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Rent Control in Germany: An Overview and Lessons Learned

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- **Fundamentals – Why and What (Not)?**
- **Federal Rent Control – Rules and Regulations**
- **Other Regulations**
- **The Case of Berlin (State Law)**
- **Outlook**



- **Determinants of German Housing Markets**

- **Demand Side**

- 84.3m population as of December 31, 2022
 - +1.12m (+1.35 %) population Y-o-Y 2021
 - +8.5% in households 2022 vs. 2000

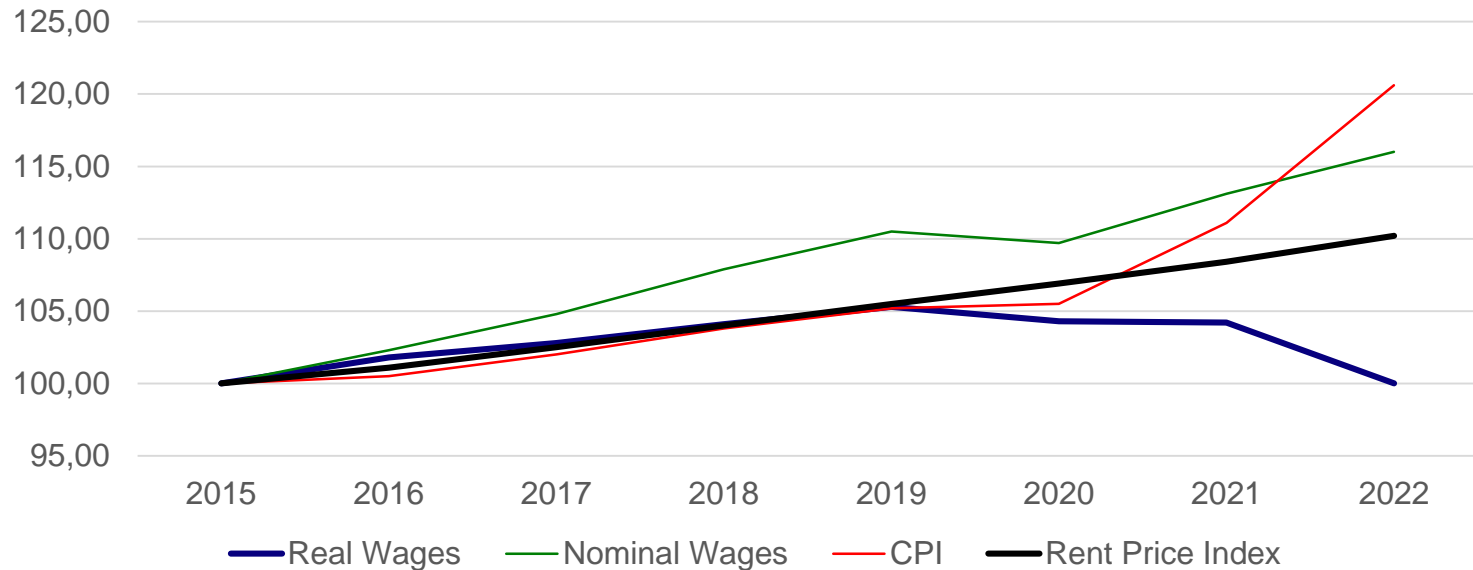
- **Supply Side**

- 43.4m housing units as of December 31, 2022
 - +282k (+0.7 %) housing units Y-o-Y 2021
 - But: in a decade view (2012-2022), the housing stock grew more than the population



▪ Determinants of German Housing Markets

▪ Income vs. Rent Prices



Why would we need Rent Control before 2020?

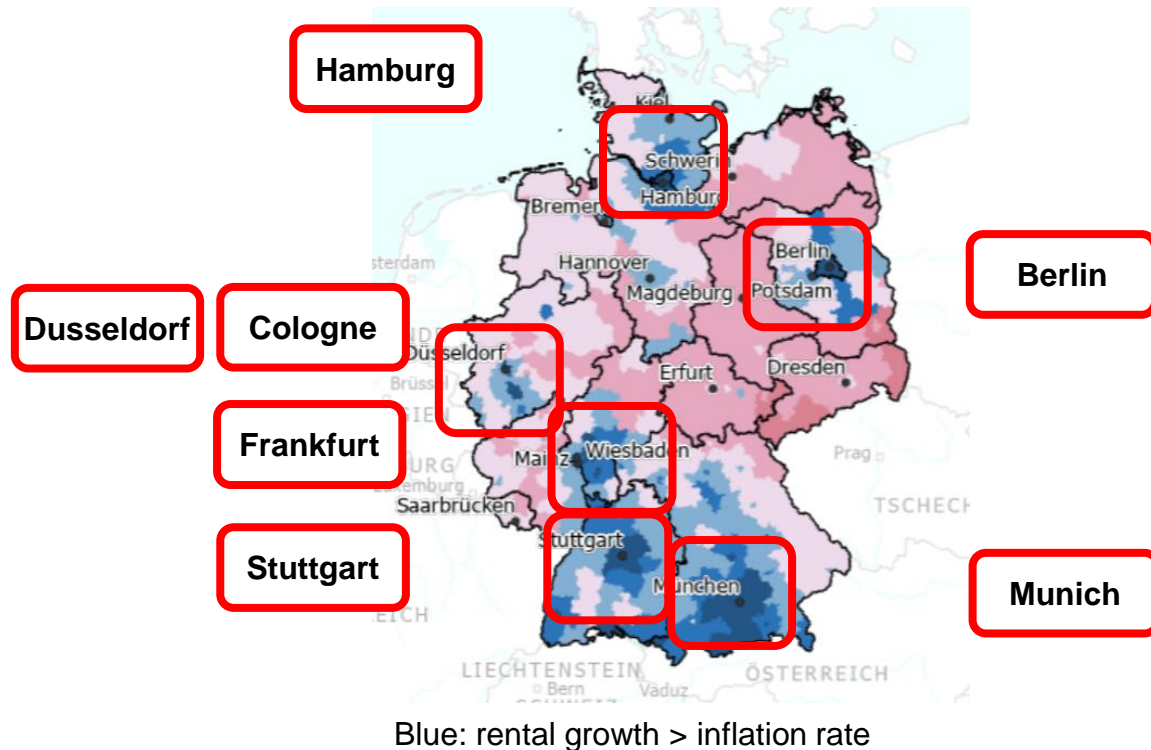
Fundamentals – Why and What (Not)?

Spatial Patterns of Rent Development



- **Determinants of German Housing Markets**

- **Why Rent Control?** Regional Differences across Germany
- (urbanization rate 77.5 %, + 0.2 % 2022 vs. 2021)





- **What is Rent Control?**

- Rent Control

- Regulation to Adjust Absolute Rental Pricing, where Market-Based Approach Delivers Undesired Outcome → Price Intervention
 - Property View: which rent is market-based?

- Not Rent Subsidies (→ Price remains unchanged and market-based)

- Eligibility for Social Housing due to Low Income
 - Eligibility for Rent Top-Up due to Low Income
 - Eligibility for Rent Subsidy due to Unemployment



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▪ **Policy Interventions Against Market-Based Rent Pricing**

- 2013 Declaration of Housing Shortage for Cities and Counties on State (Province) Level, for max. 5 years

rents in low-rent properties must not be increased by more than 15 % within 3 years and must not exceed market rent

Prohibition of Termination of Apartment Lease for 3 to 10 years after sale

- 2015 Rent Control in Areas with Housing Shortage
- 2018 Intensification of Rent Control Regulations to avoid Luxury Renovations
- 2020 Extension of Rent Control until end of 2025



- **How does Federal Rent Control work?**
 - Only applicable in Residential Markets
 - Only valid in Areas with Housing Shortage (self-declaration)
 - Only applicable to new leases
(no intervention with existing leases)
 - Only applicable to base rent
(not applicable to utilities, heating/energy costs, taxes, etc.)
 - Base Rent must not exceed 110 % of Market Rent
 - Base Rent must not exceed this threshold at any (future) time
during the lease (no workaround with step-up rents)



- **Are there Exceptions to Rent Control?**
 - Not applicable to Apartments
 - Built/finished in or after October 2014
 - Completely modernized in or after October 2014
 - Not applicable, if the prior rent before introduction of Rent Control was already much higher than Market Rent (who proves?)

- **Discussion – what do you think?**
 - Why would Rent Control put New Buildings out of scope? Aren't these the most expensive ones?
 - How effective is this form of Rent Control empirically?



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- **Freedom of Contract vs. Market Intervention**
 - 20 % above market rent can fulfill the elements of unnecessary overpricing and depict a regulatory offense
 - § 5 WiStG (Economic Crimes Code)
 - Fine of up to 50,000 EUR (7.8m KSh)
 - 50 % above market rent can fulfill the elements of price gouging / profiteering (Court rulings)
 - § 291 StGB (Criminal Code)
 - Up to three years of prison, in severe cases up to 10 years.
 - or Fine/Penalty



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- **A New Dimension of Intervention**
 - Also applicable for existing rent contracts!
(other than Federal Rent Control)
 - Exceptions quite similar to Federal Rent Control



- **Berlin's Rent Ceiling and Rent Freeze Regulation is Unconstitutional!**
 - Nullification by the Federal Constitutional Court on March 25th, 2021
 - As long as there is Federal Rent Control, no State may make own rules



Source: Bundeszentrale für politische Bildung

- Comment: Unconstitutional **FOR NOW...**



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- **Foreseeable and Hypothetical Developments in the Future**
 - Federal Rent Control is currently under review
 - If not extended, it will end on December 31, 2025
 - What could that mean for Berlin's Model?
 - **Discussion:** Would you invest in Berlin's property market today?

 - Commercial Rent Control
 - Office Markets have become increasingly tight until 2019 (OK now)
 - Logistics Markets have become increasingly tight between 2020 and 2022 (better now)
 - Serviced Senior Homes are considered a commercial property (= no rent control). **Discussion:** Should we change that?



Questions, comments, remarks:
Anything to discuss?

Thank you for your attention!



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