

2013 IBB Housing Market Report

Summary

Foreword

Berlin's economy still has some catching up to do. Since 2005, growth has been above the average for the rest of the country. No other federal state has a more dynamic economy. The number of jobs in the city is growing while unemployment continues to decline. In light of all this, Berlin has many opportunities to offer, especially to young and well-qualified new citizens, many of whom come from outside Germany.

In 2012, around 41,000 people moved to Berlin - once again a considerable number. The number of people from Poland, Romania and Bulgaria declined slightly in 2012. On the other hand, the number of people from southern European countries, like Spain and Italy which are still affected by the economic crisis, rose significantly.

This rise in population in recent years was met by a housing surplus even though this surplus has now been used up as suggested by the results of the recent census. Since construction activities up to now have not been able to keep pace with the rise in demand, housing availability has fallen continuously. This has resulted in rising rent and asking prices for real estate and this had a strong impact on the market last year. Asking rents rose by 10% while asking prices for commonhold apartments increased by 14%. Now, after years of stagnation, there has been a considerable increase in asking prices for privately owned homes, climbing 7% within one year.

2012 was marked by a turnaround in housing construction. After the number of building permits already rose in 2011, a considerably higher number of apartments were completed in 2012 compared to previous years. Around 4,200 new apartments and approx. 1,200 completed apartments in existing buildings marked the highest level recorded in recent years. There is a good chance that the number of newly built apartments will continue to rise. The building permits issued in 2012 are a good indication of this. Compared to the previ-

ous year, their number rose by 35% to around 10,000. In order to cover the demand forecast, the rate of completion should be in the same range. In light of rising rents, it is particularly important to provide affordable homes for a large segment of the population. When it comes to new buildings, this can be achieved, for instance, by promoting the construction of smaller apartments. With this in mind, there is still a lot to be done.



Just like in previous IBB Housing Market Reports, the 2013 Report once again addresses a special topic. This time round, the housing situation for special demand groups is being highlighted. This is being made possible by the latest data on recipients of rent allowance, unemployment benefits and university students.

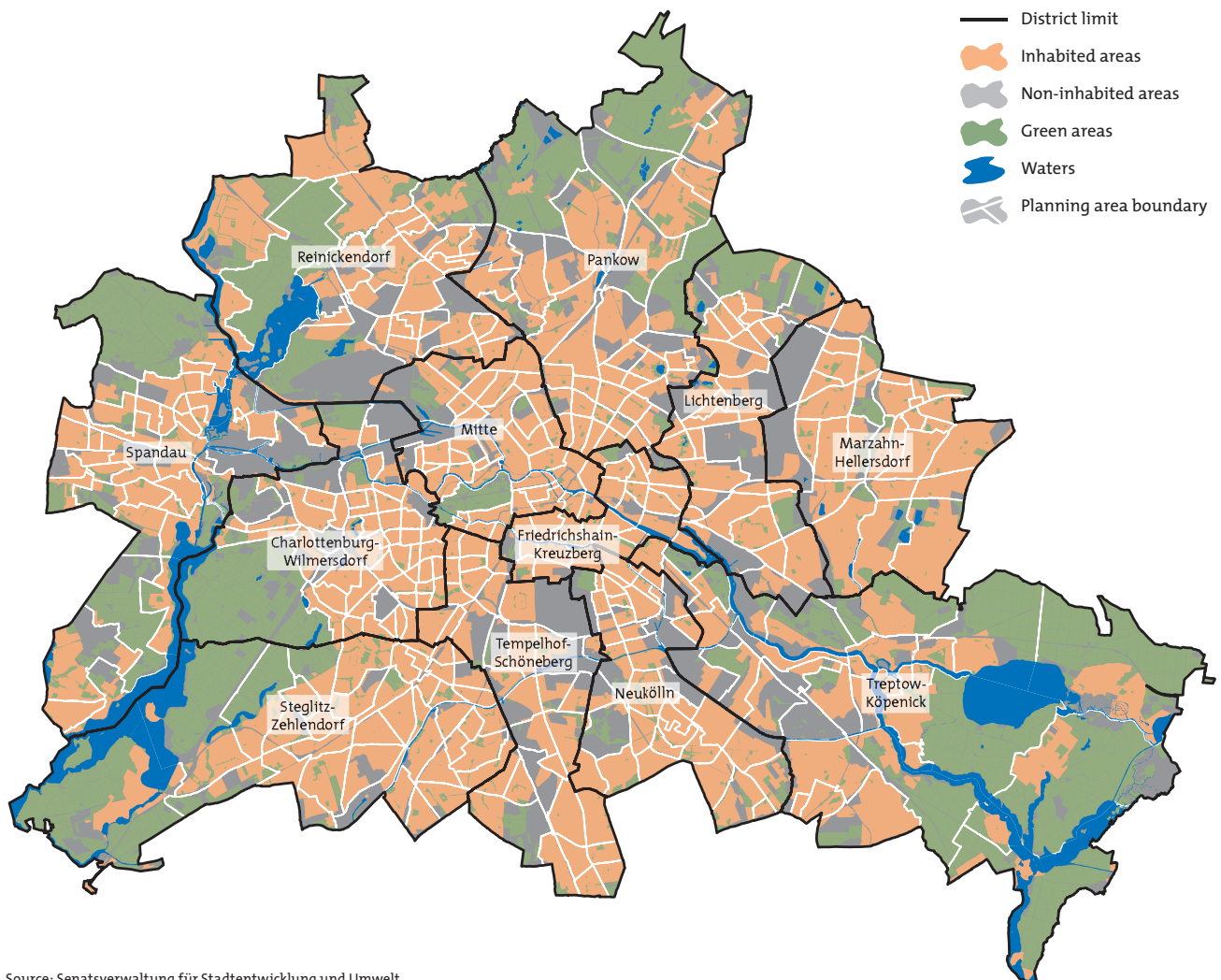
All in all, Berlin's diverse housing market continues to be highly dynamic. That's why we would like to invite you the reader to take a look at the material in this report from your very own market perspective and to paint your own picture of the situation on Berlin's housing market with the help of IBB's 2013 Housing Market Report.

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 2012	Change compared 2011	Trend arrow 2014
Economic factors			
Gross domestic product (GDP) in bn EURO	101.9	+0.5 %	
Unemployment rate (related to all members of the civilian working population - in %)	11.7	-1.6 % percentage points	
Consumer price index (2005 = 100)	113.2	+2.7 % percentage points	
Construction costs per sqm of living space (new building) (EURO)	1,362	+11.5 %	
Housing demand			
Population (at the main place of residence)	3,375,222	+1.5 %	
Number of households	2,030,500	+1.8 %	
Resident(s) per household	1.67	±0.00 %	
Number of one-person households (%)	54.3	+0.2 % percentage points	
Needy households within the meaning of German Social Security Code II (per 100 households)	15.8	-0.6 % percentage points	
Average monthly household income in EURO (arithmetical mean)	2,141	+1.6 %	
Housing supply			
Existing housing	1,899,335	+0.3 %	
- of which commonhold flats	1,615,300	+0.04 %	
- of which council housing (pursuant to housing law)	158,242	-2.44 %	
- including commonhold housing with an occupancy commitment (Occupancy Commitment Act)	121,353	-0.6 %	
Completed new apartments (new building)	5,417	+20.6 %	
- of which new building	4,205	+19.6 %	
Building permits (new building)	9,941	+35.1 %	
- of which new building	7,764	+38.5 %	
Rents and housing market			
Occupancy density (residents per housing unit)	1.78	+1.1 %	
Living space per residential unit (in sqm)	72.4	+0.1 %	
Living space per resident (in sqm)	40.7	-1.2 %	
Inner-city moving (number of persons moving per 100 residents)	9.0	-1.1 %	
Rent index, net rent without heating costs (2005 = 100)	110.6	+1.6 %	
Ancillary rent costs index (2005 = 100)	108.5	+0.5 %	
Asking rent prices (in EURO net, without heating, per sqm of living space) *	8.05	+8.8 %	
Asking purchase prices (commonhold apartments) (EURO per sqm of living space) *	2,502	+13.7 %	

* Review period: Q4 2012 to Q3 2013

Additional detailed data in the statistics volume for the Housing Market Report can be found at: www.ibb.de/wohnungsmarktbericht

General situation and important trends

In 2013, Europe's economy continued on its rather slow road to recovery. Economic output in the eurozone rose slightly in the second and third quarter of 2013. On the whole, the overall economic situation must be seen to be unstable now that the situation is not just difficult for the European crisis nations but also for countries like France and Italy.

Despite some minor fluctuation, Germany's economy remained stable with positive development. Following a weak period at the beginning of the year, economic prospects brightened significantly over the course of 2013. Solid growth in the second quarter was stronger than during the rest of the year thanks to catch-up effects. The annual average for 2013 shows value-added growth below the potential rate. The outlook for 2014 is positive. One important factor for economic growth is the building industry which can benefit considerably from the revitalisation of housing construction.

Berlin's economy fared better in 2013 compared to the rest of the country. Germany's capital city is strongly characterised by services while the share of industry in overall economic output in Berlin is very low. Many Berlin-based companies are benefiting from the strong growth in employment in the capital city, rising wages and record-breaking figures in tourism. Tourism in the city continues to serve as a strong pillar in Berlin's economy. The many visitors to the city have generated a steep rise in sales for Berlin's retail sector – contrary to the rest of the country. This special development, however, is also due to Internet sales which are a particularly important factor in the capital.

While total unemployment in Germany rose slightly in 2012, it fell significantly in Berlin by 0.6 percentage points to 11.7%. Although this is the lowest level recorded in 20 years for Germany's capital city, it is nevertheless the highest level compared to the other federal states. Many of the new jobs created in Berlin cannot be filled by job-seekers in Berlin due to a lack of qualifications. That's why people moving to Berlin and commuters living outside the city are the true beneficiaries of economic recovery and the newly created economic structures in the capital city. This is also the reason why Berlin still has to deal with high base unemployment which will take some time to reduce. In addition to the booming services sector, the construction industry can also help to reduce unemployment in the city further.

Trend in demand

Demand for housing in Berlin continued to rise in 2012. In 2012, Berlin's population rose by around 49,000. This included a slight birth surplus of around 2,500 and more than 41,000 people moving to the city. 29,000 of these people came from outside Germany. While immigration from eastern Europe stagnated or declined slightly, there was an increase in the number of people coming from southern Europe, especially from Spain and Italy. Between 2011 and 2012 alone, the number of private households rose by around 35,000 and this triggered a significant increase in demand for housing. Continued strong growth can also be expected here in the years to come.

Trend in supply

2012 was marked by a turnaround in housing construction in Berlin. After the number of building permits already rose in 2011, a considerably higher number of apartments were completed in 2012 compared to previous years. Around 4,200 new apartments and approx. 1,200 apartments completed in existing buildings marked the highest level recorded in recent years. There is a good chance that the number of newly built apartments will continue to rise. The building permits issued in 2012 are a good indication of this. Compared to 2011, their number rose by 35% to around 10,000. But if the demand forecast is to be covered, around 10,000 apartments will have to be completed each year.

Market for detached and semi-detached homes

After asking prices for detached and semi-detached homes (including land) remained stable for a long time, prices began to rise more in 2012. Compared to the last review period, average asking prices rose in the current review period by around 7% or by around EURO 17,900 to EURO 281,600. There is hence considerable dynamism in this increase.

Market for commonhold apartments

There is stronger dynamism, however, on the market for commonhold apartments. Median asking prices are currently in the range of EURO 2,500 per sqm and hence 14% above the level recorded in the last review period. There is still a growing trend on the Internet towards newly built properties and the luxury segment and this is influencing the level of prices accordingly. However, a change in trend can now be seen. The number of apartments on offer in the middle price segment is growing. Activities by investors who see real estate in Berlin as a safe investment are also upping prices. Investor interest is also being additionally kindled by rising rents.

Market for rental apartments

Within one year, prices for rental apartments offered on the Internet have risen on average by 9% (median). The median asking price totalled EURO 8.05 per sqm. Developments with occupied apartments (existing rents) were more moderate. Berlin's 2013 rent index showed an increase of around 6.3% in rent prices compared to the 2011 rent index. That's around 3.1% per year. The current rent index shows average rent for the market as a whole totalling EURO 5.54 per sqm.

Within the city, however, differences exist when it comes to the level and dynamism of demand for housing and rent prices. Demand pressure has now extended beyond central and traditionally good residential areas. Asking prices have also risen in other areas, such as northern Prenzlauer Berg, Weißensee and northern Neukölln. Rental apartments in the lower segment are still primarily on offer on the outskirts of the city, especially in the large housing developments in Marzahn-Hellersdorf, Spandau and Neukölln. Berlin still also has extensive areas with old buildings with larger stocks of apartments in the lower price segment, for instance, in Wedding, Moabit or Neukölln.

Compared to other major cities like Hamburg or Munich, the current average asking rent of EURO 8.05 per sqm (net without heating) is much lower in Berlin, as are available household incomes.

Politicians have responded to the shortage in housing with a host of measures. One of the most important measures is the "Alliance for Council Housing Policies and Affordable Rents" which was agreed to between Berlin's Senate and municipal housing associations. This agreement covers municipal housing which is to be increased by around 30,000 apartments by the year 2016. Furthermore, agreement was also reached to adapt housing to demand, to limit rent increases and to rent out large numbers of new apartments preferably to low-income households.

In 2013, steering instruments were introduced to counteract distortions of the housing market. They include, for instance, the cap limit ordinance for increases in existing rents, the expansion of the termination protection clause ordinance to all of Berlin and the adoption of the law to ban the misappropriation of housing. The law to ban the misappropriation of housing is due to come into effect in spring 2014.

Developing housing construction areas is the most effective way to sustainably limit the increase in rents and selling prices. In addition to large-scale housing projects, such as the development of the periphery of Tempelhofer Feld or the development of the area on Heidestraße to the north of Berlin's central train station, a host of smaller potential areas, such as gaps between buildings, are to be activated in order to help ease tension on the housing market. Furthermore, new housing is to be supported by new council housing construction subsidies in 2014.

Current topic: housing situation for low-income households

Each IBB Housing Market Report contains a current topic that is addressed in detail. In light of growing tension on the housing market, the situation for low-income households and students with their specific demands is being examined because these housing seekers are particularly affected by rising housing costs and the shortage of housing supply. Current data is available on rent allowance, basic benefits for the unemployed (ALG II), on students in Berlin, as well as on housing supply for people registered as homeless.

Rent allowance is paid by the government to citizens who, due to low incomes, are granted an allowance towards their rent and housing costs. In December 2012, rent allowance was being paid to around 30,900 households in rented housing in the city, that's a mere 1.4% of all households in Berlin. The number of households receiving assistance as part of basic unemployment benefits is around 10 ten times higher, i.e. around 316,000 households. This corresponds to approx. 16% of all households in Berlin.

A comparison of rent allowance statistics from 2009 and 2012 shows hardly any rise in income among households receiving rent allowance. This is in contrast to the significant increase in gross rents (without heating). The average rent allowance paid, however, has fallen considerably. The reason for this is that since 2009 rent allowance has not been adapted to market developments. This means that over the course of time fewer households are eligible for rent allowance while the average rent burden also increases.

Unemployment benefit (ALG II) is a tax-financed basic support payment for people in search of jobs. This benefit also covers housing and heating costs. A comparison of actual housing costs (rent and heating) with eligible housing costs shows that housing costs are often not completely covered. On average, only 97% of actual costs are eligible for support.

University students in Berlin pay an average of EURO 321 on rent, including service and heating costs. On a national level, average rent costs for students total EURO 281. However, compared to other major cities (Cologne: EURO 359, Munich: EURO 358, Hamburg: EURO 351), living in the capital city remains relatively cheap. Although students in Berlin were not able to fully compensate for higher housing costs in recent years with higher incomes, their housing cost burden, however, increased only moderately compared to housing allowance and unemployment benefit recipients.

Over the past two years, the supply of housing for those registered as homeless has improved thanks to the agreements ("protected market segment") with housing associations. However, since the number of eligible households has meanwhile significantly exceeded the "protected market segment", this instrument is now unable to provide sufficient housing for the one-person households (43% of demand covered) or multi-person households affected (91% of demand covered).