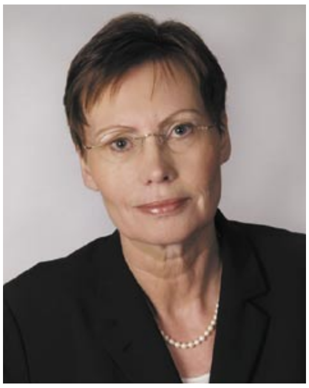
Berlin
Senatsverwaltung
für Stadtentwicklung

THE BERLIN HOUSING MARKET

SUMMARY

REPORT 2005

Investitionsbank
Berlin
Working for Berlin.



Berlin is now in the favourable position of having a housing market that offers a sufficient quantity of improved quality homes. The consequence of this is that homes can be found to meet almost all individual needs - even if this does in fact differ regionally.

In the past ten years, around 1.2 million people moved to Berlin, whilst around the same number of people turned their backs on the city. During this time, more than four million households moved home within the city. In addition to this, the demographic change also affected Berlin's population structure. All this has left its mark on the housing market.

These very dynamic changes had different impacts on Berlin's city districts. In the large housing estates, such as Marzahn-Hellersdorf, the population and hence the number of households looking for housing has declined significantly in recent years. The resultant vacancies made measures such as demolition and fewer apartments necessary from a housing perspective.

On the other hand, we were pleased to observe that more people are once again moving to areas in the inner city. These are not only young and creative individuals in small households, but also families. On the whole, it can be seen that the process of ongoing household reduction, i.e. singularisation, is focused especially in the inner-city and near-city districts. For instance, in the Friedrichshain-Kreuzberg district alone, the number of households rose by more than 15% from 2000 to 2004. At the same time, the number of vacant apartments also rose considerably in these areas. All in all, the change in housing requirements and needs was much faster than the adjustments in existing housing or newly built homes.

This is why a broad offer will have to develop here in future. This offer will have to range from the possibility to buy homes to the supply of barrier-free living, serviced apartments, residential units for the old and families and more one-person apartments right though to offers for low-income households living in the inner city.

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Selected Data on Berlin's Housing Market I

	Unit	2002	2003	2004	Development*	Forecast / Trend 2005
Economic boundary data						
Gross Domestic Product (GDP) Berlin	bn €	77.1	77.3	77.9	1.0	78.5
Number of unemployed (at the end of each year)	in thousands	296.5	294.9	286.8	−3.3	297.8
Unemployment rate	%	17.5	17.4	17.1	−2.3	17.8
Cost of living price index in Berlin	2000 = 100	102.5	102.8	105.0	2.4	107.0
Boundary conditions for housing supply						
Price index for new residential buildings	2000 = 100	97.3	96.9	97.8	0.5	98.5
Cost per sqm. of living space	€	1,231	1,222	1,172	−4.8	→
Cost per sqm. of living space - nationwide average	€	1,203	1,193	1,242	3.2	→
Total volume of building construction	bn €	9.6	9.3	8.9	−7.3	↘
including building volume in public building construction and civil engineering (including federal road construction)	bn €	0.5	0.4	0.4	−20.0	→
Turnover the core construction industry by companies with a place of business in Berlin (total)	bn €	2.5	2.5	2.2	−12.0	2.0
Number employed in the core construction industry by companies with a place of business in Berlin (20 employees and more)	No. of People	25,092	22,377	20,709	−17.5	19,000
Unemployed construction workers	No. of People	30,431	31,091	29,295	−3.7	28,700
Sale of rented apartment buildings - west	No.	796	664	786	−1.3	↗
Sale of rented apartment buildings - east	No.	596	510	566	−5.0	↗
Sale of single-family homes - west	No.	1,571	1,747	1,638	4.3	↗
Sale of single-family homes - east	No.	1,049	1,093	1,072	2.2	↗
Average purchase price for rented apartment buildings - west	Thousand €	1,155	1,232	1,307	13.2	↗
Average purchase price for rented apartment buildings - east	Thousand €	1,169	819	916	−21.6	↗
Average price for building property, floor space index up to 0.6 - very good residential area: Berlin West[1]	€ per sqm.	930	880	820	−11.8	↘
Average price for building property, floor space index up to 0.6 - good to medium residential area: Berlin West	€ per sqm.	275	260	240	−12.7	↘
Average price for building property, floor space index up to 0.6 - good residential area: Berlin East	€ per sqm.	230	220	230	0.0	→
Average mortgage interest (fixed for 10 years) in December	%	5.52	5.14	4.63	−16.1	↘
Exsisting housing and construction activity						
Exsisting housing	RU	1,874,313	1,876,049	1,878,538	0.2	1,881,000
including council housing (1st subsidy level)	RU	252,934	238,272	232,449	−8.1	224,000
including residental units subsidised in the 2nd and 3rd subsidy level	RU	58,500	58,000	54,600	−6.7	54,000
Buildings completed	RU	5,182	3,418	3,751	−27.6	3,500
Construction permits	RU	3,527	3,134	3,686	13.2	3,200
Construction carried forward (approved housing, but not yet completed)	RU	13,379	11,193	9,803	−26.7	9,200
Residential units crossed off (in as far as officially recorded)	RU	805	1,849	1,325	64.6	1,000
Construction intensity (ratio between the number of residential units completed for every 1,000 residential units already in place)		2.77	1.82	2.00	−27.8	1.6
Certificate of completeness	No.	8,641	not continued		−100.0	no data
Transfer of ownership in the land register	No.	14,071	7,021	6,718	−52.3	6,500

Selected Data on Berlin's Housing Market II

	Unit	2002	2003	2004	Development*	Forecast / Trend 2005
Housing supply and demand / population structure data						
Population (at the main place of residence)	No. of people	3,392,425	3,388,477	3,387,828	–0.1	3,393,000
of which under the age of 6	No. of people	169,289	168,323	168,269	–0.6	168,000
6 to 12 years of age	No. of people	158,765	156,922	155,967	–1.8	155,000
12 to 25 years of age	No. of people	510,959	504,436	494,171	–3.3	486,000
25 to 45 years of age	No. of people	1,120,990	1,113,280	1,104,908	–1.4	1,100,000
45 to 65 years of age	No. of people	908,195	904,157	902,613	–0.6	900,000
65 and older	No. of people	524,227	541,359	561,900	7.2	584,000
Number of households (HH)	No. of HHs	1,858,700	1,884,900	1,894,000	1.9	1,904,700
of which 1-person HH	No. of HHs	910,600	944,800	951,300	4.5	962,000
of which 2-person HH	No. of HHs	578,000	575,900	585,500	1.3	587,700
of which 3-person HH	No. of HHs	201,200	202,400	201,600	0.2	192,900
HHs with more than 3 people	No. of HHs	168,900	161,800	155,500	–7.9	147,500
Average household size	Pers. per HH	1.83	1.81	1.80	–1.4	1.79
Household net income[2]	€	1,901	1,865	1,865	–1.9	→
Recipients of assistance for living costs / social welfare	No. of people	258,458	266,090	275,691	6.7	10,600
Rent allowance recipients (households)	No. of HHs	243,535	257,344	276,318	13.5	40,000
Rent burden[3] on rent allowance recipients						
before rent allowance	%	43.2	44.0	45.4	5.1	→
after rent allowance	%	29.5	29.9	31.0	5.1	→
Homeless in Berlin (as per 31st December in each case)	No. of people	6,647	6,545	6,973	4.9	→
Supply rate for holders of permits for susidised housing (WBS)	%	27.4	25.1	21.1	–23.0	↘
Rents and housing market situation						
Occupant density (occupants per residential unit)	Pers. per RU	1.81	1.81	1.80	–0.6	1.80
Supply of housing (residental units for each 100 households	RU per 100 HHs	100.8	99.5	99.2	–1.6	99.0
Living space per residental unit	m²	69.6	69.8	69.9	0.4	70.0
Living space per resident	m²	38.5	38.6	38.8	0.8	39.0
Fluctuation rate (total moving rate)	Moves per 100 HHs	9.4	9.4	9.5	1.1	9.5
Inner-city moving rate (moving rate, inner city)	Pers. per 100 residents	11.2	11.1	11.3	0.9	11.2
Rent index, total rent	2000 = 100	102.0	103.8	106.6	4.5	↗
Rent index, net rent without heating	2000 = 100	102.4	104.5	106.3	3.8	↗
Average rent from Internet offers[4], first-time and re-renting, net without heating, quarterly ø	€ per sqm.	5.96	5.86	5.74	–3.7	5.63
First-time and re-renting rents according RDM (Federal Organisation of Estate Agents), net without heating	€ per sqm.	5.80	5.88	5.92	2.1	↗
Weighted rent index values - all residential units, net without heating[5]	€ per sqm.	4.24	no data	4.49	5.9	no data
Rents in council housing (1st subsidy level), net without heating	€ per sqm.	4.19	4.25	4.48	6.9	4.75
Rents of rent allowance recipients, gross without heating	€ per sqm.	5.73	5.79	5.88	2.6	↗
Ancillary rent costs index	2000 = 100	99.1	99.1	108.2	9.2	↗

*2002 - 2004 in %

1) Published in each case on 1 January of the following year

2) With the coming into force of "Hartz IV" benefits and other new legal provisions in social welfare law on 1 January 2005, the number of households receiving rent allowance and the number of social welfare recipients have been dramatically reduced.

3) Share of rent costs in adjusted total income

4) Survey periods: 2002 – 2004: quarters I - IV in each case; 2005: quarters I - III

5) Survey cut-off date: 2002: 1 March 2002; 2004: 1 Oct. 2004

General situation and a brief outline of important trends

Berlin's economic situation

In 2005, Berlin's economy saw a continuation of the previous year's relatively stable development. The capital city's gross domestic product fell slightly by 0.1 percent. It was thanks to the positive results recorded in the services sector that this decline was only moderate. Berlin's industrial sector benefited strongly from foreign demand in particular. Export business, which accounts for around one quarter of Berlin's industrial turnover, developed much better than domestic business. Considerable growth was recorded in the chemicals industry and in the automotive industry.

2005 also saw a continuation of the positive trend with business start-ups. All in all, the number of start-ups increased by around 11,000; this figure reflects the balance after subtraction of companies that went out of business. This was the second-highest value recorded since 1993. The majority of new companies were set up in the field of "Services for companies".

The situation on the labour market continues to be unsatisfactory. A total of 1,538,500 (2004: 1,537,800) people are employed. Over the course of the year, the number of people registered as unemployed averaged 319,177 (2004: 298,000). Once again, employment figures declined particularly in the industrial sector and in the construction industry.

Key early indicators and survey results indicate that the economy will pick up over the course of 2006. Optimistic forecasts in the services, tourism, retail and industrial sectors are responsible for this improvement.

Slight recovery in residential building

The number of residential units built in 2004 rose by 10% against the previous year's figure to 3,751 residential units. Almost 2/3 of all residential units completed were detached or semi-detached homes whilst the number of residential units built in apartment buildings (in particular, rented apartments) continued to decline.

The figures for the period January-November 2005 once again show a strong downward trend (-16.0%) compared to the same period for the previous year. Taking 2005 as a whole, construction is likely to be somewhere in the region recorded in 2003.

Vacancies continue to increase

As of the cut-off date on 1 July 2005, vacancies throughout Berlin were in the order of around 152,000 residential units. Now totalling 8.0%, this vacancy rate marks a slight increase once again compared to the 7.7% recorded on 1 July 2004 which at that time represented a slight decline compared to 8.0% previously recorded on 1 September 2003. The highest vacancy rates were 11.6% in Berlin's Mitte district and 10.2% in the Marzahn-Hellersdorf district.

Critical vacancies from a residential market point of view (vacancy > 6 months) totalled around 105,000 residential units throughout Berlin as per 1 July 2005. The vacancy rate totals 5.6% and is up slightly compared to the level recorded on 1 July 2004. Once again, the highest vacancy rates were found in the Mitte district, 8.4%, and in Marzahn-Hellersdorf, 7.8%.

The key data on vacancies for the end of 2005 confirm a further increase in vacancies. Cut-off date vacancies: 8.3%, vacancies > 6 months: 5.8%.

Berlin's population remains stable

With a decline of 649, Berlin's population of 3,387,828 as of the end of 2004 remained largely unchanged compared to the previous year, however, the age structure has shifted further towards the older population. Whilst the share of over 65s increased by 3.8%, all other age groups saw a decline and this was particularly strong, -2%, in the age group of 12-25 years old.

Number of households rises

In 2004, Berlin had 62,100 households more than in 1995. One main reason for this rise is the strong increase in one and two-person households which rose by 137,300. Their share among all households now totals 81%. This so-called singularisation process is particularly strong in the eastern part of Berlin. The share of one-person households, which still totalled almost 41% in 1995, rose to more than 49% by the end of 2004.

Income situation

The average household income among Berlin's households did not increase further in 2004 compared to the previous year. Compared to the national average, Berlin's income level reached merely 87%. The difference in income compared to other major German cities is between EUR 300 and EUR 500 for monthly household income. Within the scope of a recent expert survey, low income among tenants was an aspect most frequently referred to when the problems of Berlin's rented housing market were to be stated. This is also related to the statement that investors and landlords sometimes fail to achieve the rents which they consider to be necessary and which cover costs.

Share of benefit payment recipients rising

In the lower income sector, 2004 saw the number of social-welfare recipients rise again to 275,691. Their share in the population rose from 7.9% in 2003 to 8.1% in 2004. At the same time, the number of households receiving rent allowance rose against the previous year by 8.4% to around 276,300. This corresponds to a share of 14.6% of all private households.

With the introduction of basic unemployment benefits on 1 January 2005, the number of social welfare recipients declined by the end of 2005 to around 10,600 and the number of households receiving rent allowance fell to around 40,000. At the same time, the number of recipients of basic unemployment benefits rose from 425,200 to 544,772 or 237,399 to 318, 612 recipient households, respectively.

Situation on Berlin's housing market

Berlin's housing market continues to become more diversified, both in individual market segments and regionally, depending on the location of the residential unit in the city district, the cost-to-benefit ratio, interior features and size of the residential unit, the surrounding area as well as the infrastructure in place. A rough distinction can be made between the less dynamic changes taking place in Berlin's outer districts and the dynamic changes in the inner-city and near-city areas where sometimes contradicting developments in income, households and household structures, vacancies and rents indicate a growing divergence in supply and demand structures.

An analysis of Internet supply and demand also shows that the disparity between supply and demand is particularly expressed in price levels. Whilst the ratio between supply and demand in the middle price segment (EUR 4 to less than EUR 6 per sqm. without heating costs) totals 2:1, and hence represents a relaxed situation in this segment, the situation is quite the opposite in the lower price segment (below EUR 4 per sqm. without heating costs). In this segment, there are two residential units "wanted" for each one offered.

Berlin compared to other major German cities

A comparison of Berlin's housing market with the situation in other major German cities shows that in contrast to other economically prospering areas, such as Munich, Frankfurt/M., Stuttgart or Hamburg where the residential market is much more tense, Berlin has an attractive advantage, thanks to relatively favourable conditions on the supply side, such as rent levels and excess supply, especially for households with a good income moving to Berlin, and this in turn is giving a perceivable boost to the number of new companies moving to Berlin.

However, for the majority of people living in Berlin, rents are in fact comparable with those in other metropolitan areas since lower rents are combined with less buying power - particularly due to high unemployment. Compared to Munich and Cologne, Berlin has a slight, relative price advantage in terms of the average rent burden. Comparable values were found for Hamburg, Frankfurt/M. or Stuttgart.

A further diversification of the market expected

The experts surveyed consider the current market situation to be balanced whilst the survey in 2003 still showed a relaxed situation for all market segments. The experts polled expect the market to become more tense, however, with major differences in individual market segments and regionally. A significant majority of more than 75% of those polled forecast on the whole a medium to strong increase in demand for the lower rent price segment. And even 40% of those polled expect an increase for the middle rent price segment

The experts believe that there will be specific demand for barrier-free residential units and serviced apartments, as well as for one-person apartments in the inner city and near-city districts, particular in the middle and lower price groups.

This means that the expert estimates for market developments over the next three years are in line with the forecast data calculated, so that in the medium to long term it will become increasingly difficult, especially for low-income households, to find housing in the lower price groups.