

2016 IBB Housing Market Report

Summary

Foreword

Housing must be affordable, be it new buildings or existing ones, both in Berlin and elsewhere. Although more and more homes are being built each year, demand continues to exceed supply by a long shot, especially in the lower price segment. New rented and commonhold apartments are only affordable for some people in Berlin. The persistent increase in the city's population is good news, but it does mean an even bigger gap in supply. The rising asking rent prices are just one indication of how tense this market is. It is people with low to medium incomes who are hardest hit by this situation.

That's why Berlin's Senate has taken action. As an immediate measure, the federal state has suspended annual rent increases in social housing. By 2021, the federal state's six housing associations are to increase their stock of homes by 55,000. At least 30,000 of these will be newly built homes. 15,000 of these, i.e. half of them, will be reserved for households that qualify for a housing entitlement certificate (WBS). The other 15,000 homes are to be rented out at a net rent price of EUR 6.50 to EUR 10.0 per square metre. In the medium term (up to 2025), Berlin will increase council housing to as many as 400,000 homes.

A new co-operation agreement with the public housing associations will replace the Housing Alliance that was in effect until the end of 2016. Under this new agreement, the six housing associations undertake not to increase rents under existing agreements by more than 2 percent each year. According to the agreement, only six percent (currently 9 percent) of refurbishment costs can be charged to the annual rent. 60 percent of all new rent agreements are to go to tenants with a housing entitlement certificate. The rent burden for these households is to be kept below 30 percent of their income.

In 2017, the Federal State of Berlin is funding 3,000 new council flats. This figure is to increase gradually in the coming years to 5,000 in order to boost the supply of affordable homes. The federal state budget for 2017 has earmarked EUR 192m for this purpose. This includes around EUR 90m in federal government funds for housing in Berlin. Average net rent without heating costs for new apartments is to total EUR 6.50. In order to promote new buildings, the federal state aims to assign new residential locations as development areas.

The IBB Housing Market Report shows how Berlin's housing market has developed over the past ten years. These figures are a valuable indication of future trends. They highlight the necessity of the measures introduced by Berlin's Senate in order to implement a social housing and rent policy that serves the interest of broader sections of the population.



Katrin Lompscher

Senator for Urban Development
and Housing of the Federal State
of Berlin

Foreword

Population developments continue to shape Berlin's housing market. In just a few years, Berlin has compensated for the population losses of the years after the wall came down, now reaching a population figure last seen more than 70 years ago. People moving to the city are the main driver of this development. For them, Berlin is still a very attractive city. Our job now is to help ensure that it stays that way.

That's because this development is being felt the most on the housing market: Demand is constantly rising and there is almost no talk of vacancies any more. The building and housing sectors are working hard to meet this additional demand. I am pleased to report that the number of building permits issued has risen significantly while the number of new flats completed increases with each year. That being said, however, there is still a discrepancy between new buildings and calculated demand.

Price developments on Berlin's housing market are a strong indication of the shortages that exist. A certain slow-down in asking prices for residential properties in 2016 cannot obscure the fact that prices have increased dramatically in recent years. Asking rent prices also consolidated temporarily in 2015 but are now beginning to rise again. In 2016, asking rent prices averaged at EUR 9 per square metre, marking an increase of close to 70% compared to 2009.

The analyses of this year's focus topic, i.e. „migration“, show a segregation of the population in the inner city. We must be determined in our efforts to counteract this. Otherwise, there is a risk of losing part of the social stability created by the ‚Berlin mix‘ as well as the special character of our city which is what attracts so many people to Berlin.

In light of these framework conditions, enormous effort must be made to prevent any further strain on Berlin's housing market. There is currently no sign of a let-up in rising migration to the city. Even if that were to happen, the city's housing backlog would still pose enormous challenges for some time to come.

I hope that our IBB Housing Market Report 2016 with its information and insight into the challenges and tasks facing Berlin's housing market can be of help to you and I hope you have a thoroughly enjoyable read!

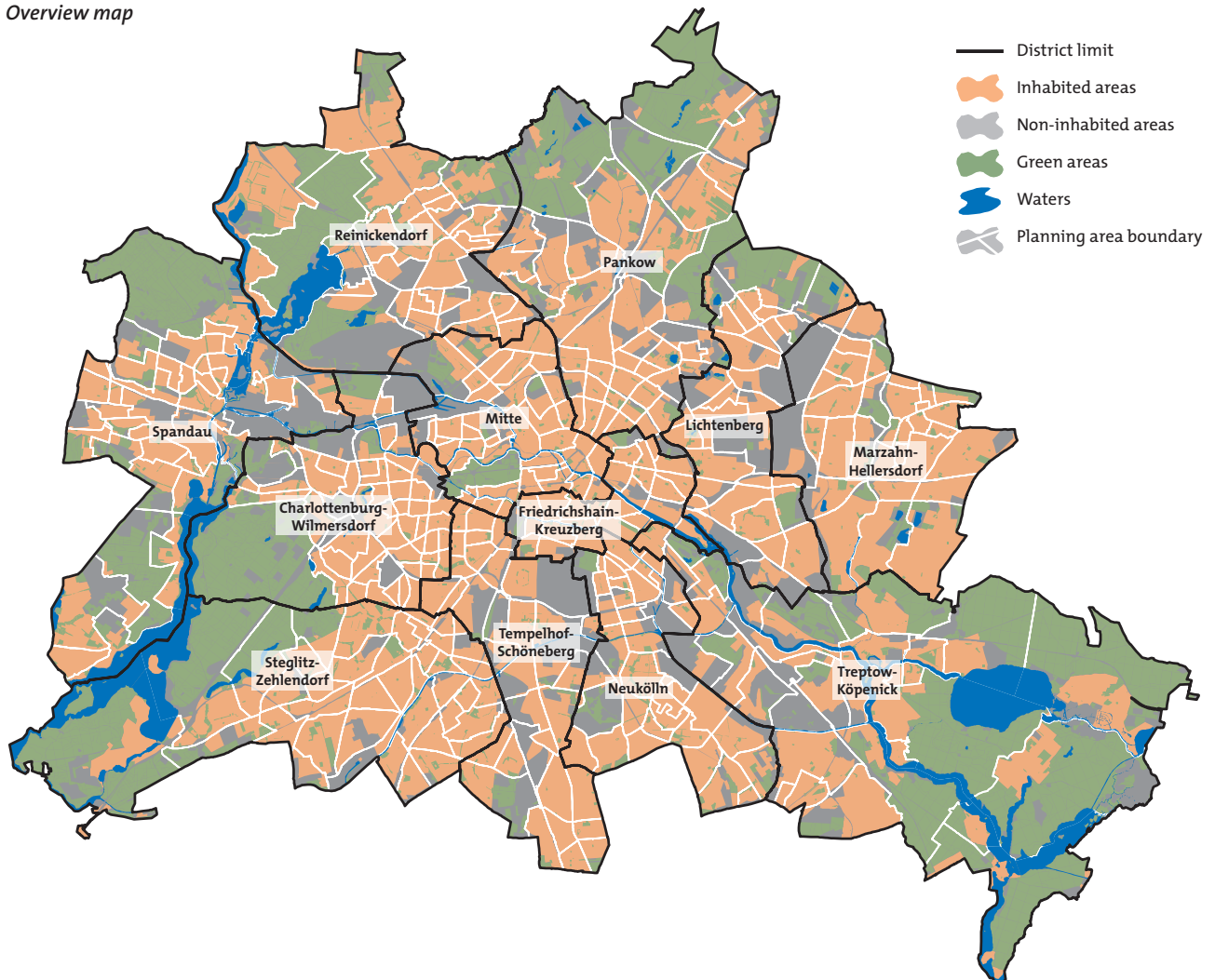


Dr. Jürgen Allerkamp

Chairman of the Board
of Management of
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Berlin at a glance

Overview map



Source: Senatsverwaltung für Stadtentwicklung und Wohnen

Selected data at a glance

Key figures for Berlin	Berlin 2015	Change compared 2014	Trend arrow 2017
Economic factors			
Gross domestic product (GDP) in bn EURO (2010 = 100)	109.1	+3.0 %	
Unemployment rate (related to all members of the civilian working population - in %)	10.7	-0.4 percentage points	
Consumer price index (2010 = 100)	107.7	-0.1 percentage points	
Construction costs per sqm of living space (new building) (EURO)	1,407	+6.8 %	
New residential building price index (2010 = 100)	111.9	+1.6 %	
Housing demand			
Population (at the main place of residence)	3,520,031	+1.4 %	
Number of households	1,998,300	+1.8 %	
Person(s) per household	1.75	-3.3 %	
Number of one-person households (%)	54.5	+0.6 percentage points	
Needy households within the meaning of German Social Security Code II (per 100 households)	15.8	-0.1 percentage points	
Average monthly household income in EURO (median)	1,775	+1.4 %	
Housing supply			
Existing housing	1,902,675	+0.6 %	
- of which commonhold flats	1,608,500	+0.4 %	
- of which council housing (pursuant to housing law)	122,002	-9.9 %	
Completed apartments (total)	10,722	+22.6 %	
- of which new apartment buildings	8,704	+23.1 %	
Building permits (total)	22,365	+16.5 %	
- of which building permits for new buildings	17,814	+10.7 %	
Rents and housing market			
Occupancy density (residents per housing unit)	1.9	+1.1 %	
Living space per residential unit (in sqm)	73.1	+0.1 %	
Living space per resident (in sqm)	38.5	-0.8 %	
Rent index, net rent without heating costs (2010 = 100)	109.1	+1.3 %	
Ancillary rent costs index (2010 = 100)	97.9	-2.3 %	
Asking rent prices (in EURO net, without heating, per sqm of living space) *	9.07	+3.1 %	
Asking purchase prices (commonhold apartments) (EURO per sqm of living space) *	3,410	+3.3 %	

* Review period: 2016, change compared to 2015

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

Economic growth in Berlin once again above the average figure for Germany

Despite international uncertainty regarding the implementation of Brexit, the new direction of US policy and the difficult transformation process in China, the economic situation in Germany has improved.

In this turbulent global climate, the economy in Berlin proved to be very robust, recording growth in 2015 that was once again far above the average recorded for all of Germany. The strongest growth momentum was generated in the building sector and by company-near services. Berlin's unemployment rate in 2016 was much lower than the previous year's figure, falling just below the 10% mark for the first time since German Reunification. On the whole, around 55,000 more people were employed in regular jobs than in the previous year. This increase of 3.5% also means that Berlin is far above the average figure for the country as a whole. Within three years, around 130,000 new jobs have been created in Berlin.

Trend in demand

At the end of 2015, Berlin recorded a population of 3.52 million, the highest level since the end of World War II. Apart from the statistics-based decline in 2011 (due to an adjustment based on the census results), the city has recorded a rise in population for the tenth year in succession. Since 2011, annual population growth has remained stable at a comparatively high level. Since then, the city's population has risen by more than 190,000 - due to natural population developments and, more importantly, due to increases in migration. To put this into perspective, this increase in population alone exceeds by far the total population of Potsdam, the capital of the Federal State of Brandenburg (167,745).

In addition to a low but positive birth rate, these increases in population are largely due to people moving to the city. Contrary to previous years, in 2015, migration from abroad was almost solely responsible for this increase in migration: accounting for around 87% of this type of migration. All in all, this totalled approx. 45,700 people. Furthermore, Berlin only recorded net increases in migration in relation to the old federal states. The greater Berlin area, in particular, benefited from a steep increase in migration out of Germany's capital city. This is now without doubt also partially due to the situation on the housing market in Berlin. In relation to the new federal states, Berlin recorded its first negative migration rate in 2015.

It is primarily young people who are moving to Berlin. People less than 30 years of age account for more than 95% of migration increases. Despite higher market prices for rents and home ownership, the inner city is still the place of choice for new people moving to the city.

The strong population growth in Berlin is affecting all of the city. In 2015, all of the city's districts recorded an increase in population - at times significant. Over the past ten years, the districts of Mitte and Pankow recorded above-average population growth. Based on figures as per the end of 2014, the middle variant of the population forecast by the Senate Department for Urban Development and Housing expects Berlin's population to rise by another 7.5% or around 266,000 by 2030.

The demand end of the housing market is determined by private households. Just like in other major cities, the persistent reduction in the size of households is a central factor here. The majority of households today are already single-person households. Their share rose over the past ten years by around 2 percentage points to 55%. If the number of households with two people is added to this figure, we can see that small households with one or two people account for close to 83% of all households in Berlin.

Demand is also defined by the financial strength of households. This determines the solvency level on the housing market. Since 2006, the average monthly household income in Berlin rose by a good 20%. Households with two or three people accounted for the strongest increase. The weakest growth, on the other hand, was recorded for single-person households, i.e. the largest demand group on the housing market.

For several years now, unemployment has been declining, reaching a level of 9.2% in Berlin in October 2016. Strong differences still remain, however, especially between the eastern and western parts of the city. While below-average unemployment figures are largely found in the city's eastern districts, higher unemployment rates are mostly found in west Berlin.

Trend in supply

Construction in Berlin has become much more dynamic since 2011. In 2015, 10,722 new apartments were built, marking a new record level since 2006. This corresponds to a further increase of 23% compared to the previous year. Just like last year, apartment complexes accounted for the highest growth. This segment accounted for two out of every three apartments completed in 2015. Close to every fifth apartment completed in 2015 was in Pankow (2,001 apartments). The lowest completion rates in 2015 were recorded in the districts of Spandau, Reinickendorf and Neukölln.

The number of building permits provides a good indication of the future trend for new apartments. Since 2010, this figure has risen at a dynamic pace and 76,851 building permits have now been issued. In 2015, 22,365 building permits were issued in Berlin, marking a new record level. This is somewhere in the region of the number of building permits issued in the mid-1990s. In analogy to completions, building permits are also primarily for apartment complexes. In the future, the high number of building permits in Mitte and Treptow-Köpenick, i.e. in each case more than 3,000 permits in 2015, can be expected to result in a particularly high number of new buildings being completed in these districts.

The dynamic trend in the conversion of rented apartments to commonhold apartments continued once again in 2015. Over the course of the year, 17,331 rented apartments were converted. This corresponds to a further increase of more than 50% compared to 2014. This means that in 2015 more rented apartments were converted to commonhold apartments than the number of new apartments additionally built in the same year.

Between 2014 and 2016, the number of council apartments declined by around 20,000 to 115,000 apartments. These apartments, which are subject to rent and usage restrictions, are primarily owned by urban housing associations and private owners.

Market for detached and semi-detached homes

Asking prices for detached and semi-detached homes (including land) rose in 2016. The median of all corresponding offers for new and existing buildings totalled EUR 375,000 in the fourth quarter of 2016. This corresponds to an increase of 7.1% against the fourth quarter of 2015. Over the entire review period since 2009, this figure has risen by 50.6%. That being

said, however, the trend in home purchase prices stagnated over the course of 2016. This marked the end of a longer trend of persistently rising quarterly figures.

Detached and semi-detached homes are purchased and sold primarily in the outer areas of the city. Within the urban rail ring, this segment is almost irrelevant. The highest asking prices with mean values (median) of more than EUR 450,000 are recorded primarily in the upmarket areas of Zehlendorf in the south-west of the city. This comparatively high price level can also be seen in the nearby surrounding areas.

The lowest asking prices for homes are mostly to be found near the city outskirts, primarily in the districts of Treptow-Köpenick, Pankow, Marzahn-Hellersdorf and Spandau. The relatively affordable level is also often reflected in similar mean values for asking prices beyond the city borders.

Market for commonhold apartments

For many years, asking prices for commonhold apartments in Berlin climbed continuously. In mid-2015, asking prices reached an average of EUR 3,663 per square metre, marking the highest median value for asking prices for commonhold apartments on record. Since then, prices have consolidated somewhat, a trend that initially continued in 2016. The third quarter saw the third decline in a quarterly value in succession before the median value rose again in the fourth quarter of 2016 to EUR 3,538 per square metre, once again reaching the level recorded early in 2015. The median value was hence more than twice as high as the figure recorded at the beginning of the review period beginning in early 2009.

It also becomes apparent that the trends in existing and new buildings in this market segment are converging. Recent average asking prices for newly built commonhold apartments (recorded annual average values) totalled EUR 3,808 per square metre. This figure is once again above the asking price for existing commonhold apartments that recently reached an average of EUR 3,197 per square metre. Compared to the previous year, prices for new buildings, however, fell significantly by 12.3%, reaching the same level as in 2013.

The average asking price in the greater Berlin area totalled EUR 2,261 per square metre and was much lower than in Berlin. Brandenburg's capital city of Potsdam recorded the highest average asking prices in the greater Berlin area.

Market for rented apartments

Asking rents in Berlin continue to rise. The average rent (net without heating, median) in Berlin increased in 2016 by 3.1% compared to the previous year, reaching EUR 9.07 per square metre. New apartments (built 2002 or later) and old apartments (built before 1918) show the highest average rents. The geographical distribution shows price ranges where the average values are between EUR 11.50 per square metre in Friedrichshain-Kreuzberg and EUR 6.51 per square metre in Marzahn-Hellersdorf.

More than every fourth asking rent price in 2015 was higher than EUR 11.00 per square metre. Average net rents without heating costs of EUR 11.00 per square metre, and more were largely to be found within the urban rail ring as well in up-market residential areas of Steglitz-Zehlendorf. In Berlin's inner city, asking rent prices of less than EUR 10.00 per square metre were difficult to find. In 2015, only around 18% of all asking rents were below EUR 7.00 per square metre. These rents are largely to be found on the outskirts of Berlin.

Key topic: Migration

In the IBB Housing Market Report 2016, the spotlight is on analysing migration. That's because Berlin has been growing for many years, especially due to increases in migration, and now primarily due to people moving here from abroad. It is worth noting in this context that the inner city is the place of choice for those moving here, despite rising prices for renting or buying a home. Most of those who move to Berlin have their sights set on the areas in the north of the city (Wedding, Mitte, Pankow) and on the (also) internationally renowned districts of 'Kreuzkölln', i.e. the hip inner-city neighbourhoods in the southern part of Kreuzberg and the northern part of Neukölln, in Friedrichshain and in the neighbouring planning zones of Lichtenberg.

Since 2006, home moving frequency within Berlin (inner-city moving) has declined by more than a fifth, reaching 7.7% in 2015. By comparison, in 1997/1998, home moving frequency was still as high as 13%. This could be seen as a clear sign of growing tension on the housing market.

When it comes to inner-city moving, the inner city almost always records losses while the outer city records corresponding gains. Migration to the inner city and high prices are probably the reason why people moving home in the city primarily choose the outer city districts. These latter areas, for their part, are seeing comparatively high rates of people moving to the greater Berlin area, especially to housing estates and apartment complexes built after the fall of the Wall.