their tenants. Fourth, an abolition of the ten-year rule would render investments in new residential buildings less attractive, reduce affordable housing and put additional upward pressure on prices and rents. From the vantage point of the demand-oriented parties, it might make more sense to extend the holding period than to abolish it, as doing so will make it easier to distinguish between short-term and long-term investors. By the way, it was the red-green coalition which lengthened the period from six months to ten years back in 1999.

**Make ownership structures more transparent**

The SPD, the Left, and the Greens have another demand in common. They want to introduce a central property register to make ownership structures more transparent. In addition, the Greens want to extend the circle of those who may access land registers. Generally speaking, it is good if contractors know one another personally. However, the Greens want to make the registers accessible to journalists and NGOs, too. In Germany, everybody can call a journalist, and an NGO is an interest group under civil law. The SPD and the Left also use terms such as “make transparent” or “end the lack of transparency”, which imply that access is to be granted to a large circle of users. Ultimately, sensitive property data might be open to almost anyone who wants to take a look at them.

The Greens also hope to render money laundering more difficult by increasing transparency. As the number of suspicious transactions is surprisingly low in the property sector, this demand is understandable and in principle justified. The past two government coalitions have already tightened the rules in recent years. In 2017, a transparency register was introduced, and the rules have been steadily tightened. For example, notaries and economic and tax advisors have been obliged to notify the authorities of suspicious transactions since October 2020; before that month, they were obliged to keep client confidentiality. The transparency demanded by the Greens would probably extend to very small ownership shares. This would lead to heaps of administrative work if ownership structures are complex and change often. Instead of creating full transparency, it might make sense for the Greens to call for a lower limit up to which shares have to be included. This would make it possible to include natural persons in the transparency register even if their ownership shares amount to less than 25%.
Housing policy in Vienna – an example of best practice?

Vienna always ranks top in international studies on the quality of life in large cities. The election programme of the Left mentions Vienna as an example for a city which provides affordable, high-quality housing in a good state of repair for the majority of its inhabitants. Vienna’s housing policies may therefore be a topic in some electoral discussions. In this section, we will reproduce key insights of the study “Wohnungsmarkt Wien – Eine wohnungspolitische Analyse aus deutscher Sicht” by Harald Simons and Constantin Tielkes, Empirica, January 2020.

Figure 4: The Viennese housing market, seen from a German vantage point

The Viennese market can be divided into four segments: community housing, subsidised rental housing, regulated private-sector rental housing and unregulated private-sector rental housing. Unregulated private-sector rental housing is the smallest market segment, with a share of just below 20%. All market segments are highly regulated by detailed legal frameworks. In our context, community housing, which covers more than 200,000 apartments, is of particular interest. The properties are managed by “Wiener Wohnen”, one of the biggest municipal housing associations in Europe.

Just like German cities, Vienna has seen its population rise due to domestic and foreign immigration. During the past 30 years, the number of inhabitants has increased from about 1.5 million to 1.9 million. New construction has picked up, and about 10,000 residential units have been completed each year. However, 15,000 new flats would have been necessary to meet additional demand. Interestingly, “Wiener Wohnen” has not built any new apartments between 2004 and 2018. According to official sources, community housing flats are not well furnished at all. About one-third do not have central heating, and about one-sixth do not even have a bathroom. This might be one reason why the vacancy rate is quite high, at 6.8%. Quite fittingly, net rents average only EUR 3.90/sqm for the market as a whole. At first sight, this appears cheap compared to rents in large German cities. However, like-for-like rents in Vienna are only slightly lower than in German cities. Rents for non-regulated private-sector apartments (existing properties) average just below EUR 8/sqm for the market as a whole. At first sight, this appears cheap compared to rents in large German cities. However, like-for-like rents in Vienna are only slightly lower than in German cities. Rents for non-regulated private-sector apartments (existing properties) average EUR 11/sqm in Vienna, i.e. roughly the same as in most German metropolises.

Simons and Tielkes point out that it is difficult to compare rents directly to the level registered in large German cities. Rents for newly let apartments average just below EUR 8/sqm for the market as a whole. At first sight, this appears cheap compared to rents in large German cities. However, like-for-like rents in Vienna are only slightly lower than in German cities. Rents for non-regulated private-sector apartments (existing properties) average EUR 11/sqm in Vienna, i.e. roughly the same as in most German metropolises.

The Viennese population was just as large as today. Apart from Berlin, this is a major difference to German metropolises (A cities), which have seen their populations roughly double over the past 100 years. This may be one reason why Vienna has been able to absorb the increase in the number of inhabitants over the last few years and why rent pressure has remained low. If, however, the Viennese population continues to rise strongly over the coming years, the city may see bottlenecks and rents may rise more strongly than before.

As this short analysis shows, “Wiener Wohnen” is not in every respect an example of best practice. Nevertheless, Viennese housing policies as a whole may well serve as an inspiration for German housing policy. Still, a comprehensive analysis is necessary to identify suitable ideas; emphasising only selected aspects is not enough. We would like to point to two additional factors that can help to put the observations in a wider context.

First, new construction was subdued across all market segments (see above). This may be due to the fact that Vienna was already a large city with a relatively high number of apartments at the beginning of the 19th century. 100 years ago, the Viennese population was just as large as today. Apart from Berlin, this is a major difference to German metropolises (A cities), which have seen their populations roughly double over the past 100 years. This may be one reason why Vienna has been able to absorb the increase in the number of inhabitants over the last few years and why rent pressure has remained low. If, however, the Viennese population continues to rise strongly over the coming years, the city may see bottlenecks and rents may rise more strongly than before.

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The authors point out some additional details. The lifetime of tenancy agreements for non-regulated private-sector apartments in Vienna is increasingly limited to three years. Moreover, tenants can hand on their apartments to family members in all market segments. This is an advantage for large families and a disadvantage for small families and, in particular, newly arriving inhabitants. In addition, community housing tenants may be obliged to pay for maintenance and repair works, but do not get sufficient returns for these investments.

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Second, the interplay between rents in the different market segments and apartment prices is probably complex and needs to be explained. According to Numbeo Doo, sqm prices outside the city centre have risen from about EUR 3,500 in 2016 to EUR 5,500 in 2021. This is an increase of almost 60%, i.e. comparable to developments in many German cities. In a global comparison, Vienna is one of the most expensive cities; it ranks 44th. In Germany, only Frankfurt (rank 39) and Munich (rank 4) are more expensive.

Figure 5: Top 75 Global: Apartment prices outside the city centre

Summary and final assessment

Price and rent pressures will not decrease until the number of vacancies grows in the coming years and gives tenants and buyers the opportunity to choose between different properties. It is therefore necessary to boost new construction and pursue a supply-oriented housing policy. As expected, the CDU/CSU and the FDP rely on supply-oriented policies which are targeted to some extent. The conservatives are probably slightly more aggressive. High write-down rates and the attempt to try and channel demand to cheaper markets are to be welcomed. The AfD also pursue a supply-oriented housing policy, even though we do not understand why they plan to increase the owner ratio and use state guarantees to subsidise home purchases as long as supply is insufficient. However, the proposal to make more use of leasehold contracts (something which the SPD suggest as well) might help to increase the housing supply quickly. The SPD, the Left, and the Greens want to extend tenant protection – a measure which would prolong the cycle. The Left and the Greens in particular are trying to outdo each other with socialist proposals that will hamper investment activity and home ownership. Moreover, many proposals appear incompatible with a liberal economic and political order.

All party programmes systematically ignore practical constraints. None of the parties seems to have thought through its demands and proposals and their consequences. For example, many proposals imply the creation of numerous new jobs in the building authorities or in the construction sector. None of the party programmes discusses expenses, funding issues or the availability of labour. It
Deutsche Bank AG seems that the relevant party committees have not paid much attention to these issues either. Just like four years ago, none of the parties is paying any attention to the fact that there is a shortage of qualified labour. Moreover, the next federal government will need to implement sweeping administrative reforms in the construction and housing sector – after all, numerous large projects have failed, and while the federal government has earmarked considerable money for investments by the states and local authorities over the last few years, much of the money has not been used due to capacity constraints. Comprehensive programmes to counteract the lack of affordable housing should be put into practice. However, the current survey results suggest that any such hopes are empty.

While the SPD aim to counteract the lack of qualified labour in skilled trade, the main goals of their proposals on this issue are to support climate policy and integrate young people from all over the world into German society.
Appendix 1

Important Disclosures

*Other information available upon request

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