

German housing policy - Chinese housing policy

**Visit of
Ms Dr. Wang Jing, Mr. PHD Zhang Lilong
Chinese Academy of Social Sciences**

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Welcome!

你们好！

Rechtsanwältin Iris Behr

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Brief portrait of IWU

- German extra-university research institution founded as non-profit private limited company in 1971
- Shareholders: State of Hesse and the City of Darmstadt
- IWU employs around 40 people, more than half of them scientific staff from different disciplines
- Realisation of about 30-40 basic and applied research projects per year
- Research areas: housing, energy efficiency and integrated sustainable development
- Institutional funding of the shareholders and third-party funding by local authorities, housing companies, housing policy organisation, NGOs, Federal government , EU



View of the new IWU building refurbished with passive house components

Three pillars of work

Housing and socio-economic development

Background:

Differentiated housing market due to

- demographic change and increasing individualisation of society,
- rising energy costs and
- a widening gap between the rich and the poor

Solution:

IWU contributes to transparency on the housing market by offering

- research and forecasts on supply and demand,
- market prices and
- housing vacancies.

The main goal is to provide the federal states, cities and municipalities with concepts and recommendations

- on how to avoid segregation and how to adjust to housing demand patterns on the one hand,
- and recommendations for energy efficient building refurbishment on the other hand.

Energy efficiency and CO₂-neutral development

Background:

In the building sector significant energy savings can be achieved by physical and technical measures without reducing comfort and living standard.

Solution:

IWU develops a holistic strategy by

- analysing the conditions of decision making of different stakeholders in the building sector aiming at the development of concepts for improvements on all levels
- creating methods and tools to support the implementation of energy reduction in everyday behaviour, consulting and real estate business
- playing a role in developing technical solutions and supporting the introduction in the market.
- carrying out pilot projects examining these new technologies under real conditions related to their actual impact on energy efficiency and their benefit for the users (mostly occupants) of the buildings.

Integrated sustainable development

Background:

Sustainable development by understanding social, economic and ecologic needs as a combined task is linked to urban spaces and shaped by demographic, economic and ecologic changes in a special way.

Cities are the driving forces behind social and economic growth and at the same time the central place for their surrounding region. They claim a disproportionately high amount of natural resources and produce up to 80 % of the world's CO₂ emissions.

Solution

- IWU integrates the various dimensions of sustainable development in analyses, concepts and pilot projects.
- IWU develops and correlates solutions based on different scales – from single buildings to urban districts and regions – interacting with public and private players.
- In doing so, IWU combines strategies on efficiency, sufficiency and consistency.

- Guests' presentation of situation and needs in China - expectations for the meeting
- Structure and evolution of the German housing market system
- Legal framework conditions of German housing policy
- Subsidies in the German housing policy

Structure of the German housing market

- Evolution of the German housing market system
- Ownership structure
- Financing and affordability

Evolution of the German housing market system

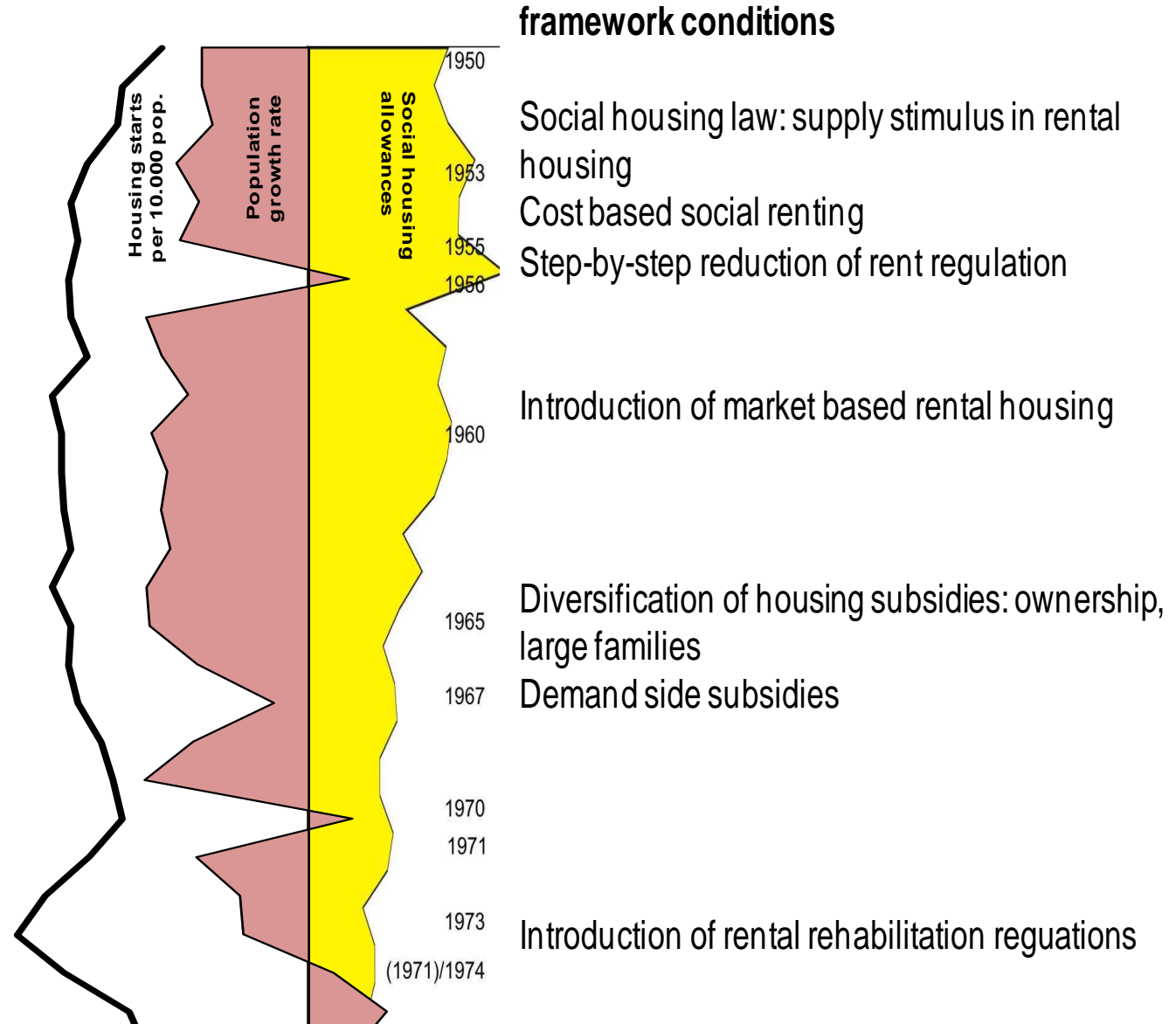
Historical Events

Phase 1

War destruction
Housing shortage
Repatriation of refugees

Population growth
Migrant worker immigration

Phase 2



Evolution of the German housing market system

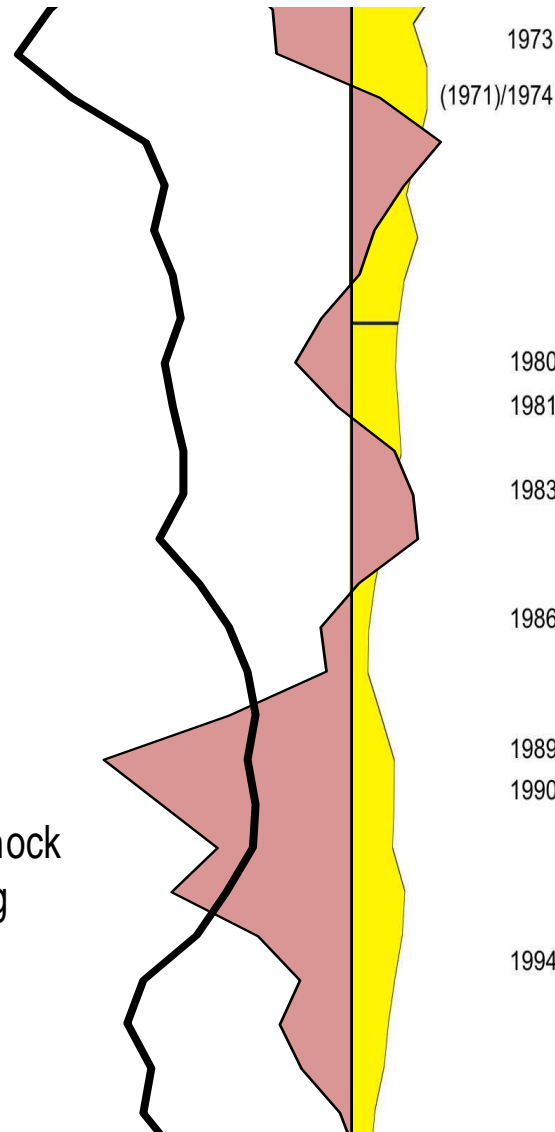
Historical Events

Phase 2

Demographic turn
Suburbanisation
Energy crisis

Phase 3

Unification
West bound migration demand shock
Adaption of east German housing stock



framework conditions

Introduction of rental rehabilitation regulations

Privatization, tightened efficiency control in social supply subsidies

End of federal housing subsidies

End of social housing company statutes

Promotion and subsidies of owner-occupied housing

Evolution of the German housing market system

Historical Events

Phase 3

Unification

West bound migration demand shock

Adaption of east German housing stock

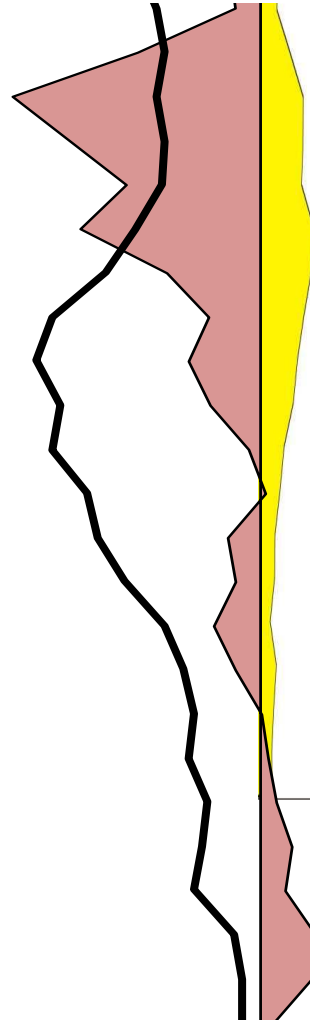
Phase 4

Increasing urban-rural disparities

Shrinking and ageing population

Job driven rural to urban migration

Low income immigration



framework conditions

1989

1990

End of social housing company statutes

Promotion and subsidies of owner-occupied housing

1994

1999

Urban renewal and low income housing supply programmes

2002

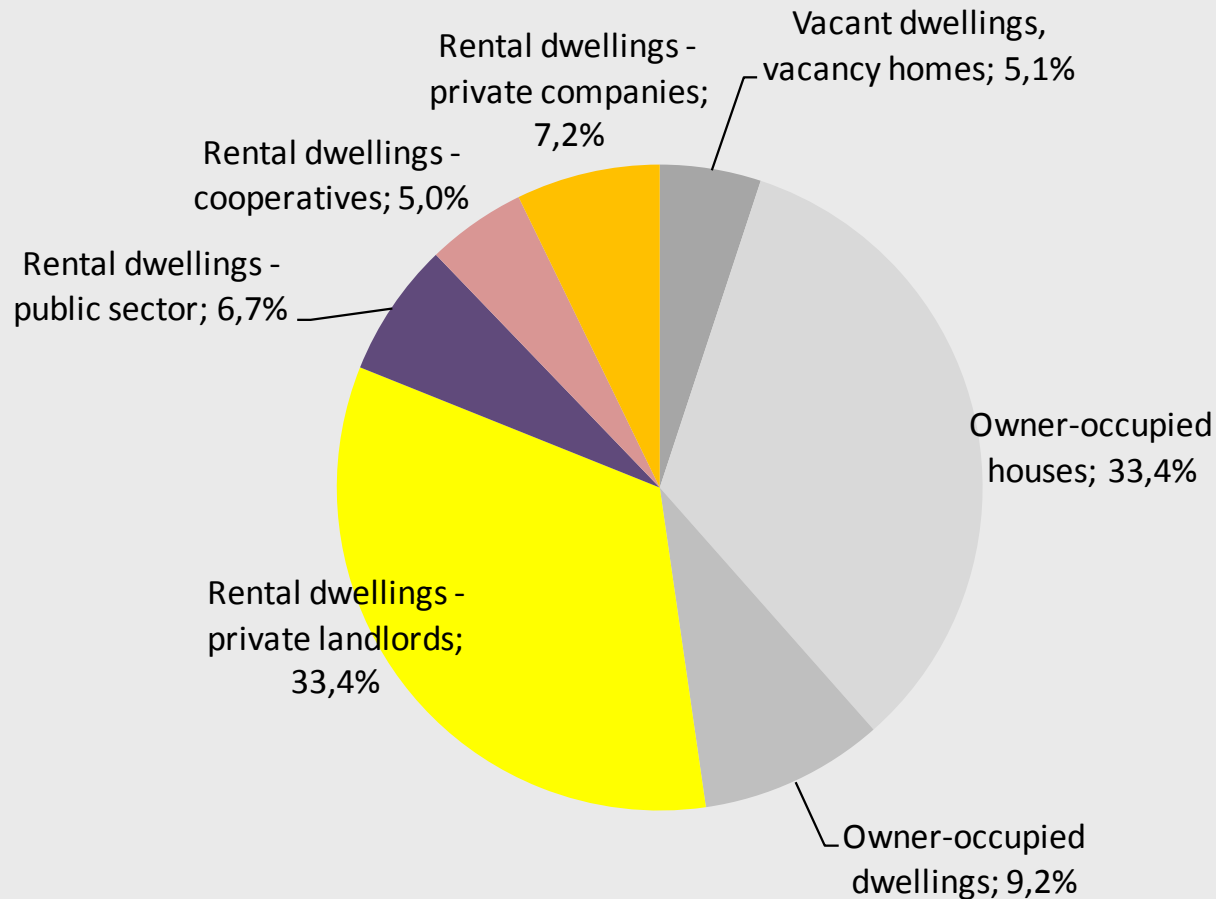
2004

Shift from supply to demand subsidies in low income housing provision

2014

Tightening of short term rent control statutes

Residential property ownership 2011 (dwellings)



Rental housing

- High share of rental housing (serves 45% of population): why?
 - ▶ History (lack of private capital in postwar periods, subsidies, destruction of prewar housing stock)
 - ▶ Institutional setting (stable social security system, public pension system reduces private wealth creation)
 - ▶ Balanced legal and institutional regulation framework with “soft” rent control
- Advantages:
 - ▶ rental market is middle class oriented: large and diverse supply, high quality
 - ▶ Improves worker’s interregional mobility
 - ▶ decreases household exposure to single asset risk

Rental housing

- Disadvantages:
 - ▶ less incentives for savings
 - ▶ lower household wealth
 - ▶ high cost of housing
- Since 1990 increasing share of owner-occupation
 - ▶ Good availability of private capital and lower capital costs
 - ▶ lack of investments due to low profitability of the rental sector
 - ▶ necessity of private pension planning
 - ▶ Political incentive for wealth creation

Housing finance

- Prevalence of fixed rate, long term mortgage financing
- Traditionally relatively high share of downpayment (30-50%) and regulated lending limits (60%) of value for first order loans
- Housing is a consumption good: Low liquidity (“buy and hold” strategy prevails) and high transaction costs
- Speciality “Bausparen” – instrument for interest risk hedging and downpayment savings

Housing finance

- Why was there no housing bubble in Germany?
 - ▶ Conservative financing
 - ▶ Inelastic supply: increases price volatility, but decreases speculative overbuilding
 - ▶ Low demand growth (strong decrease of households aged 25-40)
 - ▶ But: increased bubble risk after 2008: surplus liquidity, high demand in urban areas due to cyclical undersupply

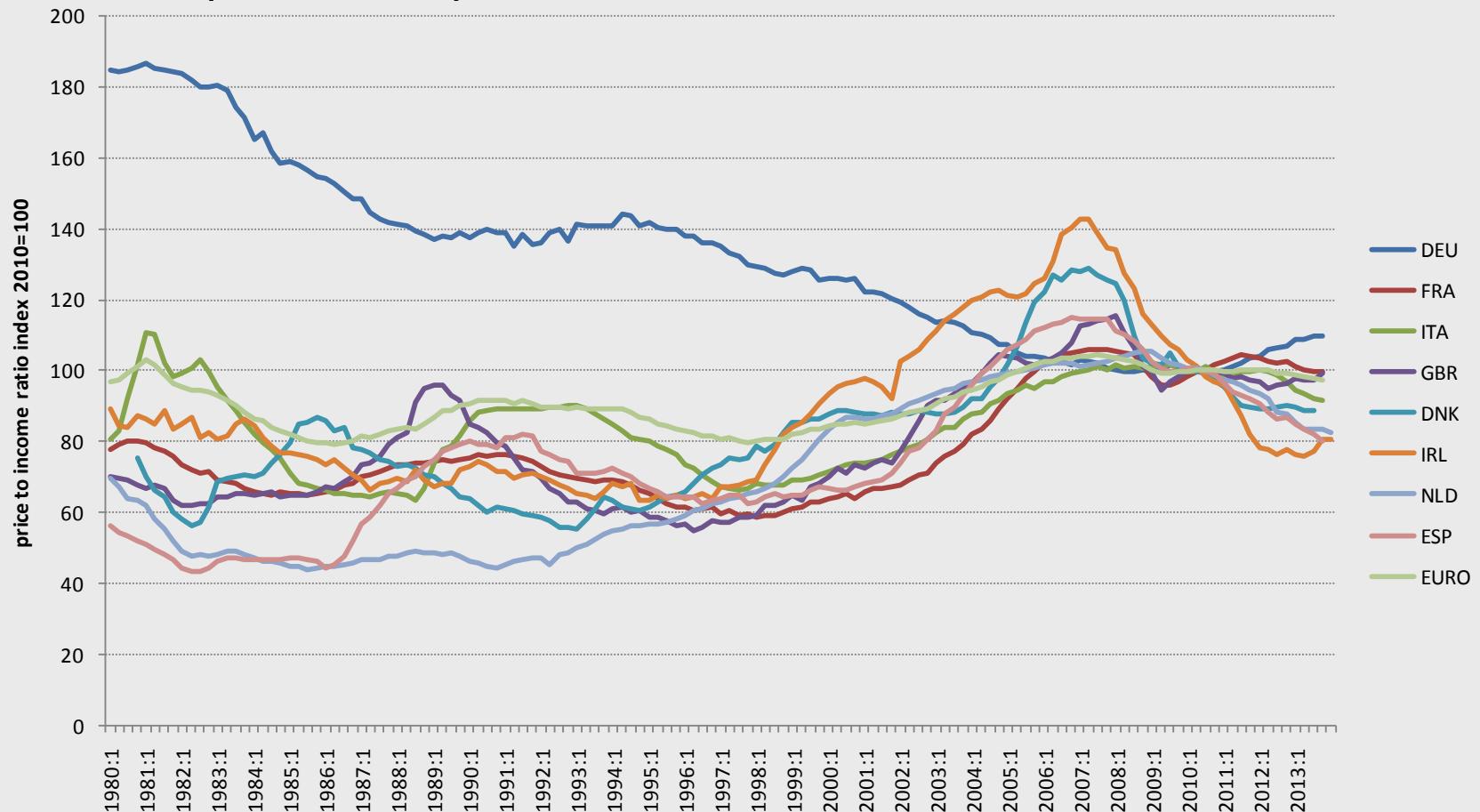
Affordability

housing cost burden rate				
household size	total	low income		
		total	no subsidies	subsidies
1	28%	38%	35%	39%
2	21%	31%	29%	31%
3	20%	29%	27%	28%
4	18%	25%	24%	25%
5+	20%	26%	25%	24%
average	24%	35%	33%	35%

housing area per capita				
household size	total	low income		
		total	no subsidies	subsidies
1	67	50	52	52
2	49	36	38	35
3	37	28	30	28
4	32	23	25	24
5+	28	21	23	22
average	45	37	40	35

Affordability

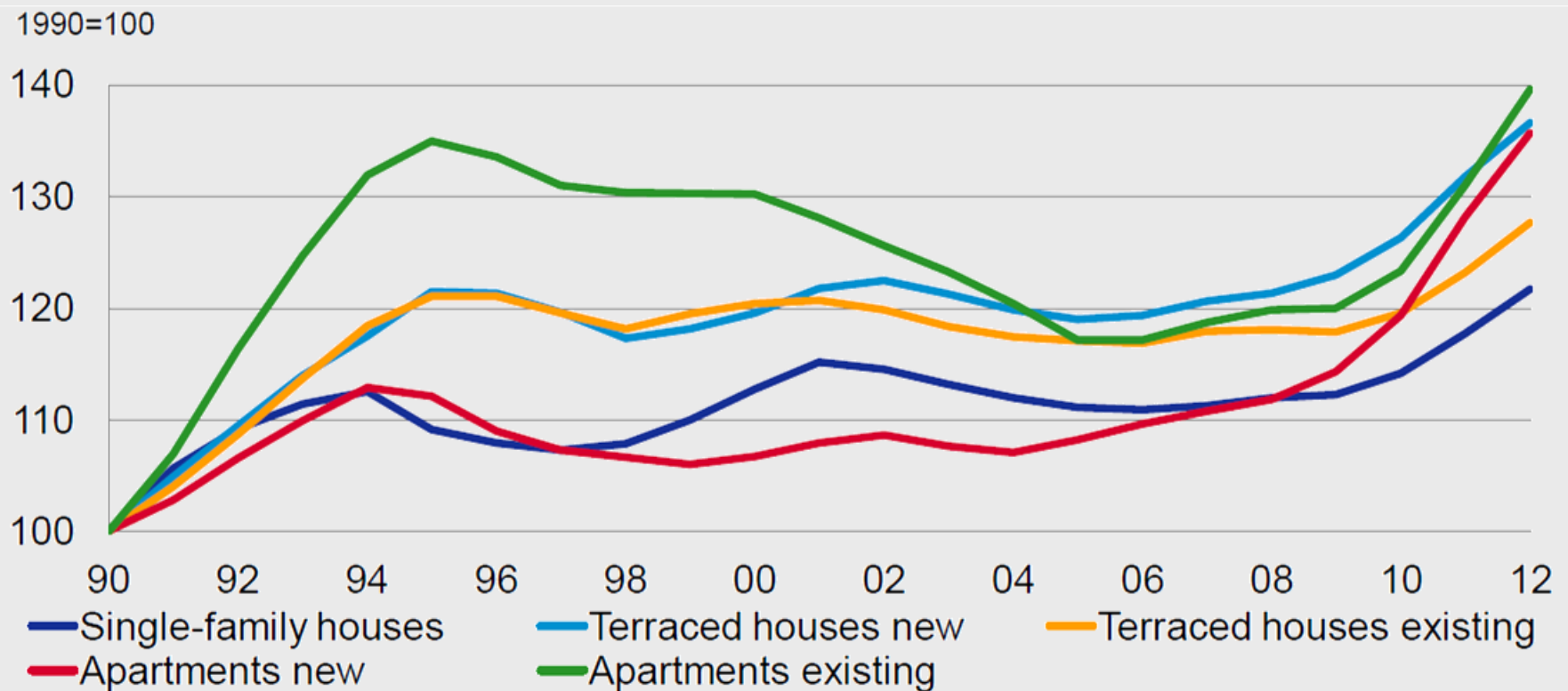
■ Comparison of price to income-ratios 1980-2013



Source: OECD

Affordability

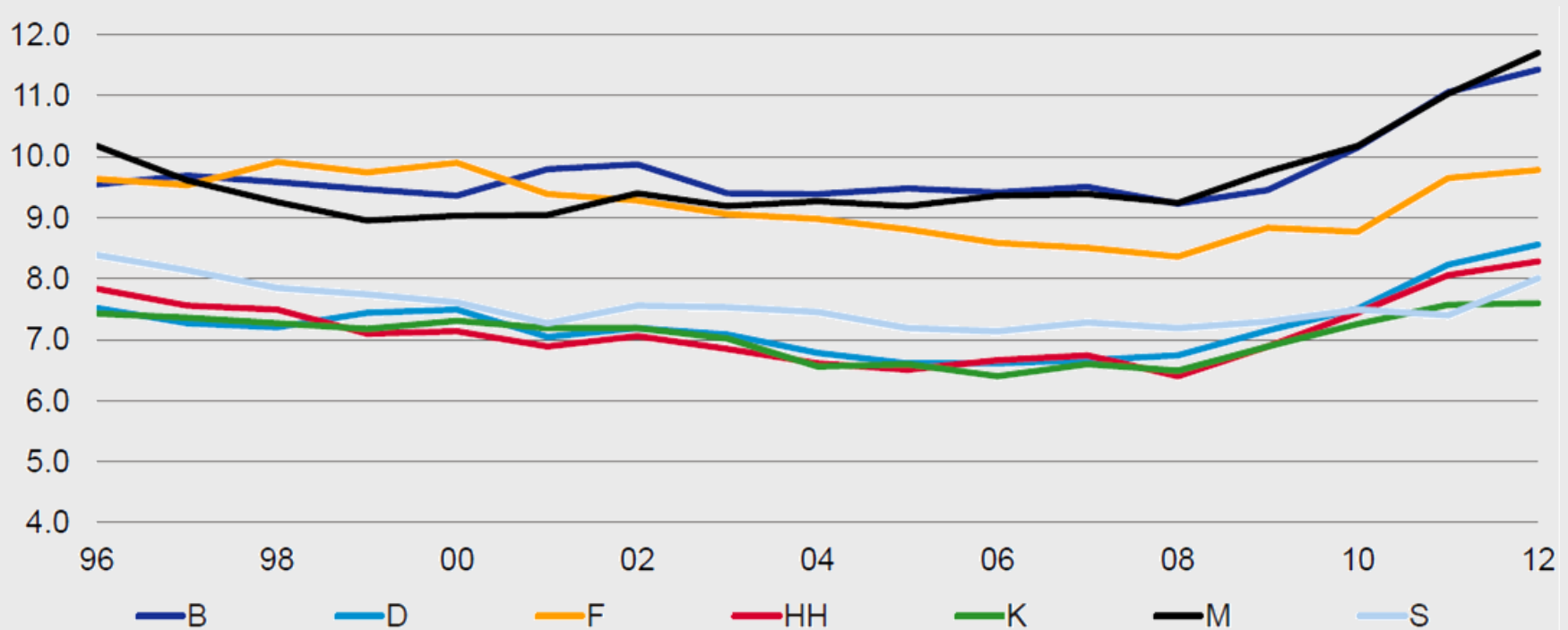
- Nominal prices in residential submarkets in Germany 1990-2012



Sources: BulwienGesa, DB Research

Affordability

- Price to disposable income ratio 1996-2012 in major cities
(Prices for new 100 sq.mt-apartment)



Sources: BulwienGesa, DB Research

Land use and building regulation

- Land markets are private, but with large share of public land ownership
- Private building land is subject to strict zoning and building regulation codes that severely limit the “right to build”
- Land cost is high (150-500€/m² for low rise residential, up to 5.000€/m² for urban mid rise)
- High land cost increases the need for compact urban structures, but socially acceptable upper density boundaries (max. FAR 1.6 in housing districts and 3.0 in CBD districts) are low compared to Asian standards
- Land supply elasticity is relatively low, development periods are long, therefore housing supply is subject to market cycles

Legal framework conditions of German housing policy

- Basic legal principles
- Housing policy's competences and activities: Federal authorities, State of Hesse and municipalities, i.e. local level
- Rental law and rent control mechanism
- Condominium law
- Cooperative law

- No constitutional (individual) right to housing but
 - ▶ „The Federal Republic of Germany is a democratic and social federal state“ Social welfare state principle (Basic Law + State Constitutions)
 - ▶ freedom to build = basic right to individual property
- Market economy + freedom of contract
 - ▶ „Property imposes duties – its use should also serve the public weal – social obligation of private property (Basic Law)
- Principle of subsidiarity
 - ▶ Right to regulate on their own responsibility all affairs of the local community“ (28 GG , 137 Hesse Constitution)
 - ▶ Funding of state and municipal tasks: bearing the costs that arise from own responsibilities

Survey on codes relevant for the housing sector

- Rental Law (Civil Code-BGB)
- Regulation on running costs
- Condominium Law and Cooperative (housing) law
- Law on energy saving dealing with new construction and modernisation (EnEV)
- Law on housing allowances
- Mortgage backed securities law
- Land registers and title books for all plots of lands + encumbrances
- Tax law

Funding

- Social housing: financial funding of (new and existing) dwellings for defined target groups + fixed rents

Control

- Charge on social rent in case of exceeding individual income – no need to move but to pay market oriented rents „Fehlsubventionierungsabgabe“
- Prohibition of misuse of dwellings (e.g. conversion to offices, 2nd homes, hotels, leaving flats empty) „ZweckentfremdungsVO“
- Rent setting restrictions for private flats: limitation of rent increases and establishment of rent ceilings (Civil Code)

Land markets

- Land use planning and zoning regulation
- Delivery of building permits for construction or demolition
- Sale of municipal land

Social housing

- Political definition of target groups eligible for support
- Co-funding of (social) housing construction (loans, guarantees, land)
- Assessment and fixing of appropriate costs (housing + heat) for eligible households „Cost of accommodation + Heating“
- Duty to take care of homeless people staying in town

Law enforcement

- Supervision of rent control restrictions and housing misuse

- Balancing the rights and duties of landlord + tenants:
- Rent regulation. E.g. by rental tables that reflect the market rents of the last 4 years (§ 558 BGB)
- Rent caps in booming cities for private flats: limitation of 15 % for rent increases within 3 years
- 11 % p.a of modernisation investment costs to be carried by the tenants (§ 559 BGB)
- No right to give notice in order to increase the rents
- listed reasons and time periods for giving notice
- Running costs: definition of running costs and allocation to tenants, mayor consumption based running costs: heat, hot + cold water, waste disposal

- Individual flat property
- Common ownership of staircases, roofs, heating systems, plot of land
- Obligatory association of condominium owners
 - ▶ Financial obligation to contribute to the maintenance, improvement of the common property
 - ▶ Obligatory management of the common property
 - ▶ Appointment of a condo-manager
 - ▶ Rules for the management of the common property (annual meeting, financial planning, decision taking, voting rules)
 - ▶ Tricky: majority votes for major changes of common property required

- Establishment of undivided property of everything belonging to the estate of the cooperative (e.g. flat, staircases, roofs, heating systems, plot of land)
- Coop-members are owner of a share of the estate
 - ▶ Limited liability of the members (shares)
 - ▶ Legal entity in its own rights and duties: obligatory managing director + supervisory board
 - ▶ General assembly: association of all coop-members
 - ▶ Mandatory supervision of the coop's activities
 - ▶ Coop members use flat and pay a „rent“
 - ▶ No chance for individual profit , increases in value stay with the coop

Subsidies in the German housing policy

- Object and Subject Orientation - Overview
- Object oriented subsidies
 - ▶ Public housing companies
 - ▶ Private Homebuyer Subsidies
 - ▶ Social Rent Subsidies (social housing)
- Subject Oriented Subsidies

Object oriented

= Subsidies for „brick and mortar“

(Social Housing)

- Supply side effects
- No price increase at the supply side

(Homeowner subsidies)

- Cheap, but problematic distribution effect

(Public Housing Companies)

- „social rate of return“

Subject oriented

= Subsidies for poor households

(„Wohngeld“, „Kosten der Unterkunft“)

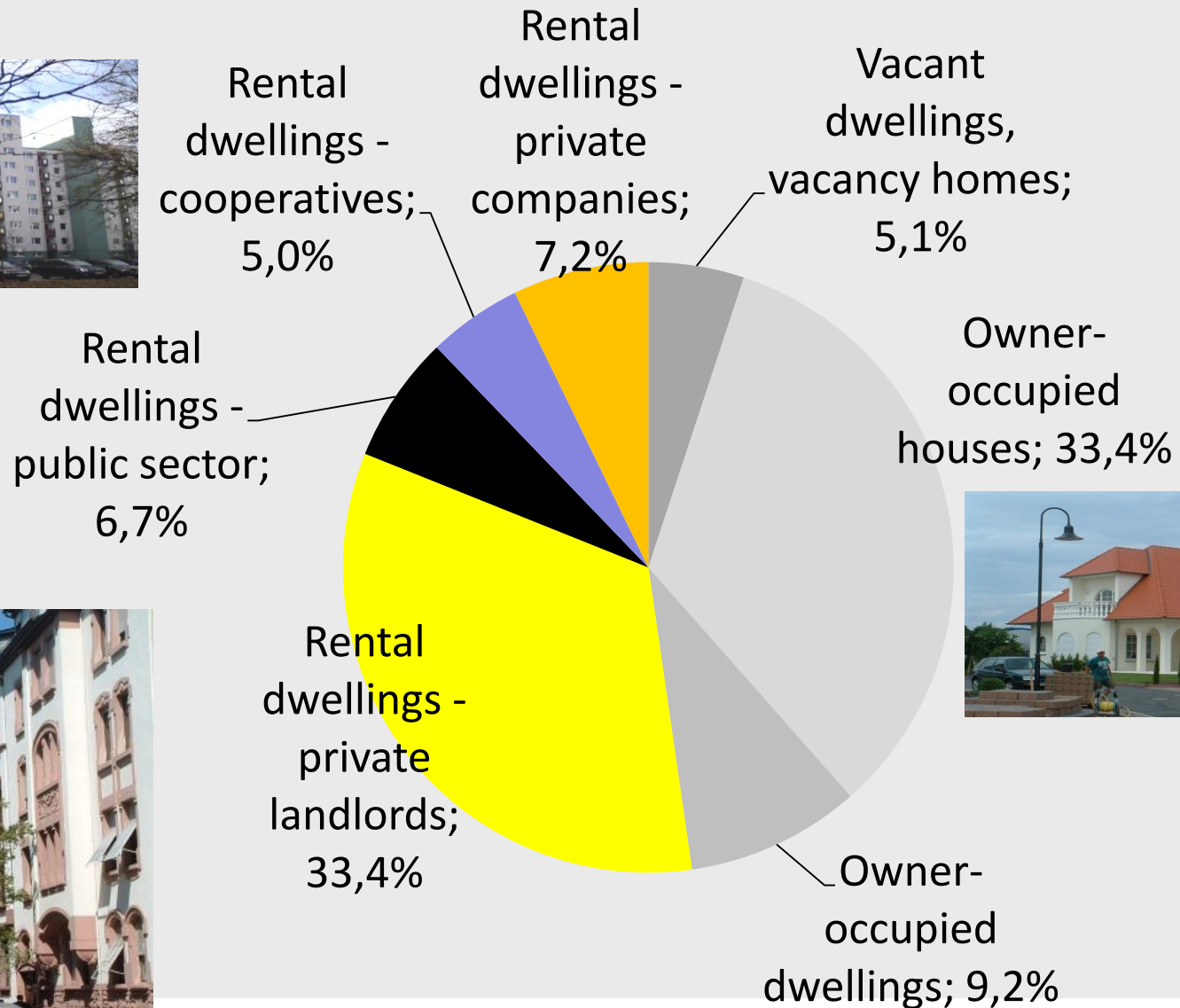
- Cheaper
- Location and quality are market decisions
- The households decide about how to spend the money

A large green arrow pointing to the right, containing white text.

The German housing allowance system shifted from object to subject orientation

Assumption: In close markets object oriented subsidies are more efficient, in relaxed market conditions the subject oriented ones.

Object Oriented Subsidies: Public Housing Companies (in black)



Object Oriented Subsidies: Public Housing Companies

- Public housing companies stem from housing for industrial workers – creating of separate institutions with taxation advantages in the 1920's
- Abolition of the taxation advantages, transition to „normal“ publically owned companies in the 1990's
- 2000's: Some cities sold their housing companies (Dresden) to investment funds, Referendum in Freiburg against selling
- Discussion about „social rate of return“ of publically owned housing companies vs. Inefficient capital lockup
- New tendence: Cooperation contracts between municipalities and companies about rate of returns and social targets (i.e. construction of new rental housing)

Object Oriented Subsidies: Public Housing Companies



- Public housing companies and social housing are – in Germany - not the same thing!

Object oriented subsidies: Private Homebuyer Subsidies

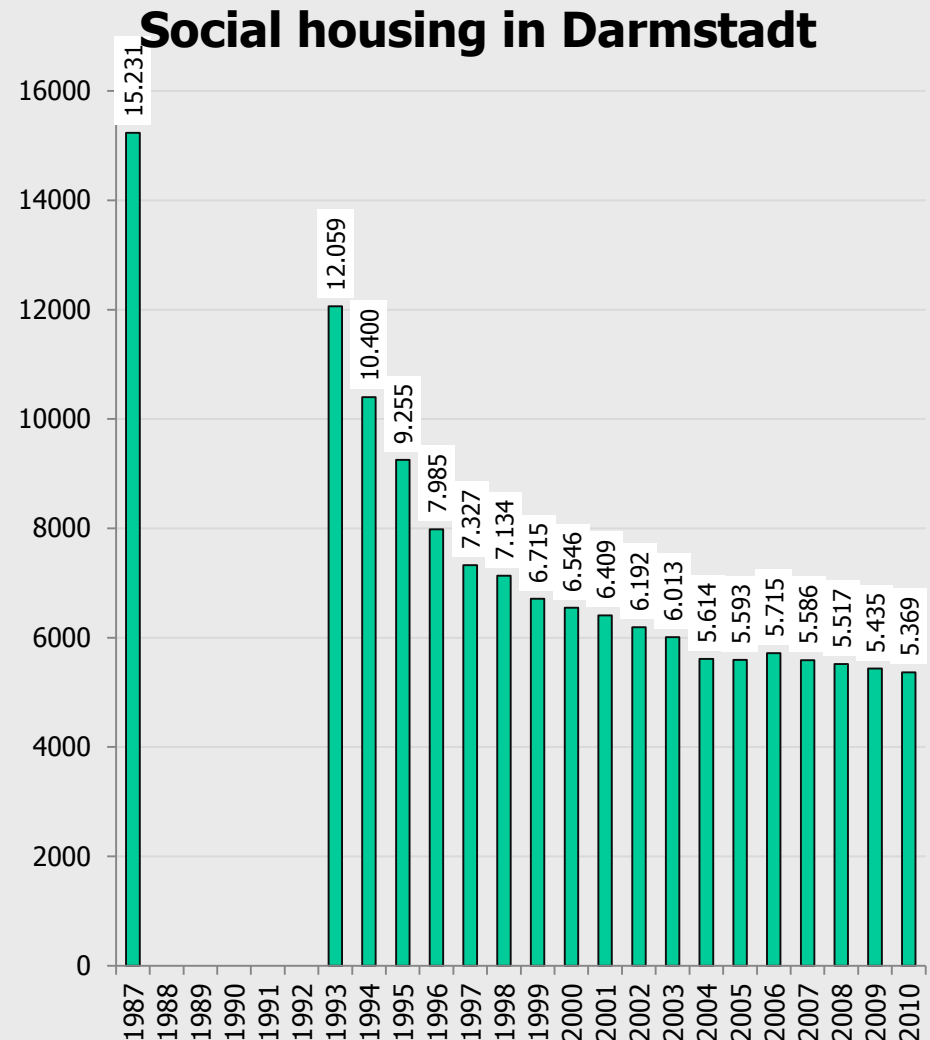
- Since 2007 competence of the 16 states
- Target group: Specially families
- Credit with reduced interest rates from a
statal bank for houseowners
- Traditionally only for newly built houses,
recently also for purchasing an existing dwelling
- Further subsidies for ecological building and
the renovation of existing dwellings for elderly people



Object oriented subsidies:

Social Rent Subsidies (Social Housing)

- Since 2007 competence of the 16 states
- Target group: Traditionally families, recently students and elderly people
- Credits with reduced interest rates by state banks
- As a compensation the landlord must let the dwellings to low-income-households for a defined period
- Actually, the number of these dwellings is declining
- Social housing is mainly carried out by publically owned companies



Object Oriented Subsidies: Munich-Model

- First component: Contract between owner of land for building and the municipality: The landlord has to achieve a certain level of social housing and must finance the social infrastructure
 - ▶ May increase land prices even further
 - ▶ Possibility to skim land development benefits for social infrastructure
 - ▶ Only functional in cities with high and rising land prices
- Second component: The private developer lets or sells the dwellings as social housing for different income groups.

- Kosten der Unterkunft („cost of accommodation“):
 - ▶ Allowance for all households with a income below the minimal standard
 - ▶ Full reimbursement of rents (and interests) up to the „limit of adequacy“
 - ▶ Legislation by the federal state, payment by the counties, determination of the limit of adequacy by the counties
- Wohngeld („housing money“):
 - ▶ Allowance for all households with a income slightly above the minimal standard
 - ▶ Only partial payment depending from income and rent level
 - ▶ Legislation by the federal state, payment by the federal state and the 16 states
- Together 16 billion € per year
(object oriented subsidies ca. 1 billion €)

Thank you for your attention

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