



Image source: BATO Group

The Federal Election and The Parties' Property Promises

On the occasion of the upcoming German federal election (Bundestag election), we took a look at the pledges of the political players in regards to the property market. It needs to be said that the programmes are mainly concerned with the residential sector, which will also be our focus today. We have looked at the promises of the six key parties who have a realistic chance to become part of the *Bundestag* by achieving 5% of the national vote: the Christian Democratic Union and the Christian Social Union (CDU/CSU), the Liberal Democratic Party (FDP), the Social Democratic Party (SPD), the LEFT, the Alliance '90/Green Party (*Bündnis 90/Die Grünen*) and the Alternative for Germany (AFD). We have reviewed the election manifestos of the parties as well as their statements in political debates, the media, and in particular the election guide for the real estate industry (*Immomat*) by the Central Committee for Real Estate Association (ZfA) and *Immobilien Zeitung (IZ)*.

The Letting Market

With the tenancy law amendment from 2015, the present legislative period brought some changes in the residential market. Regulations such as the rent cap (*Mietpreisbremse*), the ban on conversions of rental into owner-occupied apartments (*Umwandlungsverbot*), the ban on misuse of housings, e.g. as holiday apartments (*Zweckentfremdungsverbot*) and the ordering principle (*Bestellerprinzip*) came into effect. Although heavily criticized by market experts, some political camps pursue the path of further interventions.

The rent cap, in particular, attracted great political attention. Since the law was passed by the *Bundestag* in June 2015, it has been adopted by 12 federal states* affecting most larger cities with tense housing markets. The rent cap limits rent increases on new lettings to the maximum rent level of 10% above the local comparative rent, unless it already exceeded that level before. New-build and extensively refurbished units have been exempted from this regulation, so far.

Two years later, several analyses show that the rent control measure could not prevent or slow down rents increases.

Chancellor Angela Merkel has recently declared the rent cap to have failed. In its manifesto, CDU/CSU state that the problem of rising rents should be tackled by creating more housings. The Chancellor also said that it's not the lack of funds that prevents new housing from being constructed but lengthy building permit procedures. However, the party will probably leave the existing legislation as it is.

The FDP shares this view but goes one step further. The Liberal Democrats want to abolish the rent control law, seeing it is an obstacle for investment in housing, especially by private individuals. The party also intends to ease the ban on holiday apartments for private individuals.

The AFD holds the rent cap accountable for rent increases and would also abolish it.

The GREEN Party believes that the law needs to be tightened further in order to unfold its effects. The party wants to limit exemptions that apply for extensively refurbished apartments or significantly reduce the percentage of refurbishment cost that can be allocated to the tenant by passing them onto rental payments (*Modernisierungsumlage*), from currently 11% to probably 8% a year.

The LEFT demands a nation-wide rent cap with no exemptions and no time limitations (the law is currently limited to a period of five years) and want to penalize landlords who bypasses the law. Additionally, the party wants to enforce a general ban on conversions of rental apartments (*Umwandlungsverbot*) in social preservation areas and control rent increases in such areas to an upper limit of € 8.50 per square metre (current Germany-wide net average rent is € 7.90, in larger cities € 10,39¹). The distribution of modernisation cost onto rental payments should be cancelled, according to the party.

*Exemptions are Mecklenburg-Vorpommern, Saxony, Saxony-Anhalt and Saarland

¹ Bundesamt für Bauwesen und Raumordnung

The SPD wants to oblige landlords to disclose the rent payable in the previous letting, this being the only way tenants could see if they have been overcharged. Tenants shall also be able to reclaim the overpayments with retroactive effect, i.e. from the contract date. The party demands "better and binding" rent indexes (*Mietspiegel*), using a longer period for their calculation: the currently four-year period should be extended to eight years, which will lower the average rent since older contracts will be included. The amount of refurbishment cost allocated to the tenant should also be limited, according to SPD.

Home Ownership Promotion

Germany is well-known for having one of the lowest home ownership rates in Europe with just about 45%¹ (EU-average is ca. 69.5%²). Naturally, home-ownership rates in larger cities are much lower with ca. 27% on average (Berlin: 16%)³. While low home ownership in Germany also has historical reasons, the conditions for home buyers have changed in the past, to their great disadvantage.

Before 2006, the German government was offering one of the largest state subsidies for home ownership promotion, the so-called *Eigenheimzulage*. However, it was discontinued and no longer available from 2006. According to the *Pestel-Institut* (a research institute for municipalities, companies and associations), this cut has led to a downward trend in home purchases, in particular for the population group of the age 25-45 years.

Additionally, the taxation of real estate transfer has risen significantly since 2006, when the municipalities have been given the authority to determine their own rates (up to a maximum of 6.5%). From the previously nation-wide rate of 3.5%, this tax grew to 5 - 6.5%, depending on the state, Bavaria and Saxony being the only exceptions.

It is reassuring that, with the exception of the LEFT, all parties have something on the table to support private home ownership.

CDU/CSU and SPD plan to provide financial aids families who want to build or purchase their own property with equity capital subsidies (*Baukindergeld* or *Familienbaugeld*, respectively). CDU/CSU suggest a subsidy of € 1,200 per child and year for a period of ten years, SPD suggests € 8,000 - 20,000 per family, depending on the number of children. Both parties plan additional incentives for buyers of existing property in rural areas with high vacancy rates where population is declining.

The CDU/CSU are also looking at reducing the burden for home buyers resulting from the real estate transfer tax by introducing an allowance of € 100,000 that would be exempted from taxation.

The FDP plans an allowance of € 500,000 for the real estate transfer tax for owner-occupiers. The Liberal Democrats also plead for a uniform nation-wide real estate transfer tax, which should be lowered in markets with fast growing prices.

The SPD wants to expand the existing programmes by the government-owned development bank *KfW* which offers private individuals affordable loans for owner-occupied property as well as loans and grants for energy-efficient modernisations.

The GREENS argue in favour of the real estate transfer tax, but want to support people with lower incomes with equity subsidies and shares in housing cooperatives.

AFD suggest, families with children could be supported, for example, via interest-free loans, grants and exemption from the real estate transfer tax when buying a home. The real estate transfer tax should be abolished or reduced to a level of 2-3%.

The SPD, the LEFT, the GREENS and AFD also want to extend the ordering principle (*Bestellerprinzip*) to be applicable for housing purchases. The ordering principle has become effective in June 2015 as a part of the tenancy law reform, along with the rent cap. It stipulates that the party ordering the services of the letting agent, which is mostly the landlord, is also accountable for paying the agent's commission, instead of tenants paying it by default. This is how the parties seek to want to reduce the financial burden also in case of buying a home.

New Housing Promotion

When it comes to the actual problem, the insufficient housing supply for the growing population in metropolitan areas, following plans are on the agendas of the political players.

CDU/CSU and FDP on the one hand plan to stimulate private investment with tax reliefs by increasing the depreciation rate on property assets (abbr. *AfA*) for rented housing. FDP's plan is to increase the yearly depreciation rate from currently 2% to the minimum of 3% per annum. CDU/CSU favour a degressive depreciation according to the model they had on their agenda but couldn't push through in the current coalition with the Social Democrats. The model proposed a depreciation rate of 4% in the first decade, 2.5% in the following eight years and 1.25% for the remaining 32 years.

The GREEN Party and AFD on the other hand are opposed to an increase of *AfA*. The former say, this would incentivate faster wear of buildings and the latter argue that it would lead to more activity only in certain, already overheated markets segments.

To provide more reliability for developers and architects and ease building activity across federal states, CDU/

¹ Pestel-Institut.de
² Tradingeconomics.com
³ <http://www.wohn-perspektive-eigentum.org/>

CSU, FDP, SPD and AFD advocate a consistent Germany-wide building code (*Musterbauordnung*) that regulates building permits instead of currently 16 different legislations. The GREEN Party and the LEFT are not opposing this idea.

FDP also demands earmarking of the federal funds that are provided for building activity (currently €500 million a year), criticizing that these funds are being spent for other purposes.

The GREENS and the LEFT want to revive the concept of Limited Profit Housing Market (*Wohnungsgemeinnützigkeit*, prevailed in Germany until 1990), where cooperatives and limited-profit companies will be granted privileges such as access to tax reliefs, subsidies and publicly owned land in return for creating housings in the public benefit. The LEFT plans to invest five billion Euros a year in building or acquiring 250,000 publicly-owned social housings and set a quota for social dwellings in all districts. The GREEN Party aims to create one million social dwellings.

SPD also wants to support the non-profit oriented building activity and create more publicly-owned dwellings.

Building regulations

The highly restrictive building requirements in Germany such as the Energy Saving Regulations (*EnEV*), while serving a good environmental purpose on one hand, certainly have a dampening effect on construction activity, on the other.

The GREENS consider the building sector to hold the greatest potential in climate emission reduction. The party wants to achieve higher standards by expanding the Renewable Energy Heat Act (*EEWärmeG*) to existing buildings for both residential and commercial sectors (which currently affects new-build property). The party also proposes tax incentives for energy-focused modernisations for owner-occupied housings.

The LEFT demands more federal subsidies for supporting environmental measures such as exchanging technically old building equipment for energy-saving options. Energy-focused refurbishments should be facilitated with tax reliefs such as special depreciation.

FDP and CDU/CSU are opposed to any further tightening of environmental regulations for new building. When it comes to existing buildings, the Christian Democrats prefer economically-oriented rather than fixed solutions. Both the Christian and the Liberal Democrats favour more economical orientation while CDU/CSU argue in favour of a special depreciation for energy-focused building refurbishment (*Sonder-AfA*).

AFD supports this view, stating that the tight energy saving requirements lead to hikes in construction costs and rents.

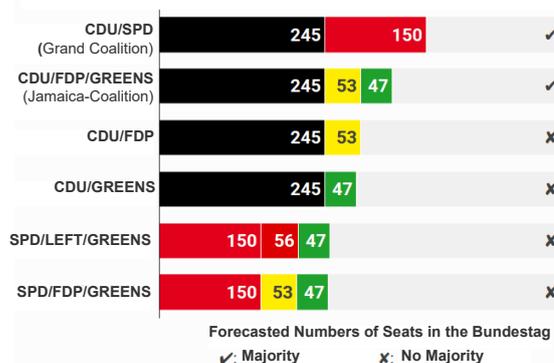
SPD plants to offer financial benefits for owners who produce their own renewable energy.

Conclusion

While CDU/CSU, FDP and AFD want to solve the housing market problem by stimulating investment activity and speeding-up construction by reducing regulatory hurdles, the LEFT, the GREEN Party and SPD place their bets on interventions and publicly owned social housing.

Current polls show that CDU/CSU are currently ahead of all other parties with 39%, but will not reach the majority. The Christian Union will have to seek a coalition agreement with either SPD (22%) to form the grand coalition again, or one of the minor parties, FDP (10%) being the preferred option. As CDU/CSU/FDP might not be sufficient for the majority, the so-called Jamaica coalition (CDU-FDP-GREENS) is considered as possible. Other coalition options are unlikely, either because they would fall short of the majority or due to political differences.

Prognosis: Possible Coalitions After the General Election



Source: Bundestagswahl-2017.com, modified by BATO

The most desirable outcome for the real estate industry under the current circumstances would be a coalition between CDU/CSU and the Liberal Democrats. Such a coalition currently governs the state North Rhine-Westphalia. And although this is not indicative of how it may look like on the federal level, we took a glimpse into the housing policies in their coalition agreement, where the *NRW*-government pledges to revoke several regulations such the rent cap, the ban on misappropriate use of housings (ban on holiday apartments) and the ban on conversions of rented apartments (*Umwandlungsverbot*) and to reassess some other regulations, "in order to make private investment more attractive".

And although chances for a coalition between CDU/CSU and FDP are small, hopes are going up as it gets closer to the election date. Latest polls suggest that its possible for the parties to achieve a narrow majority of the vote.

Please note that the contents of this newsletter have been researched and written according to the best of our knowledge; however they are in no way to be accepted as a legal advice or suggestion. Therefore we exclude any liability.

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