



Social Housing in Germany: an inevitably shrinking Sector?

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Abstract: *The role of the social housing sector as part of the German housing system has changed fundamentally since 1950. Social housing in Germany followed a number of common trends and features to be observed in most countries in Europe: delegation to local government, a narrow focus on fragile populations and a reduction in the proportion of social housing. The specific reasons for this are discussed with relation to their German background. Against a background of more and more tense housing markets, the paper argues for a revitalisation of social housing in Germany without repeating the old mistakes.*

Keywords: social housing; Germany; home ownership; welfare policy.



The German housing system at a glance

In a nutshell, the German housing system is characterised by:

- relative tenure neutrality and no strong fiscal support of owner-occupied housing as well as for the rental sector.
the building up of a large rental housing stock via a combination of regulation, extensive housing subsidies and generous tax treatment in the past (although these subsidies were reduced to a negligible quantity 10 years ago).
- a system of temporary subsidies for social housing at moderate profits, which finally returns the dwellings to the private market.
- strong tenancy security for decades, which means that rental housing is regarded as a stable and reliable tenure, almost as secure as owner-occupied housing.
- rent regulation that does not set overly-strict boundaries on the yields of landlords (although the market rent could be followed more closely and the market-orientation of the system has suffered from recent legislative measures).
- a severe market split between ongoing and new tenancies in urban growth regions that has become visible in recent years.

One of the most striking characteristics of the German housing market from a comparative perspective is the size of the Private Rental Sector (PRS). This sector accounts for almost 80 per cent of the rental, and for around 44 per cent of the total housing market. As in many other countries, individual private landlords rather than property companies and financial institutions dominate in the German PRS.

In comparison, the German social housing sector is very small. The sector must be defined functionally as rental dwellings currently subsidised in a social housing programme comprising special subsidies, rent ceilings and occupancy commitments. Referring to ownership structures does not make sense in the German case, since around three fifths of the social rental housing stock have private owners. The private owners have been able to build up these social housing stocks either by applying for public funding for their housing projects or by taking over public or factory-related housing companies, including their social housing stock (which has no influence on the continuation of social commitments of the dwellings). Even though the remaining two fifths of the social rental housing stock is owned by public and cooperative housing organisations, more than 85 per cent of their stock is privately financed, too. And, more important, their remaining housing stock cannot be classified as 'social', because municipal housing companies are neither not-for-profit nor privileged in competition (see below) and housing cooperatives focusing on the benefit of their members and their privately-financed dwellings are not subject to any special price and occupancy commitments beyond the membership relationship.

The social housing sector thus defined stands for only 3.3 per cent of the total German housing stock and 6 per cent of the rental housing market. The PRS is therefore 13 times larger than the social housing sector. The social housing share in Germany is among the lowest in the European Union. Western European countries in particular all have much higher shares of social housing.



The role of social housing in the German housing market

The German social housing sector not only overlaps with the institutionally-defined (public and private) sectors but also with the home ownership sector, since social housing subsidies are either granted to investors for the creation of social rental dwellings or to needy individuals to help them to build or buy a home of their own. The social rental housing programmes address all types of landlords (Boelhouwer 1999: 226) and provide them with object-related subsidies. The needy tenants also benefit in the form of enhanced access to the housing market and lower rents. The subsidies predominantly reduce the cost of capital of investors (interest subsidies, interest-only and interest-free years) and, in turn, investors need to reserve the dwellings for needy target groups at a discounted rent.

Almost all social apartments are owned by profit-oriented landlords. In fact, within the German system, investors – private or public – should make a profit from social housing development, albeit to a limited extent. The profit margin is an implicit part of the contract between the landlord and the authority that provides the social housing subsidy. The private landlords (often listed housing organisations) seek a maximum profit from their social housing stock, too. Furthermore, the German municipal housing organisations are usually expected to make profits and distribute part of these. The German public housing sector has a share of 11.3 per cent of the rental sector, with the municipal housing companies alone accounting for 9.8 per cent of this sector. They have private legal forms (usually GmbH = Ltd.), are subject to general tax and rental laws and do not receive specific subsidies. It would therefore not be correct to count their privately-financed housing stock as “social”.

The size of the German social housing sector is as unclear as the ownership structures. There are currently less than 1.4 million social rental dwellings plus a high six-digit number of subsidised property measures which are simply not counted anymore once the subsidy has been granted. The sector is subject to a secular shrinkage process and is currently just a shadow of its former self. It may be hard to believe, but the total number of social rental dwellings was once above 4 million and the total number of subsidised dwellings created since 1950 is 10 million. Thus, almost every fourth dwelling was, or is, a social dwelling.

The ever declining importance of social housing is due to the secular reduction of federal subsidies and to the temporary character of these subsidies, with the binding periods becoming increasingly shorter over the course of decades. The subsidies are usually awarded via public interest-subsidised mortgage loans. When these loans are repaid, the respective apartments lose their social status (i.e. special price and allocation obligations) and can be let freely to any tenant independent of their income. For a long time, the number of dwellings losing their social status each year has been far greater than the number of social dwellings newly approved by the public funding agencies.



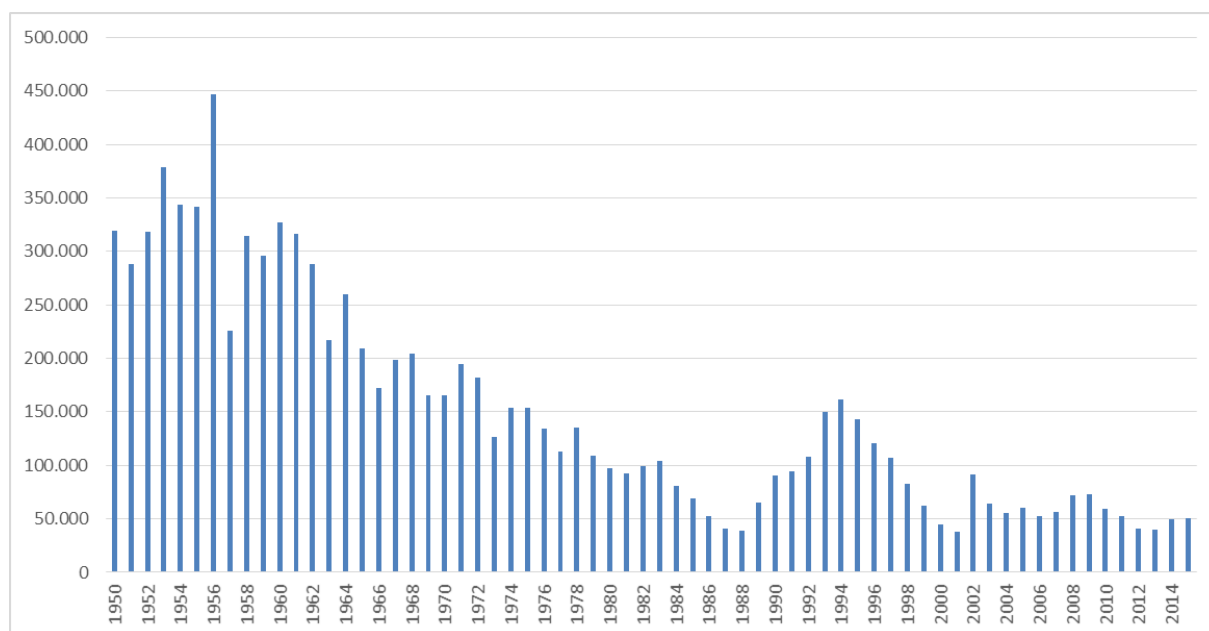
Table 1: Long-term development of the social housing sector in Germany

Year	Social rental housing stock Million dwellings	Percentage of total housing stock
1968	3.7	18.9
1987	4.0	15.3
2003	2.1	6.8
2013	1.5	3.6
2015	1.4	3.3

Sources: Bundesregierung 2017, IWU 2005

What is more, the approval statistics include property measures as well as modernisation measures in the existing housing stock (i.e. a temporary conversion of a normal rental dwelling into a social apartment). The number of newly-built social rental dwellings with the prospect of direct relief of tense urban housing markets has stagnated since 2008 at between 10,000 and 15,000 units per year. There is still much more modernisation activity in the housing stock, which is also being promoted in the focal points of housing needs such as in Berlin and Hamburg (Bundesregierung, 2017). In 2015, of the 51,000 approved social dwellings, not even a third were newly-built rental apartments. The new construction quota of total permits has been very low for a long time (since 2006 consistently below 40 per cent, since 2013 about one third).

Figure 1: Approvals for social housing, housing units per year



Sources: Statistisches Bundesamt, Fachserie E, "Bewilligungen im sozialen Wohnungsbau" and Bundesregierung 2017.

Social housing in Germany is rather a concept of preferential funding as part of a more general "Social Market Economy" approach (Oxley 2000: 18). The share of private social landlords has risen due to the privatisation of many public and formerly factory-related housing companies



between 1997 and 2008. Approximately 300,000 social rental dwellings are in the hands of listed housing companies and another 600,000 are owned by private individuals and non-listed private housing companies. Thus, three-fifths of the German social housing stock belong to private landlords. This also reflects the proximity of the German social housing system to the market. The system is more unitary than dualistic in the sense of Kemeny (1995).

An important signal for the reinforcement of the market orientation was the abolition of public interest housing (“Wohnungsgemeinnützigkeit”) in 1990 – not the least motivated by the expectation of higher tax revenues. The companies belonging to that sector (mostly factory-related and public housing organisations) were important suppliers of social housing. They lost their tax advantages and gained in terms of entrepreneurial freedom. Since 1990, the companies have been able to sell apartments, increase rents, distribute profits to their owners or be sold themselves more easily than before. Whilst only a limited share of the public housing sector has been sold to private investors since 1990, the factory housing sector has been almost completely privatised. Thus, Germany does not have “social landlords” any longer, only for-profit public landlords who control a part of the social housing stock.

It seems doubtful that the qualitative objectives of social housing subsidisation can be attained with these ownership structures. The general funding principles enumerated in § 6 WoFG particularly emphasise the differentiation, sustainability and efficiency of social housing subsidisation. An important principle of the German social housing policy is the aim of “socially-stable neighbourhoods”. The target group for social housing promotion are households that cannot provide themselves with adequate housing on the market and are in need of support. The programmes particularly support low-income households, families and other households with children, single parents, pregnant women, the elderly, the homeless and other needy persons (§ 1 para. 2 WoFG).

The income limits are the decisive lever for the definition of the target group entitled to take advantage of the respective funding programme. However, given the disproportion between the number of unserved claimants and the number of available social dwellings, additional priority criteria are often used in the allocation procedure.

This disproportion is also related to the fact that, over the decades, object-related supply side subsidies have become increasingly less important than subject-related transfers. Housing allowances (“Wohngeld”) are available in Germany irrespective of the status of the dwelling and the same rules apply for social and privately-rented dwellings (Kofner 2007). The amount of housing allowance a household is entitled to receive is determined by the number of family members in the household, the total annual family income, and the amount of rent or mortgage payment that qualifies for support. The scheme has income and rent ceilings, the levels of which depend on household size and local rent level. People living on social assistance cannot claim housing allowance, but receive housing benefit (and help with their heating costs) as part of their income support benefit. Due to the declining number of social apartments and the rising social rents, the social housing stock is relieving those subject-oriented transfer systems less and less.

The ever-decreasing importance of social housing in Germany is a fact. Although there are initial signs of a political turnaround in this field, it seems unimaginable that the number of



social dwellings will ever again reach its old heights. The federal financial assistance to the states for social housing purposes was recently raised in two steps from €518.2 million to €1,518.2 million per year. The aid is limited until 2019, however. The subsidy from the federal government is distributed pro rata to the population. Hence, the different regional needs for social housing are not taken into account. The states supplement the federal funds, but with completely different multipliers between 0 and 10.

Social housing in Germany past and present

The German social housing sector followed a number of common trends and features to be observed in most countries in Europe: delegation to local government, a new focus on fragile populations, reductions in the proportion of social housing (Houard 2012).

The subsidies for social housing were very extensive in the more distant past and they acted as an important factor in building up the large rental housing stock in Germany. In the 50s and 60s, social housing made a decisive contribution to the elimination of the war-related housing shortage. There are great differences between the classic and the modern approach to social housing subsidisation (see Table 2).

Table 2: Differences between the classic and the modern approach to social housing subsidisation

Criterion	Classic social housing	Modern social housing
Target group definition	broad	narrow
Competences for regulation and programme design	federal government	states
Commitment periods (corresponding to the term of the public loan)	45-50 years	10-25 years
Intensity of subsidisation	high	low
Rent level	far below market rent and LRR	close to LRR
Dependency of the subsidy on individual income	none	preference for income-oriented funding
Spatial distribution of dwellings	concentration in large settlements on the outskirts	small-scale developments
Focus on new construction / stock investment	new construction	stock investment

Sources: author.

The housing programmes of the old days were meant to effectively alleviate the severe general housing shortage (IWU 2005: 7-8). Only later were the social housing programmes focused on specific target groups and their share in total completions began to fall (Kofner 2003: 322-328). Today, the system is much more unitary than in the classic period. The transition from a more



dualistic housing system has progressed gradually over a long period of time and already started in the middle of the 60s.

The further development of social housing legislation was characterised by increasing flexibility and regionalisation. The states were granted ever more control over the design of the programmes. Currently, some states have stopped social housing programs completely while others have made use of the new legislative powers granted to the states in 2006 and have created their own legislative framework.

The modern type of social housing promotion is slim, cost-efficient and decentralised. At present, social housing programmes are characterised by short commitment periods, rents at the bottom end of the LRR, an income orientation of the subsidisation, a small-scale spatial distribution of completions, including mixing with privately-financed dwellings and a clear and unbroken preference for creating social dwellings in the existing housing stock. All in all, current German social housing programmes keep the market division minimal in almost every respect when compared with the generally-accessible housing market. The social housing sector causes only limited distortion of competition. It is well integrated in most respects with the private sector, including ownership structures. The dualism between the two sectors is thus limited as far as possibly feasible.

The need for more social housing in Germany

After a long period with predominantly relaxed urban housing markets, declining subsidies and a continuously-shrinking stock of social housing, German housing policy is currently faced with an ever-growing number of tense housing markets (e.g. Hamburg, Munich and Frankfurt, with vacancy rates of 0.6, 0.2 and 0.5 per cent respectively, according to the Techem-empirica vacancy index¹). It is not only metropolitan regions that are affected by falling vacancy rates, but also a growing number of medium-sized cities such as Darmstadt, Freiburg, Regensburg or Ingolstadt. Often, these are university cities or they are subject to special economic factors. The nationwide average vacancy rate has declined for 9 years in a row and currently stands at 3.0 per cent (end of 2015).

The quoted rents (new contracts) in the largest cities in Germany grew significantly more in the district-free cities in the period 2011-2016 as compared with the national average. In more than half of all German cities and counties, the quoted rents are currently rising by more than 4 per cent per year and the rate of growth is already above 6 per cent in 22 per cent of the cities and counties.

It is no wonder that the affordability of rents in the cities has deteriorated considerably in recent years. The increasing shortage of affordable housing is likely to weaken the labour markets of the German growth centres (Pestel-Institut 2013: 3). However, the deterioration of affordability is linked more to new rental contracts than to existing rents. In the Saxon cities of Dresden and Leipzig, the rent burden of existing tenants (net basic rent, median of households) has risen

¹ empirica CBRE Pressemitteilung, 5. December 2016.



from 19 and 18 per cent respectively to 24 per cent since 2010. The rent burden for new contracts has exploded in these two cities: in the first quarter of 2016, it amounted to 37 per cent in Leipzig and 33 per cent in Dresden (23 and 25 per cent respectively, in 2013).²

Against this background, a contribution to the following housing policy objectives can be expected from a revitalisation of social housing: the relaxation of tense housing markets, mitigation of increasing rent prices, and provision of problematic target groups with affordable housing. A recent study by Pestel Institute concludes that there are currently more than 4 million social dwellings needed in Germany. Only one in five cash-strapped households currently has any chance of obtaining a social dwelling. The Pestel Institute has calculated a current national requirement of about 5.6 million social dwellings (Pestel-Institut 2012: 9). However, only 1.4 million are available on the housing market at present.

Are there any alternatives to the promotion of social housing with respect to the above-listed objectives? In principle, there are three alternative funding approaches to be considered: (1) general subsidies for new rental housing construction, e.g. in the form of increased rates of depreciation for tax base calculation; (2) purchase of occupancy rights; (3) housing benefits. A major problem of subject-related housing benefits is their incidence: in a tense housing market, an increase in housing allowances will result in higher rents for the most part without enhancing purchasing power of tenants much. Only in the long term may new residential completions induced by rising rents and rates of return relieve the market. Whether and to what extent this happens also depends on other prerequisites, however.

The flexible acquisition of occupancy rights quickly reaches its limits in narrow markets. The price of occupancy rights depends on the housing market situation (Rips 1997:18). When they are most needed, they are the most expensive. Moreover, this instrument does not contribute to an increase in supply but merely redistributes already-existing shortages (Kofner 1999: 86).

As compared with general and unspecific subsidies for new rental housing construction, social housing has the presumption of superior subsidisation efficiency on its side. If the private rental sector is regulated in such a way as to provide tenants with a long-term perspective (dismissal protection and protection against sudden rent increases), this requires compensatory subsidies in order to attract a sufficient number of private investors. The red tape has to be compensated for by sufficient incentives for new residential development and modernisation of the existing housing stock. The adequate volume of the compensating subsidy depends on the present value of the rental income lost due to red tape – tailored to the project. No efficient solution is imaginable here and considerable deadweight losses of the subsidisation are inevitable.

The promotion of social housing, on the other hand, may be more efficient, since rent controls and subsidies can be tailored to the project and the profit margin of the investor can be effectively limited. What is more, the projects can be spatially targeted exactly at the focal points of housing need (spot landing). In an environment where price functions are significantly impaired, social housing subsidies can be much more efficient than general tax subsidies.

² empirica 2014, empirica-Erschwinglichkeitsindex: Großstädte, 1. Quartal 2016.



Thus, the lack of affordable housing, especially in places with low vacancy rates and high rent levels, should be addressed not least with social housing subsidies. As compared with all other possibilities to give incentives for new housing production, social housing is the most spatially-pinpointed instrument. In general, it seems appropriate in the current situation to considerably increase federal and, where necessary, state funding for social housing and to provide for a more needs-based distribution of the funds among the states and regions. A tenfold increase in the annual completion number of social rental dwellings to 150,000 units per year could stop further decline in the social housing sector and make a significant contribution to the necessary relaxation of tense housing markets. With an assumed net present value of the subsidies of 35,000 € per apartment, public funds of more than 5 billion € per programme year would be required for this.

Efficient design of social housing programmes

What can be learned from German experiences in the promotion of social housing? The results are not impressive, not even at a second glance. For decades, enormous amounts of public funds have been pumped into the sector, but today, in a tense supply situation, housing policy has only a very small social housing stock at hand. This is mainly due to the following factors:

- The temporary nature of the subsidisation, which always generates a replacement requirement;
- The shortening of commitment periods, which started back in the mid 60s;
- The secular reduction of federal subsidies;
- The importance of home ownership subsidies among funding priorities;
- The ‘prey character’ of a large social rental housing stock from the point of view of privatisation advocates.

The social housing policy of the future should therefore aim at the sustainable rebuilding of socially-bound housing stock. This requires a clear focus on the promotion of new construction; very long (if not perpetual) binding periods (interest-only mortgages); sponsorship of new social housing construction, chiefly by municipal and cooperative housing companies; and institutional protection of the unsaleability of social housing in the hands of municipal and cooperative housing companies. To address the specific problems of tense housing markets with the instrument of social housing, provision for the following is also recommended:

- A focus on the construction of rented housing (less ownership);
- Low-priced building land;
- Cost-effective construction;
- A limitation of social rents via narrow ceilings for the production costs and the application of a reformed cost-recovery rent;
- A check on the individual rent burden of social tenants by an income orientation of the subsidy programmes (20 per cent net basic rent burden per household as a guideline and possibly differentiation according to income strata);³

³ Income-oriented funding is a kind of hybrid, combining elements of object and subject-related subsidisation with the aim of an income-dependent housing cost burden. The investor receives a subsidised loan (basic funding) and a more or less market-oriented “base rent”. The rent the tenant effectively has to pay, however, is the so-



- Socially-mixed population structures via small-scale distribution of social dwellings;
- A certain share of social housing required in new housing developments (e.g. 30 per cent in Munich).

To ensure that social rents are affordable even at the focal points of housing needs, the municipal authorities must be able to influence directly the land prices / land costs. This can be done primarily by the conditioned provision of residential building land. The key is a forward-looking land stock policy which socialises the planning-related value gains and provides affordable land for target-group-focused housing construction.

called “subject rent”, which depends on the total household income. In case of low income, the subject rent will be considerably below the base rent. The difference will be offset by a rent support payment in favour of the landlord. The main advantages of the income-oriented funding model are the more effective use of resources and the better social mix of tenants.



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