

2007 IBB Housing Market Report

Summary

Foreword

Berlin's housing market remains on the move. The current trend, which is stronger than in previous years, shows the breakdown of the traditional development pattern along the former halves of the city: migration and vacancies are no longer a problem specific to the districts in the eastern part of the city with its high share of prefab buildings. Vacancies are now also just as present in old buildings at locations near to the inner city. The outer districts with a high share of green areas and smaller developments show a trend towards positive migration figures. Parallel to this, first signals have been triggered by various, at least purely quantitative indicators – and confirm the trend of the current rent index: rents are on the up, and small apartments, in particular, are experiencing the sharpest rise.

However, compared to elsewhere, rents in Berlin are not rising steeply. The reason for the growing rent burden can be primarily explained by household incomes which, in Berlin, have stagnated for a number of years. Expectations among market experts confirm a growing lack of rented housing, especially at the lower end of the rent scale. A glance at the relationship between asking rents and buying power confirms that in some downtown locations there is a strong discrepancy between the development of income and rent levels.

Since the number of new buildings has remained constantly low in recent years, the only way to adapt the housing on offer is to develop existing stocks further. A focal chapter of this year's Housing Market Report is dedicated to this topic. The apparent tension in certain market segments shows how important smaller housing market monitoring

is for market transparency, especially in a phase of growing differentiation. With the 2007 Housing Market Report, Investitionsbank Berlin intends to highlight this process and to make this transparent for you, the market players. With this in mind, I would like to wish you every success in your endeavours.



A handwritten signature in blue ink, consisting of a stylized 'd.' followed by the name 'Puchta' in a cursive script.

Prof. Dr. Dieter Puchta

Chairman of the Board of Investitionsbank Berlin

Key figures	Berlin 2006	Change compared to 2005	Trend 2007
Economic factors			
Gross Domestic Product (GDP) (EUR bn)	80.6	+2.2 %	→
Unemployment rate (%)	17.5	-1.5 percentage points	→
Cost of living price index (2000 = 100)	108.8	+1.8	→
New building costs per m ² of living space (EUR)	1,111	+4 %	→
Housing supply			
Existing housing	1,884,276	+0.13 %	→
including council housing (pursuant to housing law)	215,643	-3.7 %	→
including housing with an occupancy commitment (Occupancy Commitment Act)	125,958	-1.3 %	→
Buildings completed (residential units)	3,126	-11.6 %	→
Building permits (residential units)	5,019	+55.7 %	→
Construction intensity (ratio between number of completed units and every 1,000 existing residential units)	1.66	-0.22	→
Housing demand			
Population (at the main place of residence)	3,404,037	+0.3 %	→
Number of households	1,930,300	+1.7 %	→
Resident(s) per household	1.76	-0,03	→
Number of one-person households (%)	52.7	+2 percentage points	→
Needy households pursuant to German Social Security Code II for each 100 households	18.0	+1.4	→
Average monthly household income (arithmetic mean) in EUR	1,939	+1.6 %	→
Mean monthly household income (median)	1,475	-1.7 %	→
Rents and housing market			
Occupancy density (residents per housing unit)	1.8	0.0	→
Housing supply (housing units for each 100 households)*	97.6	-2.5	→
Living space per residential unit (in m ²)	70.1	+0.1 %	→
Living space per resident (in m ²)	38.8	0.0	→
Longer-term vacancies (share in overall stock in %)	5.71	+0.05 percentage points	→
Fluctuation rate (moves per 100 households)	9.1	0.0	→
Inner-city moving (number of persons moving per 100 residents)	10.0	-0.8	→
Rent index, total rent (2000 = 100)	110.1	+1.8	→
Rent index, net rent without heating costs (2000 = 100)	109.4	+1.7	→
Ancillary rent costs index (2000 = 100)	114.7	+2.1	→

* Without homes for the elderly

A more comprehensive table can be downloaded from the following Internet address: www.ibb.de

General situation and important trends

Economic conditions continue to be positive

The positive economic conditions in Berlin have stabilised. Over the past two years, Berlin's economy has grown significantly. This was felt on the labour market where the number of jobs has been rising since 2004. Unemployment figures are declining at a rate that is at least higher than the national average. Prospects for Berlin's building sector have improved further and the real-estate markets are seeing a general economic upswing with a general rise in prices.

Slight increase in the number of residents and growing share of older people

For the first time in ten years, more than 3.4 million people were resident in Berlin in 2006 - this is first and foremost due to an increase in the number of people coming to the city from abroad and the new federal states. Migration to areas outside the city also stabilised at a level that is usual for big cities. At the same time, there was only a slightly negative development in the number of births and deaths (natural population development). In the long run, however, the number of older people living in Berlin is likely to rise perceptibly. The share of people over the age of 55 has been rising for years and now accounts for around 18 % of the overall population.

As the number of households rises, the average household size declines

The number of households - a major influence factor for demand on the housing market - has developed comparatively dynamically. Within one year, this figure rose in strong leaps. This means that the population figure is currently as high as in 1997 but distributed over 7 % more households. The average household size is sinking constantly and this is shaping future demand for housing. This is particularly due to the growing number of single households which, in Berlin, has meanwhile reached a level that is higher than in the majority of comparable large cities.

Despite a favourable wind on the labour market, hardly any increase in incomes

The most recent developments on the labour market have had no impact on income up to now. When compared with other big cities, it becomes clear that Berlin's households have an income that is far below average. There is also a considerable discrepancy between the outer districts with their strong buying power and the inner city and its weak buying power. A comparison of per-capita incomes shows that residents in Berlin in 2006 had only around 84 % of the average German income at their disposal.

Berlin, a tenant city with changed owner structures

Compared to other major cities, Berlin is and remains a city of tenants. Rented accommodation accounts for 87 % of housing, whilst the share of privately owned apartments is far below the average number in other major cities.

The impact of the many purchases made by institutional investors in recent years has not yet been felt. However, a positive trend in favour of private ownership is foreseeable. That being said, demand on the housing market will remain marked by continuously growing demand for affordable rented accommodation.

New buildings at a low level, but with a slight upward trend and a positive investment climate

Private owners account for a large part of building activities, which nevertheless are at a low level, with mostly detached and semi-detached homes going up in the outer districts. Recently, investors and residential building companies have been very hesitant although current approval figures for multi-storey residential buildings have risen steeply. Even if this is a long way from the level reached in the mid-1980s, a slight recovery can still be expected for this segment. Market analysts expect investment conditions to improve further across all segments. Although negative estimates have been made for certain categories, the outlook for the next three years is optimistic. The climate for investment is estimated to be best for measures in existing buildings, followed by the acquisition of existing housing. Prospects for building privately owned apartments also seem to be attractive once again in certain districts.

Inner city locations faced with growing tension, at the same time highest vacancy levels

Inner-city migration and fluctuation are confirmation of less dynamic mobility - an indication for growing tension on the market. At the same time, it can be seen that the specific developments in the individual districts differ considerably. Indicators suggest tension in certain sub-markets, especially in areas near to the city centre. This can lead to continued displacement of long-standing resident structures as a result of an increase in the value of entire housing stocks. Parallel to this, multiple-year migration patterns are changing: Migration is no longer a matter which exclusively affects Berlin's eastern districts, former western districts, such as Tempelhof-Schöneberg and Neukölln, have also recently been affected by this. On the other hand, the outer districts of Pankow, Steglitz-Zehlendorf and Treptow-Köpenick continue to benefit from this migration. Vacancies are apparently impossible to market or do not meet current expectations and financial possibilities at the demand end. Vacancies are mostly to be found in old buildings in districts near the city centre.

Rent burden increases as incomes stagnate and housing costs rise

The current rent index reports an average increase of almost 6 % in rents compared to 2004. Rent prices have risen steeply especially in the case of small apartments - this means that living in Berlin, a „city of single households“, is becoming more expensive particularly for the biggest demand group. Rents have increased, first and foremost, in old buildings, and the only decline in rent is to be found in the high-priced new buildings erected over the past 20 years. Up to now, the steep increase in ancillary costs has only had a statistically moderate impact on overall rents, and the development of net rent (without heating expenses) is roughly on par with the overall rise in prices in Germany. It is stagnating incomes which are primarily affecting the growing rent burden among households. This is restricting the financial leeway of many tenants even further, leaving little or no room for rent increases - unless, for instance, energy-related refurbishment could lessen the burden somewhat at the ancillary-costs end of the scale.

Need to act foreseeable in the case of low-cost rented housing

The discontinuation of subsidies for social housing and the increase in upgrading and refurbishing existing housing are leading to a decline in offers in the lower price segments. In view of these developments, it is hardly surprising that the low incomes at the demand end have been identified in the IBB housing market barometer for several years as the biggest problem facing Berlin's housing market. Berlin's housing market currently offers sufficient housing, also for low income households. The housing on offer, however, is not equally distributed in the city and often focuses on housing locations and quality that are not generally at the centre of popular demand. This is why the question now is how housing supply can be secured in future for households with low incomes or with other difficulties accessing the market. This also means specifically monitoring the development of average incomes, households with below-average incomes and the housing available on the market for this income group.