

FOCUS REAL ESTATE MARKETS

The implications of a possible “traffic light” coalition in Germany for the real estate markets

Executive Summary

The exploratory paper of the three possible future coalition partners SPD, Bündnis 90/DIE GRÜNEN and FDP gives a first taste of the possible housing policy of a so called traffic light coalition (Ampel-Koalition). The parties' differences during the election campaign were considerable, and there was often no sign of compromise. In the exploratory talks, it was nevertheless possible to agree on a few roughly outlined measures: the current rent regulation will not be tightened, but - regrettably from the point of view of landlords - there will be no deregulation either. Construction will tend to become more expensive, as solar roofs are targeted for new buildings. Initially, this will primarily affect commercial construction, while private residential construction will rely on voluntary measures combined with subsidies. If the new coalition's target of building 400,000 housing units per year, including 100,000 social housing units, is achieved, this could make an important contribution to stabilizing housing rents. Accelerated depreciation would also help in this regard. Overall, it is clear that there is no need to prepare for drastic changes in the real estate market. A disruptive break with previous housing policy is not in sight.

In search of a solution to the housing shortage

With regard to the real estate market, people and politicians are primarily concerned about the increasing lack of affordable housing. Rents have risen massively in recent years, particularly in metropolitan areas. The usual approaches to solving the problem - increasing construction activity and rent regulation - have so far failed to bring about any significant improvement in the situation. Construction activity has increased, but the housing offensive promised by the grand coalition in 2018 has not been fully implemented. The self-imposed target of 1.5 million new homes was missed. As a result, it is estimated that only 1.2 million homes will be built by the end of the past legislative period - 300,000 fewer than planned.

The lack of affordable housing, especially in metropolitan areas, is fueling calls for more regulatory intervention in the housing market. The Mietpreisbremse (rent brake), which since 2015 has been intended to limit price increases for new rentals in tight residential areas, has largely failed to have the desired effect. The Berlin rent cap, which recently failed before the Federal Constitutional Court because it found that the legislative competence lies with the federal government and not the states, has reignited the debate. In addition, the Berlin initiative "Expropriate Deutsche Wohnen and Co." recently made it clear: There is pressure to act. On September 26, a referendum was held in parallel with the Bundestag elections to vote on the expropriation and socialization of private housing

companies in Berlin. The result underscores the desire of the population there for a change of direction in policy. In Berlin 57.6% of the population voted in favor of socialization. Even though the vote is not binding for politicians, the situation is explosive.

Against this background, it is particularly interesting for landlords and tenants to see what changes can be expected in the real estate market over the next four years. The coalition negotiations are far from complete, but the exploratory paper of the three possible future coalition partners SPD, Bündnis 90/DIE GRÜNEN and FDP, as well as the election programs, allow conclusions to be drawn about the direction to be taken in individual areas and where overlaps can be identified. The focus is mainly, but not exclusively, on housing.

In search of common ground

The differences between the parties now forging a coalition were great during the election campaign, also and especially on the subject of housing policy. While the SPD and the Greens want to transfer land policy - i.e., government measures that influence the use, value or distribution of land - back into public hands to a greater extent and specifically strengthen the role of municipalities in this regard, the FDP intends to create more investment incentives for private investors. Regulation of the rental housing market is supported by the Greens and the SPD, although their ideas differ in detail. The Greens go one step further by calling for a basic right to housing. The FDP

categorically rejects intervention in the market. It considers both the rent brake and the Berlin rent cap to be ineffective.

The three parties have claimed different priorities for themselves in the election campaign. The FDP emphasizes the urgent need for digitization to speed up planning and approval processes. This should make it possible to mobilize more building land. Unsurprisingly, the Greens are calling for more climate protection on all fronts. New construction, not least of single-family homes, is considered a secondary priority. Building on existing structures, i.e., energy-efficient renovation of existing buildings, is given priority. To a certain extent, the SPD is taking the position of mediator. The party's own election program captures this fact. It reads as follows: preserving affordable housing and creating new housing. To this end, we will bring all stakeholders to the table.

The outcome of the exploratory talks proves it: They do exist, the overlaps. The first compromises can be identified. The exploratory paper already stated that it is essential to ensure planning security for the construction industry in order to build up construction capacity. For a long time, the shortage of construction workers and the cumbersome approval processes have been a major obstacle to the creation of more housing.

Creation of living space - social housing

A key objective is to create affordable housing. The parties agreed to build 400,000 new homes per year. Of these, 100,000 are to be publicly subsidized. Social housing construction is thus to continue to receive significant support from the federal government. In addition, the Greens are putting forward the concept of a new residential community benefit (Neue Wohngemeinnützigkeit). An investment program of three billion euros a year is called for. Over the next few years, one million additional, permanently affordable rental apartments are to be created in cities and metropolitan areas. The idea is quite simple: community-oriented investors receive an investment subsidy of up to 20 percent. In return, they undertake to let the subsidized apartments to people with small and medium incomes and, moreover, to rent them permanently below the local rent. In their election program, the Liberals also call for private individuals not to have to pay land transfer tax on the purchase of owner-occupied residential property up to an exemption amount of 500,000 euros, which can be up to 6.5% of the purchase price depending on the federal state. The FDP's plan to increase the depreciation rate for real estate purchased for rental purposes from 2% to 3% will presumably provide an even greater incentive to build housing. This will provide considerable tax relief for people who build or purchase a house. Furthermore, the overall cost of housing construction

is to be reduced. Three specific components are envisaged: i) digitization, ii) cutting red tape, and iii) standardization.

Acceleration of planning and approval procedures

This project undoubtedly bears the hallmarks of the FDP. The call for more digitization was a flagship issue for the party during the election campaign. The party platform also called for a digital construction passport in the interests of reducing bureaucracy. Laws are now to be subjected to a "digitization check" in the future. The intention is clear: to build more and more cost-effectively. The hope is also that accelerating planning and approval procedures will create more planning certainty, which would encourage construction companies to build up capacity more permanently than before. In this way, a contribution would be made to reducing the high backlog of building permits.

Regulatory intervention in the housing market

When it comes to rent regulation, the FDP may lose out. Although the exploratory paper does not mention a nationwide rent cap, the current rent protection regulations are to be evaluated and extended. The exploratory paper remains rather vague at this point. It is therefore worth taking a look at the respective election programs. The SPD is in favor of a temporary moratorium on rents. In tight residential areas, rents are to be increased only in line with the rate of inflation. The rent brake is to be de-funded and loopholes closed. The Greens plan to limit regular rent increases to 2.5% per year within the rent index. There are to be no more exceptions, as is currently the case for furnished housing - here there are regulations that provide for the rental price brake to be waived under certain conditions if the apartment is furnished. During the election campaign, the SPD and the Greens also campaigned for a qualified rent index. The parties criticize the rent index in its current form capturing merely newly fixed rents. In order to reflect reality more adequately, the contractually agreed rents of the past years should also be included in the compilation in the future. Even if the ideas are not congruent in detail, a common denominator can be guessed at. The choice of period for deriving the local comparative rent should not be underestimated. The longer this period is chosen, the more likely it is that the assessment basis will become a 'de facto' rent cap. The SPD plans to use at least the contractually agreed rents of the past eight years. The Greens even intend to include the rents of the past 20 years in the calculation. The FDP is likely to aim for a rather short period.

Real Estate Market - the end of "share deals"

Until now, real estate investors have been able to significantly reduce the real estate transfer tax payable through so-called

share deals. Share deals are often part of real estate transactions by project developers and large portfolio-holding real estate companies and funds. In these deals, the shares in the companies that own the properties are traded, not the properties themselves. If less than 90% of the shares are transferred, no real estate transfer tax is payable. The lower transaction costs do favor investors. However, it is often quite ordinary investors who end up with the real estate: savers of life insurance policies, real estate funds and real estate shares, with which they build up their pension provision. Despite these disadvantages, the parties agree that investors should no longer benefit from this arrangement in the future. A corresponding amendment to the law is intended to eliminate such tax exemptions for corporations when acquiring real estate. There is also a demand for proof of taxation for commercial real estate buyers from abroad and a ban on purchasing real estate with cash. The latter has its origins in the party platform of the Greens and the aim is to make money laundering and tax evasion more difficult.

In addition, the Greens would like to see more transparency in real estate transactions overall. More action should be taken against misuse and speculative vacancy of residential space, according to the Greens. The SPD at least supported the idea of a real estate register of ownership structures. Only the FDP does not comment on this issue in its election program. These issues were apparently left out of the exploratory paper, which leads to the assumption that these ideas will not be implemented for the time being.

Climate protection in the building sector - is solar compulsory?

Against the backdrop of the climate targets, the topic of climate protection in the building sector is naturally also part of the agenda of the possible coalition partners. In particular, the parties want to focus more on climate protection in new buildings and at the same time accelerate energy-efficient refurbishment of existing buildings. The interesting question is that of cost. After all, sustainability has its price. So who will bear them: tenants or landlords? The exploratory paper provides little information on this.

Instead, the exploratory paper focuses on the decentralized expansion of renewable energies. One measure in particular

stands out: the "solar obligation". In future, all suitable roof surfaces are to be used for solar energy. This is to be mandatory for new commercial buildings, and at least the rule for new private buildings. The question of financing is addressed - in order not to overburden private builders financially, ways would be opened up - but ultimately remains unanswered.

Last but not least, one of the FDP's core issues is addressed. The party has long complained that Germany currently has the highest electricity prices in Europe for almost all consumer groups and is therefore losing competitiveness as a business location. This is likely to change in the future. The exploratory paper states that the financing of the EEG (Renewable Energy Act) surcharge via the electricity price is to be ended as quickly as possible, which would relieve the burden on tenants and homeowners alike.

Conclusion

The exploratory paper provides a first taste of the possible housing policy of a traffic light coalition. One thing becomes clear: There will be no disruptive break with previous housing policy. The current rent regulation will not be tightened, but - regrettably from the landlords' point of view - there will be no deregulation either. Construction will tend to become more expensive, as solar roofs will be targeted for new buildings. Initially, this will primarily affect commercial construction, while private residential construction will rely on voluntary measures combined with subsidies. If the new coalition's goal of building 400,000 housing units per year, including 100,000 social housing units, is achieved, this could make an important contribution to stabilizing housing rents. Accelerated depreciation would also help in this regard. Finally, more verification requirements are needed for investors from abroad, making them less susceptible to money laundering offenses. All in all, the real estate sector can probably live well with these requirements, even if many details remain unclear.

Carolyn Kaddatz

Junior Economist

Telefon: 040-3333-15206

IMPRESSUM

Hamburg Commercial Bank

Hamburg

Gerhart-Hauptmann-Platz 50
20095 Hamburg
Telefon 040 3333-0
Fax 040 3333-34001

Editing & Mailing

Dr. Cyrus de la Rubia
Chefvolkswirt
Tel.: 040-3333-15260

Christian Eggers
Senior FX Trader
Tel.: 040-3333-25514

Tariq Kamal Chaudhry
Junior Economist
Tel.: 040-3333-12820

Carolin Kaddatz
Junior Economist
Tel.: 040-3333-15206

Editorial Deadline for this issue: November 03, 2021

Disclaimer

The market information contained in this presentation is for informational purposes only. It can not substitute own market research or separate legal-, tax- and financial advice and information. This information is a marketing communication by the meaning of Section 63 Paragraph 6 German Securities Trading Act ["Wertpapierhandelsgesetz", "WpHG"] and Article 24 Paragraph 3 of the Directive 65/2014/EU. This information does not contain 'information recommending or suggesting in investment strategy' or 'investment recommendations' ("investment research") by the meaning of Section 2 Paragraph 9 Point 5 WpHG or Article 3 Paragraph 1 Point 34 and Point 35 of the Regulation (EU) No. 596/2014. Therefore this information is not prepared in accordance with legal requirements designed to promote the independence of investment research and it is not subject to any prohibition on dealing ahead of the dissemination of investment research. This presentation does not constitute an offer to buy or sell certain assets.

Hamburg Commercial Bank AG points out that the herein published market information is only meant for investors with own economical experience, who are able to evaluate the risks and chances of the herein discussed market / markets and who are themselves able to conduct research through a variety of sources. The statements and data contained in this presentation are based on either thorough research by Hamburg Commercial Bank AG or on sources that are considered reliable but cannot be verified. Hamburg Commercial Bank AG regards the sources used as reliable but can not assess their reliability with absolute certainty. Single pieces of information could only be assessed regarding their plausibility; an assessment regarding their accuracy has not been made. Furthermore, this presentation contains estimates and predictions based upon numerous assumptions and subjective evaluations made by Hamburg Commercial

Bank AG as well as outside sources. This information is only meant to provide non-binding perceptions of markets and products as of the time this presentation was issued. Hamburg Commercial Bank AG and its respective employees thoroughly conducted work on this presentation but can not guarantee completeness, actuality and accuracy of the provided information and predictions.

This document may only be distributed in compliance with the legal regulations in the respective countries and persons obtaining possession of this document should inform themselves about and comply with the applicable local regulations.

This document does not contain all material information needed for economic decisions and the information and predictions provided can vary from those made by other sources / market participants. Hamburg Commercial Bank AG as well as their organizational bodies and employees can not be held responsible for losses resulting from the use of this presentation, its contents or for losses which in any way are connected to this presentation.

Hamburg Commercial Bank AG points out that it is not allowed to disseminate this presentation or any of its contents. Damages to Hamburg Commercial Bank AG resulting from the unauthorised dissemination of this presentation or any of its contents have to be compensated for by the disseminator. The disseminator has to keep Hamburg Commercial Bank AG free from all claims arising from the unauthorised dissemination of this presentation or any of its contents and all legal cost in connection with those claims. This particularly applies to a dissemination of this presentation to U.S. Persons or persons situated in United Kingdom.

Weitere Ansprechpartner

Global Sales & Syndicate

Tilo Kraus
Tel.: 040-3333-14614

Institutional & Liability Sales

Thomas Benthien
Tel.: 0431-900-25000

Corporate Treasury Sales

Stefan Masannek
Tel.: 0431-900-25550

Syndicate & Credit Solutions

Tim Boltzen
Tel.: 040-3333-13765