

DEUTSCHE
WOHNEN



Policy document

Plan for socially responsible climate protection in the housing sector





Germany's climate policy is at a crossroads

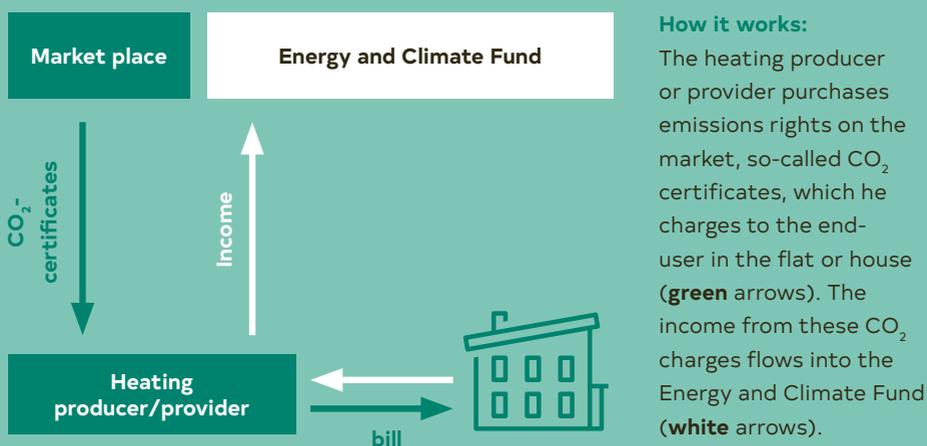
Due to the corona pandemic, Germany will manage after all to achieve the national climate targets which it set itself for 2020. But this one-off effect does not by any means signify that a turning point has been reached. Indeed, the **goal of achieving a virtually climate-neutral housing sector by 2050** continues to be a very long way off. The annual rate of refurbishment of around one per cent would have to almost triple. However, the **tools we have at the moment are not sufficient** to make use of the enormous potential there is to reduce CO₂ emissions. In fact, to put it simply, we are treading water in the housing sector. And there are many reasons for this:

- **High investment costs are a disincentive:** Energy-saving measures for existing buildings are expensive. Owner-occupiers and individual private tenants often lack the necessary capital. Landlords have the problem that such measures only rarely proceed without difficulty because objections are raised, local authority planning permission is delayed, and alternative flats have to be found for residents. This further increases the costs involved.
- **Energy-saving modernisation work causes anxiety:** The possibility that tenants may not be able to afford their own flat in future because the modernisation costs are apportioned to the rent has led to growing uncertainty.
- **There is upward pressure on housing costs:** In times when housing is in short supply in many places, the goals of climate protection and affordability are in conflict with one another. Social hardship can arise because the already high cost of energy is rising more and more as a result of the energy transition, a shortage of resources and the new CO₂ pricing that will apply to the provision of heating and hot water.

We have to find a way of combining climate protection and social responsibility. Climate protection is a task for the whole of society and can only succeed if **the state, companies and the general public work together**.

We firmly believe that the Energy and Climate Fund is the key tool

Deutsche Wohnen welcomes the fact that the federal government in Germany is introducing a national emissions trading system for the heating sector. The idea behind this system is to charge for the CO₂ emissions generated in the housing sector.



How it works:

The heating producer or provider purchases emissions rights on the market, so-called CO₂ certificates, which he charges to the end-user in the flat or house (green arrows). The income from these CO₂ charges flows into the Energy and Climate Fund (white arrows).

The Energy and Climate Fund is then used to finance measures that benefit climate protection and the energy transition. However, at the moment the **Energy and Climate Fund is not realising its full potential** because it is being used almost exclusively to finance projects in the transport sector. These include, for example, the reduction of VAT on rail journeys, the increase in tax relief for commuters, support for e-mobility and the production of battery cells, and subsidies for renewable energy. But, in addition to this, we urgently need more investment in the housing sector!



Our proposal for climate-neutral housing ...

- will bring about a dramatic **increase** in the **rate of refurbishment**.
- will **bring financial relief to owner-occupiers and tenants** alike.
- will give back to the public the money generated by CO₂ pricing.
- will act as an effective brake on **rises in energy costs**.
- will enable us to **achieve our climate goals** together.

The key points in the plan

- **The Energy and Climate Fund will share in the cost of modernisation work:** The Energy and Climate Fund will cover the entire 8 per cent share of modernisation costs apportioned to the tenant or 8 per cent of the modernisation costs for owner-occupiers in the first year following completion of the modernisation work.
- **Tenants and owner-occupiers will benefit directly from the improvement to the quality of their housing and from savings in energy costs:** The support is limited to 15 years following completion of the modernisation work and is reduced incrementally year by year for both tenants and owner-occupiers.
- **Ban on multiple claims for financial support:** No additional support for owner-occupiers and investors in connection with modernisation work will be available.
- **Individual hardship cases will continue to be taken into consideration:** There will be no change to the legal situation under tenancy law.
- **The system for maintenance work will remain unchanged:** The cost of maintenance work will continue to be borne by the landlord or owner-occupier, as will the investment risk represented by climate protection measures. The same will apply to repair work carried out on parts of the building that have already been modernised. These costs too will be borne in full by the landlord.
- **The promise to tenants made by Deutsche Wohnen will apply:** In addition, Deutsche Wohnen will ensure via its "promise to tenants" that, following a rent increase occasioned by modernisation measures, no tenants will have to pay more than 30 per cent of their net household income on the rent inclusive of heating.

Many compelling advantages!

With this proposal there are only winners:

- **climate** – because energy-saving modernisation work will be carried out,
- **state** – because internationally binding climate goals will be achieved and a stimulus given to the economy,
- **tenant** – because they will be given financial support,
- **investor** – because modernisation measures will enjoy greater acceptance amongst tenants,
- **owner-occupier** – because they will be able to afford expensive modernisation work,
- **legislature** – because a political problem will be solved.

CO₂ pricing: giving people their money back

The new CO₂ pricing will bring the Energy and Climate Fund revenue of up to EUR 18.8 billion by 2023. This money should be returned to the public in combination with good, efficient climate protection measures.

- **Costs of the proposal:** approximately EUR 4.3 billion a year (EUR 2.37 billion for rental properties and EUR 1.93 billion for owner-occupiers)
- **Financing of proposal not a problem:** EUR 6.12 billion from the Energy and Climate Fund's reserves, EUR 2.56 billion from anticipated revenues and EUR 3.2 billion from the redeployment of federal budgets because of programmes that are no longer required

Advantages for tenants

- **Tenants will be given financial support with housing costs:** The incremental decrease in financial support from the Energy and Climate Fund to cover the apportionment of modernisation costs reduces housing costs for the tenant which would otherwise rise dramatically following modernisation work.
- **Heating and hot water costs will fall:** Because the energy requirement and CO₂ emissions of a flat will fall, the rent inclusive of heating will be reduced compared to a flat that has not been modernised. This will be immediately noticeable to tenants in the statement of operating costs for the flat. Moreover, the improvement in housing quality is there from the start.
- **Affordability will be maintained:** Because all regulations concerning social hardship cases will be unaffected, affordable housing will continue to be ensured for low-income households.

Advantages for owner-occupiers

- **Confusing mass of support tools will be thinned out:** Because other support tools will no longer be needed, they can mostly be done away with. As a result, the system for providing financial support will become fairer, more transparent and more accessible.
- **Plan will greatly incentivise investment:** Modernisation work is capital-intensive. This is why this support will primarily help those owner-occupiers who want to do something for climate protection within their own four walls.

Advantages for the legislature

- **Money will be given back to the public:** The revenue from CO₂ pricing in the housing sector will flow back into housing stock and will increase energy efficiency.
- **Rate of refurbishment will increase:** This major wave of modernisation work will help to achieve climate goals and a more or less climate-neutral housing stock.
- **A stimulus programme for the economy will be launched:** Tradespeople will be given an enormous boost and, in turn, ensure tax and social insurance revenues for the state.
- **Easy to implement:** The reform is guided by the current legal situation. Its only pre-condition is a minor adjustment to section 559a, subsection 1 of the German Civil Code regarding the apportionment of modernisation costs.
- **No windfalls possible:** Since landlords will, as previously, only be allowed to apportion 8 per cent of the apportionable modernisation costs to the rent, they will continue to bear the essential responsibility for the costs of modernisation work. So, in future, landlords will still have to calculate costs economically and, through their actions, will contribute to ensuring that the scheme doesn't generate any windfall gains.



Fact Sheet

Of the 40.6 million flats in Germany, 17.3 million are inhabited by owner-occupiers and 21.2 million are rented out. Two thirds of these rented properties are owned by private individuals or owners' cooperatives, with only around 2.7 million flats owned by private companies.

Rented properties

21.2 million of all flats are rented, of which $\frac{2}{3}$ belong to smallscale, private landlords.

Old regulations

- After completing modernisation work, the landlord can apportion 8 per cent of the apportionable modernisation costs to the annual rent on a permanent basis.
- This increase in rent is not allowed if, after considering the probable future operating costs, it would mean a level of hardship for the tenant that cannot be justified even when the legitimate interests of the landlord are taken into account.

New regulations

- The 8 per cent of apportionable modernisation costs is financed both by the tenant and, additionally, by the Energy and Climate Fund in order to reduce the financial burden for the tenant.
- Following completion of the modernisation work, the Energy and Climate Fund pays a share of the apportioned modernisation costs for a period of 15 years.
- The money paid by the Energy and Climate Fund is reduced incrementally, i.e. the costs for the fund fall year by year. The tenants gradually take on more and more of their share of these climate protection costs.
- Consideration continues to be given to individual hardship cases.



Owner-occupiers

17.3 million flats are inhabited by their owners.

Old regulations

- As things stand, owner-occupiers have to bear the entire cost of modernisation work themselves.
- There is a wide range of programmes from which support can be claimed.
- Owner-occupiers themselves bear on a permanent basis the costs for maintenance and repair work, which is often necessary following modernisation work.

New regulations

- The Energy and Climate Fund bears 8 per cent of the modernisation costs in the first year.
- This share of the costs is reduced incrementally over a period of 15 years.
- Any additional state support is cancelled.



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For further information about this plan, please visit:

www.deutsche-wohnen.com/en/about-us/company/sustainability/climate-concept/