

Rental Housing Is Being Transformed Into a Planned Economy in Germany

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Germany's publicly traded real estate companies (Deutsche Wohnen, Vonovia, ADO, and others) have [come under massive pressure](#) in recent weeks. Many of their stockholders come from the United States and Great Britain, and the companies' prospects are not looking good right now. This is because the kinds of ideas traditionally associated with planned economies are gaining more and more support all over Germany.



Yes, rents in Germany's largest cities have risen sharply over the last few years, but there is a multitude of reasons for this, and none of them are related to a "market failure."

Substantial numbers of people have moved to Germany's major cities, including people from Germany's eastern states who have been moving to cities in the west, along with people from other European countries, and finally, immigrants who arrived in Germany under Angela Merkel's generous refugee policy. Clearly, the supply of housing has failed to keep pace with these significant developments, and this is largely because construction approval processes are so long-winded and the latest environmental regulations have made building prohibitively expensive.

“We Want to Drive Investors Out of Our City”

In Germany's capital, Berlin, where rents have experienced a particularly sharp rise, it now takes 12 years to draft and approve a zoning plan, which in many cases is a prerequisite for the development of new dwellings. The number of zoning plans drawn up under the aegis of Berlin's Senator for Urban Development, Katrin Lompscher, has halved. In 1981, the senator joined the communist SED, East Germany's former ruling party. Today, she is responsible for housing policy in the German capital.

An initiative in Berlin calling for the expropriation of private real estate companies has collected three times as many signatures as it needed to initiate a petition for a referendum. The initiative's spokesman stated openly: "We want to drive investors out of our city." The initiative is demanding the expropriation of all private real estate companies that own more than 3,000 apartments in Berlin.

According to the initiative's organizers, real estate companies should be compensated but at far below the market value of their real estate—discounts of around 70 percent have been mentioned. In effect, this would amount to expropriation without compensation since the companies' bank liabilities are larger than the amounts they would receive in compensation.

Kevin Kühnert, chairman of the youth organization of the center-left SPD (which is also the junior coalition partner in Angela Merkel's government) has gone as far as calling for a complete ban on private property owners renting out their apartments.

State-Owned Housing and Rent Freezes Are Nothing New in Germany

In June, Berlin's Senate approved the main components of a rent freeze in the German capital. According to the Senate's plans, rents in Berlin will be frozen for five years. Landlords will also be forced to lower in-place rents if they exceed a certain, as yet undefined, level.

Advocates of such central economic planning react sensitively when they are reminded that it has already been tried in East Germany (the GDR) with catastrophic results. An earlier rent freeze was approved in Germany on April 20, 1936, as a gift from the National Socialist Party to the citizens of Germany on Adolf Hitler's 47th birthday. The National Socialists' rent cap was adopted into the GDR's socialist law by Price Regulation No. 415 of May 6, 1955, and it remained in force until the collapse of the GDR in 1989.

The GDR's housing sector was defined by state ownership and the rent freeze. Although rents in the GDR were very low, citizens had to wait many years to be allocated one of the country's highly coveted prefabricated apartments. When the GDR collapsed, much of the stock of period apartments in pre-war, multi-family buildings in Leipzig, Dresden, East Berlin, Erfurt, and other East German cities was in an extremely run-down condition: 40 percent of apartment buildings were in a state of significant disrepair, and 11 percent were completely uninhabitable. A total of 200 historic town centers in eastern Germany were on the brink of collapse. As late as 1989, 65 percent of the apartments in the GDR were still heated by coal ovens. One in four didn't even have a toilet. After reunification, a

massive tax program was launched to tackle the severe shortage of suitable housing in East Germany and East Berlin. A total of 838,638 new apartments were built—at a cost of 84 billion euros.

The Housing Industry Is Not Defending Itself

Berliners are not alone in believing that the housing market has failed and the only solution is massive state intervention. In 2015, Germany's federal government introduced a "rent brake" (*Mietpreisbremse*) to prohibit landlords from charging rents of more than 10 percent above an official benchmark—the local comparative rent—for existing apartments.

However, the law has been fundamentally ineffective: It featured many vague legal formulations and triggered a substantial wave of lawsuits. In an attempt to address the rent brake's weaknesses, legislators tightened the law effective January 1, 2019. They are now discussing further and even more drastic changes.

Germany's largest housing companies are clearly intimidated and have reacted by trying to appease their anti-capitalist attackers. Unfortunately, the companies' opponents have only been strengthened in their belief that they are on the right track. The situation has become so tense that Michael Zahn, the CEO of Deutsche Wohnen, a leading property company, can only leave his apartment if he is surrounded by bodyguards. The aggressive campaign against Deutsche Wohnen has included some of the company's vehicles being "torched."

Following months of intense criticism, Zahn recently announced that his company will "voluntarily" limit the extent of future rent increases. As of July 1, Deutsche Wohnen will forgo rent increases if they will result in the new, higher rent exceeding 30 percent of the tenant household's net income. At the same time, Zahn has suggested that income-dependent rent increases should be anchored in state law by creating a "solidarity model," which would cover landlords, tenants, and politicians. It is an absurd model: it would require a gigantic tenant database and for every single tenant to disclose their income and assets.

With proposals like these, the housing industry is sending two signals: first, that it has willingly accepted the role of scapegoat for the housing market's problems; second, that it has swallowed its left-wing opponents' argument that free-market economics does not work in the housing sector.



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