

# EFFECTS OF A SOCIALISATION OF LARGE HOUSING COMPANIES ON THE STATE BUDGET OF BERLIN

**Karin Klingen, President of the Rechnungshof von Berlin (Federal state audit court of Berlin)**

Oviedo, 24. - 26. April 2025

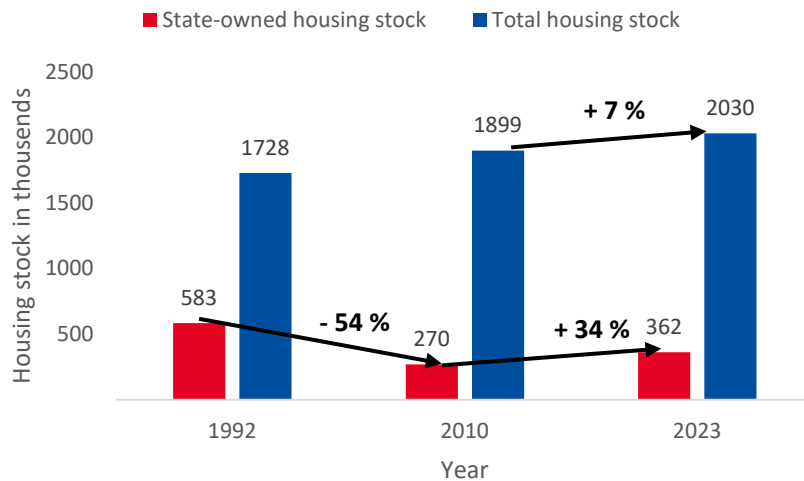
International seminar: “The analysis of the effectiveness, efficiency and economy of public policies by regional public sector audit institutions“, EURORAI

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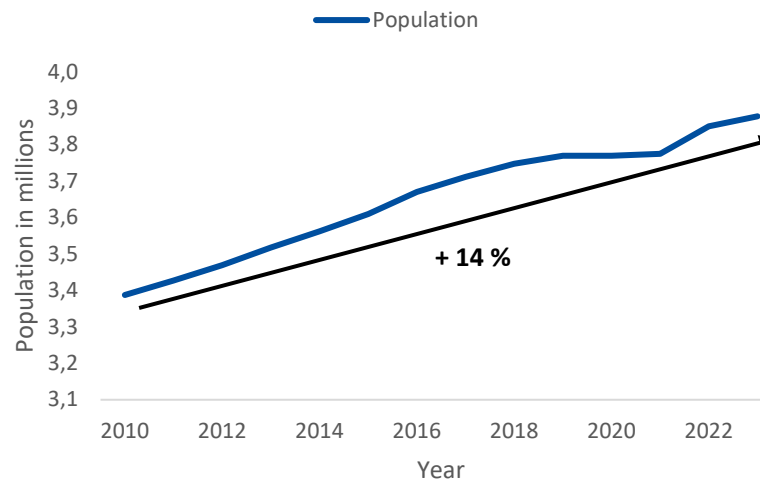


The housing market in Berlin has experienced a decline in state-owned housing stock while facing a continuous population growth and an acceleration of rent increases.

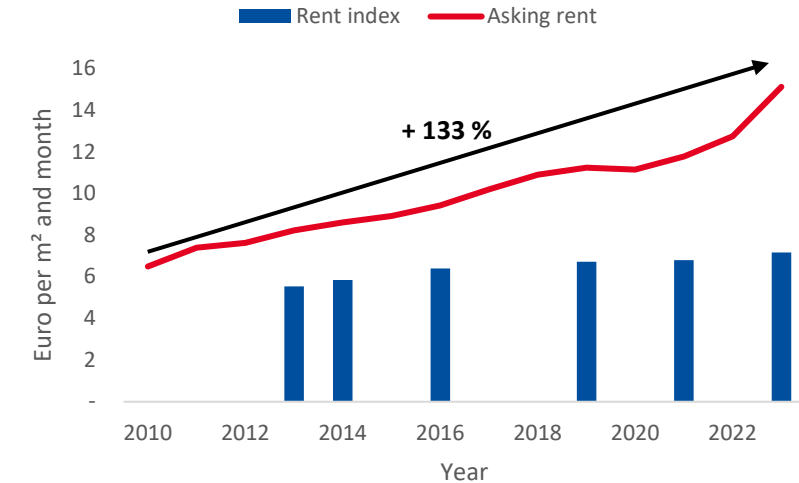
### Privatisation and remunicipalisation of housing stock



### High population growth



### Increasingly tight housing market



- **85 %** of the housing stock is **rental** in Berlin in 2023
- **40 %** of the rental housing stock is **state-owned, co-operative or subject to rent control** in Berlin in 2023
- **27 %** of the monthly household income amounts to the average **rental burden** in Berlin in 2022

# In a referendum, 57,6 % voted in favour of the preparation of a draft bill to socialise the housing stock of large housing companies.

## Socialisation in the Basic Law (GG)

- Transfer of (entire economic sectors) into **public enterprise (Gemeinwirtschaft)** → commodities are withdrawn from the free market (distinct from expropriation according to Article 14 paragraph 3 GG)
- No foundation in **Berlin constitution** → applicability in Berlin arguably by provisions of GG; no conclusive clarification by now
- Since inception of the GG, Article 15 has **neither** been **changed nor applied** → “uncharted legal territory”

## Referendum

- Referendum in 2021: **draft decision to prepare a draft bill** by the federal state government to socialise the housing stock of large housing companies
- **Goal:** Transfer of the housing stock of private housing companies with an intent to realize profits having more than 3,000 flats into public enterprise (Gemeinwirtschaft)
- Referendum **approved** by 57,6 % of voters

## Expert commission

- Establishment of expert commission consisting of **eleven legal experts** and **two economists** by the federal state government in 2022
- **Mandate:** Assessment of the **constitutionality** of a potential socialisation in Berlin
- **Result:** a socialisation **fulfils the statutory elements** of the premises of Article 15 GG

**Compensation and follow-up costs of a socialisation have been discussed only secondarily until now!**

**“With respect to such compensation the third and fourth sentences of paragraph (3) of Article 14 shall apply, *mutatis mutandis*.”**

(Article 15 sentence 2 of the Basic Law for the Federal Republic of Germany)

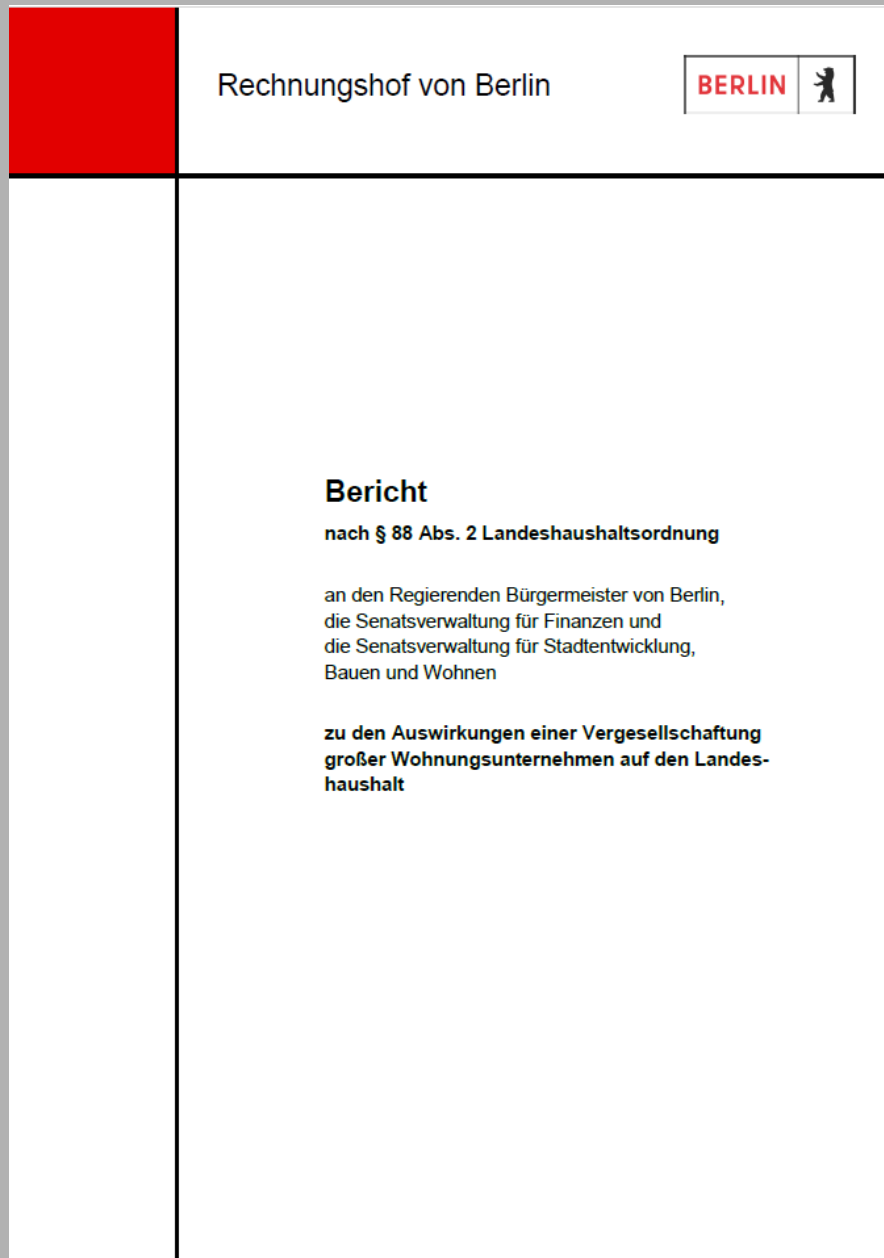
**“Such compensation shall be determined by establishing an equitable balance between the public interest and the interests of those affected.”**

(Article 14 paragraph 3 sentence 3 of the Basic Law for the Federal Republic of Germany)

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## **ADVISORY APPROACH OF THE RECHNUNGSHOF**



**The Rechnungshof has provided an advisory contribution about the follow-up costs of a socialisation.**

**Hearing before the expert commission 2023**  
Statement about the effects of a socialisation by president Klingen during a session of the expert commission.

**Advisory report to federal state government 2024**  
Presentation of the data basis, calculations and results for future deliberations by the federal state government concerning the referendum  
<https://www.berlin.de/rechnungshof/veroeffentlichungen/veroeffentlichungen/rs-beratungsbericht-vergesellschaftung.pdf?ts=1732228677>

**Extract in annual report 2024**  
Reporting the results to the parliament of Berlin  
[https://www.berlin.de/rechnungshof/veroeffentlichungen/veroeffentlichungen/jahresbericht\\_2024.pdf?ts=1732219464](https://www.berlin.de/rechnungshof/veroeffentlichungen/veroeffentlichungen/jahresbericht_2024.pdf?ts=1732219464), pages 326 - 333



# A state action did not underlay the advisory contribution by the Rechnungshof. The input was given pre-emptively.

## Reason: Financial impact and long-term nature

The compensation could amount to 20 % to 100 % of the annual state budget volume.

The follow-up costs for the state budget could stretch over ten to way above 30 years after a socialisation.

## Method: Models of investment appraisal

The Rechnungshof built a model to address questions about the type, extent and time horizon of the follow-up costs of a socialisation.

Technical exchanges with experts from the real estate industry, public administration and members of the expert commission as well as external review of the model and calculations.

The **discounted cash flow** analysis as a method from dynamic investment appraisal was used as basis for the calculations.

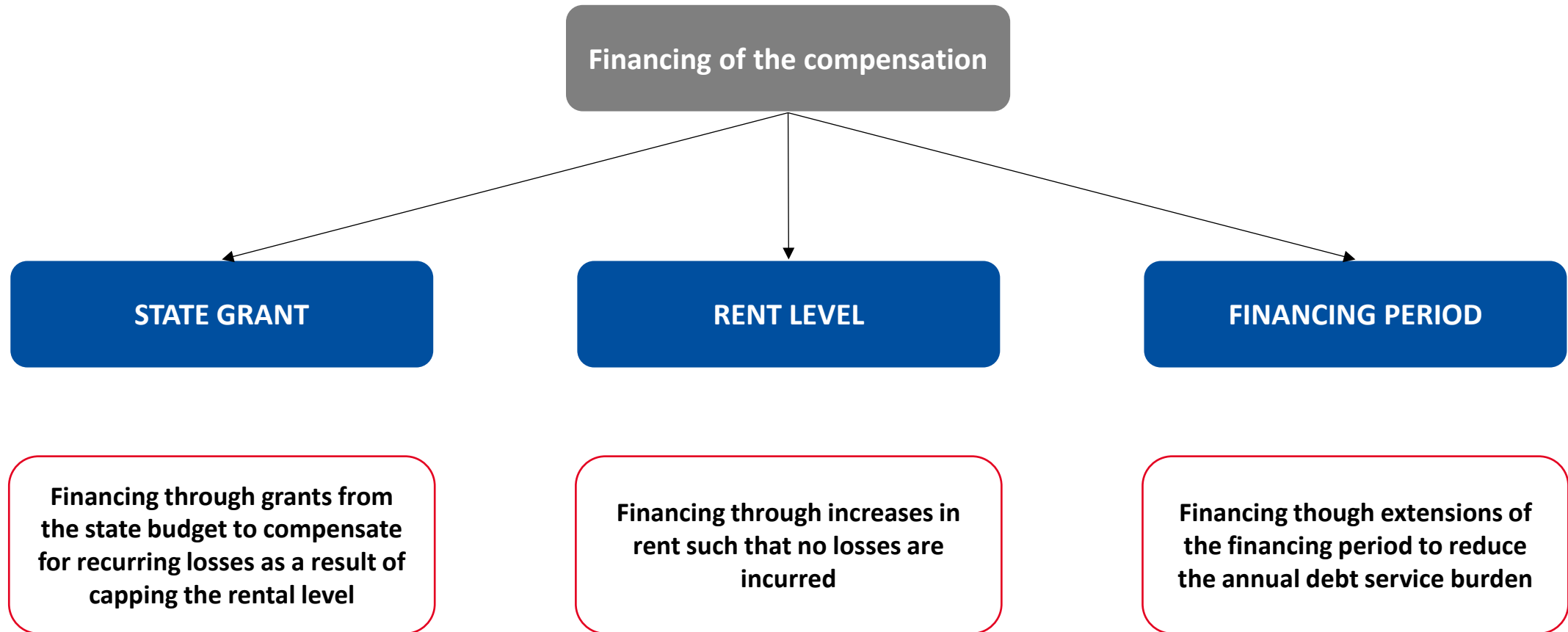
This method is stated as a suitable method for **economic feasibility studies** in the implementing regulations of the federal state budget code (Landeshaushaltsordnung).

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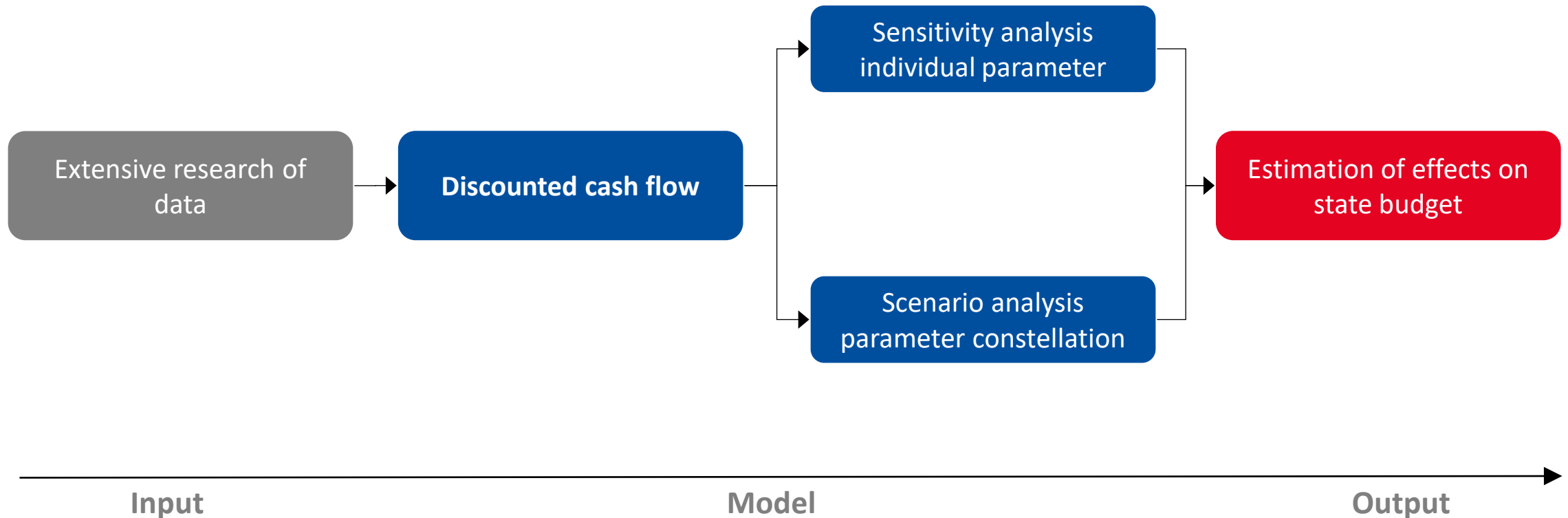
**METHOD ADOPTED  
BY THE  
RECHNUNGSHOF**

# The financing of the compensation can be governed through the parameters state grant, rent level and financing period.





**A modular model for calculating the cash flow under uncertainty provides robust results for a first estimate of the follow-up costs.**



# The model was developed by the Rechnungshof. It can be updated and extended flexibly.

AöR: Discounted Cashflow mit Detailplanungsphase 31 Jahre und Terminal Value basierend auf ewiger Rente		Stichtagsjahr: 2023															
in Mio. l		Detailplanungsphase															
	Jahre nach Basisjahr	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	
Erlöse	Jahresnettomiete	1.293,8	1.306,8	1.332,9	1.359,6	1.386,8	1.414,5	1.442,8	1.471,6	1.501,1	1.531,1	1.561,7	1.592,9	1.624,8	1.657,3	1.690,5	
Betriebsaufwendungen	Instandhaltungsaufwand	304,7	335,2	341,9	348,8	355,7	362,8	370,1	377,5	385,1	392,8	400,6	408,6	416,8	425,1	433,6	
	Verwaltungsaufwand	100,0	110,0	112,2	114,5	116,8	119,1	121,5	123,9	126,4	128,9	131,5	134,1	136,8	139,5	142,3	
	Betriebsaufwand (nicht umlagefähig)	63,9	70,2	71,6	73,1	74,5	76,0	77,6	79,1	80,7	82,3	83,9	85,6	87,3	89,1	90,9	
	Mietausfallvagnis	25,9	26,1	26,7	27,2	27,7	28,3	28,9	29,4	30,0	30,6	31,2	31,9	32,5	33,1	33,8	
Investitionen	AIA-Ersatzinvestitionen																
	Modernisierungsinvestitionen	187,9	206,7	210,9	215,1	219,4	223,8	228,2	232,8	237,5	242,2	247,1	252,0	257,0	262,2	267,4	
Freier Cashflow	Zeitwert	611,4	558,4	569,6	581,0	592,6	604,5	616,6	628,9	641,5	654,3	667,4	680,7	694,3	708,2	722,4	
Kapitaldienst	Tilgung Fremdkapital	449,4	465,1	481,4	498,3	515,7	533,8	552,4	571,8	591,8	612,5	633,9	656,1	679,1	702,9	727,5	
	Zinszahlungen Fremdkapital	812,0	796,3	780,0	763,1	745,7	727,7	709,0	689,6	669,6	648,9	627,5	605,3	582,3	558,5	533,9	
	Annuität Fremdkapital	1261,4	1261,4	1261,4	1261,4	1261,4	1261,4	1261,4	1261,4	1261,4	1261,4	1261,4	1261,4	1261,4	1261,4	1261,4	
Cashflow nach Finanzierung	Zeitwert	- 650,0	- 703,0	- 691,8	- 680,4	- 668,8	- 657,0	- 644,9	- 632,5	- 620,0	- 607,1	- 594,0	- 580,7	- 567,1	- 553,2	- 539,0	
	Kapitalwert	- 650,0	- 677,9	- 648,4	- 621,4	- 594,9	- 568,3	- 541,6	- 515,4	- 489,0	- 463,3	- 437,8	- 413,3	- 389,9	- 366,9	- 344,9	
Eigenkapital-Terminal Value	Zeitwert																
	Kapitalwert																
Dividenden	Auszahlung an Land Berlin Zeitwert	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
	Auszahlung an Land Berlin Kapitalwert	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Dividenden-Terminal Value	Zeitwert																
	Kapitalwert																
Bestandsgrößen	Restverbindlichkeiten - Zeitwert	22.750,6	22.285,4	21.804,0	21.305,7	20.790,0	20.256,3	19.703,8	19.132,0	18.540,2	17.927,7	17.293,8	16.637,7	15.958,6	15.255,7	14.528,2	
	Kassenbestand - Zeitwert	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
	Kassenbestand - Kapitalwert	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Land Berlin: Zinszahlungen für 30-jährige Anleihe																	
Kapitaldienst	Tilgungen Land Berlin Zeitwert	193,3	193,3	193,3	193,3	193,3	193,3	193,3	193,3	193,3	193,3	193,3	193,3	193,3	193,3	193,3	
	Tilgungen Land Berlin Kapitalwert	193,3	186,4	181,2	176,6	172,0	167,3	162,4	157,5	152,5	147,5	142,5	137,6	132,9	128,2	123,7	
	Zinszahlungen Land Berlin Zeitwert	174,0	168,2	162,4	156,6	150,8	145,0	139,2	133,4	127,6	121,8	116,0	110,2	104,4	98,6	92,8	
	Zinszahlungen Land Berlin Kapitalwert	174,0	162,2	152,2	143,0	134,1	125,4	116,9	108,7	100,7	92,9	85,5	78,4	71,8	65,4	59,4	
	Summe Kapitalwert	367,3	348,6	333,4	319,6	306,1	292,7	279,3	266,2	253,2	240,5	228,0	216,0	204,7	193,6	183,1	
Saldo	Zeitwert	- 1.017,3	- 1.064,5	- 1.047,6	- 1.030,4	- 1.012,9	- 995,3	- 977,4	- 959,3	- 940,9	- 922,3	- 903,4	- 884,2	- 864,8	- 845,1	- 825,2	
	Kapitalwert	- 1.017,3	- 1.026,5	- 981,9	- 941,0	- 901,0	- 861,0	- 820,9	- 781,6	- 742,2	- 703,8	- 665,7	- 629,3	- 594,7	- 560,5	- 528,0	
	EBITDA	799,3	765,2	780,5	796,1	812,0	828,2	844,8	861,7	878,9	896,5	914,4	932,7	951,4	970,4	989,8	
	TV-Modellierung (50%)	54%	53%	52%	51%	50%	48%	47%	46%	44%	43%	41%	40%	38%	36%	35%	

Whether a socialisation is financially feasible in the medium to long run depends above all on the **amount of the compensation**.

Concurrently, a socialisation can only be proportionate if, as its result, the **rents** or at least their **indexation** can be **reduced**.

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## RESULTS OF THE RECHNUNGSHOF

**Starting already at a third of the extrapolated market value as a compensation, the rent income could not cover the management costs of the socialised housing stock.**

Compensation	STATE GRANT	RENTAL LEVEL	FINANCING PERIOD
Non-market-value orientated (8 / 11 billion €)	Only first-time equity injection from the state budget; afterwards no state grants	Merely a reduction to the rent levels of co-operatives / municipal companies possible	10 – 20 years
Market-value orientated (29 / 36 billion €)	Annual state grants from 600 million € to 850 million € during initial ten years	Up to nearly a doubling of the rental level	60 – 70 years; incl. necessary state grants for interest payments

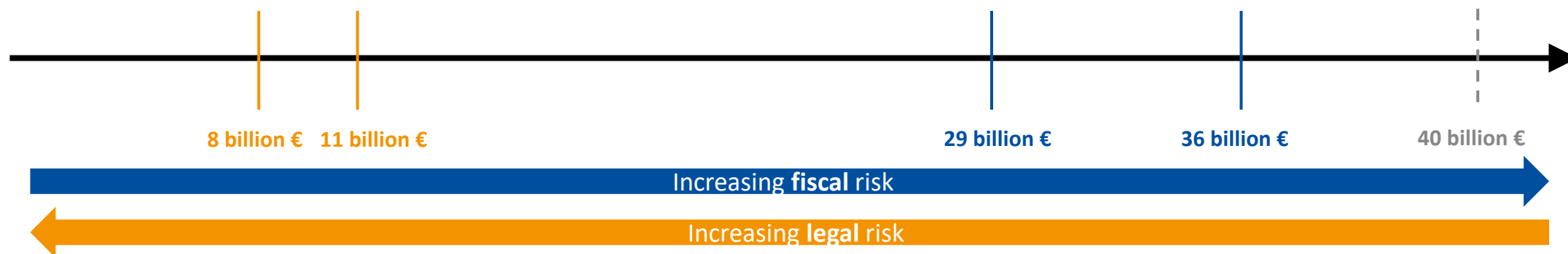
# Conclusion: The Rechnungshof does not see a possibility to realise a socialisation with reasonable risks.

## Non-market-value orientated compensation

To reduce the rents or at least their indexation, the compensation would have to turn out very low. However, the more the compensation decouples from the market value the higher the legal risk becomes.

## Market-value orientated compensation

To reduce the rents or at least their indexation, the deficits would have to be compensated from the state budget. As a result, the financial capacity of the federal state government would be highly restricted in the long run. The respective fiscal risk increases, considerably.



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**Thank you for your attention.**

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**“Land, natural resources and means of production may, for the purpose of socialisation, be transferred to public ownership or other forms of public enterprise by a law that determines the nature and extent of compensation.”**

**(Article 15 sentence 1 of the Basic Law for the Federal Republic of Germany)**

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**STATUS QUO**

# Non-market-value orientated and market-value orientated valuation methods result in substantially divergent compensations.

**Non-market-value orientated** compensation based on proposals by **sponsor of the referendum; majority vote** of expert commission

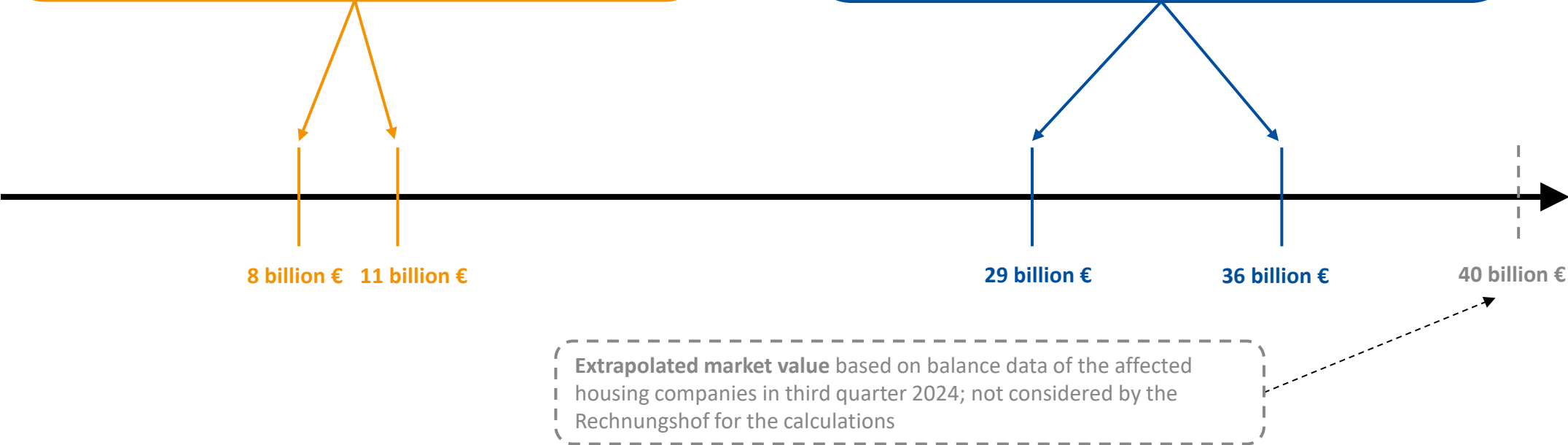
Possible derivation:

- Yields from non-profit housing stock management
- Fiscal feasibility of the federal state
- Hypothetical market value subject to potential limitation clauses

**Market-value orientated** compensation based on **balance data** of the affected housing companies; **special vote** of expert commission

Possible derivation:

- Fair-Value
- Traditional valuation methods, e.g. German income approach
- Consideration of discounts (package discount, socialisation discount, etc.)





# Outlook: the sponsor of the referendum as well as the federal state government are working on draft bills on the topic of socialisation

## New referendum

- Preparation of a **draft bill for a socialisation** by the sponsor of the past referendum
- Preparation of a **draft bill for a direct democratic management** of the socialised housing stocks
- Preparations ongoing since **2023**

## General framework law on socialisation

- Prefixed law which defines the **legal framework** for socialisation in business areas of public services and the principles of an appropriate compensation
- In preparation by a **working group of the federal state government** headed by the Senate Administration of Finance
- Commissioning of an **external assessment** to clarify open constitutional questions

**Results of the advisory contribution by the Rechnungshof remain relevant in the future!**