

Berlin workers face further rent hikes after Senate supports real estate merger

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The merger of the real estate concerns Vonovia and Deutsche Wohnen, announced in May, will create the largest real estate group in Europe. Vonovia owns 400,000 flats in Germany. Deutsche Wohnen has a portfolio of 150,000 flats, of which around 113,000 are situated in the greater Berlin area. The concerns and their shareholders expect higher profits from the merger, while tenants must reckon with even more rent increases.

The new mega-real estate company will exert enormous influence in greater Berlin, as the holder of just under 10 percent of the capital city's nearly 1.63 million rental flats. This will give the corporation significantly more power to jack up rents. In addition, such major mergers are usually followed by other mergers; a company of this size can easily swallow up other smaller fish, while its competitors will also seek to merge in order to remain competitive.

Vonovia is offering over €18 billion for its competitor. Including the dividend for 2020, shareholders would receive €53.03 per Deutsche Wohnen share. The stock market value of the merged company is currently reckoned to be around €48 billion.

This is the third attempt at such a merger. In 2016, the first effort failed after Deutsche Wohnen rejected Vonovia's offer. Another unsuccessful attempt at a takeover was made at the beginning of 2020. The merger will most likely be approved by the Federal Cartel Office, which had already sanctioned the first effort to join the companies.

The timing of the merger announcement is not coincidental. A temporary cap on rents introduced by the Berlin Senate was recently overturned by the Federal Constitutional Court, opening the way for limitless profits on the part of real estate speculators.

Although the rent cap introduced by the Berlin Senate was entirely incapable of stopping the dramatic explosion of rent prices in the capital, the constitutional court ruled that any encroachment on the profits made by real estate speculators was impermissible.

The rent cap decided by the Social Democratic Party (SPD)–Left Party–Green Party Senate in 2019 was deceptive from the outset. The measure did nothing to alleviate the city's acute housing shortage or curtail the profits of the real estate companies. Vonovia, for example, which owns and manages almost half a million flats (10 percent of the stock in Berlin), estimated that its total rental income would fall by less than 1 percent.

Nevertheless, the ruling overturning the rent cap threatens a new wave of rent increases for Berlin residents. In addition to the fact that tenants must repay the rents capped in February 2020, landlords can now increase rents again by up to 15 percent every three years. This is stipulated by the misnamed “Mietpreisbremse” (rent brake) introduced by the government in 2015. The constitutional ruling has been celebrated on stock markets, and the share prices of major real estate groups have skyrocketed.

Tenants of Vonovia and Deutsche Wohnen will face additional costs following the merger. “Somebody has to find the billions that are now being expended for the takeover. And then in the end, it's quite possible they get this money from tenants after all,” declared Lukas Siebenkotten, president of the German Tenants' Association.

There have been massive protests against the extortionate rent prices in the capital for years, with tens of thousands taking part. Immediately after the ruling against the rent cap was announced, more than 10,000 demonstrated and demanded the expropriation

of the real estate sharks.

The initiative “Expropriate Deutsche Wohnen & Co.” has already collected well over 130,000 signatures for a petition calling for a referendum to nationalise all housing. Although the initiative has little to do with genuine expropriation and is far too limited in scope to solve the lack of affordable housing, it is an expression of the mass support for action to be taken against the unscrupulous real estate companies.

The initiative is opposed by the Berlin Senate—a coalition of SPD, Greens and Left Party. Berlin’s mayor Michael Müller (SPD) effusively welcomed the merger plans. Immediately after their announcement, Müller called a joint press conference with the CEOs of Vonovia and Deutsche Wohnen, declaring that it was a “very important day” and that the fusion marked a “step forward.”

His remark that there was a “new collaboration between politics and companies” that is “not confrontational but rather cooperative” made clear that the Berlin Senate supports the interests of Vonovia and Deutsche Wohnen. The senator for Urban Development and Housing, Sebastian Scheel (Left Party), also welcomed the merger, describing the cooperation between the corporations and the Senate as “progress.”

The governing parties justify their support by saying that the merged group is offering to sell the state 20,000 flats in the capital. In addition, Deutsche Wohnen and Vonovia have allegedly promised to cap rent increases for the next five years and made assurances that tenants will not have to pay the full cost of refurbishing housing stock to meet energy targets.

Apart from the fact that the vague promises made by the real estate sharks are worthless, their declarations of intent involve no real concessions. The leading DIW economist Claus Michelsen points out in *Die Zeit* that rents in existing contracts in Germany only increase by 1 to 2 percent a year on average anyway. Capping rents is therefore “not a particularly big concession.” The promise could be kept by the companies “without in anyway endangering their profits.”

“It would have been more interesting if they had said we will keep prices constant for new rentals,” Michelsen added. In this sphere, prices usually rise much faster. He was also critical of the offer to sell 20,000 flats to the state of Berlin. The price for the flats still has to be negotiated, and it is barely conceivable

that a listed company would sell flats at special conditions, Michelsen told *Die Zeit*.

In fact, such a sale would be a good deal only for the corporations. From 2002 to 2011, the SPD and the Left Party sold off 150,000 out of the city’s 400,000 state-owned flats to real estate sharks under the pretext of “debt reduction.” In most cases, the flats were sold for less than 25 percent of their value, and since then, the average value of flats in Berlin has more than doubled. In an interview with the *Tagesspiegel*, Schell admits that the flats would now have to be “recovered for a sum far in excess of what was formerly accrued.”

In addition, the properties under discussion for sale are in an extremely bad condition. Due to costs, the flats have never been fully renovated by the corporations. Buildings are alleged to be contaminated with asbestos, and the necessary renovations would swallow up huge amounts of taxpayers’ money.

The SPD, Greens and Left Party are well aware that a merger of Vonovia and Deutsche Wohnen will worsen the situation for hundreds of thousands of households in Berlin and nationwide. With its shameless support for the deal, the Senate in Berlin is seeking to defuse public anger against rising rents and counter the calls for expropriation of the real estate sharks.

The Left Party plays a particularly repulsive role in this affair. While officially giving its support to the petition for a referendum to expropriate Deutsche Wohnen & Co., the Left Party actually supports the merger of Deutsche Wohnen and Vonovia into Europe’s largest real estate corporation and further rent increases to appease and satiate the new mega-concern’s shareholders.



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