

IBB Housing Market Report 2006

Summary

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Foreword

A wind of change has recently swept through Berlin's real-estate market and hence the housing market, too. The housing situation in Berlin must still be referred to as being good. The sub-markets, however, are developing at very different levels. This is why active market monitoring is so important, not just on an overall urban level. In this housing market report, Investitionsbank Berlin (IBB) hence focuses on sub-level monitoring on the level of districts and – with selected analyses – for the first time ever below this. In this way, a higher degree of market transparency can be achieved.

One result of the analysis is that ancillary costs are a heavier burden on tenants – and hence on the market as a whole – than the slightly increasing net rents without heating costs. Rising housing costs along with a trend towards lower incomes among tenants often lead to lower economic efficiency of rented properties. The consequence is that the required modernisation is often not carried out and this results in a maintenance backlog. However, the experts polled every year for the housing market barometer are of the opinion that the willingness to invest in existing buildings is increasing again in all districts.

For many years now, the number of new buildings has stagnated at a low level in Berlin. At the same time, it must be noted that demand for new buildings is foreseeable in the long term. New approaches for innovative forms of building must be developed which are both cost-favourable and designed to meet demand.

This is all the more important since demand will change in the future – especially in light of demographic developments in the population. This was the reason why the special "Housing in old age" topic was added to the 2006 Housing Market Report. Specific developments are shown here and the need for action is derived from this. Finally, the market capability of the housing market in each specific case will be decided by the question as to whether the offers made meet the requirements of a housing demand that is changing.



A handwritten signature in blue ink, appearing to read "d. Puchta".

Prof. Dr. Dieter Puchta

Chairman of the Board of Investitionsbank Berlin

Key figures	Berlin 2005	Change compared to 2004	Trend 2006
Economic factors			
Gross Domestic Product (GDP) (EUR bn)	78.8	+0.1 %	→
Unemployment rate (%)	19.0	+1.4 percentage points	→
Cost of living price index (2000 = 100)	107	+2	→
New building costs per m ² of living space (EUR)	1,068	-8.9 %	→
Housing supply			
Existing housing	1,881,837	+0.18 %	→
including council housing (pursuant to housing law)	223,987	-3.6 %	→
Buildings completed (residential units)	3,536	-5.7 %	→
Building permits (residential units)	3,224	-12.5 %	→
Construction intensity (ratio between number of completed units and every 1,000 residential units already existing)	1.88	-0.12	→
Housing demand			
Population (at the main place of residence)	3,395,189	+0.2 %	→
Number of households	1,893,988	+0.2 %	→
Resident(s) per household	1.79	-0.01	→
Number of one-person households (%)	50.7	+0.5 percentage points	→
Needy households pursuant to German Social Security Code II for each 100 households	16.6	-	→
Monthly household income in EUR	1,500	+1.7 %	→
Rents and housing market			
Residents per housing unit	1.8	0.0	→
Housing supply (housing units for each 100 households - without households in homes for the elderly, etc.)	100.1	-0.1	→
Living space per residential unit (in m ²)	70.0	+0.1 %	→
Living space per resident (in m ²)	38.8	0.0	→
Longer-term vacancies (share in overall stock in %)	5.76	+0.21 percentage points	→
Fluctuation rate (moves per 100 households)	9.1	-0.4	→
Inner-city moving (number of persons moving per 100 residents)	10.8	-0.5	→
Rent index, total rent (2000 = 100)	108.3	+1.7	→
Rent index, net rent without heating costs (2000 = 100)	107.7	+1.4	→
Rents in council housing (1st subsidy level)	4.75	+6.0 %	→
Ancillary rent costs index (2000 = 100)	112.6	+4.4	→

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

1. General situation and important trends

Economic environment sets a positive focus

After a longer period of weak economic development, the situation in Berlin is brightening up: For the first time in years, Berlin's economic performance grew in 2006 to a significant degree. This upturn was also felt on Berlin's real-estate market which clearly picked up in 2005 and 2006. Sales figures - at least in multi-storey residential construction - and prices increased significantly. Up to now, Berlin's building sector has remained unaffected by the economic recovery. The downward trend here continued once again in 2005 although the outlook is currently somewhat positive due to higher orders on hand.

Slight increase in residents and growing share of people over the age of 65

The influx of people from abroad and from the new Federal Laender has generated a positive impetus for the population. Migration to areas outside the city also stabilised at a level that is normal for big cities. Although the natural population development has been negative for some time now, this negative balance has been almost continuously reduced over the past ten years. Whilst the overall population changed only slightly in recent years, growing differences can be found in the development of the different age groups: 65 to 80 years olds are the only group whose share in the overall population has grown significantly. The strongest declines were found in the below 20s group (-15.4 % compared to 1996).

Income development stagnates whilst the labour market situation looks rosier

Even though the labour market and buying power show a positive trend, the level in Berlin both in terms of employment and with regard to income lags far behind the values of other big cities and the German average. It is hence not surprising that the housing market experts polled regard low incomes among tenants to be the biggest problem facing Berlin's residential market. The labour market also recovered significantly recently: Even if the unemployment rate continues to be higher than the German average, the decline in unemployment in 2006 was much stronger than the German trend.

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

The increase in the number of households slowed down slightly following the strong leaps in the years from 1998 to 2003. The average household size fell to just under 1.8 persons per household. The trend towards smaller and smaller households is confirmation of the growing share of one-person households, accounting for 51 % in 2005. 962,800 Berlin households have one person; compared to 1998, this corresponds to an increase of more than 16 %. If two-person households are added to this, then around 81 % of Berlin's households were "small" households in 2005.

Changed owner structure on the housing market and a decline in council housing stocks

In contrast to other big German cities, Berlin is a city of tenants. The share of rented housing in overall housing in Berlin currently totals 87 %.

The owner structure has changed dramatically in recent years due to the sale of bigger housing stocks by urban corporations. In the period from 2002 to 2005 alone, the share of urban rented housing in overall housing fell from 22 % to 16 %. As a consequence of expiring rent-price caps, the share of fixed-rent council housing fell by the end of 2005 to around 12 %, the share of use-restricted housing in the east part of the city is currently around 7 %. Over the next ten years, the total number of restricted-use apartments will fall by another third.

A positive climate for investing in existing buildings whilst housing construction stagnates

The overall housing stock in Berlin has not increased significantly since 2000 and totalled 1.88 million apartments by the end of 2005. The climate for investing in projects with existing buildings and the acquisition of existing housing is much more positive than in the case of new buildings. On the basis of the building permits currently granted, housing can be expected to grow in the medium term by around 3,000 apartments annually although one and two family homes currently account for the greatest share, i. e. over 60 %. Single-family homes continue to be the most popular form of building and - despite the overall situation - can be marketed comparatively well. The new construction of privately owned apartments, on the other hand, can as a rule only compete with the favourable price level for existing buildings if special locations or features are implemented.

Secured housing supply, but vacancies continue

Purely in terms of quantity, Berlin's housing supply is currently a far cry from a critical supply situation. However, this could change in view of growing household numbers: The continued development dynamism of recent years results in a forecast of concrete demand for housing for 1,970,00 households in 2015. Taking current new construction into consideration along with the related forecast for new buildings, the housing stock is likely to increase only slightly to 1,899,000 apartments. The purely calculated demand for additional housing must be regarded at least as an indication of a certain scarcity. It is unclear whether additional demand can be covered by the vacancies that continue to exist. Despite dismantling measures since 2003, long-term vacancies are on the increase, largely in the eastern districts of Berlin. This problem indicator shows that certain types of housing and locations are not in demand and would only be able to take the pressure off the housing market to a certain extent.

The market location on the housing market is becoming increasingly differentiated

The different trends among residents moving into and out of individual districts underpins the increasingly heterogeneous market development: Whilst districts with a high share of prefabricated buildings are experiencing the greatest desire to move elsewhere, districts such as Pankow and Treptow-Köpenick have seen a strong influx of new residents. The housing market experts polled also expect that the market conditions will become even more differentiated. Whilst they currently see a balanced housing market in Berlin, it is expected that the market situation will become more tense when compared over several years. This will become particularly noticeable in the case of rented apartments in the lower price segment.

Rent costs without heating increase slightly, but ancillary costs rise sharply

On average, rent costs without heating under existing rent agreements have risen by 1.5 % annually since 2000. In recent years, any significant increases in rent took place at best in the case of old buildings. Across all segments, net rents without heating costs can be expected to stagnate whilst slight increases are considered to be possible. On the other hand, the sharp increase in ancillary costs will be of greater consequence than the slight increase in net rents without heating costs. On the whole, housing costs have risen in recent years much higher than net incomes. The result is a growing housing cost burden for households with an average value of 22 % calculated for 2004. The IBB's housing barometer also shows that in addition to low incomes, rising ancillary costs are the greatest barriers for the housing market.