

The invisible (but very palpable) rent explosion

By *Norbert Häring*.

The perception of sharply rising rents in the cities moves people and politicians, but hardly any of this is to be seen in the official statistics. Is there any truth to this?

You see photos of long queues of people looking for apartments during viewings again. People are outraged by what is at least a perceived explosion in rents. Politics is reacting. Berlin has decided on a harsh rent freeze. The rules for rent increases have been tightened several times in Germany. All in an effort to alleviate the anger and concerns of voters about experienced, feared or media-seen crowding out of tenants by exorbitant rent increases.

Rents rise less than 2 percent per year

However, if you try to find the reason for this excitement in the official statistics on the housing market, you run into difficulties. Although rental price inflation is accelerating, it can hardly be called an explosion when rents rose by 1.1 percent in 2016, 1.4 percent in 2017 and 1.6 percent in 2018. That is much less than house prices, which rose by 45 per cent between 2010 and 2018 - equivalent to about five per cent per year. Obviously, the sharp rise in property prices has had little effect on rents. This is also not entirely implausible, as interest rates have fallen sharply at the same time. These determine the returns that can be achieved with other forms of capital investment instead of renting.

The Federal Statistical Office explains the small increase in the rent price index, which stands in striking contrast to the perceived rent explosion, as follows: The problem is strongly concentrated in the attractive conurbations, where it occurs mainly with new lettings. In contrast, the rental price trend in the Consumer Price Index (CPI) provides a representative picture of rents for all rental apartments in Germany. However, most rental apartments are not located in the conurbations and are occupied by tenants who have lived there for a longer period of time.

Existing tenants seem to be less affected

According to the statisticians, the average rental period is about ten years. This means that only one tenth of the rental properties change tenants each year. As a result, the influence of re-letting on the monthly average rent development is less than one percent. Newly built residential space that is rented for the first time is completely negligible in terms of volume.

The latest revision of the inflation measurement has even lowered the official rent inflation for 2016 and 2017. The reason for this is that a distinction is now being made between the various types of landlord and their actual share of the total stock is being included in the sample. Private small landlords, who increased rents the least, now account for 66 percent of the sample. Previously,

they were underrepresented compared with the private housing companies, which had the highest impact, and the cooperative and public sector owners, ranking in the middle in terms of rent increases.

But the differences are not great. For example, small landlords increased rents by a good three percent overall between 2016 and 2018, cooperatives and public authorities by just under four percent and private housing companies by around five percent.

Changing apartments becomes impossible for many people

However, for the ten percent of the renting population who want or have to change flats, and for young people who are new tenants, the lower rent increases in the portfolio are no consolation. They are confronted with the prices of apartments that are newly rented and are usually much more expensive than existing rents.

With a special evaluation, the statisticians have determined the rent increases for re-letting in 2018 in the seven largest cities. They came up with an average increase of eleven percent. So there is already something of a price explosion in this sub-segment. Tenants who did not move into their apartments until 2015 paid in these cities 10.80 euros per square meter in 2018, a good 21 percent more than those who had been occupying their apartments for longer. These tenants pay an average of 8.90 euros. The average rent per square meter in Germany is 6.90 euros.

The majority of newcomers and apartment changers apparently belong to the higher earners, or they prefer less living space. This is because the housing cost burden as a proportion of disposable income is only just under five percent higher for new tenants (31 percent) than for existing tenants.

High risk of poverty among tenants

But not every low-income earner has the opportunity to stay in his or her existing home at relatively low rents. Renovations with a rent increase, termination, expansion of the household or a new job may force or suggest a change. According to the Socio-Economic Panel (SOEP), the at-risk-of-poverty rate of tenant households was just under 30 percent in 2016 - and rising. For homeowners, this rate is only four and a half percent, with a slight downward trend.

Since 2003, the at-risk-of-poverty rate of tenant households has risen by a good twelve percentage points, and by just under five percent since 2008 alone. According to another statistic, the Income and Consumption Sample, the rate was even above 30 percent as early as 2013, with an upward trend.

Those who have less than 60 percent of the median income at their disposal are considered to be at risk of poverty. In 2016, this threshold was around 1,100 euros for singles.

The population at risk of poverty already spent between two-fifths and half of their already low net income on housing, including ancillary costs independent of consumption, in 2012. In 2012, this was almost twice as much as the average for the population, according to a presentation by the Federal Ministry of Building in December 2013.

Anyone who is at the upper end of the poverty risk range with 1,100 euros and spends 550 euros on housing is left with little more than the social assistance rate. This makes it clear what threat a necessary change of residence poses to this large group of people - in view of the significantly higher rent that is usually demanded.

In view of these figures, one can assume that many people will have to come to terms with unsuitable housing conditions. This problem is not visible in the rental price statistics.

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