

Statement on the Rent Freeze Plans of the Berlin Government and Assessment of Spillover Risk

June 26, 2019

On June 18, the Berlin State Government („Senat“) approved a proposal for Berlin-specific rental regulation, mainly consisting of the following points:

- **Rents are to be frozen** at current levels for five years, both for existing lease agreements as well as for new lettings;
- **New constructions** shall be **exempt** but only for the first rental contract;
- Introduction of an **absolute rent ceiling**, representing the maximum possible rental level;
- **Modernization** investments that will lead to more than €0.50/sqm rent growth shall require **prior approval**;
- **Breaches** of the law shall carry **penalties of up to €500k**
- Clause to make the law **applicable retroactively** as of June 18, 2019.

The draft legislation is expected for the end of August and the plan is to implement the law in January 2020.

Legislation as described above would only exacerbate the supply/demand imbalance and make the problem for people in Berlin worse, as it would disincentivize much needed investments and new constructions.

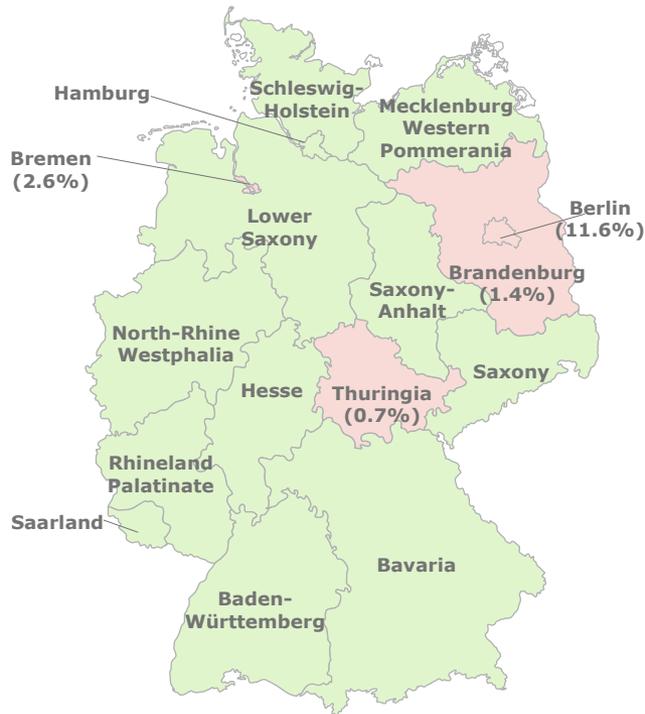


The majority of legal experts consider a law as proposed by the Berlin State Government to be unconstitutional because (i) the Berlin State Government lacks the legal competence and (ii) such law would be an undue and severe infringement on owners' property rights including the legal right to adequate economic utilization.

<i>Chancellor Angela Merkel, CDU</i>	“We need to create an environment that is conducive to investments;” “Regulation only to the effect that it increases transparency;” “We need to be careful not to be overly and utterly bureaucratic.”¹
<i>Dr. Jan-Marco Luczak, CDU, member of Federal Parliament, rental legislation expert and deputy spokesman for rental legislation</i>	“Berlin has no legal competence; a rent freeze law would be unconstitutional. We need sustainable solutions instead of populist and unconstitutional window-dressing.”²
<i>Horst Seehofer, CSU, Federal Minister for the Interior, Construction and Homeland</i>	“We should stick to the instruments of our social market economy; what we need to do is to build, build, build – that is the first and foremost task.”³
<i>Dorothee Stapelfeld, SPD, Minister for Urban Development in Hamburg</i>	“Pure populism ... [a rental freeze] is not the right path.” “Rental legislation is governed in our national Civil Code. [Die Linke] is trying to jump on the bandwagon – except there is no bandwagon.”⁴
<i>Spokesperson for Urban Development for the Greens in Hamburg</i>	“Ill-conceived kneejerk reaction.”⁴
<i>Ina Scharrenbach, CDU, Minister for Construction in North-Rhine Westphalia</i>	“Only more new construction is the best and most sustainable protection for tenants.”⁵
<i>Tarek Al-Wazir, Greens, Minister for Economic Affairs and Housing in Hesse</i>	“The [Frankfurt] Lord Mayor’s plan for a rent freeze may serve his own interest. But it will not bring benefits to tenants, quite the opposite actually.”⁶
<i>Jürgen Lenders, CDU, parliamentary secretary in Hesse</i>	“Outrageous and highly questionable from a constitutional point of view.”⁶
<i>Hans-Joachim Grote, CDU Minister for the Interior in Schleswig Holstein</i>	The 10% rent cap on new lettings (“Mietpreisbremse”) will be abolished. It was inadequate and a disincentive for new investments. The Mietpreisbremse will be replaced by measures for affordable housing.⁷
<i>Cooperative housing associations in Berlin, who collectively own 90k apartments</i>	“Craziness governs Berlin.”⁸

Contagion Risk? Vonovia's Portfolio by Federal States

Even in a worst-case scenario of spillover into states with similar government coalitions as in Berlin, more than 80% of Vonovia's portfolio would still be unaffected.



Government coalition includes CDU/CSU or FDP or has already stated that it will not pursue rent freeze legislation

Government coalition does not include CDU/CSU or FDP (Brandenburg & Thuringia) or has talked about plans for rent freeze legislation (Berlin & Bremen)

Vonovia exposure

83.7%

16.3%

March 31, 2019	Resi rent	Fair value	Lead party	Coalition partner
North-Rhine Westphalia	27.9%	23.2%	CDU/CSU	FDP
Saxony	10.7%	9.8%	CDU/CSU	SPD
Berlin	11.6%	16.3%	SPD	Die Linke
Schleswig-Holstein	8.1%	6.9%	CDU/CSU	Greens
Baden-Württemberg	10.2%	10.4%	Greens	CDU/CSU
Lower Saxony	6.9%	6.3%	SPD	CDU/CSU
Hesse	8.5%	8.8%	CDU/CSU	Greens
Bavaria	6.0%	7.8%	CDU/CSU	FDP
Bremen ¹	2.6%	2.7%	SPD	Greens
Hamburg	3.5%	4.3%	SPD	Die Linke
Brandenburg	1.4%	1.5%	SPD	Die Linke
Rhineland Palatinate	1.2%	1.2%	SPD	FDP
Thuringia	0.7%	0.6%	Die Linke	SPD
Saxony Anhalt	0.3%	0.3%	CDU/CSU	SPD
Mecklenburg W. Pommerania	0.2%	0.1%	SPD	CDU/CSU
Saarland	0.0%	0.0%	CDU/CSU	SPD
TOTAL	100%	100%		



¹ Expected coalition after the recent state election.

- 1 <https://www.bundeskanzlerin.de/bkin-de/aktuelles/rede-von-bundeskanzlerin-merkel-beim-68-deutschen-mietertag-am-14-juni-2019-in-koeln-1637792>
- 2 <https://www.luczak-berlin.de/aktuelles/archiv/mietendeckel-schafft-buerokratisches-monster-und-torpediert-klimaschutz/>
- 3 https://m.tagesspiegel.de/politik/streit-um-bezahlbaren-wohnraum-seehofer-lehnt-einfrieren-von-mieten-ab/24285214.html?utm_referrer=https%3A%2F%2Fwww.google.de%2F
- 4 <https://www.ndr.de/nachrichten/hamburg/Buergerschaft-Gegenwind-fuer-den-Mietendeckel,buergerschaft726.html>
- 5 <http://www.boerse-frankfurt.de/nachrichten/aktien/Berliner-Vorstoss-fuer-Mietendeckel-sorgt-fuer-Diskussionen-2455452>
- 6 <https://www.fr.de/frankfurt/mietendeckel-frankfurt-vorstoss-begeistert-linke-12254803.html>
- 7 https://www.schleswig-holstein.de/DE/Landesregierung/IV/ startseite/Artikel2019/I/190305_mietpreisbremse.html
- 8 <https://www.wallstreet-online.de/nachricht/11556222-genossenschaften-mietendeckel-bestraft/all>

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