

Katrin Schmidberger

*Member of the House of Representatives of Berlin, Spokesperson
for Housing and Rental policy, Spokesperson for Tourism*

In the last decade remarkable changes have taken place in the Berlin real estate market. Global developments and the 2007/2008 financial crisis led to huge demand and investment flows in the housing market. The previously low real estate prices promised huge gains. As 85% of Berlin residents live in rented properties, this globalisation and financialisation of local real estate and the housing market have resulted in a chain of problems, of which gentrification and displacement are the most worrying. The new left-leaning (red-red-green) local government is detecting and implementing regulations that tackle these developments.

Berlin is unique, as 85% of its inhabitants live in rented apartments (German average: 54%)

As a policymaker and resident of the inner-city district of Kreuzberg, awareness of this kind of problem is fundamental. In cooperation with the Green-led district administration (*Bezirk* Friedrichshain-Kreuzberg), we share the goal of implementing effective political measures to counteract gentrification and displacements. The importance of this effort also arises from the commitment to the right to the city for all citizens. The affected group in this case are locals from whom the right to the city and in this case the right to housing is taken away: tenants. Having links to the fairly active local rent associations, housing initiatives and major grassroots movements, awareness of their distress, needs and concerns gets personal. Being a member of the Berlin parliament and a political representative confers an obligation to assure their rights and implement an effective policy in this area.

I. Berlin, a city of tenants

Over 4.5 million people live in Berlin and its metropolitan area (which includes parts of *Land* Brandenburg). Average population growth is currently about 50,000 inhabitants per year, the fastest rate since reunification. In the city of Berlin (*Land* Berlin in the German federal system) there are over 1.9 million housing units. About a quarter are owned by public housing companies and cooperatives. The other three-quarters belong to private owners, of which around 10% are owned by large private housing companies. Berlin is almost unique,

Between 2007 and 2016 the median rent increased by 80%, while in the same period the median net income per household grew by less than 28%

not only in Germany, but also across Europe and beyond, as 85% of its inhabitants live in rented apartments (German average: 54%). Very few other cities have such a high percentage, though some exist in high-income Switzerland, where almost 62% of the population live in rented apartments: Basel 85%, Geneva 81% and Zurich 71% (Martel, 2017). In Austria, meanwhile, 57% of the population live in rented accommodation overall, while the figure is 81% in traditionally tenant-based Vienna. Over 60% of its housing units are owned by public companies and cooperatives (BDB, 2017).

In Berlin this is not because of socialism or the former East Berlin. Due to a special subsidy policy (*Förderpolitik*), it was also common – and cheaper – to live in rented apartments in former west Berlin. On the one hand, the destruction left by the Second World War made housing supply an existential issue. On the other, in the Cold War era, the two systems were competing over who would solve the problem and construct more flats and houses. This might be seen as “a housing Cold War” whose consequences were great, with both sides massively supporting the construction of residential space.

The change after reunification was crucial. Some large-scale housing projects in the mid-90s apart, there was a shift in housing policy and the public construction of housing – especially social housing – became insignificant or even non-existent. Until eight or nine years ago the Social Democrat-run Senate for Urban Development and Housing insistently proclaimed that there were problems with housing in Berlin. Unquestionably, in the early stages there was oversupply, particularly in the prefabricated housing complexes in Lichtenberg, Marzahn and Hellersdorf, although many of them were demolished or reorganised. But it had also become obvious that re-urbanisation processes had begun to change the situation in the central districts.

Nevertheless, the 2000s can be seen as a period of moratorium in the construction of public and social housing. Due to a real estate scandal and a huge public debt of €60 billion, the Social Democrat and Socialist-led city government began selling public companies, many of them to equity funds and private investors. Among them were housing companies like GSW (*Gemeinnützige Siedlungs- und Wohnungsbaugesellschaft*) and GEHAG (*Gemeinnützige Heimstätten-, Spar- und Bau-Aktiengesellschaft*), both of which were founded in the 1920s as non-profit housing companies.

The consequences of less construction and more privatisation of public housing are easy to predict. In terms of the basic market logic of supply and demand, the impact on the housing market and rents is clear. Some of this 85% of rental apartments had quite low rents or were affordable for Berlin residents. Local wages and the median income in Berlin are low compared to other German cities. When rents began increasing, steadily at first and then at great speed, the consequences for low-income residents were easy to imagine, particularly given how incomes had stagnated and unemployment had been high since the 1990s. Between 2007 and 2016 the median rent increased by 80%, while in the same period the median net income per household grew by less than 28% (IBB, 2018: 29).

II. The financialisation of housing

But this was only one part of the problem. Emerging from the 2007/2008 financial crisis we had to deal with new kinds of practices, which ended up causing major problems. Urban space and real estate increasingly became the new objects of capital growth and accumulation, or to be more provocative, objects of speculation. In Germany we call it *Betongold* (gold from concrete). There was a massive shift toward capital investment in real estate and housing stocks. The European Central Bank's low interest rates boosted this process by making borrowing cheap. Due to the increased attractiveness of Berlin and its comparatively low real estate prices, this business model, whereby the reason for buying assets and property is not necessarily to use or rent them, began to play a central role. The best example in this sense is London, where high profits are also obtained through buy, keep and resell strategies. In just five years the prices can increase twofold, or even more. The same strategy also occurs in Berlin, albeit to a lesser extent.

Households spend
28% to 56% of their
income on rent

The figures show that average property prices rose last year in Berlin by 20.7%, the fastest rate of all global cities (Collinson, 2018; based on a study by the real estate consultants Knight Frank). Even now, investment funds and so-called developers see these property prices as low and promising for greater returns. As real estate professionals perceive further potential all over the city, prospects are that a lot of properties or even entire housing companies are about to change hands.

In all these cases the business strategies remain similar. The habitual practice is the conversion of rented apartments into condos. Purchasing buildings and getting rid of the tenants, whether by buying them out, or by just announcing modernisation measures and consequentially higher rents, is the main method of displacement. This mechanism for higher profits is even certified by German federal law. Another application of existing laws makes it possible to conduct a luxury modernisation and raise rents, in some cases even doubling them. All these methods increase pressure on tenants and trigger displacement, particularly of low-income residents. This began to happen at the end of the 1990s in the attractive old districts of Mitte and Prenzlauer Berg, then spread to Kreuzberg and Schöneberg, and nowadays affects not only inner districts, but wide swathes of districts such as Lichtenberg and Steglitz, among others. This broad gentrification has in some neighbourhoods been the main reason two-thirds of residents have changed in the last 10–15 years (around Kollwitzplatz in Prenzlauer Berg, the figure is as high as 90%).

The result of all this is a housing market that makes apartments inaccessible even to households with middle incomes. Some simple figures confirm this. The current average rent is almost 10.80 €/m². In the centre and the inner districts, however, it ranges between 12.00 €/m² and 13.00 €/m² and above (IBB, 2018: 62). The rent for a 50 m² space is nearly €540 and for 100 m² nearly €1,080. Setting this against the €1,950 median net household income in Berlin shows the dimension of the problem (IBB, 2018: 9). Households spend 28% to 56% of their income on rent. In the city centre, however, this figure can be much more. In general it is becoming more and more difficult for tenants to keep their apartments or to find a new one in the surrounding area.

The new building bill and the cooperative construction land development model require private owners to build 30% of residential space as low-priced social housing

These developments have raised public awareness anew but – and more importantly! – they have led to the formation of the first truly strong grassroots movements and activists, who fight for affordable housing, against displacement and in general for the right to the city. In 2015 they promoted a petition, collected over 100,000 signatures in a very short period of time and enforced a bill for a reformed affordable housing supply (*Gesetz über die Neuausrichtung der sozialen Wohnraumversorgung in Berlin*). The Green Party have actively supported their aims principally because of the common agenda in protecting and constructing affordable housing, but also because we encourage local participatory democracy. Another important grassroots movement is “Kotti & Co”, a well-organised tenants’ initiative in Kreuzberg. Since May 2012 they have organised protests against the threat of evictions and displacements of residents due to drastic rent increases by the stock exchange housing company Deutsche Wohnen (*Deutsche Wohnenenteignen*). They have also developed indispensable expertise on these issues. The newest movement and possibly the next petition are coming this April 2019. It concerns the expropriation of Deutsche Wohnen and the recomunalisation/socialisation of the stock of private housing companies like Deutsche Wohnen, Vonovia, Akelius and others. In terms of rental policy and facility maintenance, Deutsche Wohnen is one of the worst companies. Their financial model is based on overrating their own housing stock just to boost the company’s value on the stock exchange.

III. Measures of regulation

In the September 2016 elections the Green programme suggested a radical shift in housing and rental policy. After tough negotiations, a left-leaning local government was formed from a coalition of Social Democrats, Socialists and Greens. The need to implement measures to stop the privatisation of housing and move towards affordable and social housing was crucial and part of the Greens’ agenda. Such objectives require the implementation of both large and small measures.

One important target is to increase the housing stock of the six public housing companies through acquisitions and new constructions, from around 300,000 to 355,000 units by the end of the legislative period in autumn 2021, and then up to 400,000 units by 2025. In the mid-term the housing stock has increased by over 20,000 and is expected to almost reach the goal by 2021 (350,000 units). The higher the percentage of public-owned housing, the greater the stabilisation and adjustment of the rental market. For the same reason it is key to support housing cooperatives, especially those run as common goods. Berlin has a long tradition of housing cooperatives over the past 100 years. Their nearly 190,000 apartments guarantee affordable housing, which is often cheaper than public housing. Through the reformed model, with new priorities when it comes to invitations to tender, only plans (*Konzeptvergabe*) for affordable, intergenerational, participatory and ecological housing will be awarded contracts. Similar successful examples exist in cities like Vienna and Zurich.

The new building bill and the cooperative construction land development model (*Kooperative Baulandentwicklung*) require private owners

to build 30% of residential space as low-priced social housing. In the previous three years this was practised only by public housing companies and produced 1,000 new social housing units per year. At the same time, another important target is to secure the existing privately owned social housing units on new contracts and terms. A new bill will extend the binding period beyond the current 30 years, though in this case the negotiations in the coalition are tough.

New construction alone, however, is not enough to curb rising rents. A set of regulations and bills to protect existing rents and expand tenant rights has been passed. The first step towards applicable solutions was to limit rent increases in public housing companies. Although owned by the City of Berlin, they are used to acting like private competitors. A “cooperation deal” managed to insert more social targets within their business strategies, among them were: significantly curbing rent increases in social housing units (maximum 4% in the space of two years); letting 60% of apartments to people with low incomes; reducing costs after a modernisation; and providing a “hardship” regulation, which means households with low incomes should not spend more than 30% of their monthly income on rent.

Another problematic issue is the misuse of residential space, especially by platforms like Airbnb. Berlin’s position as one of the most attractive tourist destinations in Europe has an impact on affordable housing and residential neighbourhoods. There has been a considerable expansion of tourist apartments in the city (with 12,000 to 15,000 estimated units, most of them illegal) and their number has caused disturbances. The commercial use of apartments and any use other than residence require permission from the city authorities. The Misappropriation Prohibition Bill (*Zweckentfremdungsverbot-Gesetz*) passed in 2013 gave the possibility of denying permission in some cases. It became possible this way to reconvert around 9,000 units to stable residential purposes. We recently passed even stricter regulations, raising the maximum fine for violations to €500,000, making registration numbers compulsory, deleting listings upon suspicion of illegality, and limiting short-term letting of secondary homes to 90 days, among other measures. Unfortunately, there is no way to obtain Airbnb’s user data in cases where illegalities are being committed, as the platform always claims that this is prohibited by Irish data protection laws. No data yet exists on how the bill has affected the situation, but the districts now have a strong instrument for stopping further misuse.

With this bill we also introduced stricter rules on speculative vacancies and the demolition of residential buildings. We implemented a trustee model for acute cases, in which the authorities are enabled to instruct a person to put their properties under trust. When fines have no effect, the trust manages and re-lets the unoccupied living space, even without the owner’s cooperation. The housing control bill coming next year will implement more regulations for cases of misuse and open up the possibility of expropriating or putting assets under trust.

Some smaller but nevertheless important measures are higher rent subsidies for people dependent on social benefits and free legal advice for tenants throughout the city, which began this year.

A set of regulations and bills to protect existing rents and expand tenant rights has been passed

IV. Protection zones

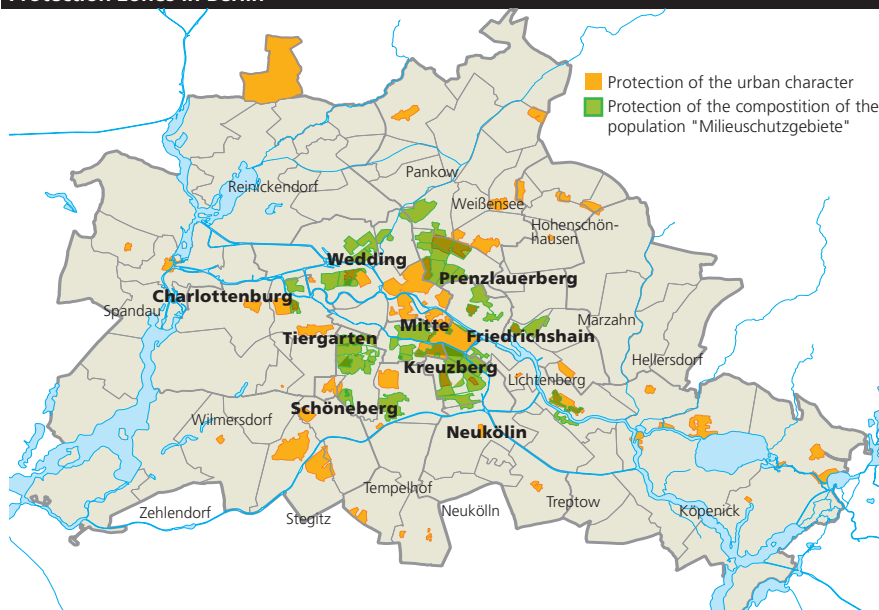
This is one of the instruments that enable districts and municipalities to challenge gentrification and displacement of low-income households in order to preserve the existing social structure of neighbourhoods

One instrument from the Federal Building Code (*Baugesetzbuch*) that cities in Germany have at their disposal and we increasingly use in Berlin is the definition of “protected zones” (*Milieuschutzgebiete*). Currently, this is one of the very few instruments that enable districts and municipalities to challenge gentrification and displacement of low-income households in order to preserve the existing social structure of neighbourhoods.

In these zones, unreasonably expensive modernisations resulting in extreme rent increases and the conversion of rented apartments into condos can be forbidden. In the last ten years more than 140,000 apartments have been renovated in Berlin. However, like many laws at the federal level, this instrument has loopholes that need to be filled. The IBB Housing Market Reports confirm that such protected zones work well. In comparison to other areas the increase in rents slowed down and the average rent is around €1 lower per square metre. There is also more diversity, from students to families with children, senior citizens and people with low incomes. About 50 such protection zones exist, containing over 800,000 inhabitants.

Another important aspect of “protected zones” is that cities and Berlin’s districts have the “right of first refusal” when private dwellings are sold. Green politicians in particular make use of the pre-emptive right to protect houses from speculation. The districts are not allowed to buy them themselves, but hand them over to public housing companies and cooperatives. The instrument has been used for almost 40 buildings containing more than 800 apartments in the last three years. However, when buyers accept an avoidance agreement, the municipalities cannot apply the right of first refusal anymore. The massive speculative real estate prices also make it more and more difficult to afford these purchases, which impose limitations on this instrument.

Protection zones in Berlin



Source: FIS Broker

V. The land issue

In the last months, when debating how speculation in property prices can be prevented, it is obvious that the land question has to be reconsidered. The right to the city is enormously linked to this. Anyone who owns land has the authority and the power to decide what to build. This process is made more complex by the extreme increase in speculative land prices over the past years. In districts like Kreuzberg one square metre of construction land cost €380 in 2008; today it is over €3,500: an increase of almost 1000% in ten years. These land prices result in no laws other than those of speculation. Undoubtedly, this has an impact on rents, especially in new buildings and it means the city and the state cannot afford to acquire space for building, housing, social or other infrastructure.

One instrument to curb speculation on construction land in Berlin was to reduce the duration of the validity of construction permits for new buildings. From this year onwards a construction permit in Berlin has a validity of only two years, which can be extended to a maximum of five years. Previously, the construction permit in Berlin had a much longer validity period. Considering that land with construction permits is always more expensive, this invites speculation over it. Instead of being built on, many hectares of land were resold at higher values after permits were granted. Recent figures show that nearly 46% – 48,000 apartments – have been proposed and permitted but not constructed yet.

In this context, land policy, especially that relating to urban land, plays an important role. After many years of the Social Democrats, Conservatives and even the former Socialists selling off public land, the current government has begun to retain its land and start its own development whereby, for example, plots of land are offered to cooperatives or developers leasing only. This way the city keeps the control over the use of land and ensures that it remains a common good. Once again, good examples exist in Austria and Switzerland, who have been practicing this for over 100 years now.

VI. A challenge for cities

The red–red–green coalition in Berlin – especially the Greens' agenda – supports and struggles for a more radical shift in rental policy. There is still a lot of work to be done. The city of Berlin plays a unique role on this issue, not only because it is the biggest city in Germany, but above all because an extension of global developments is taking place.

If we want lively, diversified and open cities that are not dominated by multinational companies, then we must once again focus radically on a land, rent and urban development policy towards establishing common goods and services for the public interest. When nobody gets upset over price ceilings for mobile phone tariffs in the EU or everyone thinks they are great, why not also limit rents? Why are policies like these put down with talk of a planned economy? It makes no sense. Only stricter and better composed regulation ensures social cohesion in our cities. We need clear rules so global trends and financial interests do not dictate the well-being of our cities and our citizens. Living space and land

One instrument to curb speculation on construction land in Berlin was to reduce the duration of the validity of construction permits for new buildings

When nobody gets upset over price ceilings for mobile phone tariffs in the EU or everyone thinks they are great, why not also limit rents?

are limited and irreproducible goods. In addition to the regulation of the real estate sector, the promotion of a housing sector that is oriented towards the needs of the citizens is also necessary. We must start looking at urban development from the bottom-up, together with civil society. That is the only way we can stop the unjust distribution of space and resources.

References

Collinson, P. "Berlin tops the world as city with the fastest rising property prices". *The Guardian*. April 10th 2018 (online) [Accessed 23 September 2018]

<https://www.theguardian.com/world/2018/apr/10/berlin-world-fastest-rising-property-prices>

Investitionsbank Berlin (IBB). *IBB Housing Market Report 2017* (IBB Wohnungsmarktbericht 2017). Berlin, May 2018 (in German) (online) [Accessed 22 September 2018]

https://www.ibb.de/media/dokumente/publikationen/berliner-wohnungsmarkt/wohnungsmarktbericht/ibb_wohnungsmarktbericht_2017.pdf

Land Berlin. "Housing supply law" (Gesetz über den Sozialen Wohnungsbau in Berlin) from July 1, 2011 and amendment from July 30th 2017 (in German) (online) [Accessed 23 September 2018]

<http://gesetze.berlin.de/jportal/?quelle=jlink&query=WoBauG+BE&psml=bsbeprod.psml&max=true&aiz=true>

Land Berlin. "Misuse prohibition law" (*Gesetz über das Verbot der Zweckentfremdung von Wohnraum*) from November, 29th2013 and amended April, 20th2018, (in German) (online) [Accessed 23 September 2018]

<http://gesetze.berlin.de/jportal/?quelle=jlink&query=WoZwEntfrG+BE&psml=bsbeprod.psml&max=true&aiz=true>

Ludwig, M. "Das Wiener Modell - der soziale Wohnungsbau in Wien". BDB, Bund deutscher Baumeister, Architekten und Ingenieure e.V. (Hg.): *Jahrbuch 2017 mit Sachverständigenverzeichnis*, Berlin, 2017 (online) [Accessed 23 March 2018]

https://www.smartertogether.at/wp-content/uploads/2017/09/2017-02-Beitrag_Wiener-Wohnbau_BDB-Jahrbuch-2017.pdf

Martel, A. "Wohnungen werden kleiner, Mieten wird günstiger". *Neue Züricher Zeitung*, 27.3.2017 (in German) (online) [Accessed 23 September 2018]

<https://www.nzz.ch/wirtschaft/neue-daten-des-bundesamts-fuer-statistik-wohnungen-werden-kleiner-mieten-wird-guenstiger-ld.153695>