

Housing Affordability in Europe

Background on housing in Germany

Information from desktop research

Context

Housing market

- Total housing stock: 41.3 million housing units, i.e. around 0.5 housing units per capita
- Owner occupied housing: 17.5 million units
- Rental housing: 23.8 million units
- Rental housing: 54.2 % (after Switzerland, the highest share of rental housing in Europe)

Housing trends

- In Germany, people live most commonly – and thus typically – in apartment buildings with less than 10 apartments. More than 40% of all households live in this type of building. One fourth of all German households live in an apartment building with ten or more apartments, and 35% live in a one-family house.
- More and more Berliners are living alone. Already today, 54 percent of all Berlin households are single-person households.
- Only 40 per cent of Germans own their homes, compared with 70 per cent of Britons. This stems largely from post-1945 reconstruction policies, when the authorities tackled housing shortages by encouraging developers to build for rent.
- Germany has an ownership rate of only 43% of the households, a uniquely low percentage relative to other European countries. In Germany, 53% of all households are rented; no other European country even comes close to having such a proportionately large rental sector.
- Why Germany favours renting
 - While the public sector is an active regulator, its role as a developer-owner is limited. Only about 15 per cent of homes are owned by public bodies or co-operatives, and the figure is falling. The bulk of rental housing – 60 per cent – is privately owned, much of it by individuals with a handful of properties. So the rental sector is not loaded with heavy administration costs.
 - Considerable hurdles to buying with deposits of 20 per cent and more. Most loans are on long-term fixed-rate terms, with penalties for early repayment.
- At 230 people a square kilometre, German population density is similar to the UK's 280, but much lower than England's 380, or southeast England's 450. Germany has five big centres – Berlin, Hamburg, Munich, Frankfurt and Cologne – with key companies and government institutions spread between them.

- Construction accounts for 4 percent of German gross domestic product (GDP) and, with 2.5 million people working in more than 300,000 companies, it is a major employer. "More and more Germans are putting their money into property," said Hans-Werner Sinn, head of the Ifo economic institute. Ifo's construction sector index rose in November to its highest level since German reunification in 1990.
 - German housing market and housing policy
http://www.hogareal.de/Pras_Kofner_German_housing_market_Osaka_2011.pdf
 - Affordable housing in Germany
http://www.igep.in/live/hrdpmp/hrdpmaster/igep/content/e48745/e49028/e61879/e61897/e61902/AffordableHousinginGermany_Samol.pdf
 - Refugee influx gives extra push <http://www.reuters.com/article/us-germany-economy-construction-idUSKBN0U60NI20151223>
 - Germany a nation of tenants <http://www.ft.com/intl/cms/s/0/14fe8e4c-1567-11e4-ae2e-00144feabdc0.html#axzz49LSWyIo8>
 - Housing in Germany
<http://www.gesis.org/fileadmin/upload/forschung/publikationen/zeitschriften/isi/isi41-NollWeick-English.pdf>
 - Why most Germans rent <http://qz.com/167887/germany-has-one-of-the-worlds-lowest-homeownership-rates/>

Affordable housing challenges

- Poverty - Around 9% of the total population receive social assistance, and are considered poor. Around 12-13% of households are threatened by poverty. See: Affordable housing in Germany
- Berlin is expecting at least 250,000 additional Berliners by 2030: this is equivalent to a city the size of Braunschweig over the next 15 years. See: A good and secure home
- Large regional disparities:
 - In Cologne, only 3% of housing is affordable for lower-income families
 - In Frankfurt, a lower-income family will have to pay around 52% of its income for an apartment in the lower price segment
 - In Iserlohn (a small secondary city) this will only be 17%
- Only 12% of rental housing is affordable for lower income families (< 60% of local median income)
- Too few new flats are being built in Germany's largest cities even as oversupply looms in rural areas
 - Just 66,000 new flats and houses were built in large cities with more than 100,000 inhabitants in 2014 out of a total of 245,000 new builds.
 - Major German cities are encouraging new construction work to alleviate shortages, but often they come in the form of private developments for rent. According to a survey carried out by the German news agency dpa, some 39,000 new apartments were built

- across Germany in 2014, with Munich building the most in proportion to its population - 7,000, or 4.7 per 1,000 inhabitants.
- Berlin meanwhile, is lagging behind, building only 2.45 new apartments per 1,000 people. At the same time, new figures released earlier this month show the population in the German capital increasing more rapidly than previously thought - for the last three years, Berlin's population has swelled by 45,000 per year. The latest prognosis suggests the population will increase by half a million by 2030, bringing it to 4 million.
- Changes in ownership
- The global financial crisis is bringing change. With ultra-low interest rates, savers are switching out of bank deposits and looking for alternative investments, including property. Meanwhile, young householders are finding it possible to buy sooner because mortgage repayments are more affordable. three or four times as many homes being offered for sale as for rent, massively limiting prospective tenants' options.
 - Sale prices have been rising – by 31 per cent in 2007-13 – an unprecedented surge by German standards. Rent controls are limiting rent increases but they are still climbing at about 2-3 per cent a year.
 - In response, housing construction is recovering after a decade-long lull that followed the post-reunification building boom of the 1990s. Construction permits for new dwellings are running at more than 260,000 a year, the highest level since 2006. Still too little though
- Reduction in state subsidised apartments
- Germany could count only 1.48 million state-subsidized apartments in 2013, 63,000 fewer than in the year before
 - Since a 2006 reform, social housing in Germany has been administered solely by state governments, and nationwide, the number of subsidized homes has sunk massively in the past 30 years, as privatization has taken hold and local governments have sold off their housing assets.
 - As the number of state-subsidized homes has decreased, the amount of compensation the state has had to pay in the form of housing benefits has risen.
- Declines in subsidised housing. Affordable housing stock in Germany has been in short supply since a rash of privatisations in the early 2000s See: Scarcity of affordable housing drives Germans deal crazy
- New environmental regulations eg Under the proposed new rules, new developments would have to provide more space for bikes -- even on properties where there is no obvious need for such space.
 - Individual states are scaling back their own spending. Since 2006, states and municipalities have been jointly in charge of building low-income housing. Although the federal government provides them with annual subsidies totally €500 million, reforms in laws governing its interactions with state governments bar it from imposing any regulations. But, for years, municipalities have been investing very little in low-income housing, preferring to spend the federal government's money on other things. The city-state of Berlin, for example, collects about €32 million a year for this purpose. But instead of spending the money on new low-income housing, it uses it to repay old

- loans. Over the last decade, such practices have led to a decline in the number of subsidized housing units in Germany, from about 2.6 to 1.6 million.
- At the same time, municipal housing associations are the first to force green renovation and the corresponding rent hikes on their tenants.
- Influx of refugees
- Just for the refugees that arrived in Germany last year 2015, between 60,000 and 125,000 additional dwellings will be needed
 - Last year 2015, the Institute of the German Economy (IW) in Cologne even predicted higher figures, forecasting the need for 430,000 homes for 800,000 refugees.
- Affordable housing in Germany
http://www.igep.in/live/hrdpmp/hrdpmaster/igep/content/e48745/e49028/e61879/e61897/e61902/AffordableHousinginGermany_Samol.pdf
 - German housing market and housing policy
http://www.hogareal.de/Pras_Kofner_German_housing_market_Osaka_2011.pdf
 - Germany a nation of tenants <http://www.ft.com/intl/cms/s/0/14fe8e4c-1567-11e4-ae2e-00144feabdc0.html#axzz49LSWyIo8>
 - German cities struggle with housing shortages
<http://www.thelocal.de/20150819/germany-building-homes-in-wrong-places-experts>
 - Germany running low on affordable housing <http://www.dw.com/en/germany-running-low-on-affordable-housing/a-18610644>
 - Germany faces massive shortage in refugee housing
<http://www.euractiv.com/section/justice-home-affairs/news/germany-faces-massive-shortfall-in-refugee-housing/>
 - Squeezed out <http://www.spiegel.de/international/germany/german-renters-pinched-by-rising-costs-and-decreasing-supply-a-875224-2.html>

Housing policy

Activity in the German housing market was dominated to a larger extent by the construction of social housing than in most other euro area countries after World War II, given the magnitude of the destruction experienced. A well-functioning system of social housing property prices was built up with both public and private funds. Important pillars of the German housing policy besides social housing are the promotion of homeownership, direct subsidization of lower-income households and market-oriented rents within the freely financed rental housing sector. Housing policy has historically been sensitive to the rights of tenants. However, liberalizations of the rent system have led to a more balanced approach.

The two main instruments of housing policy are supply-side social housing subsidies and direct housing allowances (“Wohngeld”). Landlords wishing to benefit from social housing subsidies are subject to certain restrictions (rent ceilings and occupancy control agreements). However, these restrictions apply only for a limited period of time. After that, the house becomes part of the privately financed sector, implying that rents can be raised to normal market levels and the

property can be re-rented without further restrictions. Rental agreements in Germany are usually unlimited in duration, with some exceptions (tenancies can be terminated, subject to adequate proof, for the landlord's own use or in case landlords intend to change or repair the dwelling substantially). Rental regulation regarding the initial rent and future rent increases depends on the type of the rental agreement. A system of rent control applies to public dwellings and for private dwellings that were built using public funds. The rent depends on the age of the dwelling (built before 2001 or thereafter). Currently, no restrictions apply to rents under new agreements concluded in the private rental market. However, increases of rents in existing agreements are subject to a cap. Recently, the government coalition proposed plans to set a limit also for rents under new agreements, except for those applying to newly built dwellings, in areas with especially tight housing markets.

The German tax system favors long-term investment in real estate, since gains realized from property resale within 10 years are subject to income tax. Moreover, speculation is dampened by high transaction costs (real estate transfer tax and high fees to register the transfer of ownership and for the required notary services). Between 1991 and 1998, investors were given a tax break to stimulate residential construction in former Eastern Germany.

In Germany, mortgage lending is conservative with long maturities and a high share of fixed-rate loans. Over 70% of newly issued mortgage loans have a fixed rate of more than five years. Currently, there is no sign that lending standards are becoming more relaxed.

Housing for Low-Income Families is mainly a task taken on by municipalities and municipal enterprises. Approaches to provide housing for Low-Income Groups include:

- Social Housing –1987: 3.9 million social housing units to 2001: 1.8 million units. Each year around 100,000 units lose their social housing status. System virtually abandoned in 2006
 - **Capital subsidies** and/or **loans with subsidised interests** to developers or owners (private, commercial or municipal)
 - General condition to let only to **low-income households registered with the municipality** for a duration of 15-20 years
 - Sometimes, municipalities reserve the right to select tenants
 - **Special standards:** size, no. of rooms and standards
 - **Rent control:** maximum rent according to defined standards. Lowest rents today around 8 EUR/sqm; i.e. for an 80 sqm apartment more than 600 EUR/month
- Social Assistance: includes a housing allowance for around 9% of the population
- Housing Benefit: subsidisation of rents paid to the tenants: in 2010 for around 850,000 households, i.e. around 1% of the population

➤ Social Housing Germany

<http://www.lse.ac.uk/geographyAndEnvironment/research/london/pdf/Social-Housing-Germany.pptx>

➤ Housing policy Germany Austria Switzerland https://www.oenb.at/dam/jcr:1d244e56-71e0-4403-9bbf-efa52dce7da6/mop_2015_q1_analyses4.pdf

Role of Federal and State Level

Federal Level: Observation of the development of housing demand by the Federal Institute for Research on Building, Urban Affairs and Spatial Development (and by other research institutions, real estate enterprises)

State Level: Consideration of housing demand projections in Regional Planning (also at sub-state level for regional planning regions (See: *Affordable housing in Germany*))

In 2006, in the course of the Reform of Federalism I, the federal government decided to withdraw from the construction of social housing. After amendment of article 74, clause 1, no 18 of the GG (Basic Law), the individual states are now completely responsible for the promotion of social housing.

With the transfer of the promotion of social housing to the federal states, the respective financial help from the federal government also disappeared. To balance this, since 2007, and initially limited to the end of 2013, the states received €518.2m per year from the federal government to serve as compensation. This is distributed to states so that joint tasks and financial help can be unbundled, in accordance with section 4, clause 4 of the Unbundling Law (EntflechtG). The federal states are bound to deploy this aid for the intensive purpose of funding residential accommodation.

In June 2013, it was decided that payments of this unbundling aid would continue at the previous level from 2014 to the end of 2019. So according to the federal government, the states continue to have €518.2m available for funding social housing.

For topical reasons, this unbundling aid will be supplemented by an initiative of the federal government, in which states will receive a total of an additional €2bn (€500m annually) for a further four years. They are also obligated to use this funding for the promotion of social housing. The allocation formula is also as set out in section 4, clause 4 of the Unbundling Law.

2016 KfW (German Promotional Bank) announced that it is going to increase its aid to 1 billion euros for the construction of houses for refugees. The aid is in the form of subsidies with zero interest rate and reserved only for municipalities to enable them to invest in the construction of refugee shelters.

The program was launched last September with an initial sum of 300 million euro. Meanwhile, KfW had already added 200 million immediately and another 500 million in October 2015 to reach one billion. With this special fund of one billion and a half already, they can build homes for around 150,000 refugees. In addition to this KfW wants to launch another 2 billion program to help municipalities in building social homes.

- 2 billion Euros for construction of new homes <http://www.housingeurope.eu/resource-640/2-billion-euros-for-the-construction-of-affordable-homes>
- Fed Architects position paper affordable housing <https://www.bak.de/w/files/bak/bak-positions-papier-bezahlbarer-wohnungsbau-fur-alle-11.02.2016-eng.pdf>

City level

Cities are responsible for:

- Integrated Urban Development Concepts: Projections, estimates and objectives for housing provision
- Land Use Plans: Designation of areas for housing
- Detailed Plans: Zoning for housing (now often done in PPP)
- Infrastructure Provision: often in PPP
- Urban Rehabilitation: Redevelopment of vacant sites for housing
- Policy Guidance for Municipal Enterprises

Role of Municipal Enterprises

- Management and maintenance of the municipal housing stock
- Modernisation of the housing stock, mainly with regard to energy efficiency
- Social and community programmes: social work, implementation of public programmes like "Inclusive City" (Social City)
- Development of new housing projects (construction usually done by private contractors)
- Management of private condominiums
- Sale and privatisation of housing units

B-Schein programme

Wohnberechtigungsschein or B-Schein for short is a tool/license used by Germany to both fund the development of social housing units and to provide an ongoing subsidy. Funded federally, but operationally, the city is the agency that has the most active role in qualifying low income families for the programs. A renter of social housing must receive a Wohnberechtigungsschein or B-Schein, a document that basically says a person qualifies for a social housing unit. It includes

- **Grundförderung** - ground funding to actually develop a unit
- **Zusatzförderung**: The best translation is a monthly subsidy of which there is **Sonderförderung** (special funding that is available for affordable housing units). The amounts change depending on the level of poverty the unit is meant to serve.
 - **Passivhausstandard**: This word means the unit has met a certain passive housing standard that is similar to LEED ratings in the USA. A housing developer can receive an extra 10% for developing to a certain standard.
 - **Genossenschaften 500 housing units or less**: This special funding is for smaller housing cooperatives which are more prevalent in Germany than the USA. In smaller cooperatives, they can receive up to an additional 10% funding.
 - **U.A. rollstuhlgerecht**: This is special funding for developing units that are considered accessible. The state will grant an additional €5,000 funding per accessible unit.
 - **Gemeinschaftsraum**: The government will grant special funding for common rooms in developments that are for handicapped or mentally handicapped persons. The idea is to help foster social integration. The funding for this type of room is €0.50 m2 per month.

- **Rent for the units:** The rent for social units funded by the Federal State are set by the State with the same policy being followed by the city.

Funding for affordable housing development

- **KFW Loan-** This is a bank that was funded originally through the Marshall Fund after World War II. It is a private bank that was established so the government would not have to take on all of the debt of funding housing development. All of the money that comes back out of the program goes back in to continue the funding of affordable housing. This works but sometimes it takes time for the money invested into a project to come back into the fund at a level that enables more funding.
 - **KFW Program 153** is for new building for with energy efficient standards. The standard is 70 Kilowatt hours for the housing. That is considered an energy efficient house while Passive Housing standards is at 55-40 Kilowatts. The loans are low interest and what a company receives depends entirely on how much is being built. The max a developer will receive is €50,000 per unit for development purposes.
 - Developments consist of several pools of funding. As written, KFW is one pool, a Federal bank loan at .5% interest for 20 years is another. The social housing company often has to use some of its own capital to make a project work.
- B-Shein funding programme <https://jcrites007.wordpress.com/2014/12/22/b-schein-a-tool-to-provide-affordable-housing-in-germany/>