The housing crisis in London, Berlin and other German cities: A British-German dialogue

By Paul Hackett, Director, the Smith Institute

Introduction
A housing crisis is affecting the major cities in the UK and Germany. More and more households in cities like London, Berlin, Hamburg and Munich face acute housing affordability problems, which are not only harming living standards, health, life chances and the well-being of individuals but negatively impacting on local communities, the city economy and on efforts to promote inclusive growth and tackle inequalities. At its extreme, the housing crisis is creating poverty, pricing citizens out and driving up homelessness.

The problem is worsening and spreading, making it a top concern for politicians, policy makers and housing practitioners. In both Germany and the UK, public opinion continues to rank the lack of affordable homes to rent and buy as a major concern, especially for the younger generation and those on low to mid incomes.

Although the housing markets in Germany and the UK are different and are shaped by distinct historical and cultural factors (not least the German tendency to rent apartments and the British preference to own terraced housing), the challenges around housing stress in major cities are similar – albeit more extreme and widespread in London where housing costs are higher and have been higher for longer.
While participants were also aware of the different political systems (especially the way in which housing policy is so much more centralised in England and more devolved in Germany), there was a shared understanding that the housing problems in high demand urban areas is rooted in the prosperity and success of cities like London and Berlin. Strong population growth, rising city living costs and lack of suitable land were identified as a challenge for all major cities.

The consensus view was that housing markets were failing and that successful cities needed an alternative policy approach to housing and growth, which should be less market facing and more inclusive and fairer. The call from participants was for a rethink on how public and private sectors can work together to provide more affordable homes in mixed communities. Much of the dialogue concentrated on how this can be best achieved.

**Context – housing in Germany and the UK**

London and the major cities in Germany have struggled to meet housing demand, with consequential affordability issues. The problem is more recent in German cities (which were left relatively unscathed by the financial crash) where private rents have increased sharply. London has experienced housing stress for longer and is comparatively still more expensive than cities like Berlin, although prices have cooled in recent years.

UK participants highlighted the cyclical nature of the British housing market and warned of a housing market crash in the wake of Brexit. Civic leaders in Berlin and other German cities mentioned that German citizens were used to stable, low cost housing and that rapidly rising private housing costs and market speculation were now a worry. Unless the cities could be made more affordable Germany too might face a property crash. It was said that this must be avoided at all costs and that strong city-state intervention was necessary, especially regarding rents.

Whilst London faces similar housing challenges to major German cities, the lack of social housing and inadequate welfare support in England was not only pricing people out but also causing serious problems of over-crowding and homelessness. It was remarked that London had nothing like the tradition of tenant protection and quality control seen in German cities.

Participants in all the events were conscious of the inter-related nature of housing policy, not least how housing connects with regeneration, transport, health etc. This inter-connectedness is pronounced in the planning strategies and programmes in German cities, although the point was made that the German system was perhaps less flexible but comparatively more joined-up and predictable. It was also emphasised that long term planning and close collaboration between local government and housing providers were characteristic of the German way, although this was easier to achieve in cities which had significant powers and resources.

Housing policy in the two countries is also shaped by the different political systems. Despite incremental devolution to London and other cities, the English system is more centralised and top-down than Germany. It is also much more market orientated, with a lightly regulated private rented sector (PRS) and a highly regulated social rents regime underpinned by housing benefit. The German federal system supports city-wide action and local autonomy, with more generous housing support for new build from the Federal Government. Housing policy is more public facing and more rules based, with tight regulation of all tenures (including rent controls – Mietpreisbremse – and tighter controls over mortgages and real estate investment).
There are also deep-rooted cultural differences, not least the British preoccupation with home ownership and the German preference for renting, as well as the legacy in cities like Berlin and Hamburg for co-operative housing. Another striking cultural difference is the high regard in Germany for tenant empowerment and housing as a basic human right. In general, German society was said to be more suspicious of property developers and investors.

The housing stock in the two countries in part reflects these differences, with a much larger PRS in German cities. There are also other unique characteristics in cities like Berlin such as whole areas of public housing inherited from the former GDR and high-density apartment living, and in London features such as streets of older terraced housing with gardens. These differences obviously shape the policy response, as does the difference in scale and intensity (London is three times the size of Berlin and nearly five times the size of Hamburg).

There are also marked differences in attitudes towards housing lending and investment, with the German market traditionally being a lot more conservative over credit controls and tax breaks in support of home ownership. The delivery models are also different, with public agencies playing a bigger development role in Germany. It was remarked that the less speculative and more regulated German model had led to less boom and bust and consistency in delivery, with annual housing supply in Germany at twice that of the UK.

### Population by tenure 2017

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*Source: Eurostat/ONS*

It is also noteworthy that there has been less austerity in Germany, where incomes have risen faster and housing welfare is more generous. Despite these differences, civic authorities in major cities in both countries are having to ration social housing, which is challenging in areas where there is greater housing need. This is also changing the dynamics around urban regeneration, with gentrification, profiteering and residualisation becoming sensitive touchstone issues in some places.

### Housing in Berlin

- Most of Berlin rents, with high concentrations of one-two bedroom apartments (over half of all homes are single households). Homeownership is low at 16%
- Berlin has a high proportion of professional landlords and social landlords
- The city has experienced acute housing shortages, especially for young people
- Property prices have skyrocketed over the past five years (up 15% in 2018)
- This is largely due to expanding population growth (at over 8% pa) and a strong economy
- The city suffers from high construction costs and land shortages and the supply of new homes (mostly apartments) continues to fall short of demand
- Foreign investment in property has increased as has demand from tourism
- Following street protests the Berlin government approved a five-year freeze on rents in June 2019

The housing crisis (or more accurately housing crises) are of course not confined to the major cities. Both countries have housing affordability problems in rural areas (where homeownership is much
higher in Germany) and challenges around suburbia and housing an ageing population. The UK also has much wider housing (and income/wealth) inequalities and more entrenched regional and inter-regional disparities.

The London housing market
- Social housing has suffered from austerity and under-funding, although there are now signs of an increase under the Labour Mayor
- Private renting has risen rapidly and is projected to catch up with owner occupation by 2025
- Private rents in London remain high, but over the past two years have been increasing at a lower rate than other cities
- House (and land) prices in most of London have been cyclical since the financial crash in 2008, rising until 2016 and then falling back. Despite the recent decrease, average house prices are still 13 times the average London salary
- New house building has not kept up with population growth. London needs 64,935 new homes every year to meet the growing demand for housing. Of which, according to the London Mayor, some 43,500 will be affordable homes

Source: GLA/ONS/Frank Knight

Key observations
The housing markets in London and German cities are different and fast changing but also share many of the same challenges, especially around providing sufficient sub-market housing. The following identifies some of the key issues and concerns that were discussed at the events in London and Berlin.
The main topics discussed were: public opinion, housing politics, housing supply, loss of social housing stock, land and planning, private renting, powers to intervene and funding.

Public opinion
The housing crisis ranks as a top concern in the opinion polls in London, as it does in German cities where there have been mass street protests over spiralling rents and overseas property investment. It was said that there are strong citizen movements in Berlin and other major cities in Germany which support radical market intervention, such as banning Airbnb, but that public support for the PRS remains fairly strong. However, the mood is changing because of rent increases.

A major difference in public attitudes between the two countries is the way in which social housing has become much more stigmatised in the UK. It was said that the UK is hooked on rising property prices and that the politics of doing anything to deter home ownership is problematic. In addition, it was mentioned that it was often difficult to communicate not just the case for new developments but the case for mixed communities.

Renting continues to trump owning in Germany, especially in urban areas where there are mainly apartments. It was said that this was unlikely to change dramatically in the short term owing to legal protection for tenants and a more conservative mortgage market.

Housing politics
The Labour administration in London and the SPD in Berlin and Hamburg have made fixing their broken housing markets a political priority. Both Labour and the SPD are championing not just more affordable housing but better quality (and more eco-efficient) housing. The differences in approach in both nations and cities are arguably less ideological than a decade ago when the UK witnessed a significant shift towards market-led housing and planning deregulation. However, it was noted that national housing policy could change again as a result of Brexit and that recent ministerial support for social housing could be reversed.
German civic leaders stressed the benefit of having greater local control over housing policy and a respected and proven ability to actively intervene in the market. However, it was said that both federal and state governments needed to take more concerted action to reduce pressure on the rental market.

The SPD said they wanted to take a more radical approach to tackling housing unaffordability. Besides an increase in long term funding for the construction of more social housing from the federal government, the SPD is calling for:

- A freeze on rents in tight housing markets for 5-years
- Guaranteed low rents linked to public subsidy
- Half new housing in zoned areas to be sub-market
- Greater protection of student housing and community facilities
- Clampdown on property tax abuse (‘share deals’)  
- Restrictions on conversion of rented flats into owner occupied properties
- Tighter regulation of tenancy termination clauses
- Ban on estate agent fees and higher charges on vacant land

It was mentioned that in some German cities the SPD are calling for a ban on large real estate companies and ‘socialising’ private properties for social housing.

It was said there are differences between the German political parties at national and city level on housing – with the CDU/CSU advocating a more open-ended “build, build, build” policy approach and the SPD (more dominant in the large cities) concerned about affordable housing and what gets built. It was also said that whenever social democrats seek to tighten the rules on rents and property speculation, it is seen as an attack on landlords and property rights by the CDU/CSU (whose support is stronger in rural areas). There is a similar political divide in the UK, with the Conservative party also overly focused on housing supply numbers and portraying itself as the party of homeowners and Labour traditionally known for supporting social housing.

**Housing supply**

Germany has a more diverse mix of housebuilders than the UK, which relies on a small number of large volume housebuilders. German municipal housing companies and not for profit providers also have a bigger presence in German cities (accounting for a third of the urban housing market), providing new homes mostly through 20-30 year covenants.

Although Germany has consistently built more homes (and more affordable homes) than the UK, with completions much higher in the cities, new supply in both countries continues to lag demand. It was observed that over the past decade new build social housing had fallen across all the major cities, and that the shortfall was severe in some areas. This loss of social housing and in some places gentrification was seen as undermining mixed communities and driving displacement. It was noted that the housing shortage in Berlin was now so bad that it is impossible to move. In London it was remarked that because there is weaker security of tenure some lower income earners were being moved out against their wishes. Poverty was creeping out from the expensive inner cities into the cheaper surrounding suburbs.

It was said that in London the shortfall in affordable homes was not being met by the private sector and that more supply in the future is expected to come from social landlords (especially for shared ownership and intermediate rent, if capital grant levels continue to rise). London participants highlighted problems around the lack of skills, which could worsen drastically as a result of Brexit.
Mention was also made of the lack of land and spiralling development/land costs, as well as a general frustration with build out rates. It was said that more starts in London were expected as a result of strategic alliances between public and private providers and the introduction of fast track planning processes for affordable housing.

**Munich’s housing crisis**

Munich has experienced rapid rent rises and is today one of the most expensive cities in Germany. According to press reports the wealthy are pushing out the poor from the centre. The consequences are bigger commuting distances and further increases in rents in the city and surrounding areas. The city has a tradition of cooperative housing and strong planning guidance which insists developers must build at least 30% affordable homes and contribute towards necessary community infrastructure etc. Civic leaders are worried about overvaluation and a price bubble and have frozen rents on social housing flats (and are looking to extend to the PRS) and no longer sell-off land, instead lease it to social landlords. Demand for new homes and lack of space has also created a new market for micro-apartments.

It was said that in some German cities the authorities often struggled to work with private housebuilders. What was needed were more pro-development housing associations with a social purpose, like those in the UK. German participants also called for more co-operatives, which have a long and successful tradition in Germany (notably in cities like Berlin where housing co-ops account for 10% of the market). Most are small scale and have strong tenant unions, with low rents and long-term leases. According to German discussants, the sector remains popular although the competition for land and rising costs has curtailed development – though some co-ops in cities like Hamburg provide loans from their own banks. It was also said that most members remain in their cooperative over their whole life and that, as with social housing in the UK, there is little staircasing.

**Loss of social housing stock**

The persistent loss of social housing stock was a worry to all participants. Both UK and German cities have struggled to replace the loss of public housing, with London suffering from a major loss of council homes through the Right To Buy and Germany witnessing increased conversion of rented flats into owner occupied property when leases/covenants expire.

It was generally agreed that building new affordable homes was sub-optimal if there was not at least a one to one replacement for the loss of sub market units. However, it was also remarked that estate renewal and replacing council housing with a mix of new housing in London was now often politically difficult and that the London Mayor had recently introduced a system of balloting tenants over estate regeneration schemes.

**Land and planning**

The German planning system was viewed as more efficient, with much higher rates of permissions completed, greater consistency and zoning powers. It was noted that London and other cities lacked not just equivalent planning powers, but often the necessary planning capacity and capability of German cities. British participants stressed how the English plan-led system favoured developers and that planning authorities aren’t able to designate land and secure planning gain in the same way as in Germany. It was said that some councils in England didn’t have up to date local plans and that smaller councils (districts) close to large cities were often antagonistic towards new development for commuters.

Participants agreed that German cities had more powers over land and site allocations for affordable housing and greater potential to capture ‘hope value’ for public benefit. It was said that planning
obligations (Section 106) in the UK had helped deliver more social housing in London and other areas where land value were high, but that the laws and regulations around property rights, financial viability appraisals and permitted development generate too much profit for developers and not enough for the community.

Public authorities in Germany also tended to lease (rather than sell) public land and seemed to be better able to control the pace and quality of development. The poor quality and lack of space of some of the new housing in London was a worry, especially in the new build to rent sector. It was also noted that in cities like Hamburg new schemes tendered at ‘best offer’ not highest price, with price counting for 30% and the housing concept for 70%.

Private renting
The PRS has been the fastest growing sector in German and English cities, especially in London which has also experienced more overseas investment in high-end rented properties. It was commented that cities like Berlin supported a high quality PRS for a mix of households and that tenants had greater legal protection than in the UK. However, there has been widespread protests in German cities over recent rent rises. There was also disquiet over the growth of foreign investment in real estate, which is much less prevalent than in London.

In the UK there was widespread concern over the quality of the PRS and its suitability to house low income households who depend on housing benefit. It was said that some London boroughs had introduced PRS licensing schemes and bought rented properties to house people in temporary accommodation and that the recent promise to repeal of Article 21 (no fault evictions) was good news, but that there was more to do, especially on strengthening tenant rights and regulating rents and leases. The general impression was that the PRS in London was housing people who previously would have been in social housing, or perhaps 15 years ago would have been able to save for a deposit to buy. It was said that although Buy to Let was diminishing in London the tenure shift towards the PRS was unbalancing and distorting the housing market. Generally, the call was for rent stabilisation, rather than blanket rent controls.

Private renting in Germany and England
- PRS in Germany is much larger, more mixed and of a higher standard, although it can be hard to access. It is characterised by strong tenant unions/syndicates
- The PRS in England operates in a more deregulated environment. It has more low-income tenants and weaker tenant protection
- In both Germany and the UK the PRS is supported by the state. However, the PRS is generally viewed more positively in Germany
- Private renting is fragmented in both markets – both consist of mostly small landlords (1-2 properties). There is less churn and more professional landlords in the German PRS
- The German system has rent controls (rent brakes, which prohibits property owners - excluding new build - from raising rents by more than 10% above the average for the area) in high pressure areas and rent freezes in cities like Berlin.
- However, rent caps over time have curtailed but not stopped rent rises in German cities
- In cities like Berlin rents have risen sharply (rents are now going up faster in Berlin than London, although they started from a lower base)
- There has been a marked tenure shift towards the PRS in London and England (notably for lower income households), with the higher cost of privately renting adding to the benefit bill.
It was remarked that Germany appears to have a dislike for institutional investors in the PRS, whereas in the UK (where they have a relatively small share of the market) they are considered a necessary and positive thing. It was also mentioned that for rent controls to work the capacity to implement them must include an enormous amount of data, otherwise they can’t be enforced.

Powers to intervene
It was said that the capability and capacity of British cities to address the housing crisis independently of central government were limited. There has been positive collaboration between the GLA and national housing agencies, but the relationships with central government was often fractious.

It was said that although German cities had much greater powers to intervene, boundary issues were a concern and that no city was immune from border planning disputes over the siting of new homes. It was remarked that the lack of land in London and the South East made co-operation difficult and that the UK seemed to struggle to advance urban extensions and build new towns.

It was said that devolution in London had helped and that local authorities were becoming more active in the housing world (for example, borrowing to build, forging strategic alliance with other housing providers and establishing local housing companies). However, representatives from London stated that the government should release more power and funding to the London mayor and GLA, mindful though of the balance in housing and planning responsibilities between local government and city-wide government.

Funding
German public housing subsidies (mostly from the Federal government and often linked to low rents) are more generous and certain than in the UK, which has witnessed sharp cuts in funding for social housing and housing welfare (housing benefit). It was said that poorer tenants had suffered in the UK from austerity and a funding bias in favour of homeownership (particularly Help to Buy and Right to Buy).

National Housing policy in England had also favoured the PRS, although this was changing as the tax breaks to private landlords are withdrawn. Build to rent was now replacing buy to let. German cities also offered tax incentives to the PRS, although private housebuilders in Germany had not been helped in the same way to make the super-profits they had in London and elsewhere.

A big part of the problem in London for social landlords was identified as a reliance on a cross-subsidy funding model, which depends on an ever buoyant housing market. Housing associations, for example, were having to build ever more expensive homes in London to fund their social housing programmes. Spiralling construction/land costs make the situation even more difficult.

It was also said that social landlords in Germany faced fewer borrowing restrictions and could secure loans from both the state and federal levels. German local government didn’t need to devise new financing vehicles (such as Local Housing Companies) to find ways around the state controlled regulations.

It was also noted that although capital funding had increased in London, but was still much less than required to meet demand (and to cover the additional costs of fire safety on estates post the Grenfell fire). The challenge was exacerbated in London by the conversions of social rented homes to ‘affordable rent’ homes at close to market rents.
Housing in Hamburg

- A city of 1.8m residents facing fast population growth. Demand has pushed up property prices and rents and led to fierce competition for land
- Hamburg ministry is seeking to increase supply via densification and new housing in fast track planning priority development areas – both affordable and green
- Housing policy for the city is rooted in cooperation between the senate, authorities, districts, housing sector and citizens – the ‘Hamburg Housing Alliance’ for “socially minded sustainable development”
- Number of new homes delivered tripled in 7 years to 10,700 in 2018, with 25% social housing
- New schemes include ‘housing construction co-ordinators’ to mediate conflicts, ‘tenant control agreements’, land allocations, and a mix of funding (including special grants for low income, students and vulnerable people)
- Mixed communities with varied rents and ‘rent brake’ clauses, protection of residential use and social diversity and controls over speculative investment

Conclusion

London, Berlin and other German cities have different housing markets but face similar housing pressures, particularly rising demand and shortages of land. Unaffordability is worsening and spreading, with negative impacts on households and local communities. These are largely the consequences of prosperity and changing demographics, although not all areas are experiencing the same degree of housing and growth problems.

There are many similarities in the policy response, not least a determination to increase housing supply and release more land (especially public land). It was commented that in German cities and London the social democrats were committed to providing not just more affordable homes, but better quality eco-friendly homes. All participants were also aware of the inter-connectedness of housing to other place-making policies, especially transport and employment.

However, there are also important differences between the two countries, especially in terms of people’s housing choices and the scale and severity of the housing crisis. A period of prolonged austerity, welfare reforms and flat wage growth has meant low income households in UK cities are more exposed to housing stress. Levels of housing poverty in London, for example, were more extreme, with comparatively higher levels of homelessness. Furthermore, housing policy in England (and to a lesser extent London) remains focused on supporting home ownership – which people aspire to much more in the UK than Germany.

Up until recently the British government displayed a strong antipathy towards social housing, which was downgraded in importance compared with owner occupation. Private renting, meanwhile, was at first encouraged and then constrained. While Germany continued to subsidise sub-market housing and tightly regulate its PRS, the UK reduced grants for social housing to virtually zero and incentivised the PRS. Although the London government (and more recently the national UK government acknowledge that the housing market is unbalanced and there must be a larger role for social housing, the tenure shift towards the private renting continues to create housing stress.

While for some renting in London is an affordable option, for the majority of low-income households it has become increasingly unaffordable. German renters seem to be experiencing similar levels of housing stress (with rents over a third of incomes), but there are more lower income households privately renting at higher cost in London and other UK cities and many more tenants in insecure
tenancies. It is also noteworthy that there are more professional landlords renting to a wider mix of households in cities like Berlin.

From the discussions it appears that the German authorities have a greater willingness to tackle rising rents in the PRS, in part through rent freezes and more prescriptive affordable housing policies. There is an appetite (and public pressure) among London’s city leaders to introduce more radical solutions and match the German provision of ‘genuinely affordable homes’, but fewer powers and resources to do so.

The much more centralised housing and planning system in England was seen as a major obstacle to tackling the problem. German participants commented that the institutional capacity, flexibility and capability at the local civic level was much greater and deeper in Germany and that cultural differences (particularly regarding renting, the tenant-landlord power relationship and attitudes toward social housing) counted for a lot.

It would be misleading to suggest that the policy response in German cities had been exemplary as several participants stated that the rent brake system (from 2015) had been “underwhelming”. Rents were rising in both regulated German housing markets and less regulated British ones. However, civic leaders in Germany claimed the problems they face would have been worse in a deregulated environment and seemed more confident to intervene this time around.

The lack of affordable housing is compounded in British cities by poor quality private housing and an acute shortage of social housing. The German housing markets in Berlin and elsewhere appear to be better balanced, with more generous housing subsidies, stronger tenant protection and less commoditisation of private housing. As one participant put it, “Germany is a nation of tenants: our mayor and most of our local politicians rent”.

However, London and the German cities are all struggling to provide suitable rented homes at affordable rents. All face land shortages and higher development costs. It was acknowledged that the city governments in both countries need to intervene. The call from both Labour and SPD politicians was for increased investment in a mix of affordable housing types (from social rent to low cost homeownership), and at scale that seriously starts to meet demand. More homes, but more suitable, affordable homes are needed in places where people want to live.

London, July 2019

Annex: List of participants
The British delegation was led by John Healey MP, Labour’s shadow secretary of state for housing and the German delegation by Bernhard Daldrup MdB, SPD spokesperson for housing.

German participants:
Bernhard Daldrup MP, Chair of the SPD PG working group on Housing
Claudia Tausend MP, Vice-Chair of the SPD PG working group on Housing
Rene Bormann, FES expert on spatial development
Klaus Mindrup MP, SPD spokesperson for co-ops
Dr Andrej Holm, Humboldt University
Dr Barbara Konig, director, Forum of Housing Co-operatives, Berlin
Nicole Katsioulis, director FES
Michael LaFond, co-housing expert
Ulli Nissen MP, Deputy spokesperson for environment
Andre Weisser, project assistant FES
Frank Nitzsche, Mockernkiez eG
Prof. Dr. Tobias Schroder, housing expert
Sabine Horlitz, housing expert
Hannah Beitzer, housing journalist
Rene Borman, FES expert on spatial development
Dr Dorothee Stapeldfeldt, Ministry of Urban Development, Hamburg

UK participants:
John Healey MP, Shadow Secretary of State for Housing
Sarah Jones MP, Shadow Housing Minister
Karen Buck MP, London housing
Paul Blomfield MP, Shadow Minister for Exiting the EU
Clive Efford MP, London housing
James Murray, deputy mayor for housing, GLA
Paul Hackett, Smith Institute
Paul Hunter, Smith Institute
James Hall, advisor to John Healey
Lord Kerslake, chair Peabody
Daniel Bentley, Civitas
Duncan Bowie, Highbury Group
Tom Copley, Londonwide Assembly Member
Maureen Corcoran, housing expert
Prof. Nicholas Falk, Urbed Trust
James Gleeson, GLA
Brendan Sarsfield, CEO Peabody
Dick Mortimer, Peabody
Jonathan Webb, IPPR
Pete Redman, ReSI Capital Management
Antrim Ross, Peabody
Dick Sorabji, London Councils
Dr Ed Turner, Aston Centre for Europe
Prof. Christine Whitehead, LSE
Joe Wills, Centre for London
Christine Wagg, Peabody