

2014 IBB Housing Market Report

Summary

Foreword

The IBB Housing Market Report should offer all stakeholders a good insight into the situation and developments on Berlin's housing market. Thanks to the considerable amount of data analysed, it is possible to identify trends and hence provide a valuable decision-making basis for all players, ranging from tenants to investors.

Berlin is experiencing a phase of growth. A fact that can be seen by rising population figures and positive economic data. Last year, Berlin's economy continued its course of expansion. Since 2005, annual economic growth has averaged at 2.4% and considerably higher than for the rest of the country.

Demand for housing has also increased strongly in recent years. Between 2009 and 2013, the number of people living in the capital city rose by around 160,000 - that's equal to the entire population of the neighbouring city of Potsdam. The latest population figures show that in 2013 too the around 42,000 people who moved to the city made a decisive contribution to the city's growth. Berlin benefits especially from the influx of young well-educated people who not only help to fill jobs, but who are in fact increasingly creating jobs.

Housing construction has a lead time of two to three years, so that the market responds to growing demand with a certain delay. After the number of construction projects completed rose again for the first time in 2012, housing construction accelerated significantly in 2013, resulting in the completion of 6,600 new apartments and an increase of 23% against the previous year. The number of building permits granted rose even higher. 12,500 apartments were approved in 2013. This marked an increase of 26% compared to the previous year. Up until the end of November 2014, around 17,300 apartments were approved, 53% more than during the same period in the previous year. This trend indicates that the goal of building 10,000 to 12,000 new apartments each year could very well be reached in the foreseeable future. However, the housing market will not ease up until additional demand can be met.

In the period under review, real-estate prices and rents in the city continued to rise. In particularly popular locations, the limit to what people are willing to pay seems to have been reached while there is still some catching up to be done in other city districts. Especially in areas where rent increases were almost impossible up to now, asking rent prices are rising even if they are still below average compared to the rest of the city. For tenants with low incomes it is becoming increasingly difficult to find affordable housing.

A host of measures have been launched to counteract the tight housing market. This includes building subsidised apartments. Up to now, the federal state of Berlin has provided a total of EUR 320 million for a fund to promote housing construction. This "IBB new apartment construction fund" was introduced by Investitionsbank Berlin and finances approx. 1,000 rent-controlled apartments each year.

All in all, Berlin's housing market continues to be extremely dynamic. That's why we would like to invite you to take a look at the material in this report from your very own market perspective and with the help of IBB's 2014 Housing Market Report you can paint your own picture of the situation on Berlin's housing market.

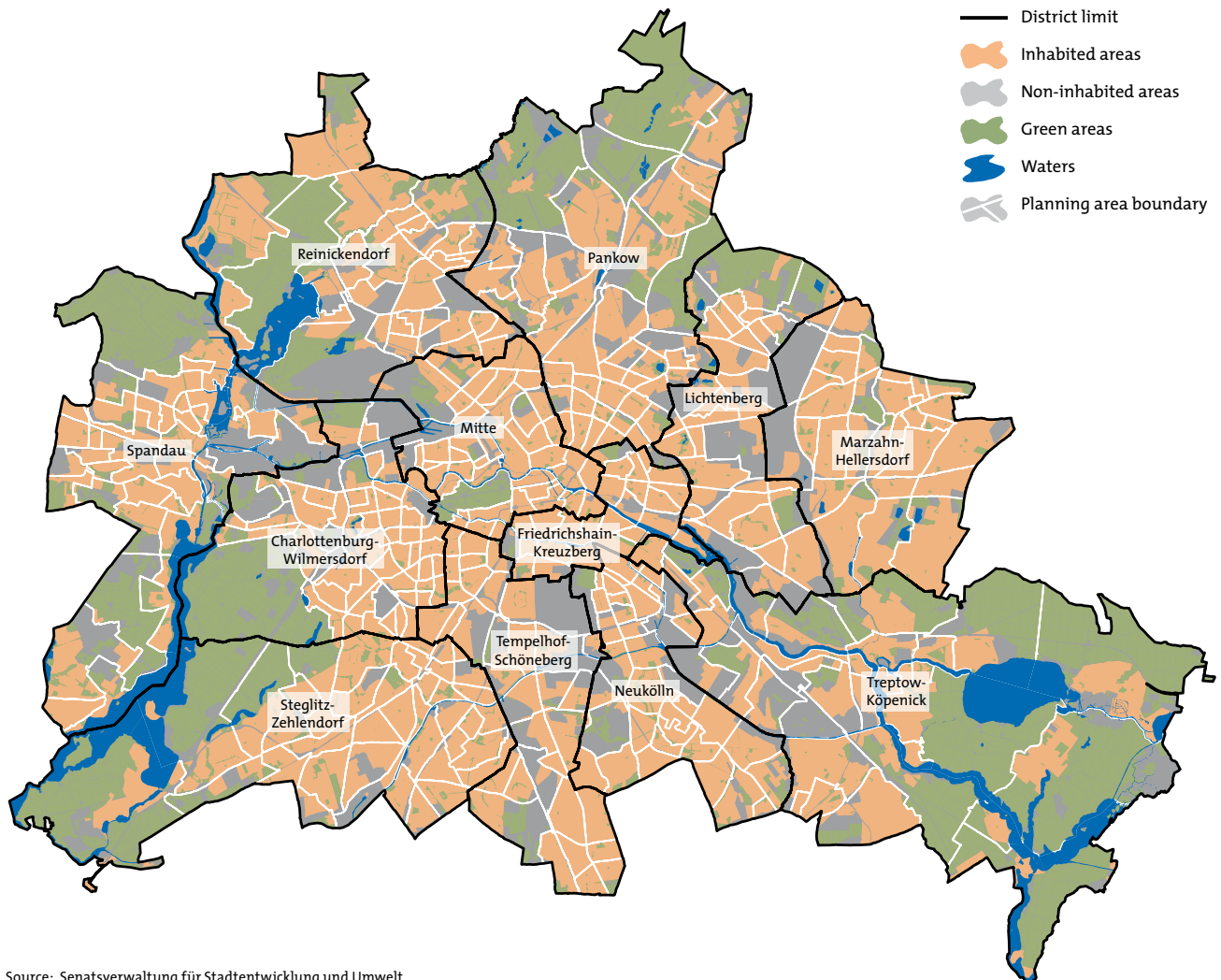


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Chairman of the Board of Investitionsbank Berlin

Berlin at a glance

Overview map



Source: Senatsverwaltung für Stadtentwicklung und Umwelt

Selected data at a glance

Key figures for Berlin	Berlin 2013	Change compared 2012	Trend arrow 2015
Economic factors			
Gross domestic product (GDP) in bn EURO (2005 = 100)	118.8	+1.2 %	↗
Unemployment rate (related to all members of the civilian working population - in %)	11.7	-0.6 % percentage points	↘
Consumer price index (2010 = 100)	106.9	+2.3 % percentage points	→
Construction costs per sqm of living space (new building) (EURO)	1,349	+11.5 %	↗
Housing demand			
Population (at the main place of residence)	3,421,829	+1.4 %	↗
Number of households	1,932,500	-4.8 %	↗
Resident(s) per household	1.77	+5.9 %	↗
Number of one-person households (%)	54.1	-0.2 % percentage points	→
Needy households within the meaning of German Social Security Code II (per 100 households)	16	+0.2 % percentage points	→
Average monthly household income in EURO (arithmetical mean)	2,220	+3.7 %	↗
Housing supply			
Existing housing	1,883,161	-0.9 %	→
- of which commonhold flats	1,600,000	-1.0 %	↘
- of which council housing (pursuant to housing law)	153,449	-3.0 %	↘
- including commonhold housing with an occupancy commitment (Occupancy Commitment Act)	112,069	-7.7 %	↘
Completed new apartments (new building)	6,641	+22.6 %	↗
- of which new building	4,627	+9.1 %	↗
Building permits (new building)	12,518	+25.9 %	↗
- of which new building	9,873	+27.2 %	↗
Rents and housing market			
Occupancy density (residents per housing unit)	1.82	+2.2 %	↗
Living space per residential unit (in sqm)	72.9	+0.7 %	→
Living space per resident (in sqm)	40.1	-1.5 %	↘
Inner-city moving (number of persons moving per 100 residents)	8.7	-1.0 %	↘
Rent index, net rent without heating costs (2010 = 100)	106.0	+2.6 %	↗
Ancillary rent costs index (2010 = 100)	103.5	+2.5 %	↗
Asking rent prices (in EURO net, without heating, per sqm of living space) *	8.25	+2.5 %	↗
Asking purchase prices (commonhold apartments) (EURO per sqm of living space) *	2,742	+9.6 %	↗

* Review period: Q4 2013 to Q3 2014

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 2014, the economy in the Euro zone was largely stagnant. With growth below 1%, it was only just about possible to avoid slipping back into a recession. Recently, however, there have been some signs of stabilisation. Europe is benefiting increasingly from buying power gains as a result of lower energy prices. The devaluation of the Euro since spring 2014 is also improving the price competitiveness of the economy in the currency zone.

Germany's economy - unexpectedly stable

Despite temporary setbacks caused by the geopolitical crises in Ukraine and the Middle East, Germany's economy has proven to be unexpectedly stable. With growth of 1.5% in 2014, this marked the strongest growth over the past three years. Consumption accounted for a share of 0.8 percentage points of this and was hence the driver of economic growth. Exports and investments, which accounted for shares of 0.4 and 0.3 percentage points, respectively, were also important for growth. All in all, it must be expected that demand for capital goods on key sales markets, especially in the newly industrialised countries, will continue to be weak, at least for the present. However, private consumption and housing are expected to generate stimulus so that Germany's economy is expected to grow at an aboveaverage rate compared to the rest of Europe.

Berlin - still geared to growth

In 2014, Berlin's economy continued to grow even if the rate of growth was temporarily dampened by the crisis in Ukraine. Since 2005, Berlin has had some catching up to do. Averaging at 2.4%, annual economic growth is much higher than the average for the rest of the country. High growth rates, however, are also needed in order to make up for shortcomings which the city has compared to other regions in Germany and which resulted from the city's division. When it comes to per capita GDP, Berlin's figure of EUR 30,600 is still far behind the national average of EUR 33,400 and that of the other two city states, i.e. Hamburg (EUR 53,600) and Bremen (EUR 43,100).

There is still a good chance that Berlin's economy will once again outperform the national trend this year, albeit at a somewhat slower pace. Due to the high share of services, any weakening in the processing industries will not have a strong impact on Berlin's economy. This also means that Berlin will

once again be up among the leaders in the federal state ranking list. The strong boom in tourism in Berlin should also not be forgotten. In the year to come, tourism will continue to be a strong driver of Berlin's economy. The many visitors to Berlin are generating growing turnover, especially for the retail and hotel sectors. Berlin's economy can also be expected to benefit from the acceleration in the construction sector.

Trend in demand

Demand for housing continued to grow again in 2013. According to the State Statistical Institute Berlin-Brandenburg, the capital city's population rose by 46,600. Excess of births over deaths accounts for 2,200 of this figure and people moving to Berlin for approx. 41,900. The remaining population gains are due to retroactive corrections of population figures as part of the census.

Berlin's population has risen significantly over the past three years. The main reason for this is people moving to the city from abroad. While migration gains from the old and new federal states have already peaked and are now declining slightly, Berlin once again attracted more new people from abroad in 2013 compared to the previous year. These migration gains rose by 14% to approx. 34,000 people. On the other hand, the number of people leaving Berlin to live outside the city also rose. In 2013, Berlin lost 7,000 people to surrounding municipalities, that's 21% more than in the previous year.

Trend in supply

Berlin's housing market picked up speed in 2013, and the rise in completion and approval figures continued once again. In 2013, 6,641 apartments were completed, an increase of 23% compared to 2012. The number of building permits granted rose even higher. Building permits for 12,518 apartments were approved in 2013. This marked an increase of 26% compared to 2012. Up until the end of November 2014, 17,316 apartments in total were approved, 53% more than during the same period in the previous year. This trend is an indication that the goal of building 10,000 to 12,000 new apartments each year could very well be reached in the foreseeable future. However, the housing market will not ease up significantly until additional demand can be met.

Market for detached and semi-detached homes

The average asking prices for detached and semi-detached homes rose approx. 12% against the previous year to around EUR 336,000. Properties that were older than four years were more expensive than newer properties (an average of EUR 341,000 compared to an average of EUR 323,000). This can be explained by the fact that existing properties are more likely to be located at integrated locations and often have more floorspace and bigger gardens than new buildings.

Market for commonhold apartments

The asking prices for commonhold apartments also continued to rise in the period under review. The median asking price (over 12 months) currently totals EUR 2,700 per sqm and is hence around 10% up against the value for the previous review period. The average asking price for existing properties completed up to 2009 was approx. EUR 2,400 per sqm. This marks an increase of around 10% compared to the previous review period. The increase in prices for new apartments completed after 2009 was slightly lower, with prices increasing by 5% to average at EUR 3,600. This is an indication that prices for new buildings may now be reaching their peak.

Market for rental apartments

Asking rents represent the upmarket segment of the rent market. Their development reflects the price trend for rents in new buildings. From the 4th quarter of 2013 to the 3rd quarter of 2014, asking rent prices in Berlin rose by around 6% to EUR 8.50 per sqm (net without heating). In the 3rd quarter of 2014, the asking price for apartments that are older than 4 years averaged EUR 8.36 per sqm. Compared to the same quarter of the previous year, the median for these apartments rose by around 5%. The price difference compared to apartments that were built after 2010 is considerable. In the 3rd quarter of 2014, the asking prices for newer apartments averaged at EUR 12.30 per sqm and were up by around 3% compared to the previous year's quarter.

If we take a more detailed look at changes in asking rents over the past two years, we can see that the steepest increases took place in areas where rents had been below average for a long time. It is apparent that rents have been increased for new rent contracts, something that was not previously possible. This can be seen in districts like Wedding, Neukölln and also

even in prefab housing estates in Marzahn and Hellersdorf. That being said, prices in these areas are still below average for Berlin. In many popular residential areas, especially in the city centre and Prenzlauer Berg, there is almost no potential for rent increases.

Measures

The increasing shortage in housing has led the federal state of Berlin to launch a number of measures in order to improve housing supply for the city's growing population and to counteract distortion on the housing market. 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. By 2016, municipal housing is to be increased to 300,000 apartments through purchases and new buildings and adapted to meet the needs of the market. The increase in rents in municipal housing will be capped. In order to improve the situation for low-income households, urban housing associations are renting out 50% of apartments available for rent within the S-Bahn circle line to households with a certificate of eligibility for public housing. A share of 33% was agreed to for apartments outside the S-Bahn circle line.

Steering instruments were already introduced in 2013 to counteract the negative effects of the tight market situation. These include, for instance, the ordinance to cap rent increases for existing rent contracts, the expansion of the termination protection clause to all of Berlin and the extension from seven to ten years, as well as the adoption of the law prohibiting the misappropriation of housing. The law to prohibit the misappropriation of housing was adopted in spring 2014. A conversion protection ordinance is due to be adopted in 2015. In antigentrification areas, any conversion from rental to commonhold apartments will then be subject to approval by the respective district authority. At the same time, a rent control ordinance is also planned for 2015 in as far as legal preconditions exist on a federal level.

The strong rise in demand for housing highlights how important new housing construction is and will continue to be for providing homes for people. It is only when housing supply grows in line with demand that the increase in prices and rents can be effectively counteracted in the long term.

Key topic: new apartments and public housing

Each IBB Housing Market Report contains a current topic that is looked at more closely. Building statistics show that completion figures and building permits have risen significantly in Berlin. But this only covers construction projects that have already been completed and permits that have been issued. In order to gain an insight into what we can expect to see in the short term in newly built apartments, we looked into the latest plans and projects with a completion target up to 2016 and analysed these.

Between 2014 and 2016, around 36,000 new apartments in total are to be built in Berlin. Three quarters of these, around 27,000 apartments, are part of projects by project developers. Stateowned companies plan to build 8,500 apartments by 2016. Housing associations are planning to build 1,400 apartments by the end of 2015. The construction of another 2,500 co-operative apartments is being prepared for between 2016 and 2020. The majority of the planned apartments are to be built in Berlin's city centre or in the eastern areas of the city. An analysis of the projects on the basis of the number of apartments planned shows that the majority of projects are smaller projects. 80% of the 488 registered projects are projects with up to 100 residential units. Only three projects involved around 400 to 500 residential units.

New public housing construction

Between 2014 and 2018, the federal state of Berlin will invest a total of EUR 320 million in initially around 1,000 new apartments. The federal state has contributed these funds to the IBB new apartment construction fund which will primarily

be used to support projects within Berlin's inner city (inside Berlin's so-called S-Bahn circle line) or in neighbouring areas with comparatively high asking rent prices. Support will also be available for projects for which co-operation and urban development contracts have been agreed to. The aim is to maintain and promote the social mix in Berlin so that low-income households can continue to live in Berlin's inner city.

The apartments funded will be open to tenants with a certificate of eligibility for public housing valid for Berlin. The starting rent prices which have been initially set for 2014 and 2015 total EUR 6.00 to EUR 7.50 per sqm of living space, averaging at EUR 6.5 per sqm.

At the end of 2014, 46 applications for funding had already been submitted for 1,735 apartments. As part of the 2014 housing construction programme, 1,023 apartments are to be funded. In the case of large projects of 50 residential units or more, the funding share is to total up to a third of the apartments funded. In the case of smaller properties, there are no restrictions where the constructionrelated funding share is concerned. This means that a total of 3,920 apartments are to be built. We can hence expect to see at least 3,000 new apartments built each year, including the funded share of construction. Therefore, there are two freely financed apartments for every one apartment funded in a project.

The first funded apartments are currently under construction. DEGEWO, a public housing association, is currently building 32 funded apartments on Ewaldstraße in Altglienicke.