

# Press Release

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## **German Economic Institute (IW) calculates that climate neutrality in the housing sector is achievable with investments of approximately EUR 500 billion – Socially responsible proposal of Deutsche Wohnen would relieve residents of up to EUR 254 billion by 2050**

**Berlin, 7 October 2020.** Calculations carried out for Deutsche Wohnen by the German Economic Institute [Institut der Deutschen Wirtschaft – IW] show that it is possible to achieve near climate neutrality in Germany’s housing sector by 2050 – and that this can be done in a way that is socially responsible. In order to achieve climate goals, EUR 498 billion has to be invested in the modernisation of residential properties, and up to 1.04 million flats have to undergo an energy-saving retrofit every year.

However, Germany is still a long way from achieving this target, and this is due in large part to the current refurbishment backlog in the housing sector. As **Professor Michael Vogtländer, a property expert at the IW**, explains, “The political measures envisaged as an investment stimulus up to now are insufficient for realising Germany’s Climate Action Plan 2050. We must succeed in bringing the interests of landlords and tenants together – with a tool that meaningfully combines the aspects of climate protection, economic viability and social responsibility.”

### **New subsidy scheme shows that the dilemma of “climate protection vs housing costs” can be resolved**

Recently, Deutsche Wohnen presented a plan that resolves the dilemma “climate protection vs housing costs”. The plan proposes that the share of up to eight per cent of modernisation costs which would otherwise be apportioned to the tenant every year will in part be covered by the Energy and Climate Fund. The fund, which was introduced in 2011 to finance measures for improving energy efficiency and the protection of the climate and the environment, has up to now drawn its income mainly from the auctioning of CO2 emissions rights. From 2021, it will receive additional funds from the national CO2 charges levied on the transport and housing sectors.

**The proposal:** A significant share of the additional income from the national CO2 charges will flow via the Energy and Climate Fund back into the housing sector. Over a period of 15 years, the Energy and Climate Fund’s share of the modernisation costs apportioned to the tenant will be reduced incrementally year by year. Tenants will benefit from the very first day

from lower heating and hot water costs and from better housing quality. They will only very gradually be required to take on these climate costs. This means that in the initial years following energy-saving modernisation work the total rent will fall - instead of rising.

### **A saving of approximately EUR 123 billion – for tenants alone**

As part of its current study, the IW carried out some initial numerical modelling to calculate the financial feasibility and the impact of Deutsche Wohnen's proposal.

**Example:** If the current refurbishment ratio of 1 per cent rose to 2.5 per cent, this would require an investment volume of EUR 498 billion by 2050. If in each case support were provided by the Energy and Climate Fund over a period of 15 years, tenants and owner-occupiers would save a total of EUR 254 billion in apportioned modernisation costs – an average of EUR 8.5 billion a year.

The support from the Energy and Climate Fund would save tenants alone approximately EUR 123 billion, which is around EUR 4 billion a year. In this scenario, the expenditure of the Energy and Climate Fund on the rented housing sector would be completely covered by the anticipated income from the CO2 charge.

**To be specific**, let us assume that a 90 m<sup>2</sup> flat with a gross warm rent of EUR 811 undergoes energy-saving modernisation work at a cost of EUR 30,000. Consequently, the heating and hot water costs fall from EUR 136 a month to EUR 45 a month. As the law currently stands, the gross warm rent would rise to EUR 860 and the tenant would bear these additional costs for years to come. According to Deutsche Wohnen's Energy and Climate Fund model, however, the gross warm rent would be EUR 720 – a reduction of just under 17 per cent. This means that tenants do not need to worry that their overall rent will suddenly rise. On the contrary, they experience a reduction in overall costs for 11 years. Only then do they have to gradually bear a share of these climate costs. At the same time, the energy requirements of the flat fall, which benefits the climate.

### **Climate protection is a task for society as a whole**

With its holdings, Deutsche Wohnen has an important lever when it comes to achieving the country's climate goals. As **Michael Zahn, CEO of Deutsche Wohnen SE**, explains, "We feel that we have a duty to ensure that our flats and residential estates meet the needs of future generations." He goes on to point out, however, that, as a single actor, the company can only directly influence a fraction of the housing in Germany, and adds, "With our proposal, we want to contribute our ideas and know-how and to start a discussion about how we can significantly accelerate the process of climate protection in the housing sector."

In his view, climate protection is after all a task for society as a whole and requires the state, companies and individuals to work together to meet their responsibilities. In the end, as he says, all of society benefits from the investments made by private industry in greater climate protection. "To share these costs in a way that is fair and socially responsible motivates the actors involved and enables them to make their contribution to achieving the country's climate protection goals."

## **Positive impact on climate protection and the economy**

The calculations of the German Economic Institute show that the necessary investment through the Energy and Climate Fund model would yield numerous benefits – for climate protection and more besides. The analysts assume that, following the wave of energy-saving modernisation work which the Energy and Climate Fund support would bring about, CO2 emissions in the housing sector would fall from their current annual level of 121 million tons to 74 million tons in 2030 and 33 million tons in 2050. The saving on environmental costs – in the form of preventing climate change damage which would otherwise be caused by generating energy using fossil fuels – would be EUR 179 billion or an annual average of EUR 6 billion.

As the IW points out, a further benefit of Deutsche Wohnen’s proposal would be that it would “trigger investment in climate protection measures which would increase demand for services in the construction sector, which would, in turn, have a positive impact on the economy as a whole.”

## **Deutsche Wohnen**

Deutsche Wohnen is one of the leading publicly listed residential property companies in Europe. The business focus of the company is on managing its own portfolio of residential properties in dynamic metropolitan regions and conurbations in Germany. Deutsche Wohnen sees itself as having both a social responsibility and a duty to maintain and newly develop good-quality and affordable housing in vibrant residential neighbourhoods. As at 30 June 2020, the portfolio comprised a total of around 165,000 units, of which 162,200 are residential and 2,800 commercial. Deutsche Wohnen SE is listed in the Deutsche Börse’s DAX and is also included in the leading indices EPRA/NAREIT, STOXX Europe 600, GPR 250 and DAX 50 ESG.