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COMPANY HOUSING CONSTRUCTION IN 2020: ALLEVIATING HARDSHIP INSTEAD OF MAXIMISING PROFITS.



A prominent example of company housing from old times. The residential building in Wiedenbrunn, Lower Austria, is part of the workers' housing estate built by the Krupp family of entrepreneurs between 1880 and 1918. Credit Herzi Pinki wikimedia

Finding skilled workers and retaining employees: The Job & Living initiative of the German Association for Small and Medium-sized Businesses (Bundesverband mittelständische Wirtschaft, BVMW) aims to provide affordable housing for employees of SMEs in Germany's conurbations – and in doing so, it wants to kill two birds with one stone, the keyword being a shortage of housing and skilled workers.



The Havelschanze project in Berlin-Spandau plans to build more than 150 to 200 one- to four-room apartments, between 40 and 80 square metres in size, on a site of around 8,800 square metres, providing a total living space of around 7,000 square metres. Credit dgk architekten

It is called a pilot project, goes by the name Havelschanze and initially appears no more unusual than other construction projects. The cooperatively organised plan in Berlin-Spandau is to construct a building with a total of 7,000 square metres of living space for around 150 to 200 one- to four-room apartments, between 40 and 80 square metres in size, on a plot of land of around 8,800 square metres, including its own all-day childcare facilities and a modern mobility concept. So far, so normal.

A closer look at the cost and price calculation makes one sit up and take notice. It is calculated at EUR 2,350 gross per square metre, which includes all costs such as construction, land, planning, etc. and is thus significantly lower than the EUR 4,000 or so that is customary for new buildings. Also the rents, which should be between EUR 6.50 (price-fixed) and EUR 8.50 (not price-fixed), are considerably cheaper than on the normal rental market (for new buildings in Spandau, around EUR 11 to 13). What is really interesting – and deviates from the norm of general housing construction – is the objective of the project leader: to provide affordable housing for employees of companies in order to simultaneously attract urgently needed skilled workers and to retain them in the long term. There is not a word here about a profit-oriented investment model. What is behind it?

Public services for SMEs

“We want to find new social and economic solutions that show additional ways in the area of public

services in the form of actively lived corporate social responsibility”, says Peter Diedrich, Chairman of the Federal Commission on Legal Affairs of the BVMW and Chairman of the German Job & Housing Association (Deutscher Verband Job & Wohnen e.V., DVJW), which was founded in Berlin at the end of November 2019. He is the creator of a new concept, which is based on the idea of a cooperative housing association in which medium-sized companies join together regionally to build affordable housing for urgently sought skilled workers and employees, thus closing the gap between the lack of skilled workers on the one hand and urgently needed housing on the other. This sounds like the works housing concept of traditional German companies such as Thyssenkrupp and the Bundespost or Siemensstadt in Spandau, except that these projects mentioned by Diedrich as “orientation models” were undertaken by large companies that had the necessary financial resources: “Such enormous resources are not available to medium-sized companies. That’s why we merged to form a cooperative”. Within this framework, the DVJW acts as a superordinate level and platform where all social groups can discuss the important issues relating to working, living and housing and develop tangible practical solutions. “In view of the deepening rifts in our society, it is urgently necessary to create a forum that not only identifies shortcomings, but creates and promotes projects”, said Diedrich. The pilot project in Berlin-Spandau aims to implement this project, which will then be expanded in follow-up projects already planned in Munich (city and



The Havelschanze project envisages modular or serial construction. Optimised, repetitive construction elements shorten construction time and reduce costs. Planning of the buildings using renewable raw materials has already been developed by the Berlin architectural office dgk Architekten. Credit dgk architekten

surrounding area), Hamburg, Leipzig, Dresden and Mecklenburg-Western Pomerania (Baltic Sea coast, Usedom and Rügen).

Secrets of the low-cost model

There are four central reasons in Diedrich's model why the cooperative is in a position to create and provide affordable housing. Firstly, no plots of land will be purchased because they will be brought in by way of heritable building rights. Secondly, a serial construction method ensures significantly shorter planning and approval phases and lower construction costs. Thirdly, there are no personnel costs for the member companies and no resources are tied up, because a professional service company will take over all operational and administrative functions in the project development and management phases. And fourthly, no property developer will be commissioned. All in all, according to Diedrich, this results in substantial savings.

As far as the procedure is concerned, the member companies of the cooperative have the possibility to subscribe to occupancy rights for a number of apartments corresponding to their needs by taking over shares in the cooperative. The occupancy rights are secured in the land register. For a 40-square-metre apartment, for example, two shares of EUR 250 each would have to be subscribed. The occupancy right per apartment per square metre amounts to 20 percent of the total investment, i.e. EUR 470. For a 40-square-metre apartment, the capital investment of the member company would amount to approximately EUR 18,500, which, however, is

only given to the cooperative as an equity-replacing subordinated shareholder loan. This loan would then be repaid over the years. It bears the same interest as the credit balance on a currently concluded building savings contract (+0.25 percent p.a.).

Jobs and housing for skilled workers

Diedrich's concept takes up two general grievances of the German economy that are all too well known: Shortage of skilled labour and housing. One is the housing shortage in urban agglomerations such as Berlin, Frankfurt, Hamburg, etc. and the rising housing prices in these cities. The situation is getting worse as urbanisation increases. If, as predicted by experts, around 70 to 80 percent of people will be living in cities in 2050, then without consistent countermeasures scarce and expensive housing could become one of the biggest fundamental problems of all. The fact that even well-paid and qualified workers are often excluded from applications for housing in urban areas shows a problem that, according to Diedrich, politicians have not yet been able to solve: "The introduced measures such as the rent freeze or the withdrawal of the federal government from the housing promotion scheme have so far had little success or even been counterproductive. Time is of the essence". The newly founded association with its model of cooperative housing wants to tread a new path: "By offering an interesting job together with the provision of an affordable apartment close to the workplace, urgently needed skilled workers should also be found from outside and retained as long-term as possible".

The required framework conditions

In order to put the plans into practice, both associations, the BVMW and the DVJW, are campaigning for political improvements to the framework conditions for employee housing. The legislator would have enough opportunities for intensive and efficient promotion. For example, as with the construction of offices or hotels, the value-added tax on construction materials and construction work could be refunded and the levying of land transfer tax could be dispensed with for the creation of affordable housing. Other options would be the rapid implementation of special depreciation possibilities or subsidies to reduce the production costs for affordable housing. "Previous subsidies usually go to the project developer, who has already purchased the land in advance. The developer can price in the additional funds and thus increase the purchase price to be paid by the amount of the subsidies. This means that taxpayer's money is used to increase the profit margin of property developers instead of promoting the creation of housing", criticizes Diederich. Support from the legislator is also hoped for in terms of sustainable, low-cost serial construction that can be implemented in a short time. If a nationwide type approval were granted for a serial construction method, the local building authorities would be able to issue the final building permit for the specific construction project much faster. The time saved – a building permit based on a type approval may not take longer than four weeks – would be highly relevant.

Last but not least, according to the present concept, the municipalities will also play a major role. If, as envisaged, the respective municipality acts either as a direct member of the cooperative or as a cooperation partner, up to one third of the housing to be built can be designated as social housing (social quota). In return, the municipality could provide land (land owned by the state or not required for business purposes by member companies) by way of hereditary building rights, and could include those employees in its occupancy quota who would part ways with their employer and would also lose their homes when they gave up their jobs.

Democracy and social peace

In order to achieve its ambitious goals, the DVJW has held intensive talks with trade unions and group works councils of large companies in recent months to sell them on the concept. The aim is, for example, to make the issue of creating affordable housing for employees the subject of collective agreements between trade unions and employers' associations in future. We are also in contact with the Senate Office for Economics, Housing, Finance and the Senate Chancellery and the Federal Ministry of the Interior. The basic aim is to promote dialogue between all relevant representatives who wish to contribute to the further development of the social and economic framework conditions. "The

invitation to take part in this dialogue is addressed primarily to all employers' organisations, trade unions, welfare and social organisations, associations, foundations and scientific institutions, as well as the business community", said Diederich. After all, he added, it was about nothing less than solutions for decent housing, decent work and a decent life – and thus an active contribution to securing democracy and social peace.



Peter Diederich

Chairman of the Federal Commission on Legal Affairs of the BVMW and Chairman of the German Job & Housing Association (Deutscher Verband Job & Wohnen e.V., DVJW), which was founded in Berlin at the end of November 2019, is responsible for the concept of cooperative housing construction.

The concept

Foundation of a cooperative

At least three companies / institutions set up a cooperative with the aim of creating affordable and available housing for urgently needed employees in order to attract employees and retain existing employees in the long term by providing affordable housing.

Allocation of occupancy rights

The prerequisite for the allocation of occupancy rights is membership in the cooperative. Occupancy rights make it possible to decide who (employees of the company) should be entitled to use a dwelling on the basis of a company housing lease agreement. The occupancy rights are entered in the land register (easement) and held in trust by the service partner "Job & Wohnen Service".

Acquisition of land

The cooperative acquires a plot of land (ideally by means of a heritable building right) and develops it. The total project costs are currently calculated at approx. EUR 2,500 per sqm of rental space under the hereditary leasehold model.

Conclusion of rental contracts with employees

The cooperative concludes work rental agreements with the employees for the use of the apartments.

Financing

Financing usually consists of three components: Capital market loans (approx. 65%), subsidies (approx. 15%), and shareholder loans as an equity substitute (approx. 20%, i.e. EUR 500/sqm).

Expenses

No resources or know-how are tied up in the company, because professional partners will take over all operational and administrative functions in the project development and management phases. For the member company, the monetary expenditure for a one-room apartment, for example, results in a monthly liquidity requirement of approximately EUR 80.

DIGITAL HANDSHAKES & SUSTAINABLE STRATEGIES



In times of crisis, concepts conceived in a quiet little rooms or at round tables are put to the test. More than ever before, the focus is on digitalisation and sustainability. A plea for strategic brand management, especially now.

Those were the days, when a firm handshake and a winning smile were valuable tools as close range, confidence-building, strategic persuasion measures in the midst of the competitive battle for real estate deals. Do you remember MIPIM 2019 in Cannes? It was a true property industry festival, the perfect platform for friends of lengthy, gesture-rich presentations from enthusiastic speakers keen to engage and inspire customers and potential investors. Alas, how times pass. The powers of strategic persuasion now need to be put on a new footing. In 2020, the handshake will be digital at best.

And speaking of digital: How are you managing your workflow with anxious employees working from home? How are you cultivating personal networks in this age of curfews and travel restrictions? And how are you showcasing your company's services with no "face to face" component and projects on hold? It could well be high time to reflect on whether the digital concepts once hammered out around the meeting table will deliver everything they promised. The economic lockdown is giving the real estate industry pause for thought, which should ideally be used to shelve failing concepts and design new ones. One thing is certain: crises offer a combination of disruptive and constructive potential to implement lasting change.

Then there is a second crisis, and it is one that will hold the real estate world in its thrall far more completely and permanently than any virus in the world. I am talking about climate change, which, according to unanimous expert opinion, will have the greatest impact on real estate investments over the next 30 years. In an industry responsible for an estimated 40% of harmful global emissions, greenwashing is simply no longer an option. If you want to win over customers and attract employees and investors, you need to employ tangible and compelling brand management strategies to create a sustainable brand. More than ever before, the "E" in Environmental Social Governance, ESG, will need to be placed front and centre of everything a brand communicates.

Just how drastically the implementation of sustainable strategies affects brand strength is illustrated by the European Real Estate 500, our performance index for the real estate industry, which was launched last year. The Real Estate Brand Book – our approach to strategic persuasion – explains the eminent importance of digitalisation and sustainability, especially in times of crisis.

With branded regards
Harald Steiner
Publisher