



Housing Policy in Germany - A Best Practice Model?*

by Björn Egner

1. INTRODUCTION: NEW POLICY IN RESPONSE TO HOUSING SHORTAGES

Germany faced many major challenges as a direct effect of defeat in the Second World War. One of the main consequences of the war was the widespread destruction of industrial facilities, infrastructure and public housing in the defeated country. Due to massive allied bombing raids on Germany's cities, over nine million civilians had been evacuated to the countryside. After large parts of German territories in Eastern Europe were virtually annexed by Poland and the Soviet Union, another twelve million persons fled from those parts of the country to the core land of Germany. Altogether, approximately 21 million people were searching for a new home. These numbers were validated by a population census in 1946, when the allies of the three western occupation zones (US, British and French) counted 13.7 million households and 8.2 million existing housing units, which resulted in a shortfall of 5.5 million housing units.

Immediately after the war, the occupational military government in the western zones decided on short-term measures to fight the housing shortage. After the establishment of the new Federal Republic of Germany (FRG) from the three occupational zones in the west in 1949, sovereignty over most policy issues was transferred to the newly elected parliament of the FRG. The German government decided quickly to implement harsh short-term measures known as »coercive public housing man-

agement« (Wohnungszwangsbewirtschaftung). It included strong protection of established tenants, namely a virtual prohibition on cancellations of rental agreements, state defined rentals and public allocation of privately owned housing units to those in need of a dwelling. Additionally, German politics decided on a number of long-term measures in order to ensure social peace in the new republic. Most of the housing instruments used later were closely linked to the social situation at the beginning of the FRG, and three of them even survived German reunification in 1990. This briefing paper describes the German approach to housing policy by looking at four instruments used by the German government to handle the situation in the housing market after the Second World War (Section 2). It shows how Germany succeeded in completing 6.7 million housing units within ten years and thus virtually eliminating the large housing shortage. After a short discussion of different types of instruments, the paper focuses on the structure of the two main instruments for the construction of new housing units, namely the home subsidy programme and social housing and its respective merits for problem solving (Sections 3 and 4). In a brief conclusion, an insight into future German housing policy will be given (Section 5).

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2. THE GERMAN APPROACH: ONE POLICY AREA, FOUR INSTRUMENTS

German housing policy was constructed by means of four main policy instruments with different policy goals, using different regulatory schemes and addressing different groups of actors in society.

The longest-standing instrument today is the tenancy law (Mietrecht) which is incorporated in sections 535–580 of the German Civil Code (Bürgerliches Gesetzbuch), but is rooted in older laws of 1917 and 1923. The rules of the current tenancy law are regulatory in nature, curtailing the general freedom of contract between market actors enshrined in the Civil Code with regard to contracts dealing with accommodation. For example, it limits the possibilities of cancellation, limits charges beyond the rent and regulates how persons can participate in existing contracts. The tenancy law is a contentious issue in political debate today. While the tenants' association strongly supports the existing law as »well-balanced and fair«, the association of house owners stresses freedom of contract and the importance of private property rights. The tenancy law is thus a policy instrument with regard to which various societal groups are in conflict (Heinelt/Egner 2006: 212f.).

The second instrument is housing benefit (Wohngeld), which comes in the form of subsidies paid to persons who satisfy a list of attributes laid down by law. Receivers of the benefit must be renters of an apartment or a house; in special cases, also owners who occupy their own apartment or house (»owner occupiers«) can receive the benefit. The amount of benefit paid each month depends on the size of the housing unit, the number of its inhabitants, including children, the income of the household members, the rental defined in the contract between tenant and landlord and the region in which the housing unit is situated. By a rule of thumb, housing benefit is paid to people on low incomes, people in highly urbanised regions with high rents and people with a high demand for space (for example, families with a larger number of children or elderly people living together in one housing unit). The intention of the instrument is to enable people to provide themselves with housing who otherwise could not afford it; in other words, the state supplements private purchasing power with public money. In 2008, some 569,000 households

were receiving housing benefit, which corresponds to 1.4 per cent of all private households.¹

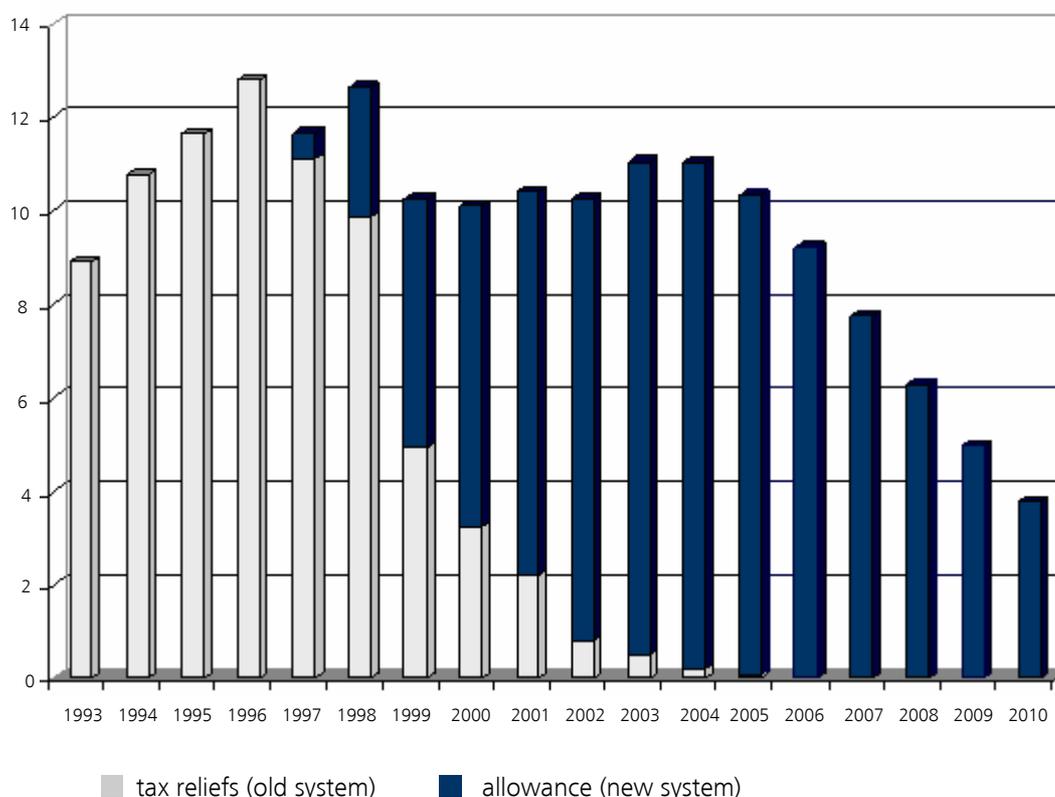
The two major instruments aimed at the construction of additional housing units are home ownership subsidies (Eigenheimzulage) and social housing (Sozialer Wohnungsbau), which will be described in detail in the next two sections.

3. HOME OWNERSHIP SUBSIDIES: TRYING TO SPREAD RESIDENTIAL OWNERSHIP AMONG THE MIDDLE CLASS

One of the largest subsidy programmes ever was the German home ownership subsidy, which started in 1949 and was finally abolished in 2006. It was directed to persons who intended to either create new housing units or buy already existing housing units, but was actually paid only if the housing unit was not meant for renting out but to be occupied by the owner. The government's aim was to spread ownership of houses and flats among the middle class.

Until 1995, housing subsidies were based on the principle of tax relief. As a general rule, private expenditure on the creation or purchasing of housing units could be deducted from taxable income, stretching the deduction over a period of seven years. The instrument worked in favour of people on high incomes and high tax liabilities who could reduce their tax burden significantly by building or buying expensive houses. This policy was never challenged over nearly fifty years, but in 1995, the conservative government modified the programme into an allowance which was de-linked from tax payments. Since 1996, home ownership subsidies have been paid only to people with a maximum annual income of 82,000 euros per annum (163,000 euros per annum for a couple). For each child, the maximum was raised by 30,000 euros. The maximum subsidy was 20,000 euros paid out in equal instalments over eight years if the price of the housing unit exceeded 51,000 euros. For each child an additional 767 euros was paid out per year. Additional bonuses were paid if the housing met special low-energy standards or if the heating system was upgraded to ensure energy saving (up to 500 euros per annum). With the modification of the subsidy programme, expenditure connected to the old programme dropped significantly and those connected to

¹ Until 2004, approximately 3.5 million households were receiving the allowance. Most of them were households including people who also received social welfare benefits from different sources. Since social security was modified in 2005, housing benefit for those people will now be paid from different sources.

Figure 1: Expenditure on the Home Ownership Subsidy Programme, 1993–2010 (billion euros)

Source: German Ministry of Finance, Subsidy Reports.

the new programme rose in exchange (see Figure 1). As an effect of the modification, overall expenditure on home subsidies has decreased to approximately 10 billion euros per annum since 1999.

In 1998, the coalition government of the conservative parties (CDU/CSU) and the liberal party (FDP) was replaced by a coalition government of the former opposition, namely the Social Democrats (SPD) and the Green Party. The new coalition tried to abolish the home ownership subsidy programme in 2000, but failed to achieve a majority in Germany's upper house (Bundesrat), where the conservative and liberal parties blocked the attempt. In 2003, the new form of the home subsidy programme reached its financial peak, exceeding 11 billion euros. In 2005, the red-green coalition of the SPD and the Green Party lost the federal election and a new government of the two major parties (conservative and Social Democrats) was installed. The new coalition decided to abolish the home ownership subsidy completely and implemented the decision in 2006, which can be observed in

the dramatically decreasing spending on home ownership subsidies since then.

Given that the coalition had a majority in both chambers of parliament, there was no problem in terms of lawmaking. But why did German politicians abolish a programme which had been in place for so long? First, the programme was considered too expensive in the end, given the modest outcome of the programme. Studies have shown that the intended effect of the home subsidy – namely bringing housing ownership to the middle class – was not achieved and the instrument was not very efficient in comparison to the large public investment in the programme. After more than five decades of home ownership subsidies, the proportion of people living in self-owned housing in Germany is still the lowest in Europe: in Germany only 43 per cent of housing units are occupied by their owners, while in all other countries the share is significantly higher (see Table 1).

Some critics have also argued that the subsidy did

not have the intended policy outcomes because it failed to work in favour of the targeted social group, for three reasons in particular:

1. The income threshold was set too high and thus people who would have bought or built a housing unit anyway applied for the subsidy as a wind-fall gain.
2. The subsidy was too small for the lower middle class and those who could not build or buy a housing unit without a subsidy could still not afford it after adding a subsidy to their income.
3. The subsidy worked in favour of rural areas where building plots were much cheaper. Studies showed that »home subsidies show only a small

effect in the core of areas with high housing prices, especially for households with medium or low incomes« (BBR 2002: 22, author's own translation). That means that those who should have been supported to buy or build new homes, namely people from the middle class or in urban regions, did not take up the subsidies; mostly people from rural areas used public support to build new homes on cheap building lots in the countryside.

There were nevertheless many voices in support of continuing with a housing subsidy. As Heinelt and Egner (2006: 213f.) point out, there were enough actors in society to defend the instrument in terms of numbers

Table 1: Owner Occupation Rates in Selected Countries

Country	Year	Occupation Rate, %
Germany	2002	43.2
Austria	2009	56.2
Netherlands	2008	57.2
France	2007	57.4
United Kingdom	2007	69.5
Greece	2009	80.0
Italy	2002	80.0
Spain	2008	85.0
<i>EU-27 average</i>		<i>68.2</i>
Russia	2003	63.8
USA	2009	67.2
Turkey	2000	68.0

Source: EMF 2010: 73.

and influence, but they were divided about why and how to defend it. Some stressed the »social character« of the home ownership subsidy, failing to explain why the public should support people building new homes if they could also do so without tax-paid funding. Others argued that the instrument's main aim was to »foster families« by providing cheaper housing for them. Another group underlined the need for subsidies for the construction industry to avoid unemployment in this sector. In the end, supporters of the home ownership subsidies failed to build a strong coalition in society to defend the instrument. The government coalition of

2005–2009 finally adhered to its coalition agreement and abolished the old home ownership subsidy programme and replaced it by a new integrated version. Since 2008, people who have bought or built a housing unit can claim that the unit is part of their privately built-up retirement provisions, which can trigger additional funding by the federal government. But since this new type of public funding is not comparable to the former subsidy in terms of size and direction, the home ownership subsidy programme in Germany has finally been terminated.

4. THE MAIN INSTRUMENT: SOCIAL HOUSING

The main instrument of Germany's housing policy is considered to be the social housing programme (Sozialer Wohnungsbau). The first social housing law of 1950 declared that social housing was the task of all tiers of government – namely the federal government, the governments of the German states (Länder) and the municipalities – and that the aim was »to eliminate the housing shortage«. Until the major social housing reform in 2001, social housing was set up as follows.

The instrument was aimed directly at housing companies or persons who created new housing units for whom public co-funding was offered. The public co-funding was mainly realised by the federal government and the state governments, which – within the framework of a cost-sharing model – could pay up to 80 per cent of both the costs of site development (Erschließungskosten) and construction. But public funding was connected to a contract in which the companies agreed to observe some major rules which were designed for subsidy recipients.

First, the use of newly created housing units was reserved to people with a demand for cheap housing, for example, the unemployed or low income households. The people eligible for this type of housing were those with an authorisation certificate (Wohnungsberechtigungsschein) which was issued by the local administration and stated that the holder of the certificate was qualified to live in a housing unit co-funded by the social housing programme.

Second, the owner of the housing units which were co-funded by the public were obliged to calculate rents as »gross rental fees« (Kostenmiete), which means that the maximum monthly rent was equal to the cost of the running expenses of the housing unit. This »gross rental fee« was effective for a period defined in the contract between the developer of the housing and the government, in most cases for 20 or 30 years. In the end, this meant that the owner of the housing could not make any profit from the housing units during this »contract period«, but only after the contract period ran out. However, publicly-funded housing units could be rented out or traded as normal economic goods.

An additional incentive to participate in the social housing programme was set for non-profit housing corporations which had the special status of »housing wel-

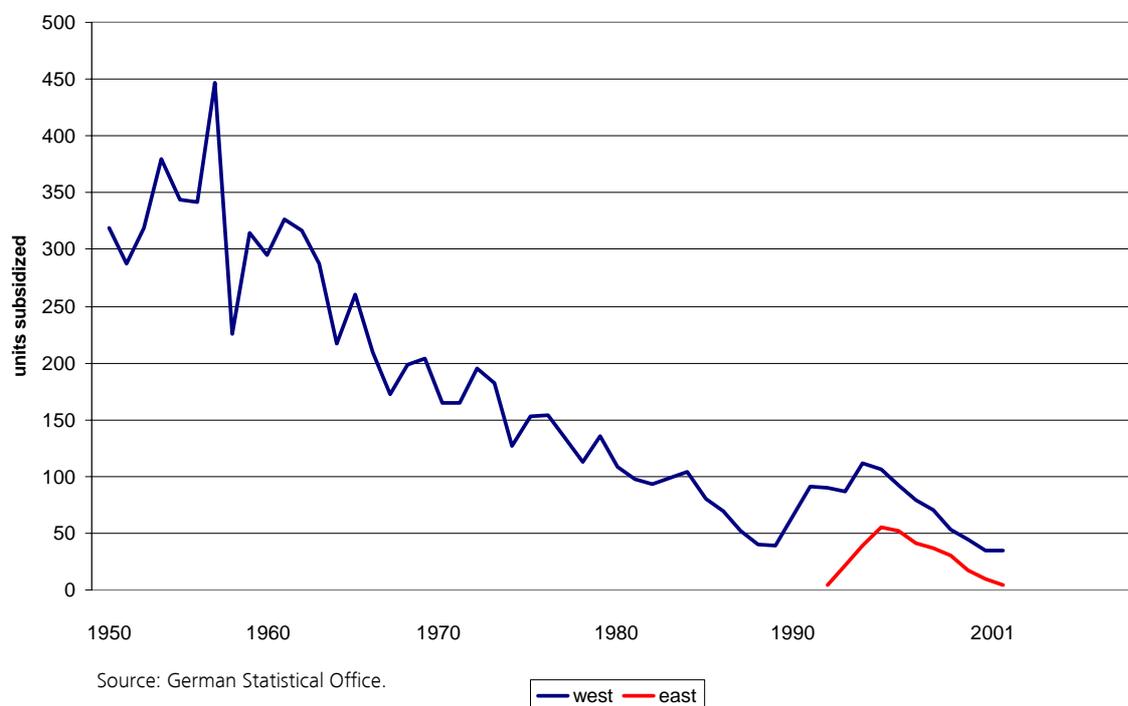
fare providers« (Wohnungsgemeinnützigkeit). If they could prove that profits which they had made from social housing projects in the post-contract period would be re-invested in new social housing, those profits were excluded from taxation. This privilege was abolished in the late 1980s (Jaedicke/Wollmann 1991: 432).

In general, the basic political decision in the early years of the Federal Republic to co-fund the creation of real objects (in other words: »investment in the concrete«) instead of providing indirect subsidies to tenants or building project organisers promoted investment of private capital even in the social housing sector. In fact, the share of housing units in general constructed by private investors rose constantly from the beginning of public funding (see Table 2).

Beyond the private sector, Germany also has a rich tradition of non-profit housing organisations, which numbered approximately 1,800 at the end of the 1970s, mostly owned by the municipalities. Despite the public perception of their strong influence on German housing policy, their largest market share can still be found in the big cities, but has already decreased from its peak of about 30 per cent there in the 1970s (Kujath 1988: 129 and 134).

Within the first decade of deploying public subsidies by means of this instrument, 6.7 million housing units were built in Germany, 55 per cent of which were publicly co-funded. The social housing instrument was finally abolished in 2002 and transferred to a new instrument. Before that, from 1950 to 2000, over 21.3 million housing units were built in Germany, of which 9 million (42 per cent) were publicly co-funded. This highlights the huge impact of the social housing programme on German society. Comparing public expenditure on housing subsidy and social housing with each other, a marked difference can be identified. Average spending on social housing in Germany was significantly lower than for the home subsidy: while about 2.4 billion euros per annum were spent on social housing, the housing subsidy had an annual allocation of some 10 billion euros in most years.

As Figure 2 shows, the social housing instrument can undoubtedly be described as a success story, in particular in the 1950s and 1960s, when nearly two-thirds of all units connected to the instrument were built. At the end of the 1960s, a downward trend is clearly visi-

Figure 2: Number of Units Created in the Social Housing Programme, Thousands

ble, and in the middle of the 1980s, activity in the field of social housing effectively came to an end when a conservative government came to power in 1982. Except for a small peak in the early 1990s, when the refurbishment of eastern Germany's housing stock was on the agenda,² social housing virtually expired in the late 1990s when the number of newly created units fell below 50,000 per annum.

The advent of a conservative government was not the only reason for abandoning the successful – overall – instrument. German politics came to the conclusion that, in the meantime, a working market had emerged in the housing sector, perhaps with the exception of a few big cities and urban regions, where demand for housing was high and further social housing would be needed. Generally speaking, the housing stock was considered sufficient for the number of persons seeking dwellings in the country. There were two more arguments for abandoning the programme. Having experienced major internal migration from the eastern to the western part of Germany and from the countryside to the cities (or at least to the metropolitan regions), the instrument of social

housing was – in the end – considered not flexible enough to handle migration. The social housing programme also showed some more dubious social aspects in that they were concentrated in the big cities in the form of high-density blocks of flats with underprivileged inhabitants, the unemployed, immigrants or low-income residents which were described as »trouble hot-spots« (sozialer Brennpunkt), with higher crime rates, vandalism and other effects, which drove well-off people out of these areas and damaged their reputation even

Table 2: Share of Housing Units Constructed by the Private Sector (%)

Year	Private sector share
1950	64
1960	76
1970	83
1980	91

Source: Bartholomäi 2004: 25.

² In fact, 39 per cent of all social housing units built after the reunification of Germany in 1990 were built in the eastern part of Germany, although this accounts for only 20 per cent of the population (2009: 18 per cent).

more.

To sum up, the social housing programme was deemed a »phase-out model« of housing policy in Germany. When the new coalition government of the Social Democrats and the Green Party took office in 1998, a change in social housing policy was initiated. Finally, in 2001, the social housing law was replaced by the »housing promotion law« (Wohnbauförderungsgesetz). In the law, the government acknowledged that the time of major spending on social housing was over and that the old programme had almost achieved its aim of providing housing to most social strata in German society. The new law is thus aimed at »residual demanders«, that is, people who cannot provide themselves with housing even if the state pays housing benefit which would be sufficient to find suitable housing. Nowadays, the focus of the programme is narrowing significantly and the aim of public funding is to improve the functioning of existing programmes instead of creating new housing units (Georgakis 2004: 63). That means that the housing promotion law is being used mainly to refurbish buildings from previous programmes or whole quarters of cities with a significant share of publicly-funded housing. The gross rental fee as control instrument over the general fee level in the municipality was abolished in order to make public housing more attractive for investors.

An important area of social housing in the years before the complete rearrangement of the instrument were large-scale projects such as Hannover-Kronsberg which was planned in line with the World Exposition (EXPO) 2000 in Hannover, Germany. In this case, a large portion of the social housing budget of one German state (Lower Saxony) was concentrated in one large project to prevent the housing market from tightening due to the EXPO period, when hundreds of auxiliary workers were expected to pour into the city. Within the framework of this project, public funding for social housing was used but some of the – normally obligatory – rules connected to social housing were omitted. In a considerable proportion of units, the income threshold for those entitled to enjoy social housing was increased by up to 200 per cent of the original values, so that also middle-class people were eligible for a social housing unit in Kronsberg. Also, the competence of the municipality to assign housing to people was limited to 75 per cent of the units, with the remaining 25 per cent being allocated

through the market. Both changes to the standing rules on social housing were made mainly to generate a »healthy mix« of tenants from both the lower and the middle classes in the newly developed city quarter, which should avoid the mistakes of the past, namely concentrating large numbers of deprived people in a densely populated part of the city (for a more detailed description of the Kronsberg programme, see Egner 2005: 111f:).

5. CONCLUSION

As a general rule, the »concrete« part of German housing policy focuses on publicly created incentives for private investment. This strategy was pursued mainly by pouring money into two central instruments: the home subsidy, to increase the number of privately owned and occupied houses/flats and social housing, to build up a large number of flats with subsidised rentals for the mass market. Both instruments started in the 1950s and both were abolished shortly after 2000. But there is a striking difference between the instruments. The social housing instrument indisputably proved to be a working, problem-solving instrument which managed to quickly get rid of the housing shortage caused by the Second World War and improved the overall situation in the housing market. All actors in the policy field agree that the social housing instrument was properly introduced, effective and also efficient, since it produced large numbers of housing units at comparably low cost. On the other hand, opinions about the home subsidy are divided. In direct comparison, it has proven more expensive and less efficient than social housing. Also, some claim that the home subsidy is socially unbalanced, transferring tax revenues from the poor to people in the middle class who want to be self-occupying real estate owners. As a consequence, there were a number of different reasons for abolishing the instruments: the home ownership subsidy was abolished because its advocates were not able to defend it against the background of the need to consolidate public budgets, while social housing was abolished mainly because it had achieved its ultimate goal: to provide affordable housing for the mass market.

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