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Impact of Public Policy Measures on the German Real Estate Market

With a Preface of the Editors by
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This thesis is lovingly dedicated to my mother, Ava-Denise Oertel, for her continuous and unconditional support.

Preface of the Editor

Real Estate in Germany in the context of public policy, is from its sheer magnitude a topic of utmost relevance to government, economy, society as well as to property researchers in general and especially urban economists. Hardly any industry is larger in Germany than the real estate industry, which is, depending on the definition, the largest of all sectors with more than 50 per cent of all loans secured by real estate and of the app. 10 bn. EUR of private German total assets, 55 per cent allocated to property, thereof 65 per cent to residential property.

As these facts are hardly known to the public, the finance crisis (which had been caused by the subprime crisis with its catalyst of the residential market of the United States) has presented to a broad audience since 2007, which leading role real estate plays by having severe primary effects as well as subsequent secondary and tertiary effects. The reason for this is that real estate serves in the world's leading countries as the dominant, nearly non-substitutable collateral in the private and public debt business and, thus, connects private and public debt and equity markets.

As of 2013, the German real estate market has to deal with the long-term consequences of sharply increasing house prices in top locations as a result of private investments as fear of hyperinflation originally caused by the subprime-crisis. Unsurprisingly, real estate is an integral part of our life, as we spend about 90 per cent of our lifetime in a piece of property. Thus, real estate cannot only be regarded as an investment good, but also has to be considered as a consumption good as well as a social good.

As a consequence, the topic of public property policy is and always has been very relevant. Since structural changes have been forced by external shocks (such as the sustainability movement), the asset class is more than ever changing its patterns. Policy makers need guidance where and how to allocate funds effectively and efficiently as many underlying patterns are not visible to outsiders of the industry and are not linear at all influencing each other in multiple forms (for example home-ownership allowance or energy conservation regulations EnEV).

Up-to-date, many studies have been conducted by leading institutes and organizations such as the federal institute BBSR, empirica or the Pestel Institut, but nearly all of these studies are qualitative in nature, most of the time due to the lack of existing data series or the private nature of data.

Moreover, coming to the sub asset class of residential real estate, the biggest subsegment within the German real estate market, research is lacking a "home base" as relevant researchers such as Ulrich von Suntum or Johann Eekhoff wrote their main research in monograph format 10 to 30 years ago or as of today reach their retirement age or just have unfortunately passed away (Eekhoff).

As for its relevance and its implications, policy makers use different facets of the topic for their election campaigns as with (residential) real estate, 100 per cent of the public is

reached as owner, tenant or landlord in one or the other way and always has to fear a redistribution of the financial burdens going along with owning and using, leasing or renting property. The 2013 pre-election debate is fostered with regard to the reintroduction of the German “home-ownership allowance” or a new tenancy law reform act; also, the rigour of the upcoming next energy conservation regulations (EnEV) is intensively and broadly discussed between policy makers, industry, researchers and the interested or impacted public.

This present thesis on the impact of policy measures on the German real estate market thus does not only bear a very current and relevant topic by itself, but also a topic of constant future interest as the current structural changes in the areas as for example demography, sustainability or energy directly address the property industry and policy makers have to react. This thesis sets an initial point for the sound empirical analyses of the consequences of policy decision in order to provide a reliable decision basis and a comprehensive understanding of possible consequences.

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EBS Real Estate Management Institute
EBS Business School
EBS Universität für Wirtschaft & Recht

Preface of the Author

The identification of a topic that qualifies for the demands of real estate research by at the same time being of high up-to-date relevance to the real estate industry required a considerable amount of time. After having found the research question on the impact of policy measures on the German real estate market another considerable amount of time was necessary in order to collect the required data on the residential as well as the commercial real estate market. But thanks to the support of multiple parties the four years of this dissertation project, accompanied by great co-workers, interesting and inspiring projects as well as great challenges both in private and in business life, have come to a very positive end.

Therefore, I first would like to thank my first doctoral supervisor Professor Nico B. Rottke for providing me with the possibility to write my thesis at the Aareal Endowed Chair Real Estate Investment & Finance of the Real Estate Management Institute of the EBS University für Wirtschaft und Recht and for providing me with the necessary framework, resources and for being of great assistance by gathering the necessary data for this thesis. Furthermore, I like to thank him for his continuous trust and support as well as the manifold opportunities he provided me with. My thanks also go to my second doctoral supervisor Professor Jan Mutl who supported me especially with respect to econometric questions. Within the circle of professors, I would also like to thank Professor Joachim Zietz who was of great assistance with his outstanding willingness to think into and further develop my questions and ideas.

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Dr. Christopher Yvo Oertel

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List of Abbreviations

BBR	Federal Office for Building and Regional Planning
BBSR	Federal Institute for Research on Building, Urban Affairs and, Spatial Development
BGB	Bürgerliches Gesetzbuch
cap rate	capitalization rate
CBD	Central Banking District
DPD	Dynamic Panel Data
ECB	European Central Bank
EGBGB	Einführungsgesetz zum Bürgerlichen Gesetzbuch
EigZulG	Eigenheimzulagengesetz
EStG	Einkommensteuergesetz
GewStG	Gewerbesteuergesetz
GMM	Generalized Method of Moments
GrStG	Grundsteuergesetz
MHG	Miethöhegesetz
MietReformG	Mietrechtsreformgesetz
MSA	Metropolitan Statistical Area
NIY	Net Initial Yield
OECD	Organisation for Economic Co-operation and Development
SDM	Spatial Durbin Model
SOEP	Socioeconomic Panel
StGB	Strafgesetzbuch
Sqm	square meter
Vdp	Verband deutscher Pfandbriefbanken
WiStrG	Wirtschaftsstrafgesetz
WKSchG	Wohnraumkündigungsschutzgesetz