

GUEST OPINION



BERLIN MOVES WITH THE TIMES

Germany's new rent freeze isn't as modern as one might think, writes **Rainer Zitelmann**

IN GERMANY, the free market principles that underpin the housing sector are increasingly being abolished. And the German capital, Berlin, which is governed by a coalition of the Social Democrats, the left-wing environmentalist party the Greens and the Left party, is leading the way.

The Left is the same party that held power in communist East Germany (the GDR). The party has simply rebranded itself several times since it was known as the SED. For several years now, responsibility for housing construction in Berlin has rested with Katrin Lompscher of the Left party, who is senator for urban development and environment.

Lompscher joined the communist SED in 1981. As one of her first official acts after joining the Berlin government as a senator, she appointed Andrej Holm as her secretary of state. In numerous speeches and publications, Holm praised Hugo Chavez's housing policy in Venezuela.

However, he failed to disclose that he had previously worked for the Stasi, the GDR's infamous state security service. Once this fact became public knowledge, he had to resign from his position as secretary of state, but was still involved in governing Berlin as an adviser to Lompscher.

RENT FREEZE APPROVED

Berlin has now become the first state in Germany to approve a complete rent freeze. The final legislation has

not been drafted yet, but Berlin's Senate has already agreed on the following key points:

Effective immediately, the rents of more than 1.5m apartments in Berlin may not be increased over the next five years.

Upon a change of tenancy, the contractually agreed rent for the new tenant is not allowed to exceed the final rent paid by the previous tenancy.

In addition, the Senate will set a maximum rent, the amount of which has not yet been determined.

Rents that are higher than the statutory maximum will have to be reduced – otherwise landlords will face fines of up to €500,000. Once the new law is finalised, it will take effect retroactively from 18 June 2019.

This law is due to be approved for an initial five years. But anyone who believes it will then be abolished again and the rent freeze lifted is politically naive. The "rent brake" (Mietpreisbremse), which has been in force across the whole of Germany since 2015, was also initially approved for

just five years and is now set to be extended, as was to be expected. This history will repeat itself when the Berlin rent freeze expires after the first five years. Which politician will then be brave enough to demand the abolition of the rent freeze?

Other cities have already indicated that they want to follow Berlin's lead and adopt similar rent cap regulations. It is safe to assume that this will be the case in Bremen, while similar discussions are already underway in Frankfurt. A grassroots rent freeze has also been launched in Bavaria.

Whether such moves are actually legal – because tenancy law is a matter for the federal government, not the state – does not seem to matter at all to politicians. They are acting true to the motto: we will decide for now and anyone who is affected can take legal action. But bringing a complaint to the highest German court, the Federal Constitutional Court, is a long-winded process and takes five to six years before a final decision is made. In the meantime, the country is left

with a political fait accompli.

RENT FREEZES DATE BACK TO THE NATIONAL SOCIALIST ERA

Berlin's rent freeze strategy has already been implemented in a similar form by both National Socialists and Communists. In November 1936, the National Socialists imposed a complete rent freeze in Germany. With very few modifications, these regulations applied in the GDR until 1990. What is now being sold by Berlin's left-wing government as a "new" concept, namely state-owned apartments (acquired through expropriation) plus a rent freeze, has long since been tried in practice, with catastrophic consequences for tenants.

Rents in the GDR were very low, but citizens had to wait many years until they were allocated one of the country's highly-coveted prefabricated apartments. Period apartments in pre-war buildings in Leipzig, Dresden, East Berlin, Erfurt and other East German cities were so dilapidated that, following German reunification, a huge tax programme was launched – the Development Areas Act – to channel billions of euros into renovating the region's housing stock.

However, it was not only pre-war buildings, but also the GDR's prefabricated buildings that had to be renovated on a grand scale. In addition, a substantial programme of new construction was required to eliminate the housing shortage in East Germany.

A total of 838,638 apartments were completed in the new federal states and East Berlin in the 1990s with the help of tax incentives. At a cost of €84bn.

OPEN AND HIDDEN EXPROPRIATION

Preparations are currently underway in Berlin for a referendum on the expropriation of property owners, which is supported by the Left party

and sections of the SPD and the Greens. If the referendum succeeds, any private housing company with more than 3,000 apartments in Berlin will be nationalised. The activists calling for the referendum have already collected more than three times as many signatures as they need.

Berlin's left-wing government is currently pursuing a two-phase strategy. In the first phase, the rent freeze is intended to massively devalue the housing companies' stock of apartments.

Left-wing politicians have already expressed their delight at the fact that the stock prices of listed real estate companies such as Deutsche Wohnen,



Berlin's policy of "hidden expropriation" is already in full swing

Vonovia and ADO have collapsed.

Once the value of the companies' real estate has been driven down, the aim is to achieve a drastic discount on the net asset value during the planned expropriation phase – ultimately, perhaps only 30 per cent of the current market value will be paid as compensation.

This effectively amounts to expropriation without compensation, because the payments will be lower than the housing companies' bank liabilities. Whether Berlin will ever actually see formal expropriations is unclear. But the policy of "hidden expropriation" is already in full swing.

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Rent freezes were used by both the Third Reich and the GDR for a time