



German rent cap

Probably only under a green-red-red federal government (which seems unlikely) – but even then, water would still not flow uphill

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Author

Jochen Moebert

+49(69)910-31727

jochen.moebert@db.com

www.dbresearch.com

Deutsche Bank Research Management

Stefan Schneider



After Berlin's rent cap was declared unconstitutional by the Federal Constitutional Court, Germany is discussing the consequences. Will there be a nationwide rent cap after the federal election in September? This is one of the most frequent and potentially most important questions for many landlords and tenants.

In its election manifesto, the German Left Party calls for a nationwide rent cap based on the Berlin model. According to this, rents would be allowed to rise only in line with inflation and would be capped at 2% per year. Particularly high rents would presumably also be lowered along the lines of the Berlin rent cap.

The Greens' intention would have a similar effect to a nationwide rent cap. However, their proposals are more complex: further tighten the rent brake, limit rent increases to 2.5% per year "within the rent index" and extend the period under consideration for calculating the rent index to 20 years. To put this into perspective: according to the nationwide consumer price index, rents have risen only 1.2% per year over the past 20 years. The 20-year rule could be of greater significance than the 2.5% rule in many regions. Depending on the design, this could even imply rent reductions in some regions.

The Social Democrats (SPD) also want to extend the observation period of the rent index, which was already increased from four to six years in the current legislative period, to eight years. It also wants to further tighten the rent brake. In addition, the SPD demands a temporary cap on rent increases at the level of the inflation rate. The reality is that such time limits often have a tendency to be perpetuated time and again. The solidarity tax introduced after the reunification is a case in point. Likewise, the 'Mietpreisbremse' which regulates rent growth for re-letting introduced initially for only five years in 2015 was extended for another five years in 2020.

Conclusion: All three parties plan a massive tightening of rent regulations, which are in effect similar to the unconstitutional Berlin rent cap. A green-red-red federal government is likely to also tighten the regulation in other fields. For example, the three parties plan to lower the modernisation cost allocation (Modernisierungskostenumlage). In addition, there are further potential burdens from energy transition, which are likely to hit landlords first and foremost. However, green-red-red in the federal government could do little -- just as was the case in the Berlin Senate -- to prevent a further reduction in



rental yields from thwarting investment and thus further exacerbating the shortage in the housing market. For all their skepticism about market outcomes, actors should accept the most fundamental economic logic that lower yields reduce supply. With immigration likely to rise strongly again after the corona crisis and internal migration towards conurbations likely to continue, more social tensions are looming.

**Votes in the next parliament
based on current polls**

coalition	%
CDU-Greens	52.7
Greens-red-liberals	51.6
Greens-red-red	49.5
CDU-social democrats	45.9

Quelle: Deutsche Bank Research

So a further tightening of rent laws would be essentially guaranteed under green-red-red in the federal government. However, according to current polls this constellation will likely narrowly miss a majority in the next Bundestag. A coalition of Greens, Social democrats and Liberals on the other

hand, could have a majority – and for Liberals a further tightening of rental laws would probably be a red line. We would thus expect the current rental law to be frozen. It appears that the most likely outcome, despite the Conservatives' decline in recent weeks, remains a coalition between the CDU and the Greens. Here, the Greens are likely to prioritize climate protection and the CDU is unwilling to go along with a further tightening of rental laws. Between now and 26 September, there would have to be further political upheavals, especially within the CDU, for this situation to change. Therefore, we consider the introduction of a nationwide rent cap as rather unlikely.

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