

Extended Essay Subject

Economics

Title

Assessment of government intervention's effectiveness at reducing rents in Berlin

Research Question

To what extent was rent control effective in creating affordable accommodation in Berlin between 2015 and 2019?

Word Count

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Introduction

“Berlin becomes first German city to make rent cap a reality” - The Guardian (Russell). “Will Berlin’s brake on rents be good for Germany?” - BBC (McGuinness). Global newspaper headlines raced through the world early 2015 as Berlin became the first Germany city to introduce a rent control system, controlling the existing free-market. The measurements were implemented after Berlin saw an upsurge of tenant protests, demonstrating against the consistently rising rents. In Germany the new regulations caused an outcry of controversy as political influence in the free-market housing system has been seen as a no-go in German politics for decades. Various politicians argued that the rent control violates the fundamental legal freedom of contracts. But was it worth the dispute? In my extended essay I want to pursue this and analyse: “To what extent was rent control effective in creating affordable accommodation in Berlin between 2015 and 2019?”

I chose this topic as I was curious to understand how effective market interventions are in achieving better market conditions. Berlin’s implemented rent control system served as a model to understand government interventions. I wanted to investigate the impact price control tools such as government regulations have on the market’s supply and demand. As there were critical opinions against rent control, I analysed if there would have been alternative solutions in achieving affordable living, which benefit all stakeholders.

This research question is of great global social importance, as Berlin might serve as a model to draw conclusions for millions of people living in similar environments, suffering from high rents. A Harvard Study 2017 concluded that almost 40 million Americans “live in housing

they can't afford" (Bloom). In the past, governments worldwide tackled the problem of rising rents with various solutions. New York for example implemented a Maximum Base Rent System in 2007, allowing landlords to only raise rents by 7.5% every two years ("Rent Control in New York"). Hong Kong on the other side introduced rent control back in 1973, prohibiting landlords from "raising rents beyond 90 percent of the prevailing market rate for two years" (Lo). This extended essay will conclude if Berlin's implemented rent system was effective in making rents more affordable. If so this could serve as a model for other cities.

In the essay I will look at three areas of economic theory: Firstly, I will analyse Berlin's housing market before rent controls were applied. This looks at market failure and the theory of the firm. Secondly, I'll look at the impact the rent control system had on the market, focusing on government interventions. Lastly, I will evaluate the effectiveness of the rent control system, concluding if such a system makes housing more affordable. This essay will also attempt at providing alternative solutions, which may prove to be more effective.

Methodology

I started my research with a mind map, shown in Appendix D, listing my areas of research.

Primary and secondary research was equally used throughout this project in order to thoroughly understand different stakeholder perspectives.

Primary Research

Primary research was conducted in forms of interviews (see Appendix A), collecting qualitative data. In the selection of my interview partners I made sure that I interviewed a wide spectrum of relevant stakeholders, ranging from tenants, landlords, real-estate employees to government officials, in order to gain a comprehensive judgement. I expected to receive different viewpoints, depending upon the individual's impact of the rent control.

All interview partners were selected after thorough internet research. To achieve comparable data, I systematically asked all interviewees the same questions:

- What impact did the rent control system (implemented 2015) in Berlin have on you as a tenant/landlord/government official?
- Are there better alternatives in your opinion, than the rent control system in Berlin, in order to make housing more affordable?

Interviews were conducted through phone or text messages, depending on the interviewee's preference. Received data was analysed, spotting patterns among responses.

Secondary Research

My secondary research was based on collecting quantitative data, as these are more representative for drawing general conclusions. I focused on collecting data about:

- Berlin's real estate market:
 - Shortages in supply
 - Historical rent prices
 - Rent burden of tenants
 - Vacancy rates
- Population statistics for Berlin
- Construction projects in Berlin

To collect this data I looked at reports from government official sites, Investitionsbank Berlin (IBB), Statista and real estate institutions (e.g. Vonovia, Deutsche Wohnen). All reports were found with Google. I anticipated to find patterns among the found data concerning the same question. Government reports were a great source to understand what Berlin's housing market lacks. Statista's data pool, the IBB and real estate institution reports helped me find quantitative data like rental costs. In regards to my secondary sources, I only strictly used trustworthy sources from recognised websites.

Berlin: The Rent Crisis

Increasing rents have challenged Berlin's fast-growing population. In Berlin, 85% of residents are renters (Werner). As rents have risen vastly quicker than wages (Nier), more tenants became incapable of paying their rents, forcing them to find new housing. This led Berlin's government to act, implementing a newly designed rent control system, called the "Rent brake", which became effective June 1st, 2015. The rent control forbade landlords raising rents by more than 10% over the local comparative rate, which was issued by Berlin's government every year.

The justification for the rent control is based on the need to "supply rented housing at fair prices." The senate sees this "at risk" ("Verordnung" 2). The German Tenancy law in the German Civil Code Book (§ 556d BGB) allows governments to act when the housing market is considered as tight. In 2015 Berlin's government assumed this as:

1. Rents rose significantly quicker than national averages,
2. The average rent burden on households significantly exceeded the national average,
3. The resident population grew without creating the necessary living space through new construction,
4. There was a low vacancy with high demand ("Verordnung" 3).

Berlin's rents increased more than nationally

Berlin's rents rose significantly quicker than the national average. This is demonstrated by figure 1 showing that Berlin's cold rent, the fixed costs of renting, increased 7.7% between 2010-2014, while the national average only increased 5.4%. In other words, Berlin's rents increased 42.6% more than the national average.

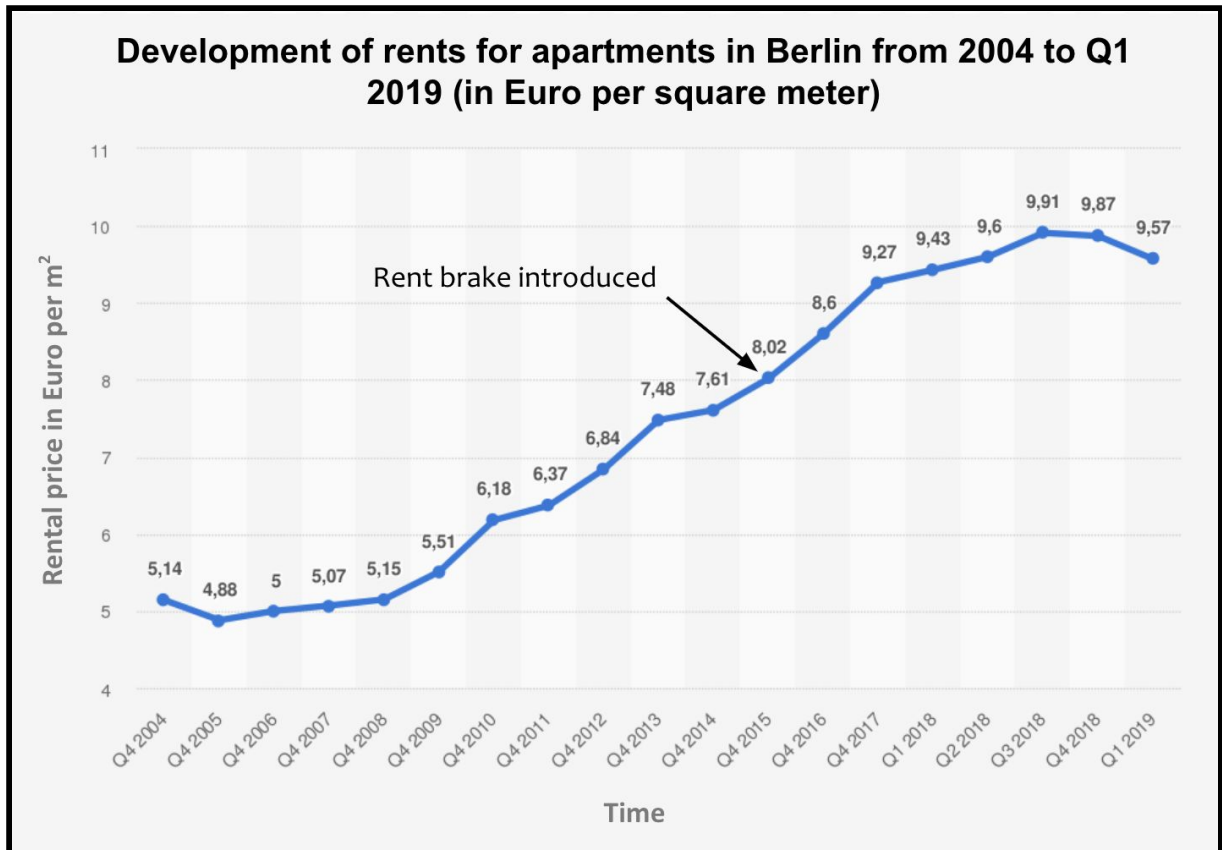
Fig. 1. Berlin's cold rents rise quicker than the national average (Index 2010 = 100).

Year	2010	2011	2012	2013	2014
State Berlin		1.6%	3.3%	6.0%	7.7%
Germany		1.3%	2.5%	3.8%	5.4%
Difference between State Berlin and Germany		23.1%	32.0%	57.9%	42.6%

(“Verordnung” 6)

Figure 2 below shows rental costs per square meter (m²) for apartments. Vast price increases become visible: From 2008 to 2014 Berlin's rents increased from 5.15 €/m² to 7.61 €/m², an increase of 2.46 €/m² or 47.8%. Increasing rents add pressure to tenants, as they become incapable of paying higher rents.

Fig. 2. Increasing rents in Berlin between 2004 - 2019.



(“Entwicklung der Angebotsmieten”)

Rent burden in Berlin exceeds Germany’s average

Figure 3 illustrates that Berlin’s tenants have a higher rent burden in comparison to national averages. Therefore, Berlin’s population allocates more income towards rents, a signal for too high rents, making households lose income. The average percentage of income spent on rent in Berlin was 29.2% in 2010, an increase of 2.2% from 2002. Nationally it was 28.1%, an increase of only 0.6%. Note: Latest available data was from 2010.

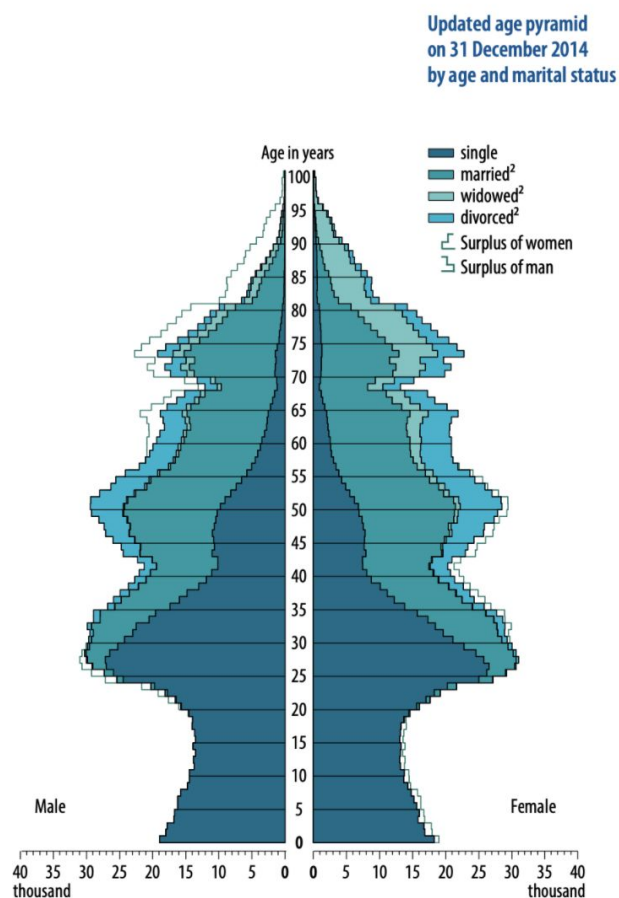
Fig. 3. Berlin’s average rent burden exceeds the national average (Data in %).

Year	2002	2006	2010	Change
State Berlin	27.0	28.3	29.2	2.2
Germany	27.5	27.3	28.1	0.6
Difference in %-Points	-0.5	1.0	1.1	

(“Verordnung” 8)

Berlin has a high rent burden due to its population structure shown by the population pyramid in Figure 4. Berlin has a very young population, living mostly in single households. According to statistics released 2015 by the Office for Statistics Berlin-Brandenburg, 39.9% of the population is younger than 35 years, while 53.9% live in 1-person households (“Die Kleine Berlin–Statistik 2015”). As younger residents tend to earn less, they have to spend more income on paying rent. Additionally, as a great number of inhabitants live alone, they can’t split costs. All of this results in an increasing rent burden.

Fig. 4. Berlin Population Pyramid in 2015



(“Die Kleine Berlin-Statistik” 9)

Berlin's housing supply doesn't meet demand

Berlin is the largest German city with a population of 3.47 million inhabitants in 2014 ("Die Kleine Berlin–Statistik 2015"). According to the International Union of Tenants (IUT) the city expanded by 125,000 new residents between 2012 and 2015 (Werner). This is an annual growth rate of more than 40,000 inhabitants. With an average household size of 1.75 people, one of the smallest sizes in Germany, Berlin has a yearly demand for around 25,000 new apartments ("Germany's Highest Share"). Figure 5 shows the problem Berlin's market faces: Supply isn't meeting demand. Berlin only completed around 5,500 apartments annually, equivalent to only 22.4% of the required demand. Clearly there is too little construction to meet the high demand.

Fig. 5. High demand due to population growth exceeds Berlin's construction of new apartments.

Year	Population development	Number of households	Completed apartments	Thereof new apartments
2011	41,116	23,495	4,491	3,517
2012	43,784	25,309	5,417	4,205
2013	44,138	25,222	6,641	4,647
Total	129,038	74,026	16,549	12,369

("Verordnung" 8)

Dropping vacancy rates in Berlin

Berlin's vacancy rate has consistently dropped, resulting in housing scarcity. The Association Berlin-Brandenburgischer Wohnungsunternehmen (BBU) reported a vacancy rate of 2.0% in

2013, significantly lower than 2.6% in 2011. Similar data was shown by the CBRE-Empirica-Vacancy Index, which measures the vacancy of fully equipped, modern apartments. Back in 2011 the vacancy was 2.3%. Two years later it dropped to 1.8%, equivalent to 29,500 free apartments. These statistics clearly indicate that Berlin's housing market had become more tight lacking available housing ("Verordnung zur zulässigen Miethöhe" 9).

To summarize, Berlin's housing market was in an alarming situation. Rents and rent burdens continuously rose, the fast-growing population demanded more apartments without enough new construction, and Berlin suffered from a low vacancy rate resulting in scarcity.

Analysis

Housing shortage in Berlin

Berlin's high rents are caused by an imbalance of supply and demand, resulting in a housing shortage. According to Berlin-Brandenburg's Office for Statistics, there was demand for 74,026 new apartments between 2011-2013. During this period only 16,549 new apartments were constructed, equating to a shortage of 57,477 apartments ("Verordnung" 8).

Fig. 6. Shortage of apartments leads to higher rents.

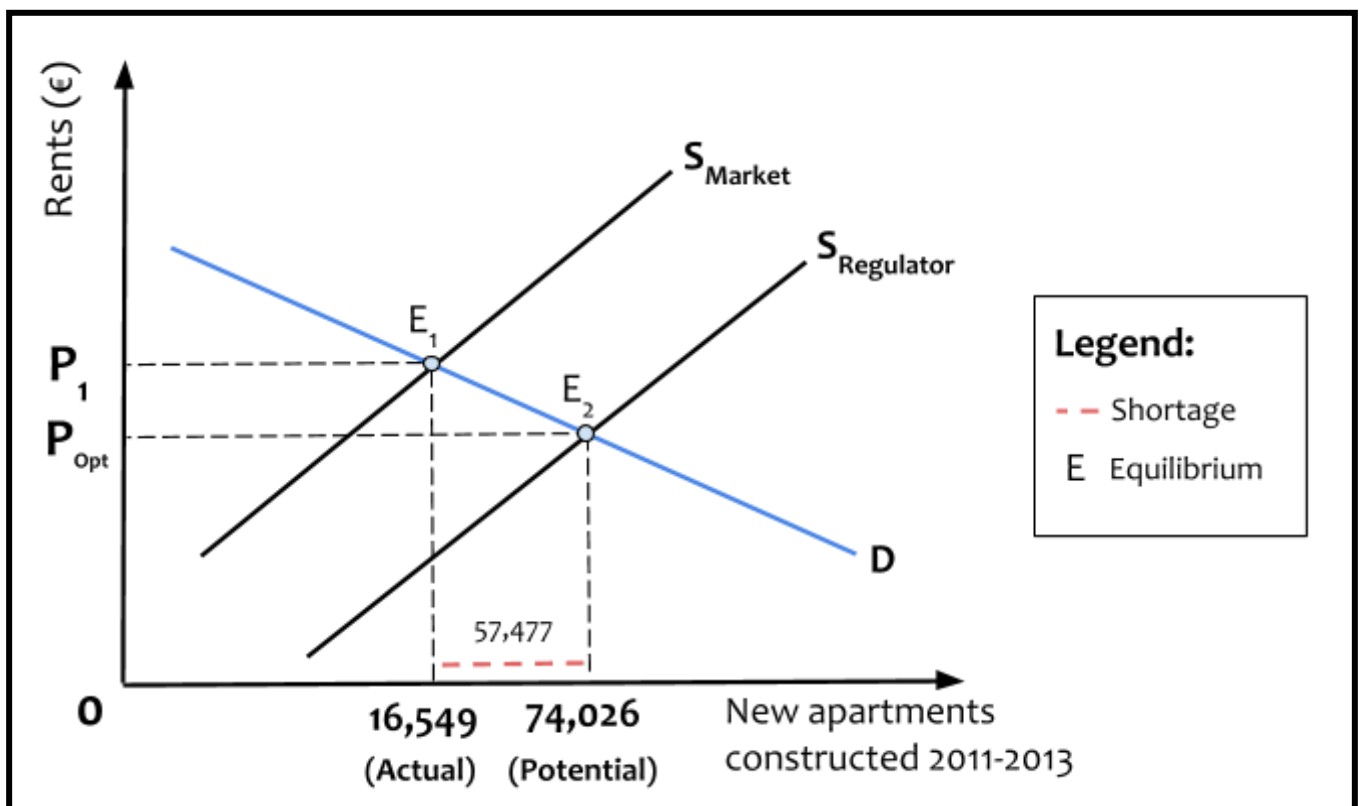


Diagram created by author

Berlin's rent problems can be summarized by figure 6. The market only supplies 'S_{Market}', due to a lack of investments and rigorous building permits ("Verordnung"). This forms an

equilibrium at 'E₁', supplying 16,549 apartments at a price of 'P₁'. The government, the regulator, however wants to shift supply to 'S_{Regulator}', in order to reduce shortage and subsequently rents: If the market would supply 74,026 apartments, fulfilling the market's demand, the price would decrease to 'P_{Opt}'. This would make rents significantly cheaper.

Fig. 7. Positive externality of production leading to apartment shortage.

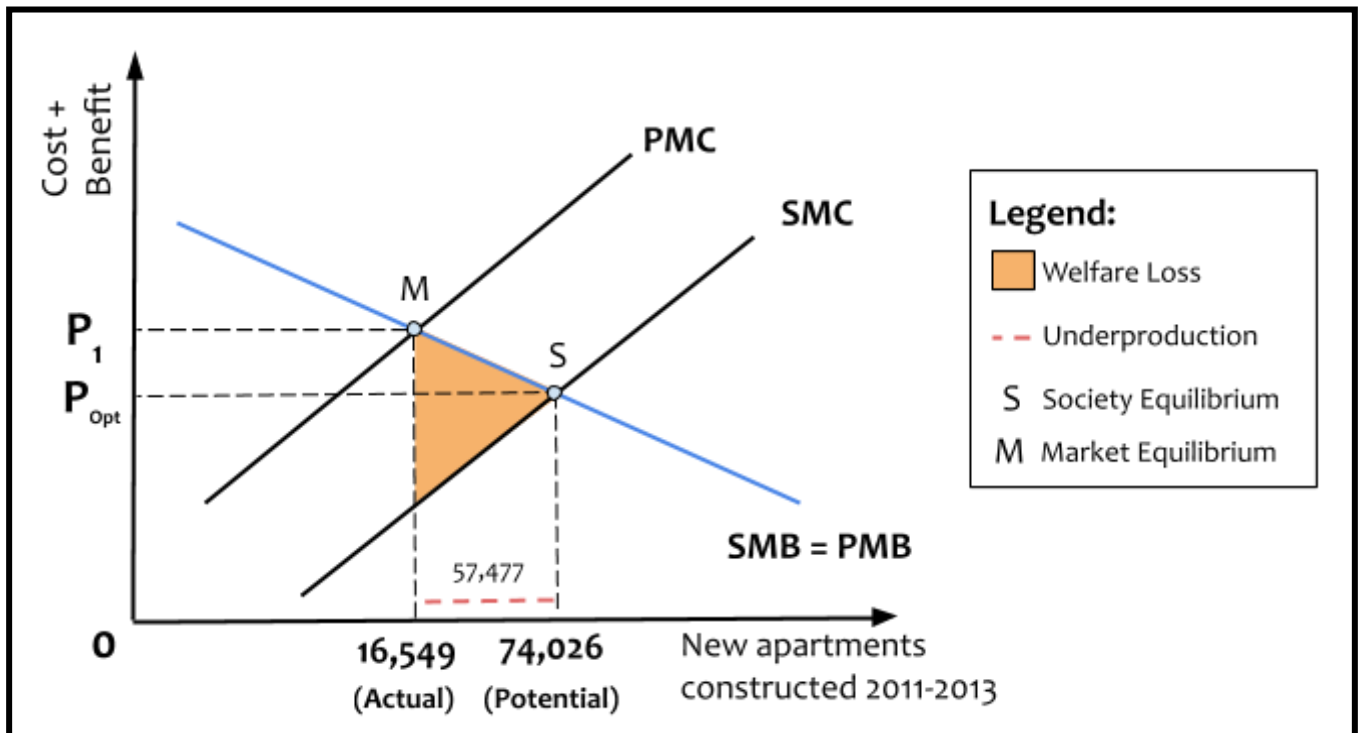


Diagram created by author

Figure 7 shows underproduction leading to a welfare loss. The red line, caused by the gap between SMC (Social Marginal Cost) and PMC (Private Marginal Cost), demonstrates Berlin's underproduction of 57,477 apartments. This reflects allocative inefficiency, $16,549 < 74,026$, as resources aren't allocated efficiently after society's needs. This triggers market failure resulting in welfare loss, shown by the orange triangle in figure 7.

Influence of housing shortage on stakeholders

Fig. 8. Shrinking surpluses due to welfare loss in Berlin's housing market.

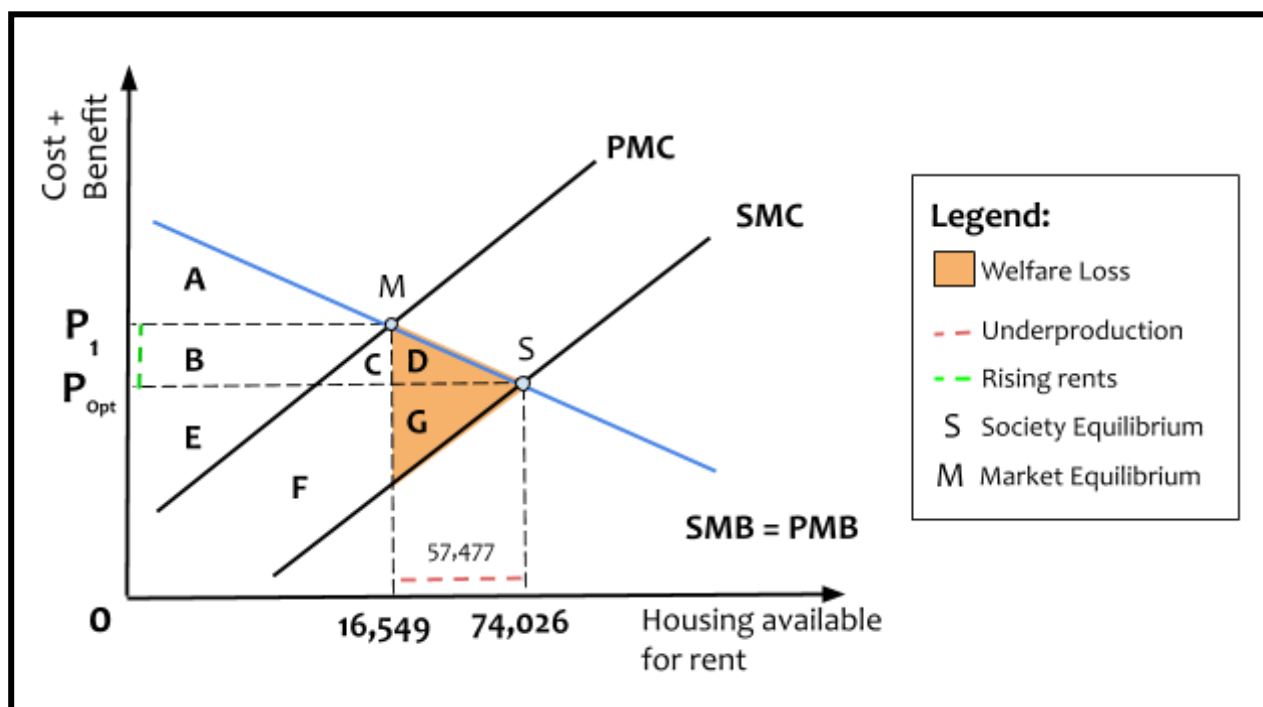


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Figure 8 shows that all stakeholders are worse off due to underproduction of housing.

Consumers, the tenants, are worst off. Consumer surplus shrinks from 'A' + 'B' + 'C' + 'D' at social equilibrium 'S' to only 'A' at market equilibrium 'M'. On top, as high demand meets low supply, rents rise as shown by the green line in figure 8. At socially efficient market equilibrium 'S', rents would be at 'P_{opt}'. At market equilibrium 'M', rents are at 'P₁'. Tenants therefore have to pay higher rents.

Producers are also worse off as their surplus isn't maximized. Producer surplus is defined as the potential revenue a producer makes when selling at a price higher than they were willing to supply to the market. At social equilibrium 'S' producer surplus would be 'E' + 'F' +

'G'. At market equilibrium 'M', however, this surplus shrinks to boxes 'B' + 'E' only. In other words producers lost surplus.

The government itself has to provide solutions to solve market failure, leading to potential investments, taking away opportunity costs.

In general, society suffers from the underproduction. The lack of available and affordable housing, forces tenants to live in suburbs. This results in longer exhausting commutes, reducing productivity and increasing health risks.

Berlin's fragmented market structure

Berlin's real estate market is dominated by little players, making it a perfect example of a monopolistic market. Figure 9 below is a self assembled chart based on information released by the International Union of Tenants (IUT). According to the pie chart, 66% of Berlin's apartments (in total 1.89 million) are owned by private owners or institutions such as Deutsche Wohnen or Vonovia. 18% of the market is owned by Municipal housing companies, while the remaining 16% are Condominiums (Werner).

To better understand who exactly owns this 66%, I researched the big market players.

Deutsche Wohnen, a publicly traded German real estate company, is known as one of the biggest landlords in Berlin. In 2015, according to its shareholders letter, Deutsche Wohnen owned 106,756 real estate properties. Its vacancy rate was only 1.8% ("Geschäftsbericht 2015", Deutsche Wohnen). On the other hand Vonovia, also a publicly traded real estate company, reported that they owned 30,588 real estate properties in Berlin by 2015. Its vacancy rate was 1.2%, one of the lowest values in Vonovia's whole portfolio

("Geschäftsbericht 2015", Vonovia). When adding Deutsche Wohnen und Vonovia's Berlin real estate portfolio together, the two companies only have a market share of 7.3%.

Therefore, to conclude: Berlin's real estate market is dominated by many companies and private investors, who own little pieces of the market.

Fig. 9. Who owns Berlin's apartments?

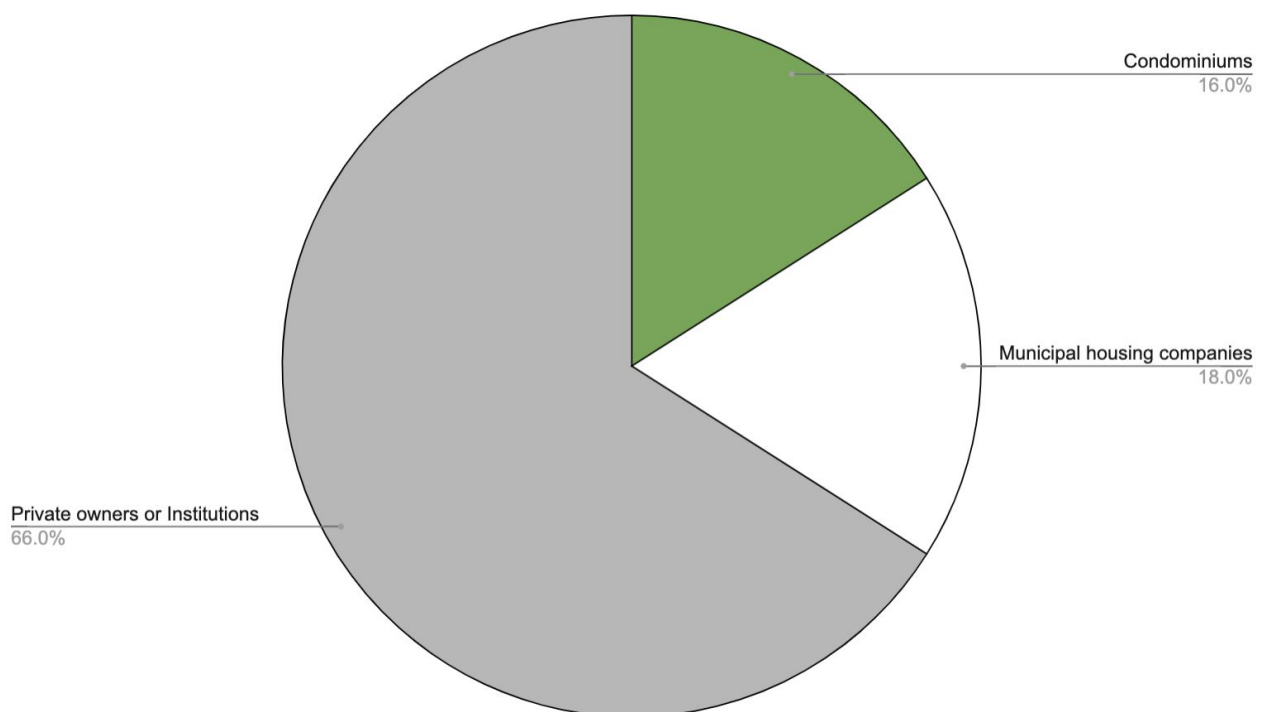


Chart created by author

Implementation of Price Ceiling

2015, Berlin's government intervened by implementing a rent control, aimed at reducing rent increases. Figure 10 graphically shows the government intervention:

Fig. 10. Price ceiling brings markets into disequilibrium, forcing Berlin's government to act.

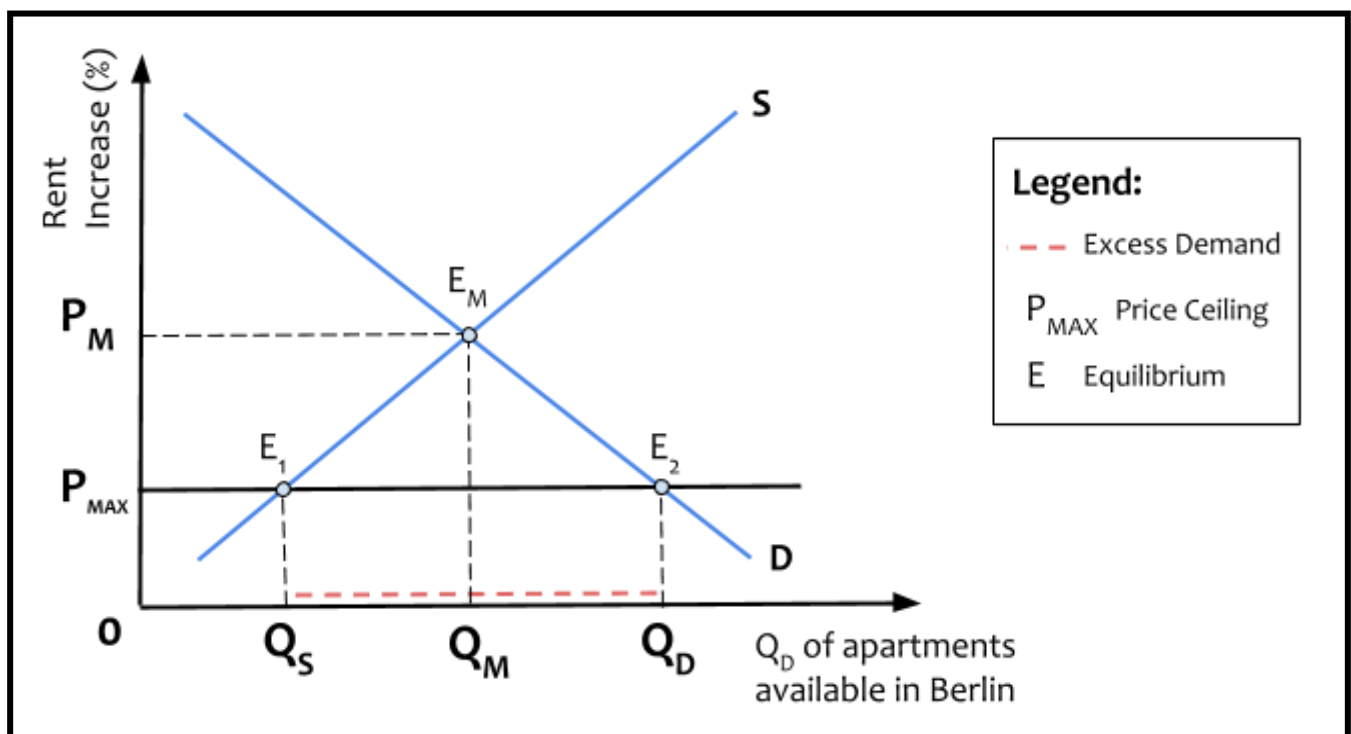


Diagram created by author

As figure 10 shows, the government implemented a price ceiling on rent increases of re-rents. Starting 2015, landlords were forbidden to raise re-rents by more than 10% in comparison to the local comparative rate, represented by P_{MAX}. The price ceiling caused the market equilibrium price to drop from 'P_M' to 'P_{MAX}', as markets are now regulated. In theory this means tenants pay lower rents. However at 'P_{MAX}' the market is in disequilibrium, as supply doesn't meet demand. Under the regulated market there is a demand of 'E₂',

however producers are only willing to supply 'E₁'. This creates excess demand, shown by the red dotted line, forcing the government to act.

Solutions for Markets in Disequilibrium

As the price ceiling caused disequilibrium, the government had to propose solutions to reduce the excess demand, in order to bring markets back into equilibrium. To reach equilibrium the government in theory had two options: Decreasing demand or increasing supply.

Fig. 11. Decrease in demand forms a new equilibrium at 'E₁'.

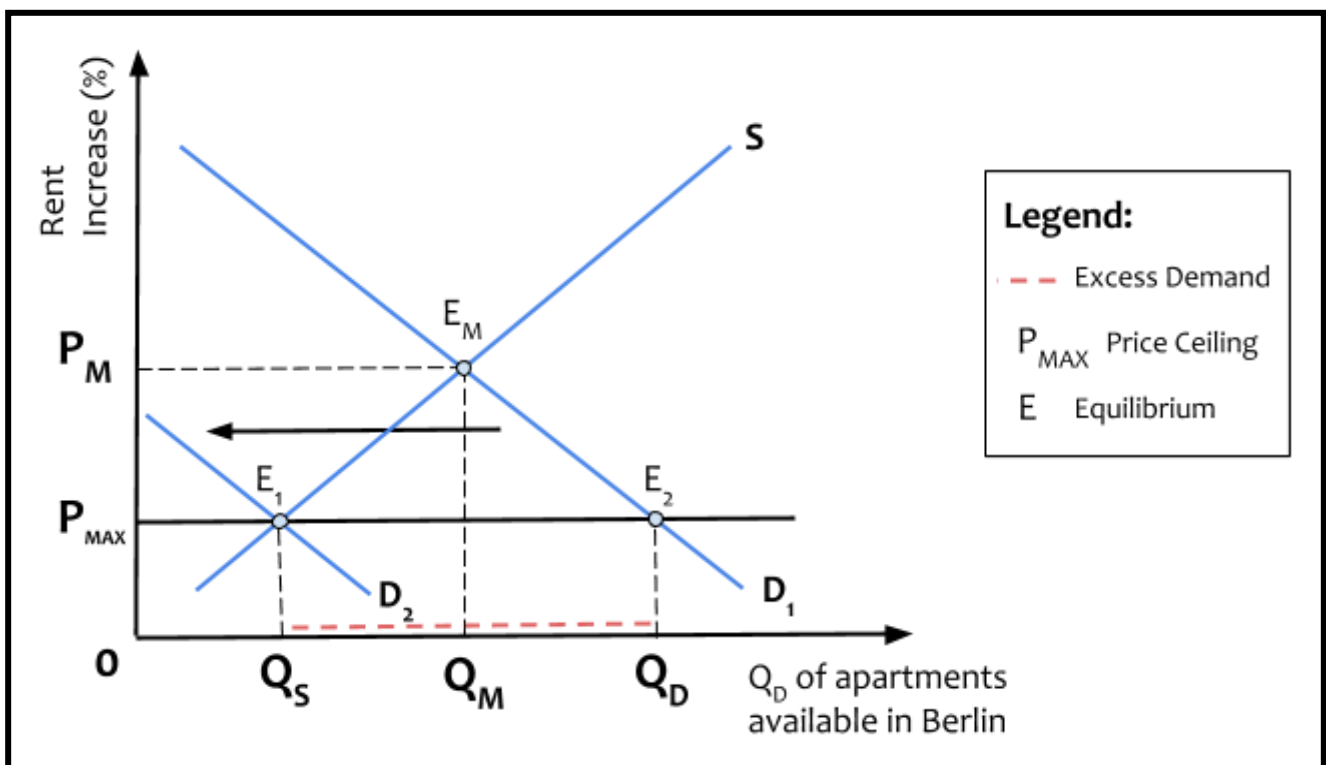


Diagram created by author

Figure 11 shows a theoretical solution: Reducing demand for apartments. This causes the demand curve to shift from 'D₁' to 'D₂', indicated by the arrows. The market forms a new

equilibrium at 'E₁', eliminating excess demand. Rents would now cost 'P_{MAX}', while 'Q_s' would be supplied. The problem with this solution: Demand for apartments would decrease from 'Q_M' to 'Q_s'. This is unrealistic as the government can't control population growth, while isn't interested in reducing demand as it limits economic growth.

Fig. 12. Increase in supply forms a new equilibrium at 'E₂'.

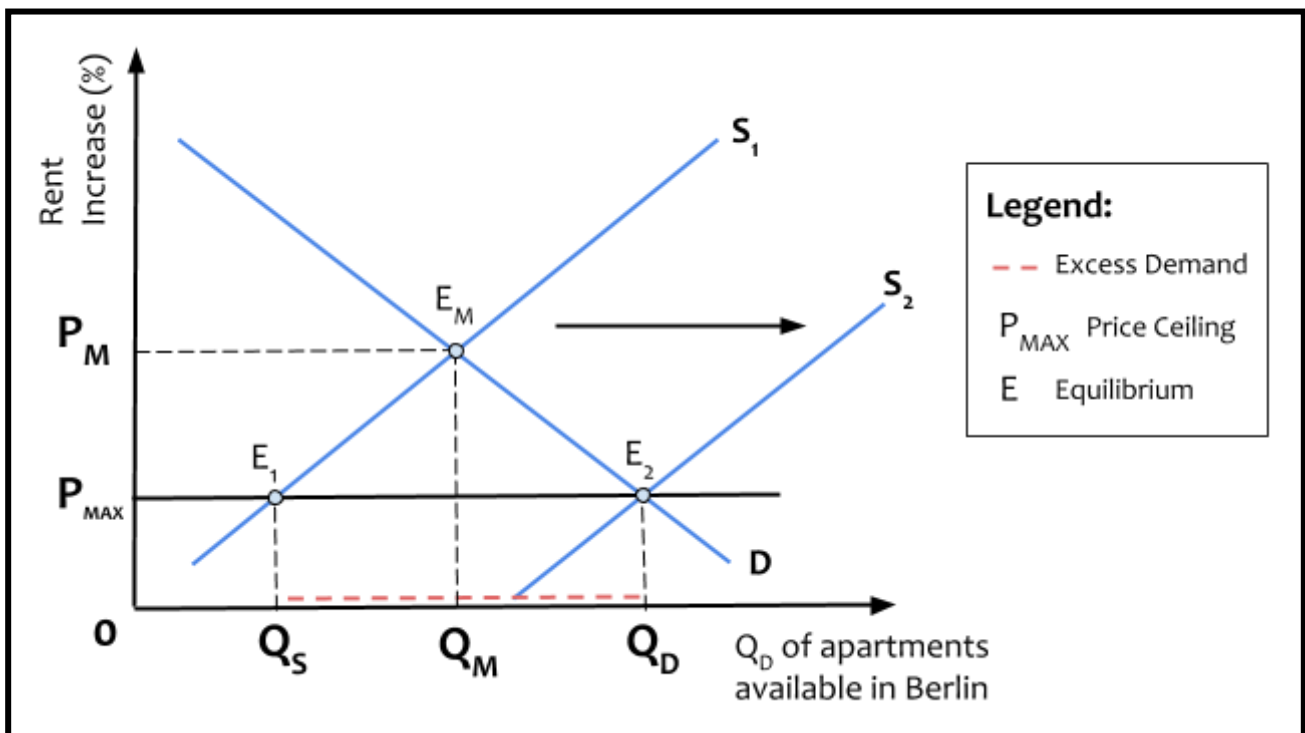


Diagram created by author

Increasing supply was therefore the straightforward solution to bring markets into equilibrium. Thomas von Münster, Head of Investment Unit Sales at Strategis AG, undermined this idea: “The only effective measure - with 100,000 exclamation marks - is new construction to increase the supply side” (Von Münster). Dr. Axel Wunschel, General manager of Berlin-Brandenburg construction industry association, added onto this: “As long as supply is lower than demand, rents will continue to rise” (Wunschel). Figure 12 above demonstrates that new construction would be an efficient way to bring markets to

equilibrium. As new apartments get constructed, supply increases, shifting from $'S_1'$ to $'S_2'$. The shift forms a new equilibrium at $'E_2'$, removing the excess demand.

Knowing this I researched the excess demand. I found that values for apartment shortage vary in Berlin. Recall: Between 2011-2013 the shortage was 57,477. The 'Housing for All Initiative' estimates that Berlin had a lack of 310,000 apartments ("German's Housing Crisis"). Berlin's government estimates the shortage to be around 80,000 apartments ("IBB Wohnungsmarktbericht 2018"). As the government is a trustworthy source and this number seems feasible to me, I chose as value 80,000 apartments.

Influence of a Shift in Supply on Stakeholders

Of the stakeholders, tenants (consumers) benefit the most from an increase in supply as it would make rents cheaper. If Berlin increases the supply of apartments by 80,000, then a new market equilibrium is formed at $'E_2'$, where tenants pay rents of $'P_{MAX}'$ instead of $'P_M'$. If this gap is not filled, the market operates in disequilibrium triggering market failure, where all stakeholders are worse off, as indicated in the consumer and producer surplus analysis.

Real estate companies and investors (producers) suffer as their investments become less attractive: "If you can no longer rent out the apartments for 15 Euros in Berlin-City, but only for 8.50 Euros, then that naturally has an effect on the attractiveness of the apartments as a capital investment" (Von Münster). The rent cap hinders landlords from achieving higher profits as they can now rent at $'P_{MAX}'$, lower than $'P_M'$. As investments become less attractive for producers, they are less willing to construct more apartments. As Berlin however

desperately needs to fill the shortage, the government had to step in to hinder market failure.

As producers weren't willing to invest, the government, the regulator of a fair market, had to act to bring markets back into equilibrium. The government has the following options:

- Approve more building land: Increases construction.
- Land purchases by the government: More area for construction.
- Subsidize construction: Makes investments more attractive, raising supply.
- Give construction permits faster: Fills the shortage quicker.
- Increase state owned housing stock: Government controls rents, making rents more affordable.
- "State-subsidised rents" (Von Kyaw) - Supports tenants.

No matter which option the government chooses, the government will lose opportunity costs.

Taken Government Measures to increase Supply

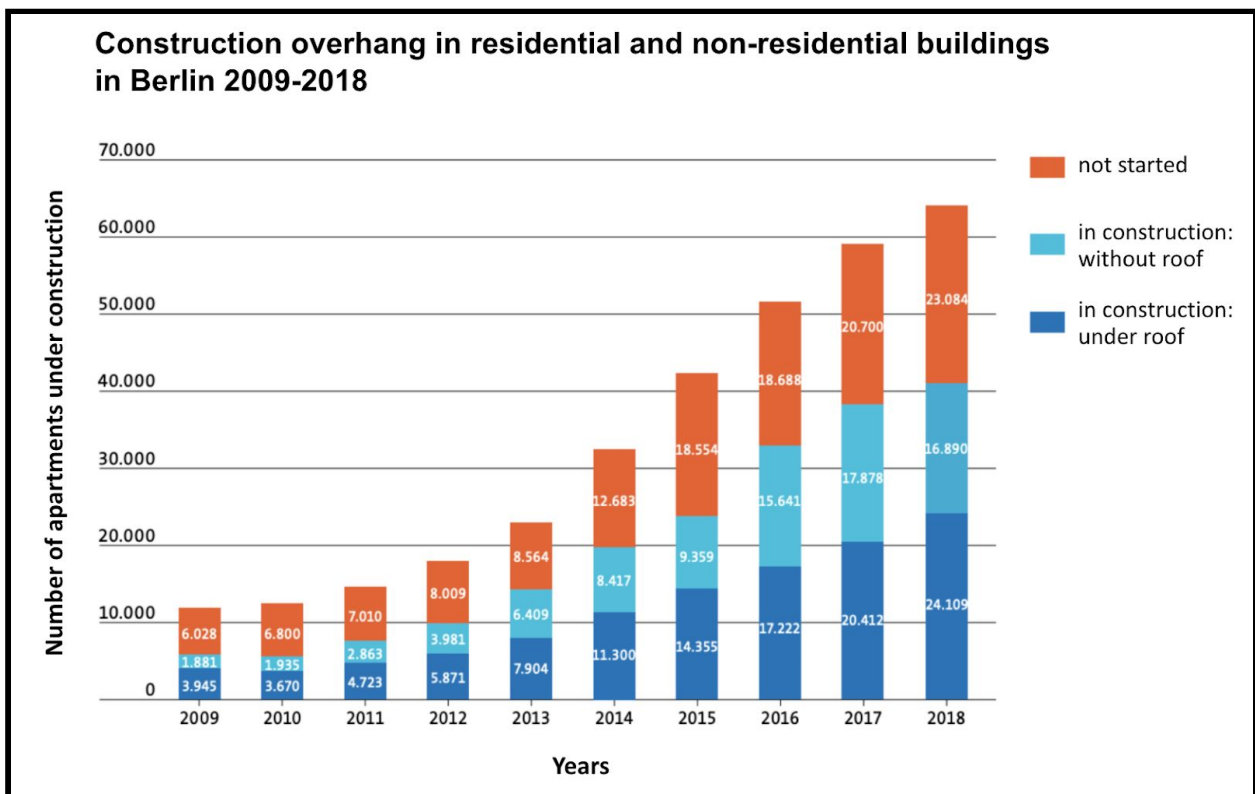
Berlin's government acted in several ways to increase supply:

- Funding programs for the construction of inexpensive apartments. ("IBB Wohnungsmarktbericht 2015"). The Investitionsbank Berlin (IBB) for example offers public enterprises loans up to 100 million to invest into housing ("Berlin Infra").
- The six state-owned housing companies committed to grow their portfolio by 55,000 apartments by 2021, thereupon 30,000 are newly built. By 2025 the

government wants to expand its state-owned stock to 400,000 apartments, giving the government more price control (“IBB Wohnungsmarktbericht 2016”).

- Strategic land purchase by the state of Berlin and granting more approvals for constructions (“IBB Wohnungsmarktbericht 2017”).
- Simplification and acceleration of building permit procedures. (“IBB Wohnungsmarktbericht 2018”).

Fig. 13. Number of projects in construction between 2009 - 2018.



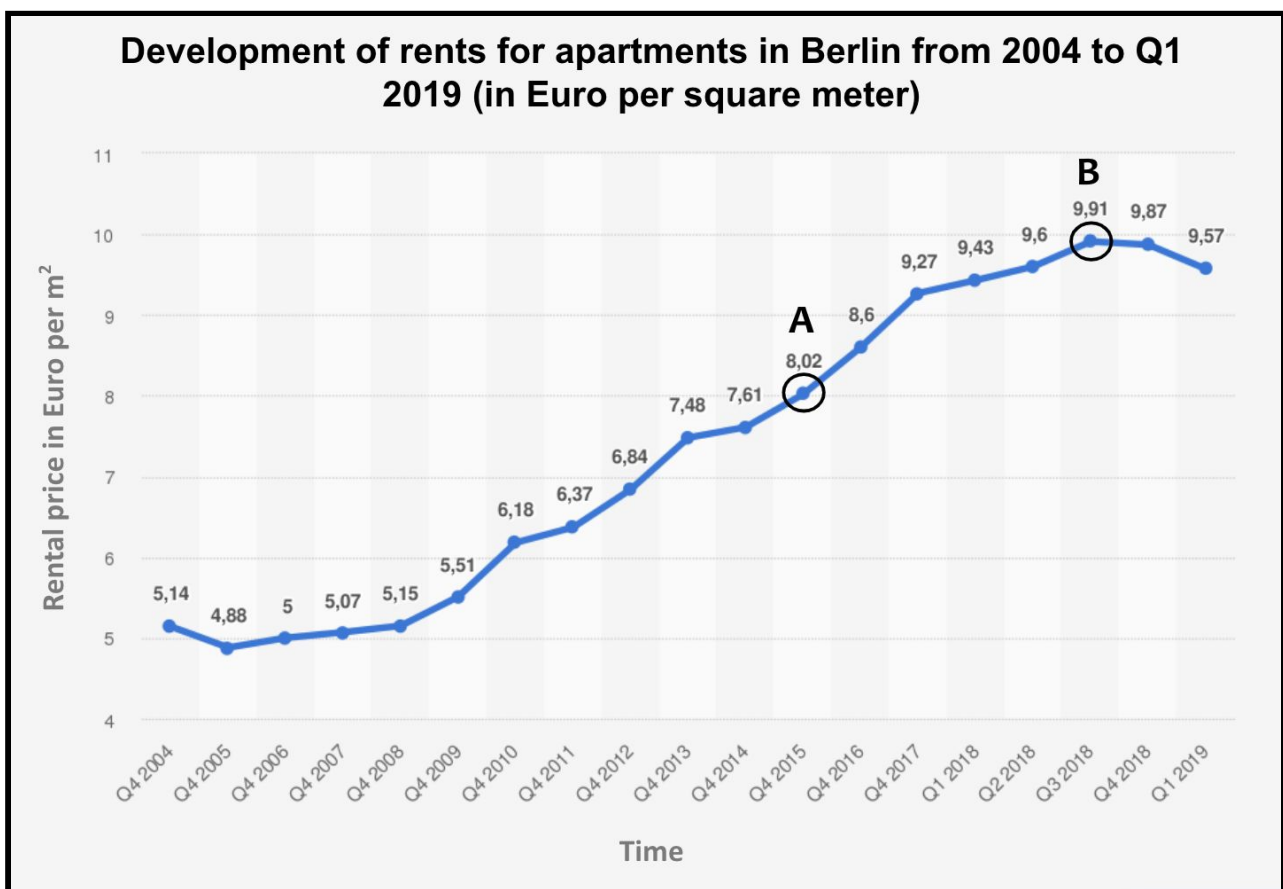
(“IBB Wohnungsmarktbericht 2019”)

Figure 13 above shows the increasing supply. Clearly there is a trend to construct more apartments. Nonetheless, these apartments are still under construction, shown by light blue

and orange in figure 13. As construction takes time, the short run supply remains inelastic, leaving the markets in the short run in disequilibrium.

Overall the measurements taken were drastic, however Figure 14 below shows that rents continued rising from Point A (8.02€/m²) in 2015 to Point B (9.91€/m²) in 2018, an increase of 19.3%. The rent control and its follow up measurements didn't help stabilize rents in the short run. By 2019 prices seem to have stabilized. Knowing that construction usually takes around 2-3 years, this could be the first results of the numerous projects initiated by the government to increase supply.

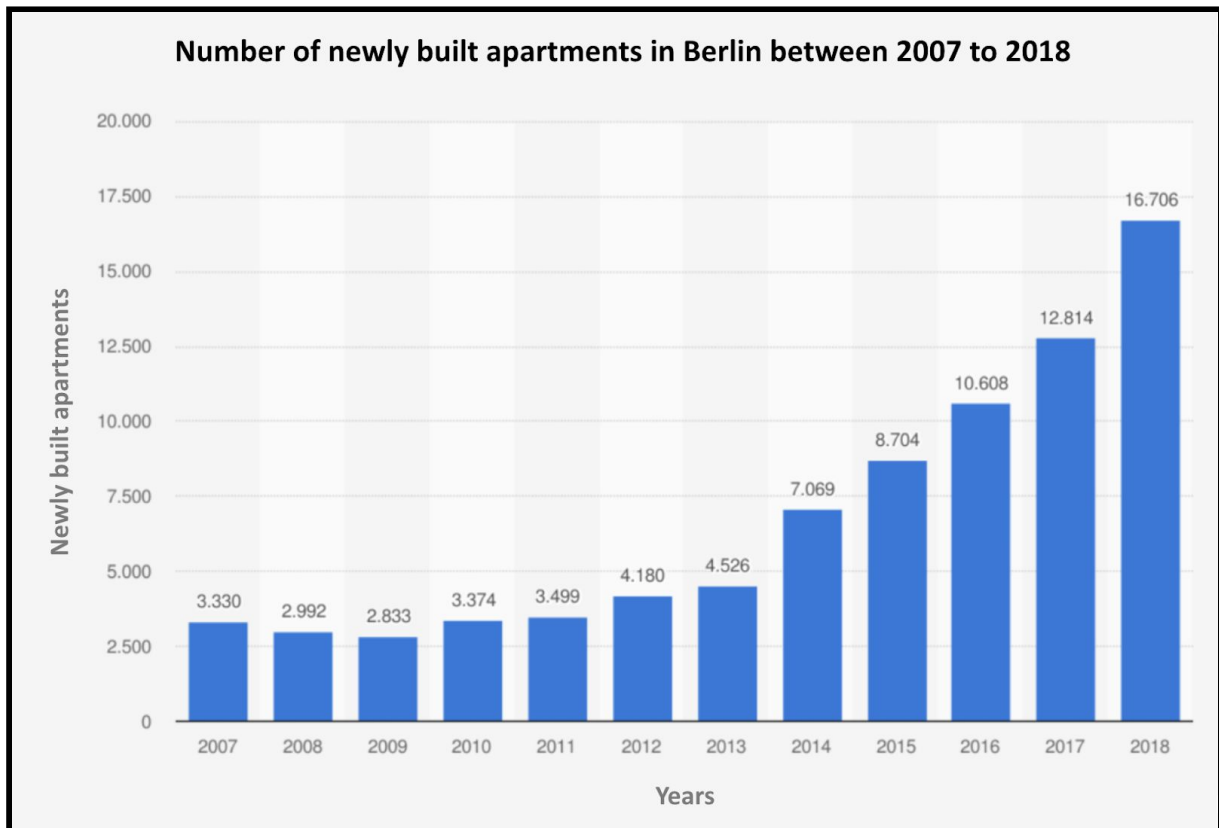
Fig. 14. Rent development in Berlin between 2004 and 2019



(“Entwicklung der Angebotsmieten”)

Figure 15 below shows the rapid increase in newly built apartments in Berlin between 2007 - 2018. Seeing the flattening of rents in figure 14, we can therefore assume that the increase in construction has helped stabilizing rents.

Fig. 15. Increasing new construction in Berlin between 2007 and 2018



(“Anzahl der neu gebauten Wohnungen”)

Circumventions to avoid rent control

In theory, allocative inefficiency creates black markets, as markets are in disequilibrium. The same happened in Berlin. In my interview Verena Herb, Head of State Representation of Hamburg in Berlin, stated that “there were no controls to ensure compliance with the rent

control of 2015” (Herb). Controls are essential as they frighten landlords from violating the law. No controls however meant that landlords had no trouble raising rents by more than 10% to the local comparative rent.

Thomas von Münster, Head of Investment Unit Sales at Strategis AG, added that circumventions took place: “Most owners created circumventions in order to rent outside the rent control. [...] There are few ways to avoid rent controls.” For example there are loopholes in the law like furnished apartments bypassing the rent control (Von Münster). As landlords find ways to bypass the law, rents continued rising, making the rent control ineffective in creating affordable housing.

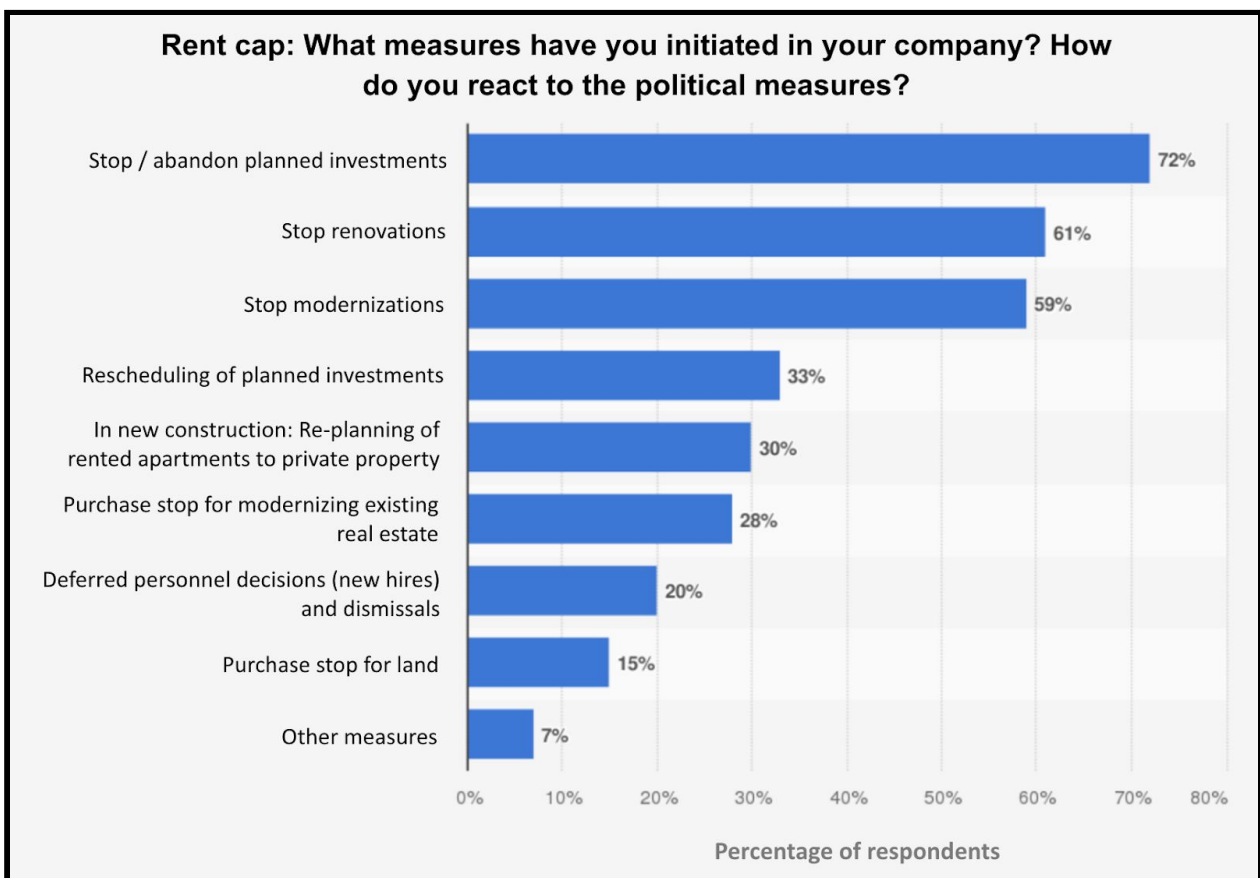
Evaluation of Effectiveness of Rent Control

In evaluation, Berlin’s rent control wasn’t effective in making housing more affordable.

Instead it backfired in several ways:

Firstly, it made Berlin’s market less attractive, as investors seek for “rent development” (Von Münster). Figure 16 confirms this: 72% of all Berlin investors said they stopped planned investments. This is quite problematic, as 66% of the market is owned by these investors, refraining from new construction (Werner). Without investments from the private sector, the question becomes: ‘Who will invest into new housing to reduce the shortage?’

Fig. 16. Taken measures after the implementation of the rent control



(“Mietendeckel”)

As investors cut projects, the public sector stepped in to achieve supply growth by increasing the state-owned stock and purchasing land. Lots of taxpayers money was invested to bring the market back into equilibrium. Money could have been saved if the private sector would have constructed themselves.

In the long run, once construction projects are finalized, the public investments may pay off and reduce rental increases. The rent control system, however, has not shown any evidence towards stabilizing rents. Rents have only stabilized due to the construction of new housing. Additionally, the rent control continues to deter the private sector from constructing. As population growth is expected to remain high, this raises the question: How sustainable are current measures, as the public sector can not afford to keep investments that high?

In evaluation, the implemented rent control system had limited effect in making housing more affordable. Instead, in the short-run rents continued rising. On top, the rent control system permitted the forming of a black market with circumventions that caused “disputes with tenants” (Zhang), as “tenants would not leave apartments” (Szebel-Habig). Verena Herb, Head of State Representation Hamburg, summarizes it nicely: The “rent cap in 2015 had no effect at all” (Herb), while only causing trouble.

Instead, the only effective measure to reduce rent increases is sustainably increasing the supply of housing. In order to achieve this, both the private and public sector are needed. Therefore, Berlin’s government should suspend the rent control, while work together with all parties to increase supply.

Limitations of Economic Theory and Research

Rent control brought Berlin's housing market into disequilibrium. Economic theory suggests that equilibrium can only be reached through increasing supply or decreasing demand. As decreasing demand wasn't an option, housing had to be constructed to reach equilibrium. As new construction however takes years, the market was left in disequilibrium for a long time. According to economic theory, markets in disequilibrium don't function. Nonetheless, Berlin's housing market continued to seamlessly operate in disequilibrium, demonstrating a limitation in the economic theory.

The essay covers estimations, for example future population growth, future housing demand or current housing shortage. For a fact driven person like me, working with estimations is a challenge. The inability to predict the future limits the accuracy of my findings.

My interviews only represent a small spectrum of opinions. Due to the limited number of interviewees, I wonder if these are representative?

Conclusion

Reviewing my research question “To what extent was rent control effective in creating affordable accommodation in Berlin between 2015 and 2019?” I conclude that Berlin’s rent control was ineffective. As figure 14 highlights, rents only settled in Q4 2018 when new construction hit markets. Between the implementation of the rent control in Q4 2015 and 2018, rent increase continued. From a stakeholders perspective all parties were worse off. Tenants still paid high rents, producers were limited in increasing rents, while the government lost millions. Worse however: It didn’t tackle the real problem of shortage in supply, while only caused tensions. Valuable time was lost.

My research process has shown me that the only effective solution is new construction. I learned that markets only function when supply meets demand. Berlin’s government interventions however had exactly the opposite effect: The intervention brought markets into disequilibrium, overruling functioning market mechanisms. Instead of helping, it left markets in inefficiency, forcing stakeholders to act. Therefore, I wonder if government interventions can ever be proven to be effective?

Interestingly at the times of writing, Berlin changed its rent control system again. Instead of loosening, the government implemented a rent cap. This means rents are forbidden to increase at all. It seems like the government hasn’t learned from its past mistakes!

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Appendix

Appendix A - Primary Research Interviews

Research was conducted through text and telephone interviews. The highlighted sections are cited in the body of this essay. Questions asked interviewees:

1. What impact did the rent control system (implemented 2015) in Berlin have on you as a tenant/landlord?

2. Are there better alternatives in your opinion, than the rent control system in Berlin, in order to make housing more affordable?

- **Yu Zhang**, Chairwomen of China Communication Holdings
 - “From the landlord's point of view, I and my lawyer have some **disputes with tenants** because of this new situation.”
- **Felicitas Von Kyaw**, Vice President People & Culture Coca Cola Germany
 - “In my opinion, **state-subsidised rents** would be a better option (e.g. housing companies) than intervening in the ownership of apartment owners.”
- **Astrid Szebel-Habig**, Professor of personnel and corporate management at Aschaffenburg University
 - "The last rent increase was on 1.9.2019 to EUR 8.13 per sqm. Mrs. Sperzing informed me that this means that no more rent increases are possible in the next 5 years. The two tenants, a retired couple, count 540 EUR cold rent. For me, this means that the **tenants would not leave apartments**, because they would risk higher rents if they change apartments, especially to a new building. The state would have to approve more building land and suspend the rent control. Then there would be more supply on the housing market and automatically rents would drop."
- **Verena Herb**, Head of State Representation at Free and Hanseatic City of Hamburg, SPD

- "In 2015 I was a tenant, am now also a landlord and am very much affected by the rent cap. This is big bullshit and hopefully it will be overturned in court. Rent cap in Berlin 2015 had no effect at all."
- **1)** "I moved to Berlin in 2014. The rent control had no effect on my rent, as the exceptions probably went very far. Instead, an index rent was introduced, with an annual rent increase. There were no controls to ensure compliance with the rent control of 2015."
- **2)** "The land must provide cheap housing and build, build, build. See Hamburg: every year 10,000 new homes are built there. Since 2018/19 also apartments at 8€/sqm. Important for this is the alliance for living between the economy/business and politics. (Origin 2011!!) This will is unfortunately missing in Berlin. The rent cap, in force since February, is another Berlin aberration. It will not create one more cheaper apartment. Besides, it does not concern those flats which are newly built and can be rented for e.g. 23€."
- **Thomas von Münster**, Head of Investment Unit Sales at Strategis AG
 - See Appendix B
- **Dr. Axel Wunschel**, General manager of the Berlin-Brandenburg construction industry association
 - See Appendix C

Appendix B - Von Münster Interview

Me: In your opinion, what impact did the rent control 2015 have on tenants and landlords? Could you maybe say a few words about Strategis AG and the effects on this company.

Von Münster: You are talking about the rent control, and not about the rent cap?

Exactly. The rent cap 2015.

Yes, we are in real estate sales, we sell real estate to owner-occupiers and investors and also refer them. We do their management. It has direct and indirect consequences.

The very direct effects when we sell apartments to owner-occupiers naturally have no effect because they move in. These are vacant apartments. If we sell flats to investors, then it does have an impact, because the investors who want to invest money buy one flat or two flats. If they buy vacant apartments, they want to rent them out. And if the rent control means that you can only rent out the flats for a limited price, then of course this has an effect on demand. Demand has naturally fallen in this segment. Demand has fallen. **If you can no longer rent out the apartments for 15 euros in Berlin-City, but only for 8.50 euros, then that naturally has an effect on the attractiveness of the apartments as a capital investment.**

However, at the same time, demand has not fallen but has risen overall. How does that happen? Because there is less and less supply. There are fewer and fewer flats being built. There are people who come to Berlin. The influx is much greater than the outflow. It's the same in Düsseldorf. It's the same in other cities, especially in Berlin as the capital.

So the overall demand is a bit contradictory, the overall demand is high, but in the investor segment it has fallen. If an investor buys a vacant apartment, he will also buy a rented apartment, those that are rented, which we then sell with an existing rental contract. Here too, of course, demand in this segment has fallen. Quite clearly. Why? Because here, too, the investor buys for the long term and naturally wants to have a certain **rent development** when it comes to new rentals, which he then has only to a limited extent with the rent control. To sum up: demand has dropped in the investment sector due to the rent cap.

In your opinion, are there more effective measures than rent control to offer cheaper housing?

No regulation at all! We have enough. We have the most effective regulation, even before the rent control, namely the German Civil Code. There the tenant and the tenants are sufficiently protected. And the landlord can only raise the rent very moderately, i.e. already from the rent control. With existing tenancies and new leases, the market should of course clearly decide what the market price is, i.e. supply and demand where they meet. **The only effective measure - with 100,000 exclamation marks - is new construction to increase the supply side.** And since politics has failed to do so for decades, you are now trying to fiddle around with the rent caps and price brakes that we now also have in Berlin, unfortunately, and are trying to get votes in a populist way, so to speak. And that has no effect at all in the direction of lowering rents, but the whole thing rather causes prices to continue to rise, because vacant flats are becoming increasingly rare, i.e. are becoming rarer and rarer.

In short, once again with 100 000 exclamation marks, effective means new building, new building, new building, new building.

So they were not successful in making rents cheaper.

Not at all! The rents have risen in time. No, not at all. Rents haven't gone down, they've gone up. And as I said, the only way to do that is to build new houses.

That's coupled with 10% of the local rent, right?

Exactly, 10 percent above the local comparative rent.

So did you also fall a bit in the short term or did you remain constant?

No, the statistics say clearly the prices have risen. Why? That sounds contradictory to you. But why is that? Because, of course, **most owners created circumventions in order to rent outside the rent control.**

So, either they do it illegally or they do it, or they rent furnished or they make leases for the fitted kitchen, extra leases and, and, and. **There are few ways to avoid rent controls.** Or they simply make temporary leases in the hope that if the tenant gets on my trail, I will be rid of you after the expiry of the term.

Great, then that's it. Do you happen to know how I can get more information? Or any materials? Maybe something from Strategis AG? Do you have any material there that I could devalue or analyze?

There are market reports, real estate market reports from Investitionsbank Berlin, JLL (Jones Lang LaSalle) and others who regularly publish these market reports and accordingly also document the development of rents, rental and purchase prices. They do this for all relevant cities, including Berlin of course.

Great, then if I'm going to use quotes, I'd come back and check them out again. Thank you very much for the interview!

Appendix C - Dr. Wunschel Interview

Me: What effects did the rent control 2015 have on tenants and landlords from your point of view?

Dr. Wunschel: None at all. Hardly any effect as far as I could observe. At the time, we were able to prevent the new building from being affected by it, and we had the impression that the main thing had been achieved, and we did not have the impression that the other rent control had had any major impact.

So it didn't somehow make renting cheaper? That was the real goal!

No, in no way made it cheaper. And whether it actually slowed down the rent increase, I doubt that very much.

And the second question: In your opinion, are there more effective measures than the rent control to offer cheap housing? And if so, which ones?

This may sound very trivial, but it is a question of supply and demand. **As long as supply is lower than demand, rents will continue to rise.** In my view, there is only one way to counter this in the long term: to increase supply. If possible until it either reaches or exceeds demand. Then rents fall, then prices fall. It is actually a relatively simple connection. I am very surprised that attempts are being made to override this simple rule by dirigiste measures. So in the end, build, build, build.

Do you happen to have any ideas how I can get good information? So something that is meaningful that the rent control was not successful in making rents cheaper.

Definitely call the BBU. [...]

Great, then I might come back later for quotes. I'll probably e-mail them to you. If that happens, and I would thank you.

Thank you so much!

Appendix D - Mindmap showing research methodology

