

2010 IBB Housing Market Report

Summary

Foreword

Berlin's housing market - opportunity or challenge? It seems increasingly that this question calls for a differentiated answer. In the last housing market report, we already saw that market developments were very dynamic in some areas. This development has continued and has now made its way into the foreground of public debate.

The macroeconomic parameters for Berlin are exceptionally positive. Economic performance is rising in a way that has not been seen for some time now. Berlin's population is growing continuously thanks to immigration, especially of young people. Growth is even more obvious when we look at the budget figures. At the same time, the number of new buildings being erected is still low so that the trend towards price increases continues to persist.

This applies to both the owner segment and to asking rent prices. However, rent trends in Berlin are slower. While prices for commonhold apartments have already been rising since the all-time low reached in 2006, asking rent prices only gradually began to follow suit in 2008, but have risen steeply since. This development gave us cause to focus this year on the rent burden in Berlin. On average, the rent burden is still slightly below that of other major German cities. Comparatively low household incomes in the city go hand in hand with relatively low rents. It is primarily households with stronger buying power that are using the additional residential buying power to finance more living space.

More in-depth analyses frequently show that in addition to the strong trends some significant differences can be found in smaller areas. This report would also like to address these areas in an effort to make the housing market more transparent and to identify the typical location factors. That's why this year we will distinguish Berlin's districts according to the different types of location and this will serve as a basis for initial conclusions regarding investments and their target groups.



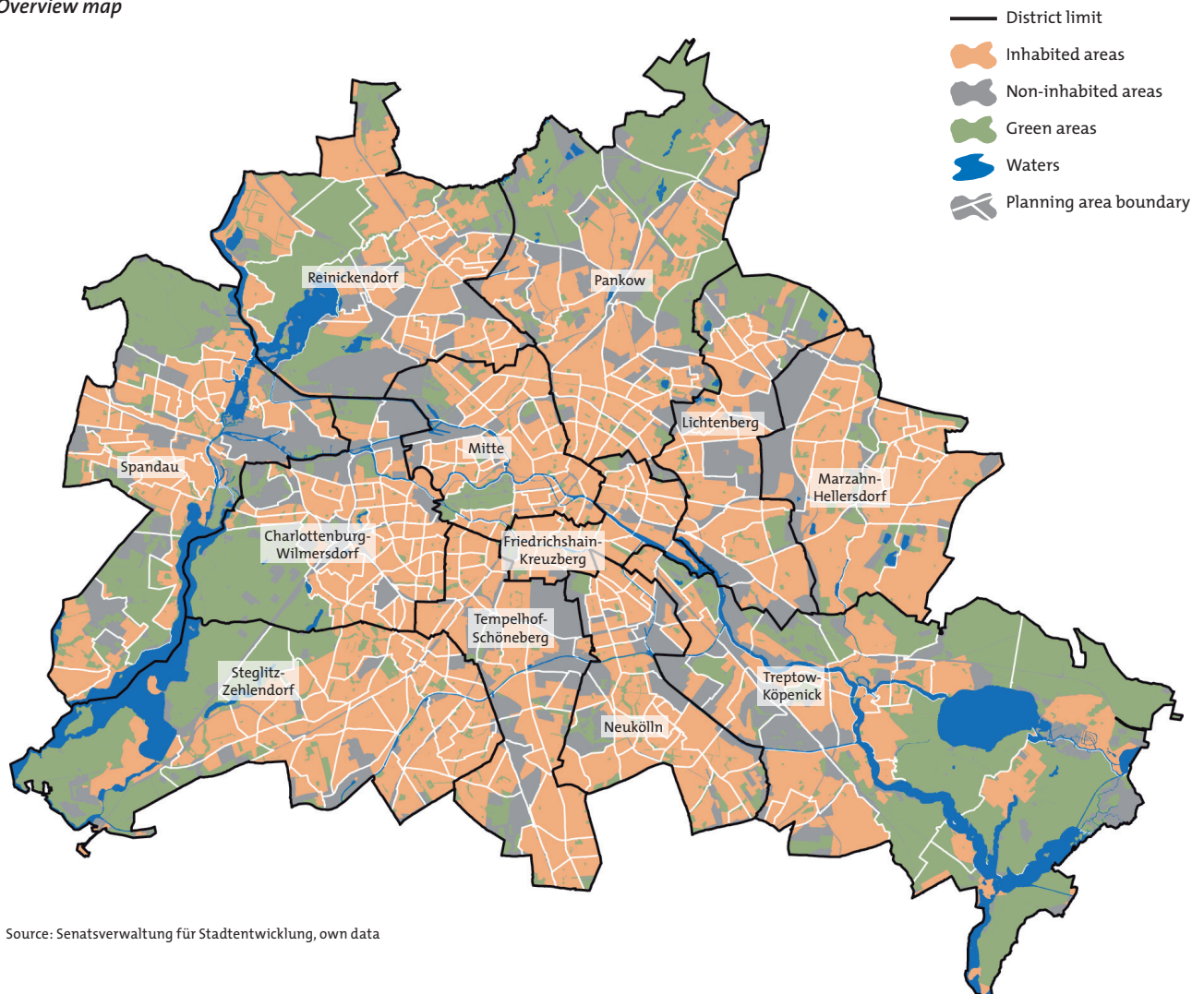
Due to the diversity of Berlin's housing market, insights into the circumstances of the market can never be complete. Therefore, we would like to invite you as the reader to take a look at the material in this document from your individual market perspective and to draw your own picture of the situation on Berlin's housing market with the help of IBB's 2010 Housing Market Report.

Ulrich Kissing

Chairman of the Board of Investitionsbank Berlin

Berlin at a glance

Overview map



Source: Senatsverwaltung für Stadtentwicklung, own data

Selected data at a glance

Key figures for Berlin	Berlin 2009	Change compared 2008	Trend arrow 2011
Economic factors			
Gross Domestic Product (GDP) (billion EUR)	101.3	-0.7	→
Unemployment rate (related to all members of the civilian working population – in %)	14.1	+0.2 percentage points	→
Consumer price index (2000 = 100)	113.4	+0.3	→
Construction costs per sqm of living space (new building) (EUR)	1,202	+11.3 %	→
Housing supply			
Existing housing	1,894,564	+0.2 %	→
– of which commonhold flats	1,632,100	-0.2 %	→
– of which council housing (pursuant to housing law)	161,233	-6.6 %	→
– including commonhold housing with an occupancy commitment (Occupancy Commitment Act)	124,679	0 %	→
Completed new apartments (new building)	3,815	-0.5 %	→
Building permits (new building)	5,603	-11 %	→
Housing demand			
Population (at the main place of residence)	3,442,675	+0.3 %	→
Number of households	1,987,900	+0.9 %	→
Resident(s) per household	1.72	-0.02	→
Number of one-person households (%)	54	+0.6 percentage points	→
Needy households within the meaning of German Social Security Code II (per 100 households)	16.5	-0.3	→
Average monthly household income in EUR	1,550	+0.16 %	→
Rents and housing market			
Occupancy density (residents per housing unit)	1.82	0	→
Living space per residential unit (in sqm)	70.4	0	→
Living space per resident (in sqm)	38.8	0	→
Longer-term vacancies (share in overall inventory in %)	5.5	-0.2 percentage points	→
Inner-city moving (number of persons moving per 100 residents)	9.9	+0.1	→
Rent index, net rent without heating costs (2000 = 100)	113.4	+1.9	→
Ancillary rent costs index (2000 = 100)	120.5	+3.1	→
Asking rent prices (in EUR net, without heating, per sqm of living space)	6.05	+4.3 %	→
Asking purchase prices (commonhold apartments) (EUR per sqm of living space)	1,707	+5 %	→

General situation and important trends

The macroeconomic parameters of the housing market in Germany, and also in Berlin, are exceptionally positive at this point in time. The economy is growing at rates that have not been seen for quite some time now. Incomes in private households are set to follow. Building sector capacities have been reduced to such an extent over the past 15 years that first signs of shortage are not appearing. Thanks to low interest rates, there are very attractive options available for financing. The macroeconomic parameters alone will already lead to prices rising on the housing market, not to mention other factors specific to the housing market which generally appear to be moving in the same direction.

The positive demand trend is also continuing. At the end of the year, 3.44 million people lived in the city, that's 11,000 more than in the previous year and 1.8% more than ten years ago. This growth shows just how attractive Berlin is, not just compared to the rest of Germany, but also on an international scale. Young people especially are being drawn to Berlin. It comes therefore as no surprise that this age group, apart from people 65 and over, is the only age group which is growing. If Berlin continues to attract young people in the future, it must be assumed that population developments will also continue to be positive over the next ten years. As seen in the past, this will go hand in hand in a overproportionate increase in the number of households and hence growing demand on the housing market. Half of those moving to Berlin over the past three years are distributed to four districts, the first among them being Berlin's Mitte district, followed by Pankow, Friedrichshain-Kreuzberg and finally Charlottenburg-Wilmersdorf. With the exception of the latter district, these are also the fastest-growing districts in Berlin.

In terms of how demand is developing, not enough housing has been built for some years. Compared to the annual increase in population of around 11,000 or an average increase in the number of households of 16,500 pa, on average, only around 3,000 new apartments were built each year over the past four years. Housing construction remained at a very low

level again in 2009 when 2,950 units were built, and the decline in building permits does not indicate any change in this trend. Even though the housing market experts polled in the 2010 IBB housing barometer estimated that the investment climate in all new building segments will rise over the next three years, investors continue to be reluctant. Construction underway in Berlin is spread out very differently. There are some districts with far above-average investment while others have seen very few new buildings go up in recent years.

Since 2007, there has been a shift in the supply trend. For the first time since the boom in the late 90s, the number of apartment complexes completed is rising again so that in this segment practically just as many apartments are being built as in individual home construction. This shift results from both the rising number of apartment buildings being completed and a decline in detached and semi-detached homes. If this trend continues, the share of apartment complexes built will already be higher than individual home building in 2010. This is remarkable, especially since the results of the 2010 IBB's housing barometer showed that housing market players believed that, in relation to demand, supply was too low, especially in the case of privately owned homes. It must be assumed that many of these new apartment complexes will be commonhold apartments and that this will continue to be the case in the future. There are only few projects of a purely rental nature to be found in inner city districts. However, several large rented property construction projects with 100 residential units and more were also recently completed.

The persistent increase in demand combined with sluggish new construction has led to a situation in which vacancies have declined slightly over the past two years. Since no significant change in the number of new apartments being built can be expected in the coming years, an increasing number of existing, vacant apartments will have to be reactivated to satisfy the ongoing, positive demand trend. It must be noted here that households cannot be simply "shifted" at will. You have a preference for certain residential areas and you only

widen your search horizon if you are unable to find suitable offers in your area of choice. The same applies to properties. Up-market households look for up-market properties. Empty apartments will only be accepted by the market if they change their cost-to-benefit ratio significantly or adapt to specific demand needs.

Another consequence of market developments has been a strong price hike for apartments in Berlin in recent years, especially for new rentals. While prices for commonhold apartments have been climbing since 2006, the increase in rent prices has been coming up around two years behind, but with bigger increases. Price developments have differed here and there, depending on location within the city. There is, however, a line of above-average prices that stretches from Berlin's Prenzlauer Berg district to Steglitz-Zehlendorf. There is a striking east/west divide between asking purchase prices for detached and semi-detached homes. Furthermore, high prices are still being paid not just for numerous attractive smaller locations but also for traditionally more up-market residential areas. Prices in Berlin will not be comparable - neither in the medium nor the long term - with other major cities such as Hamburg, Prague, or even Paris and London.

However, the present price increases are an important indicator for scarcity on the housing market. Since the positive demand trend is likely to continue for years to come due to immigration and household downsizing and since building activities are unlikely to be stepped up at this same pace, prices are very likely to rise further. In the case of rented apartments, rents will mostly be increased for new tenants, while existing rents will not be raised as often. Moving households will be hardest affected. These primarily include younger and more mobile households, such as students, trainees and other starter households moving into their own home for the first time, young families searching for a bigger apartment, as well as all who have to move home because of their jobs. Older households, such as pensioner households, usually live in the same apartment for decades and are less

likely to move again. When it comes to commonhold apartments, this affects all buyers. While potential buyers moving to Berlin from other higher-priced German cities still enjoy the comparatively good price-to-benefit ratio in many parts of the city, Berlin's households will have to wait and see how price increases will affect demand trends. What might help here is the fact that Berlin has a low ownership ratio so that a certain amount of "catching up" is likely here.

Although Berlin's new building market remains at a low level in terms of quantity, its quality has improved considerably in the past - a development that will hopefully continue despite the scarcity in certain segments. The difficulties experienced in recent decades when selling standard-quality apartments and the lessons thus learned by investors have resulted in a visible increase in quality. More and more projects are being implemented in which pioneering steps are being taken in urban development, architecture and design and hence leading to greater differentiation of the market. The bandwidth is already considerable, ranging from smaller developments with old building quality, to small clusters, neighbourhoods for young and old, niche products for specific target groups, right through to a small, but very high-quality premium segment. In the vast majority of projects, investors are now paying more attention to acceptance criteria for potential buyers than was the case in the past. These criteria include, for instance, special identification aspects during overall design, clearly laid out, secure ground floor areas, spaciouly designed private open space, the option to influence layout, fixtures and fittings, or unique selling propositions. The same applies to developments with existing buildings. In recent years, there have been different developments here too. These include, for instance, redevelopment projects, such as the conversion of former breweries, court buildings and port facilities or the large-scale development of former hospital grounds in conjunction with old and often listed building structures. Many housing companies are actively upgrading their inventory in an effort to successfully position themselves among inner-city competitors.