

Berlin expropriation plan: 60% valuation haircut puts Pfandbrief creditors' rights at risk

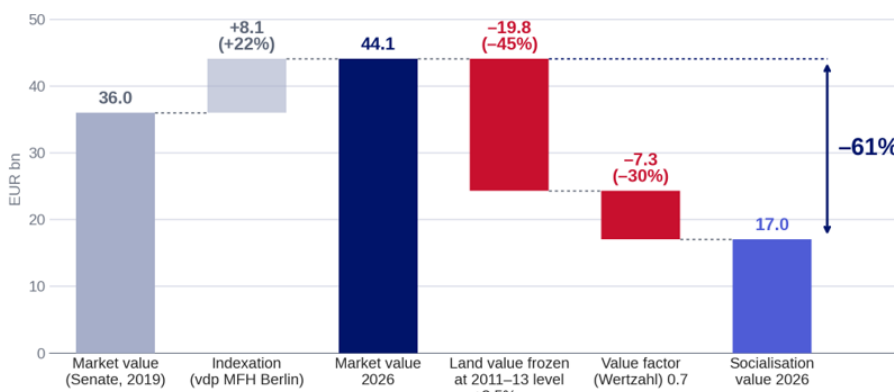
Under the socialisation law proposed by the campaign behind Berlin's 2021 referendum, large residential real estate companies could receive compensation equivalent to just 40% of the market value of their properties. This could deter Pfandbrief investors.

Coalition talks between Die Linke, the SPD and the Greens following Berlin's recent state elections have put the socialisation of large private housing portfolios back on the political agenda. The proposal aims to transfer around 150,000 privately-owned apartments into compulsory public ownership, with compensation to property owners capped.

The proposal targets landlords with at least 10,000 residential units – higher than the initial target of 3,000 units (transfer of 240,000 apartments) as proposed by the grassroots housing initiative Deutsche Wohnen & Co. enteignen (Expropriate Deutsche Wohnen and co).

Based on the initial figures and draft law from DW enteignen and the Berlin Senate, we estimate that compensation could amount to just 40% of the properties' market value. This means that the initial portfolios' estimated market value of EUR 44bn (240,000 apartments) would be valued today at just EUR 17bn. A discount of this magnitude could wipe out the equity of the companies whose property has been expropriated, with compensation falling just short of outstanding loans.

Figure 1: From market value to compensation value under draft Socialisation Act (VergG)
Indicative Scope estimate



Source: Senate of Berlin (2019 market-value estimate, 243,000 apartments); vdp Research (capital value index, Berlin multi-family houses); Gutachterausschuss für Grundstückswerte Berlin; draft VergG (Sept. 2025); Scope calculations

The socialisation plan would not lower current rents or create new housing, but one promise does hold: future rent increases in the socialised stock could be limited if Berlin authorities can fix funding costs for 100 years. We estimate a breakeven rent of around EUR 7.20/m², which is roughly where today's average Berlin rent index is, but that is far above the initiative's EUR 4.00/m² target.

The potential total loss of equity at expropriated and leveraged landlords could significantly deter private investment in new housing construction. Socialisation would further exacerbate the shortage of rental properties that drove rents up in the first place.

This case will have impacts well beyond Berlin's rental market. The initiative's draft law extinguishes all mortgage liens on transferred properties by statute. Pfandbrief banks and ultimately Pfandbrief investors would be stripped of the security on which those loans were underwritten. This will create blanket exposure to borrowers.

Analyst

Mathias Pleissner

+49 69 6677 389-39

m.pleissner@scoperatings.com

Team leader

Karlo Fuchs

+49 69 6677 389-78

k.fuchs@scoperatings.com

Media

Keith Mullin

k.mullin@scopegroup.com

The status of German Pfandbriefe as a safe-haven asset may be tarnished if a precedent is set for legislative intervention in secured creditors' rights. We do not anticipate any immediate impacts on the credit risk of Pfandbriefe, however, as investors will benefit from the instrument's dual recourse: Pfandbriefbanks with exposures to Berlin will have to replace the assets affected. What is ultimately at stake is the legal certainty on which the Pfandbrief's low-risk profile and safe haven status rests.

Two valuation choices drive the discount

The draft law departs from how markets and German tax laws value rental housing i.e. using the income approach that is mainly driven by recurring rental income. The initiative's draft law instead uses the cost approach (Sachwert), which is the land value plus the construction cost of the building today, adjusted for its age.

The state would thus tax owners on rent-based values for acquisitions but compensate them on cost values. In addition, two valuation approaches push compensation far below market value: the land value and a specific valuation factor (Wertzahl). As a result of those valuation choices, we estimate that the current EUR 44bn value of the property portfolio covered by the draft law would see a compensation value of just EUR 17bn, a massive 61% discount to the 2026 market value. See appendix for more details.

100-year bonds keep rents high despite the discount

According to the draft law, owners would not be compensated in cash but in tradeable bonds issued by Gemeingut Wohnen (Housing for the Common Good), a new agency guaranteed by the State of Berlin. The bonds would have a fixed 3.5% coupon and amortise over 100 years. For an estimated value of EUR 17bn, annual debt service would amount to roughly EUR 615m a year.

Adding operating costs of EUR 3.73/m² a month (EUR 655m a year), based on the state-owned housing companies' cost levels as reported by the Berlin Court of Audit, the new agency has to generate EUR 1.27bn annually. Across the 240,000 apartments with an average size of 61 m², this requires a net rent of EUR 7.23/m². That's 81% above the initiative's 'fair rent' target of EUR 4.00/m². That rent would only be about 6% below the 2026 Berlin rent index average of EUR 7.71/m². Even with the harsh valuation and its 61% discount, rents would hardly fall.

Exploratory talks narrow the scope but not the cost per apartment

Based on exploratory coalition talks, housing co-operatives, public-interest landlords and buildings completed after 2021 would be excluded from expropriation. And while average rents should not rise, no rent reductions are planned either. A conceptual financing blueprint is due in 2027, a draft law by mid-2028 and ownership transfers expected from 2029 at the earliest.

The exploratory talks used a maximum compensation amount of EUR 16bn for around 150,000 apartments, which implies a breakeven rent of about EUR 9.00/m². But that means higher average rents, not less. These assumptions already differ from the draft VergG valuation rules, where 150,000 apartments would be compensated with only about EUR 10.5bn, so the EUR 16bn cap would not be binding. Also a capital injection (size and source currently undisclosed) is planned, which may lower minimum rent levels but this still needs to be financed. Die Linke will decide on 31 October whether to enter coalition negotiations. The federal government has announced a counter-law but sees no need for action. For now.

Pfandbrief: limited exposure, but legal certainty at stake

We estimate that about EUR 14bn of cover assets could be affected across all Pfandbrief issuers, which is less than 3% of all mortgage Pfandbrief collateral. Diversification and low loan-to-value ratios might limit the financial risk for banks and covered bond investors, and cover pools should be able to absorb the loss of these assets.

However, because the law would extinguish mortgage liens, covered bond banks would have to replace the affected cover assets, and the loss of loan security would give lending banks the right to terminate the loans.

Such terminations could force professional real estate landlords to repay or refinance debt earlier than anticipated, creating liquidity shortfalls that could ultimately translate into higher borrower defaults.

The most important risk for Pfandbriefe is legal uncertainty. Socialisation would remove secured creditors' rights by statute; the cost and duration of resulting litigation are hard to estimate. Investors who rely on the enforceability of mortgage collateral could start questioning the reliability of the Pfandbrief system as a whole.

Financial markets and the housing market: deterring the investments Berlin needs

The most negative impact from the socialisation debate would be on housing and the shortage of rental supply, which the socialisation proposal was initially trying to resolve. Since 2011, Berlin's population has grown by about 526,000 while only about 192,000 new apartments have been built: new building permits fell by 61% between 2016 and 2024.

Even without the socialisation debate, new supply is and will continue to be constrained. Financing costs for long-term loans have risen by around 295bp to 4.1% since 2022, and residential construction costs have risen by 45% since 2021. Low-rent apartments are hit hardest as rents at that level rarely cover the cost of new construction.

Expropriating landlords at around 40% of market value would deter new investors. This would not only impact Berlin but German residential property development in general. Risk premiums for new development projects will rise significantly. Expropriation will be counterproductive at a time when federal initiatives to improve rental supply, such as the newly established housing construction fund, seek to attract private capital to close the supply gap. Germany's credibility as a safe haven would suffer and a Berlin precedent could encourage similar initiatives in other federal states.

Appendix Draft VergG; calculation of compensation value

The initiative's draft VergG sets compensation using a modified cost approach under the BewG (Valuation Act) rather than market value. Below we set out the formula and estimate the effect of each step on the 2026 market value.

Figure 1: Compensation Value Formula / Draft VergG of the initiative

Compensation value = (building value + modified land value) × Wertzahl (valuation factor)

Building value = construction cost today × regional factor × remaining useful life ÷ 80 years (§ 190 BewG)

Modified land value = Ø standard land value 2011–2013 × 1.035^(t-2012) (§ 193 BewG)

Wertzahl = 0.7 for cost values above EUR 3m (Annex 25 BewG, by analogy)

Our market value of about EUR 44bn assumes the building's construction cost (Sachwert) itself is not cut. As a starting point, we index the Senate's 2019 market value estimate of EUR 36bn for 243,000 apartments to 2026 using the vdp capital value index for Berlin multi-family houses (+22.4%, about 3.2% a year).

The land component is the average standard land value of 2011–2013 (EUR 498/m²), rolled forward at 3.5% a year to about EUR 806/m² in 2026. Standard land values in Berlin have risen around sixfold since 2011, to EUR 2,858/m², so the modified land value is about 72% below today's level. Because land accounts for around 62% of the market value of Berlin apartment buildings by our calculation (standard land values for a floor area ratio of 2.0–2.5 relative to average purchase prices, 2025), this step alone lowers value by 45%, from EUR 44.1bn to EUR 24.3bn.

The BewG provides no "Wertzahl" for rental apartment buildings, as these are normally valued by the income approach. While the draft is silent on its allocation, the "Wertzahl" may borrow the factor for "other developed properties" under the BewG, which is 0.7 where the cost value exceeds EUR 3m. This removes another 30%, to EUR 17.0bn. The compensation value is thus about EUR 17bn, resulting in a 61% discount to the 2026 market value.

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Scope Ratings GmbH

Lennéstraße 5, D-10785 Berlin

Phone: +49 30 27891-0

Fax: +49 30 27891-100

info@scoperatings.com

Scope Ratings UK Limited

1 King William Street

UK, London, EC4N 7AF

Phone +44 20 3059 1051

info@scoperatings.com



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[Scope contacts](#)

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