
2018 IBB Housing Market Report

Summary

Foreword

Berlin's attraction continues to be unbroken. For ten years now, our city has recorded a steady increase in population with an average of around 40,000 new people moving here each year. The effects of this growth in Berlin are particularly noticeable for those seeking housing. Prices are rising while supply - especially of affordable housing - is failing to keep pace.

That's why new housing construction and securing affordable rents in existing properties have become more important than ever. According to the Housing Urban Development Plan, 20,000 homes will be needed each year until 2021 to meet the additional demand and overcome the shortage that has built up since 2013.

As a result, construction completions continued to develop at a rapid pace, peaking at around 15,700 apartments in 2017. Other major efforts will be needed from all stakeholders in order to maintain and increase this level. In 2018, the Senate therefore adopted a comprehensive action programme to accelerate housing construction. This package of measures includes concrete steps to simplify and speed up building permit procedures, the needs-based expansion of the construction and planning capacities of housing associations and the increased allocation of state-owned land to cooperatives.

The current construction backlog also offers potential to tackle the housing shortage. The backlog includes apartments that have been approved but are not yet under construction or completed. These new apartments to be built from the construction backlog have already successfully completed a significant part of the time-consuming project lead-up, so that in many cases completion would be possible in the near future. This backlog has increased steadily in recent years. That is the reason why this report is dedicated to the issue. In addition, as part of this year's survey of the construction backlog by the city's districts, the Senate Department for Urban Development and Housing has offered external support which has been accepted by four districts. In this case, the reasons for construction delays and possible remedies are to be examined on a case-by-case basis.

In order to maintain Berlin as a socially mixed, green and liveable city for all groups of the population, construction efforts go hand in hand with specific demand-orientated housing policy measures. For low-income households (beneficiaries entitled to subsidised housing), for example, a support programme has been launched so that tenants can acquire shares in the cooperative. Furthermore, new funding regulations, i.e. WFB 2018, came into force at the beginning of 2018. In the years to come, today's figure of 4,000 subsidised apartments is to increase by 500 apartments each year until a figure of 5,000 subsidised apartments per year is reached.

In spring 2018, an amendment was made to legislation that bans the use of living space for unauthorised purposes. The extended capping limit regulation also means that the restricted options for rent increases will remain in place for another five years throughout Berlin. The number of social conservation areas (milieu protection areas) has now risen to 56 throughout the city. 853,763 people currently live in 450,092 apartments in social conservation areas.

The current IBB Housing Market Report 2018 clearly shows that further housing policy measures are needed in order to sustainably improve the tense situation on the housing market for people with medium and low incomes in the city and to maintain the city as a place worth living in for everyone.



Katrin Lompscher

Senator of Urban Development
and Housing in Berlin

Foreword

Berlin's housing market continues to be dominated by the huge increase in the city's population. In 2017, the population rose to over 3.6 million people, marking a new record level since the end of World War II. Due to the steep increase in one and two-person households, Berlin exceeded the two million household mark for the first time ever. This growth is affecting all of the city. What's more, the surrounding area has grown at much the same rate as the federal capital in recent years.

Residential construction also recorded all-time highs: A total of 22,315 new apartments were completed in Berlin and the surrounding area in 2017. Of these, 15,669 were located in Berlin and 6,646 in the surrounding area. The number of apartments approved for construction also rose sharply in recent years, although completion figures always lag somewhat behind this rate. This led to a growing construction backlog, i.e. high numbers of apartments that have been approved but not yet completed. This year's main topic is dedicated to this issue and examines the current construction backlog in more detail.

Despite an increase in the number of new buildings, there is still a considerable shortage of apartments and the situation on the housing market is far from balanced. The Senate Department for Urban Development and Housing estimates that 194,000 additional apartments will be needed by 2030. A widespread shortage of affordable living space is not only to be found in Berlin's inner city where rents average at 12 EUR per square metre and more, The increasing shortage of affordable housing can now be seen well beyond the urban rail ring.

In view of these developments, we have also addressed the issue of subsidies for new buildings in this year's IBB Housing Market Report. Since 2014, IBB has been supporting and funding the construction of affordable housing through the IBB New Housing Fund.

Unbridled demand for housing also seems to be boosting asking prices for commonhold apartments. For the first time ever, the average purchase price for the new building segment significantly exceeded EUR 5,000 per square metre.

When we look at how Berlin is developing compared to other major German cities, we can see that, unlike in the past, the federal capital is now on par with Hamburg and Cologne in terms of prices. The reason for this is the extraordinarily strong, and for many people living in Berlin, painful price developments on Berlin's rental housing market in recent years.

As in previous years, we invite you to take a look at the IBB Housing Market Report 2018 and paint your own picture of the key developments and upcoming challenges on the housing market in Berlin.



Dr. Jürgen Allerkamp

Chairman of the Board
of Management of
Investitionsbank Berlin (IBB)

A handwritten signature in blue ink, appearing to read 'C. Allerkamp'.

Selected data at a glance

Key figures for Berlin	Berlin 2017	Change compared 2016	Trend arrow 2019
Economic factors			
Gross domestic product (GDP) (2010 = 100%), price-adjusted	116.6	+3.1 %	
Unemployment rate (related to all members of the civilian working population - in %)	9.0	-0.8 % percentage points	
Consumer price index (2010 = 100)	110.0	+1.8 % percentage points	
Construction costs per sqm of living space (new building) (EURO)	1,544	+5.0 %	
New residential building price index (2010 = 100)	118.9	+3.7 %	
Housing demand			
Population (at the main place of residence)	3,613,495	+1.1 %	
Number of households	2,002,900	+2.0 %	
Inhabitants per household (average household size)	1.80	-0.4 %	
Number of one-person households (%)	52.4	+0.7 % percentage points	
Needy households within the meaning of German Social Security Code II (per 100 households)	14.9	±0.0 % percentage points	
Average monthly household income in EURO (median)	2,025	+3.8 %	
Housing supply			
Existing housing	1,932,296	+0.8 %	
- of which commonhold flats	1,638,800	+0.7 %	
- of which council housing (pursuant to housing law)	103,441	-10.0 %	
Completed apartments (total)	15,669	+14.7 %	
- of which new apartment buildings	12,785	+20.5 %	
Building permits (total)	24,743	-1.2 %	
- of which building permits for new buildings	21,472	+1.9 %	
Rents and housing market			
Occupancy density (residents per housing unit)	1.9	+0.6 %	
Living space per residential unit (in sqm)	73.2	±0.0 %	
Living space per resident (in sqm)	38.1	-0.2 %	
Rent index, net rent without heating costs (2010 = 100)	112.5	+1.9 %	
Ancillary rent costs index (2010 = 100)	94.5	+0.5 %	
Asking rent prices (in EURO net, without heating, per sqm of living space)*	10.32	+5.4 %	
Asking purchase prices (commonhold apartments) (EURO per sqm of living space)*	4,200	+11.9 %	

*Review period: 2018, change compared to 2017; data basis: empirica-systeme GmbH

Sources: Statistical Office for Berlin-Brandenburg; Senate Department for Urban Development and Housing; empirica-systeme GmbH

Additional detailed data in the statistics volume for the Housing Market Report can be found at: www.ibb.de/wohnungsmarktbericht

Housing policy in the city

Housing policy in 2017/2018 was shaped by a number of events. The most important events are listed below in chronological order:

September 2017	<p>Completion of the first phase of the “Housing 2030” urban development plan (SteP Wohnen): Demand for new housing construction by 2030 totals 194,000 apartments</p> <p>First supermarket summit: Making use of the potential to build housing on food markets</p> <p>Senate approves concept for exercising pre-emptive rights</p>
November 2017	<p>“Housing!” city forum</p>
December 2017	<p>Cabinet and Senate Decision on the 2nd Draft of the Federal State Development Plan for the Berlin-Brandenburg Capital Region (LEP HR)</p>
January 2018	<p>New administrative regulations for social housing promotion in rental and cooperative housing construction (WFB 2018; IBB New Housing Fund) enter into force</p> <p>State-owned housing companies present guidelines for participation</p>
February 2018	<p>Twelve districts and the Senate Department for Urban Development and Housing form alliances for new residential construction and tenant advisory services in Berlin 2018 to 2021</p> <p>Acceleration of residential construction: Senate approves three-stage decision-making structure for conflict cases</p>
March 2018	<p>Blankenburger Süden: first public citizen participation event and discussion on the framework plans for the new urban quarter</p>
September 2018	<p>Senate approves further measures to accelerate and expand housing construction in Berlin</p> <p>Launch of www.inberlinwohnen.de: the new digital housing exchange portal of the six state-owned housing companies</p> <p>Promotion of cooperative housing (IBB Promotion of Cooperatives – New and Second-hand Buildings) adopted</p> <p>City Forum: “Land! Who owns the city?”</p>
Oktober 2018	<p>Report on the Cooperation Agreement “Efficient Rents, New Residential Construction and Social Housing Supply”</p>
November 2018	<p>Promotion of the acquisition of cooperative shares (IBB Promotion of Cooperatives – Acquisition of Shares) adopted</p> <p>City Forum: “Berlin/Brandenburg! Growing together.”</p>
December 2018	<p>Promotion of housing modernisation (WMB 2018; IBB Modernisation Promotion) to preserve affordable housing adopted, introduction: 2019</p> <p>The number of social conservation areas (milieu protection areas) rises to 55 throughout the city. Around 840,500 people now live in 443,600 apartments in social conservation areas.</p> <p>Approval of 3,373 apartments as part of the promotion of new social housing (IBB New Housing Fund)</p>

General situation and important trends

Construction industry hardest hit by the shortage of skilled workers and capacity bottlenecks

In recent years, Berlin has experienced a strong economic upswing. As an important location for vocational training and work, the capital city is particularly attractive for young adults, primarily working in information and communication. Berlin has built up a reputation for itself as a digital and science hub. In November 2018, the number of people in regular jobs once again rose significantly against the previous year, up by a good 51,000 to just under 1.52 million. That being said, 156,000 people on average were still registered as unemployed. This corresponds to an unemployment rate of 8.1%. For years now, the rapid rate at which population and employment have been growing has led to increasing demand for housing. Construction companies have now reached capacity levels and order books are full. There is a shortage of skilled labour, especially in the construction and crafts sectors. The resultant bottlenecks in capacity and high order intensity are also threatening to slow down residential construction.

Trend in demand

Berlin's population grew once again in 2017, albeit at a slightly lower rate than in the previous year. The city's population grew by 38,665 and now totals 3,613,495, the highest level since the end of World War II. But it is not just Berlin that is growing, the same applies to the greater Berlin area. With a population increase of almost 6%, the area around Berlin grew at a similar rate to Berlin between 2013 and 2017. Berlin's growth continues to be driven by immigration from outside, which accounts for around 85% of population gains. In addition to the low positive birth balance, this positive migration balance has been decisive for Berlin's population development.

Berlin's migration activities have always been dominated by foreign countries. The influx of refugees in 2015 and 2016 led to a steep rise in the migration balance. This trend did not continue in 2017. Instead, the figures recorded in 2017 levelled off at the 2014 level. For Berlin, 2015 and 2016 were hence an exception rather than a change in trend. In 2017, the majority of foreigners came from Romania, Bulgaria and Poland, the United Kingdom and the US, whilst far fewer people came from the Middle East than in the previous year.

Many of the people coming to the capital city are young adults eager to make use of the city's wide range of training and employment opportunities. Older people and increasingly families with younger children tended to move away from Berlin in 2017, motivated perhaps by the idea of home ownership or the rise in rents in Berlin. This trend especially benefited the area around Berlin, which recorded significant growth.

Berlin reached a new record high in 2017 with more than two million households. Around 80 out of 100 households are one or two person households. In seven districts, more than half of all households in 2017 were one-person households. In Berlin, households had an average of EUR 2,025 in 2017 at their disposal, up EUR 75 on 2016. All households benefited from the increase in income, but to varying degrees. The positive development in incomes was lowest among small households with only one person. In 2017, this type of household had an average of EUR 1,425 at its disposal, EUR 50 more than in the previous year. Around a quarter of all households in Berlin had net household income of less than EUR 1,300 in 2017.

Trend in supply

There is still a shortage of tens of thousands of apartments on Berlin's housing market even though construction intensity and completions were high in 2017. Building permits stagnated in 2017 at a high level of just under 25,000 apartments. In 2017, residential construction focused primarily on the inner-city districts and areas close to the city centre in the northeast and southeast of the city. A third of completions were in the two districts of Mitte and Lichtenberg alone.

Housing construction throughout the Berlin region and surrounding areas has accelerated in recent years. While fewer than 8,000 apartments were built in the region in 2008, this figure was around 22,000 in 2017. 40% of the apartments completed in the area around Berlin in multi-storey residential construction mark an all-time high both in absolute and relative terms. In the federal capital, multi-storey residential buildings accounted recently for almost three quarters of new apartments. Berlin recorded 15,669 completions in 2017, an increase of around 2,000 apartments compared to 2016. However, growth was down at 14.7% compared to 2016 (+27.4%).

In 2017, 16,548 rental apartments were converted into commonhold apartments. This corresponds to an increase of around 3,300 apartments compared to the previous year. As a result, 1% of rented apartments were converted into owner-occupied properties over the course of the year, which is only slightly below the record high of 2015. This kind of conversion was primarily to be found within the urban rail ring, especially in the district of Friedrichshain-Kreuzberg.

Since 2014, the Federal State of Berlin has once again been promoting the construction of apartments with an interest-free building loan as part of the IBB New Housing Fund. These apartments are subject to rent and occupancy restrictions, so that initial rents of EUR 6.50 or EUR 8.00 per square metre are achieved here. By 2018, around 10,000 subsidised apartments were approved and around 1,800 have already

been completed. Most of the subsidised new apartments were approved between 2014 and 2018 in the districts of Lichtenberg, Marzahn-Hellersdorf and Treptow-Köpenick. Municipal housing associations accounted for around 86% of the apartments approved since 2014. Around 72% of funding went mainly into one-room and two-room apartments.

Market for detached and semi-detached houses

Home ownership as a market segment is only of minor importance in Berlin's inner city. Comparatively small numbers of cases can be observed here. In 2018, prices for detached and semi-detached houses continued to rise. In the fourth quarter of 2018, the average purchase price (second-hand and new) reached EUR 498,600. Prices in the districts of Steglitz-Zehlendorf and Reinickendorf were above the Berlin-wide average of EUR 460,000 (including land) for 2018. The asking price for close to one fifth of detached and semi-detached houses offered in Berlin was higher than EUR 700,000. Just over a third of all offers in this market segment fell below the EUR 400,000 mark throughout Berlin. Asking prices for owner-occupied homes also continued to rise in the municipalities surrounding Berlin (EUR 330,000).

Market for commonhold apartments

Asking prices for commonhold apartments continue to move in one direction only, i.e. upwards. Unbridled demand seems to be fuelling the rise in prices. On average, the asking prices advertised in Berlin in 2018 totalled EUR 4,200 per square metre. Close to a third of the apartments on offer in Berlin were in the price range of EUR 5,000 per square metre or more. Only 19% of the offers were still below EUR 3,000 per square metre. Within the urban rail ring, asking prices of EUR 4,500 per square metre and more were predominant. In particular sought-after locations in City West, Mitte and Prenzlauer Berg, and in large parts of Charlottenburg and Wilmersdorf, the average asking prices were significantly higher. In the fourth quarter of 2018, asking prices for second-hand homes totalled EUR 4,098 per square metre. Just a few years ago, this was the asking price for new homes. The average value for new construction exceeded EUR 5,000 per square metre for the first time in 2018, and not just slightly, rising to as much as EUR 5,649 per square metre. The total median (new and second-hand) for 2018 was EUR 4,200 per square metre, marking an increase of EUR 400 per square metre (10.5 %) against the previous year.

Market for rented apartments

In 2018, the net average asking rent (new and second-hand apartments) in Berlin totalled EUR 10.32 per square metre. This corresponds to an increase of EUR 0.53 per square metre (5.4%) against the previous year. The average figure for housing advertised in the area around Berlin was only slightly lower at EUR 9.10 per square metre. The municipalities on the

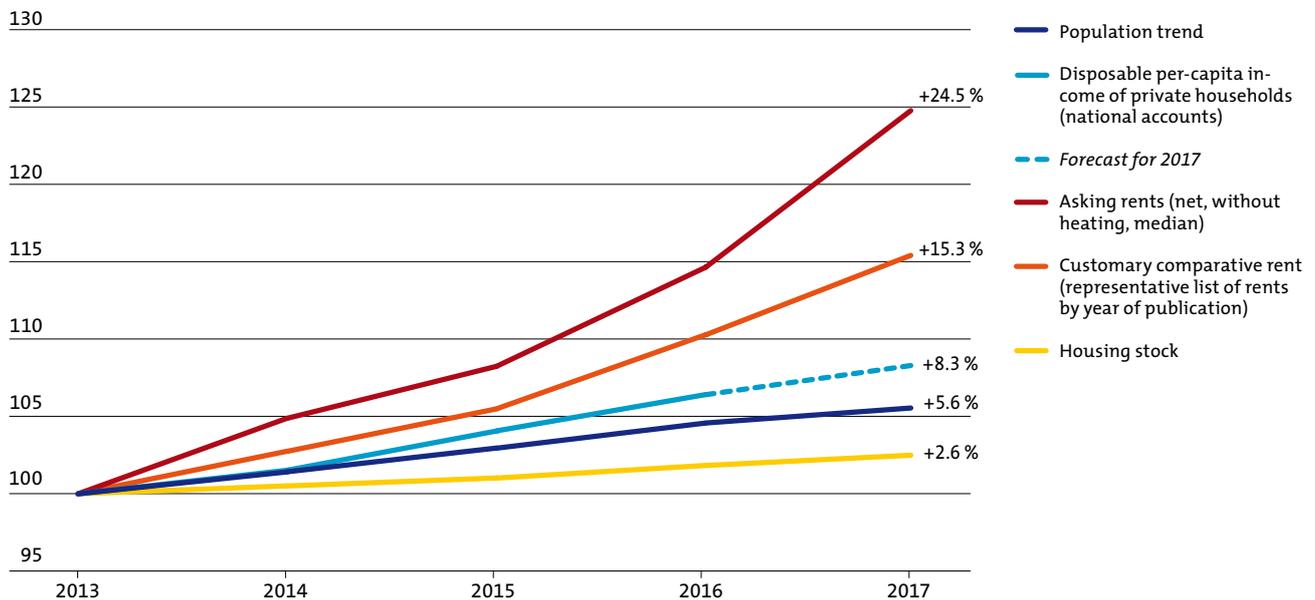
outskirts of Berlin recorded higher average rents than those located a further distance away where rents were at times below EUR 8.00 per square metre. In Berlin's city centre, the average asking rent in most areas was EUR 12.00 per square metre or more. This finding is now spreading well beyond the urban rail ring. In 2018, the highest median rent of EUR 12.94 per square metre was reached in Friedrichshain-Kreuzberg. Average asking rents in the districts of Mitte (EUR 12.51 per square metre), Charlottenburg-Wilmersdorf (EUR 12.00 per square metre) and Pankow (EUR 10.97 per square metre) were also higher than the figure for Berlin as a whole. The share of rental offers in the lower price range continues to decline. In 2018, only 9% of all apartments on offer had an average rent of less than EUR 7.00 per square metre. In many districts, this market segment is clearly underrepresented when compared with the city as a whole. The highest share of 32% was recorded in Marzahn-Hellersdorf. Since 2014, asking rents for new apartments have stagnated at a level of EUR 13.00 per square metre. In 2018, this changed again for the first time rising to EUR 14.04 per square metre.

Key topic: Focus on construction backlogs

The number of building permits issued has risen sharply in recent years while completion figures initially followed this development to a limited extent only. This difference, which is referred to as a construction backlog, is primarily a temporary phenomenon and is due to the time needed for completion. On 31 December 2017, the construction backlog included 58,990 apartments, 65% of which were already under construction.

The average completion time in 2017 varied greatly, depending on the market player. In recent years, municipal housing companies had comparatively short completion times of 22 months. This was followed by private housing companies and cooperatives with a completion period of around two years. These two market players accounted for the majority of approved new apartments along with players from the trade, banking and insurance sectors. This suggests that a substantial part of the apartments in the construction backlog will soon be completed, especially considering that at the end of 2017 a good two thirds of all approved apartments were already in the implementation phase, and almost one third were even in the shell construction phase. The share of apartments in the construction backlog where construction had not kicked off for many years was very low. 90% of apartments in the construction backlog at the end of 2017 were only approved between 2015 and 2017. Looking at the years 2010 to 2017, a realisation rate can be assumed on the basis of an average completion period of two years. It can therefore be assumed that 90% of the apartments currently in the construction backlog will also be built.

A comparison of selected indicators in 2013–2017 (indexed)
Index (2013 = 100)



Sources: Statistical Office for Berlin-Brandenburg; empirica-systeme GmbH; own calculations by the Senate Department for Urban Development and Housing; from: IBB Housing Market Report 2018, page 72

Where does Berlin's housing market stand today?

In terms of supply and demand, we can see that between 2013 and 2017 Berlin's population grew by 5.6% while the number of apartments rose by only 2.6%. In view of this excess demand, the rapid rise of almost 25% in asking rents in just four years comes as no surprise, especially since there have been no significant vacancies since 2013. The increasing shortage of housing is directly reflected in housing prices. This also applies to the local comparative rent, which increased by 15.3% in the period under review. During the same period, the development of disposable household incomes was less dynamic at 8.3%. Compared to other cities, Berlin's housing market indicators have moved closer to cities like Hamburg and Cologne. Although asking rents in Berlin are now as high as in these two major cities (2018: EUR 11.45 per square metre in Hamburg and EUR 11.00 per square metre in Cologne), the difference in the disposable incomes of private households was around 25% (Hamburg) and 10% (Cologne), respectively. This clearly shows that it is much more difficult for households in Berlin to finance the housing offered. In particular, the supply of low-priced and thus affordable housing for lower-income households is becoming increasingly scarce. A comparison of housing stock (1,906,400 apartments, excluding homes for the elderly) with the number of households (2,002,900 households) in 2017 shows a purely mathematical deficit of around 96,000 apartments if one apartment is to be made available for each household. A functioning housing market also requires

a fluctuation reserve of 2 to 3% of its housing stock. If this is taken into account, a deficit of around 135,000 apartments results for 2017.

It is not possible to match the size of apartments to the size of households. Large apartments with more than two rooms are overrepresented. This is caused, for instance, by the so-called "remanence" effect (remaining in an apartment after a change in the household situation, e.g. when children move out) with households that are relatively too small. With regard to construction activity, it is clear that since 2013 Berlin has been by far the most dynamic city when compared to other cities such as Leipzig, Hamburg, Cologne and Munich. Despite the rise in the number of new buildings, Berlin's housing market is far from balanced. At a level of around 16,000 construction completions per year, it would take six years to build enough new buildings to compensate for the shortage of 96,000 apartments that accumulated up until 2017. In addition, apartments are also needed for further population growth. In order to provide sufficient housing, the number of apartments completed would have to at least double in order to keep pace with population growth at the 2017 level.

It is clear that Germany's capital will have to take many measures in order to compensate for the shortages that have developed in recent years through new construction and portfolio development and thus to stabilise the housing market situation once again.

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The summary of the Housing Market Report 2018 is made available to the public for information purposes only. All underlying information has been carefully researched and compiled. We do not assume any guarantee for correctness and completeness.

The IBB Housing Market Report 2018, the supplementary Table Volume for 2018 as well as additional interactive presentations and a summary in German can be found at: www.ibb.de/wohnungsmarktbericht.

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