

2011 IBB Housing Market Report

Summary

Foreword

Berlin's housing market is currently undergoing significant change. The declining trend in new housing seen in recent years has now turned around. For the first time in 2010, many more new homes were built. If we look at the increase in the number of building permits, this trend is very likely to continue.

In light of the growing demand for housing in the city, new building activities are, however, still at a comparatively low level. Although growing demand paired by modest new building activity has led to a decline in vacancies to almost 7 %, the housing shortage has still led to a further increase in rents as well as prices for commonhold apartments and privately owned homes. While this trend has been visible since 2006 for commonhold apartments, the rate at which asking rents increased only began to speed up in 2008 following a short delay.

Since the tendency to move from the city to the surrounding area is very low, Berlin's housing market will benefit to a very limited extent only from families moving out of the city - a fact that can be seen by the main topic of this report, i.e., City versus surrounding area. That's why Berlin is still facing enormous challenges. On the one hand, the city needs to continue activating existing vacancies and transform them into marketable homes as quickly as possible. On the other hand, there is no doubt that new building activities, which have already gained momentum, must also be stepped up further in order to meet with the expected increase in demand.

The more in-depth analyses in the report frequently show that in addition to the strong trends some significant differences can be found in smaller areas. The report will also address these areas in an effort to make the housing market more transparent and to identify typical location factors.

Berlin's housing market continues to be very diverse. That's why we would like to invite you the reader to take a look at the material in this report from your very own market perspective and to paint your own picture of the situation on Berlin's housing market with the help of IBB's 2011 Housing Market Report.



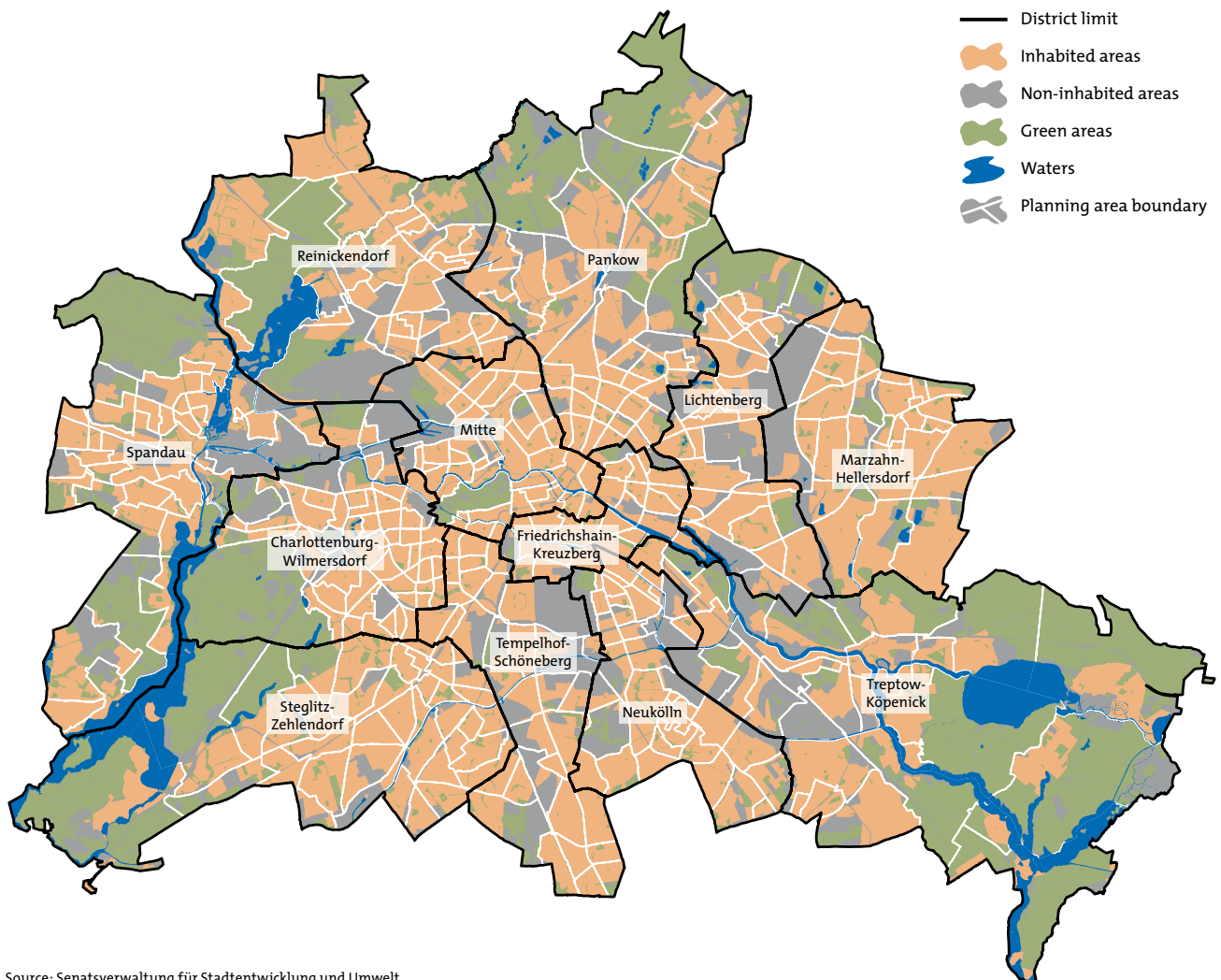
A handwritten signature in blue ink, appearing to read 'Ulrich K.' with a stylized flourish at the end.

Ulrich Kissing

Chairman of the Board of Investitionsbank Berlin

Berlin at a glance

Overview map



Source: Senatsverwaltung für Stadtentwicklung und Umwelt

Selected data at a glance

Key figures for Berlin	Berlin 2010	Change compared 2009	Trend arrow 2012
Economic factors			
Gross domestic product (GDP) (2000 = 100), price-adjusted	106.5	+2.7 % percentage points	→
Unemployment rate (related to all members of the civilian working population – in %)	13.6	–0.5 % percentage points	→
Consumer price index (2005 = 100)	107.9	+1.4 % percentage points	→
Construction costs per sqm of living space (new building) (EUR)	1,255	+4.4 %	→
Housing demand			
Population (at the main place of residence)	3,460,725	+0.5 %	→
Number of households	1,988,600	+0.04 %	→
Resident(s) per household	1.73	–0.01	→
Number of one-person households (%)	53.6	–0.4 percentage points	→
Needy households within the meaning of German Social Security Code II (per 100 households)	16.7	+0.2 percentage points	→
Average monthly household income in EUR (arithmetical mean)	2,065	+3.5 %	→
Housing supply			
Existing housing	1,898,807	+0.2 %	→
– of which commonhold flats	1,629,600	–0.15 %	→
– of which council housing (pursuant to housing law)	162,500	–0.8 %	→
– including commonhold housing with an occupancy commitment (Occupancy Commitment Act)	122,100	–2 %	→
Completed new apartments (new building)	3,650	–23.7 %	→
Building permits (new building)	3,890	–12.0 %	→
Rents and housing market			
Occupancy density (residents per housing unit)	1.82	0	→
Living space per residential unit (in sqm)	70.6	+0.2	→
Living space per resident (in sqm)	38.7	–0.2	→
Longer-term vacancies (share in overall inventory in %)	5.0	–0.5 percentage points	→
Inner-city moving (number of persons moving per 100 residents)	9.2	–0.7	→
Rent index, net rent without heating costs (2005 = 100)	107.3	–1.5 percentage points	→
Ancillary rent costs index (2005 = 100)	107.5	0 percentage points	→
Asking rent prices (in EUR net, without heating, per sqm of living space)	6.49	+5.2 %	→
Asking purchase prices (commonhold apartments) (EUR per sqm of living space)	1,840	+5.4 %	→

General situation and important trends

The macroeconomic parameters of the housing market in Germany, and also in Berlin, continue to be positive at this point in time. However, the near future is marked by considerable economic risks which could lead to at least temporary turbulence especially at the financing end.

The current turbulences on the finance markets highlight the potential for risks. At the same time, governments have very little room to manoeuvre in terms of economic policy. The global turbulences on the financial markets are threatening to spill over to the real economy as a result of confidence and wealth effects. This could ultimately also burden economic development in Germany's capital city. Austerity packages in crisis countries could especially dampen export business.

Due to its low level of interaction with the global economy, Berlin would be likely to feel the impact of a possible slowdown of the German and European economy to a limited extent only. In the medium term, i.e., after the macroeconomic uncertainties have become certainties in one way or another, the positive mood is likely to prevail again: growing employment, higher incomes and very favourable conditions for financing.

The economic parameters in Berlin alone will already lead to prices rising on the housing market, not to mention other factors listed below that are specific to the housing market and which generally appear to be moving in the same direction.

Berlin's housing market continues to differ considerably in certain sub-areas and sub-parts of the market, i.e., there are areas which although sometimes located close to each other have characteristics and development that differ completely in terms of demand, supply, vacancies and rents. The development of some housing market indicators shows that there is growing interest among investors and "new Berliners" in Berlin as a housing location, thus underpinning the city's attraction.

At the demand end, the positive trend in population figures in Berlin continued in 2010. By the end of the year, 3.46 million people were living in the city, that's 18,000 or 0.5 % more than in the previous year and 72,300 or 2.1 %, respectively, more than ten years ago. The number of households rose in line with population growth. Since 2001, the number of households has risen by 6.9 % and there are now 1.99 million households in Berlin. This corresponds to an annual average growth rate of almost 1 % or an annual increase of 14,200 households.

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. The number of young people moving to Berlin is significant. In 2010, for instance, the number of young people between the age of 25 and 30 was a good 25,500 higher than the number moving away. It comes therefore as no surprise that this age group, apart from people aged 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 with an overproportionate increase in the number of households and hence growing demand on the housing market. The rise in the number of households is, however, also being triggered by the increase in the age-related reduction in the size of households. In addition to this, the average age has risen by almost two years since 2001 because newcomers alone will not compensate for the low birth rate and growing life expectancy.

At the supply end, 2010 saw the first significant rise for some years in the number of homes built. However, the level of new building activity is comparatively low and completion rates are a far cry from those of ten years ago. Berlin's Senate has set a goal of at least 30,000 new homes for the current legislation period.

The increase in building activity is solely due to an increase in the completion rate of apartment complexes. This means that for the first time since early 2001, more new homes were built in apartment complexes in 2010 than in detached and semi-detached houses.

The number of new homes completed in Berlin totalled 3,650 which corresponds to 1.05 homes per 1,000 residents. Forerunners in new building activities were Pankow with 3.3 homes per 1,000 residents, Friedrichshain-Kreuzberg (2.5 homes) and Marzahn-Hellersdorf (1.8 homes). New building activity in the other districts remained largely unchanged compared to the previous year with the districts of Tempelhof-Schöneberg, Neukölln and Charlottenburg-Wilmersdorf bringing up the rear.

The ongoing increase in demand combined with a sluggish level of building activity has led to a reduction in the vacancy rate to 6.9 % (as per July 2010). Berlin continues to have considerable potential for supply resulting from vacant homes (130,000 homes). But simply activating this vacancy in the future will not be sufficient to cover demand. Instead what's needed is more building activity in order to meet the quantitative and qualitative needs of customers, however, the ability to pay among Berlin's households should not be ignored.

The shortage at the supply end can be seen by the rise in prices which have been evident since around 2008 in rents and purchasing prices for commonhold apartments in Berlin. The average asking price (median) for a detached/semi-detached house in Berlin in the period under review (2010 up until the third quarter of 2011) totalled EUR 239,800. For a commonhold apartment the asking price is EUR 1,840 per sqm and the average rent for new tenants in Berlin totals EUR 6.49 net per sqm, heating and service charges not included. The asking rent for new buildings is above this level. The local comparative rent of the rent index has also risen. According to the rent index, this totalled EUR 4.00 per sqm in 2000. In the 2011 rent index, this now totals EUR 5.21 net per sqm, heating and service charges not included.

Since it can be assumed that the demand trend will continue to be positive in the years to come, the construction of new buildings will have to be stepped up further. It is also necessary to increasingly activate the existing potential for supply resulting from empty and generally marketable homes (currently around 70,000 homes). This is especially the case for attractive inner-city residential areas. If this fails, further price increases on Berlin's housing market can be expected especially in the popular inner-city residential areas.

Focus: city versus surrounding area

The number of people moving from Berlin to the municipalities in the area around Berlin was low in 2010, totalling just 4,100. There is still no sign of any factors that could trigger an increase in the number of people moving from Berlin to the areas around the city and hence an increase in sub-urbanisation. The same applies to factors in the surrounding area that could foster moving from Berlin.

Although the asking prices for detached/semi-detached homes and commonhold apartments differ between Berlin and the surrounding area, these differences only become significant the further the distance from the city centre. The difference in prices between Berlin's districts and the directly neighbouring municipalities is comparatively moderate. The difference in the price of asking rents (median) is much lower and in some attractive municipalities in the surrounding area the average price level is even higher than Berlin's mean value. The number of people moving out of the city into the surrounding area will only rise again when prices for detached and semi-detached homes as well as commonhold apartments in Berlin rise much faster, hence upping the price differential between the city and the surrounding area.

Even if there is widespread building underway in certain surrounding municipalities and if people looking for homes from Berlin do find very diverse offers in terms of quantity and quality, especially in the market segment for detached and semi-detached homes, there is still no sign of an increase in sub-urbanisation in light of the order of magnitude.

Up to now, sub-urbanisation in the region has been almost exclusively on a residential level. Although the number of jobs or people employed in registered jobs is increasing in percentage terms at the same rate as in the city, these newly created jobs cannot be used as a factor for a future increase in sub-urbanisation from Berlin because the quantity effect is still not (yet) sufficient.