
2019 IBB Housing Market Report

Summary

Foreword

IBB's Housing Market Report documents developments on Berlin's real estate market over the past ten years and with that a market situation that has become increasingly tense. Growth in Berlin is immense and will continue in the foreseeable future. Meeting demand for housing remains one of the most urgent challenges facing the Berlin Senate. We need affordable housing, especially for people with low and middle incomes, to maintain Berlin as a social and liveable city.

Therefore, one important goal is to quickly build new apartments. That's why in 2018 the Senate adopted a comprehensive action programme to accelerate housing construction. This includes a large number of measures, such as the planning of additional urban quarters, the careful expansion of existing quarters and the promotion of multiple uses and greater use of public land for construction. For some years now, well over 20,000 apartments have been approved each year in Berlin. However, this positive development is offset by the fact that we were confronted with a construction backlog of around 64,000 apartments in 2018. The administration will continue to work hard to plan housing construction in a targeted manner and to support its implementation with permits, building advice and subsidies.

The focus of this report is the supplementary 'Housing' survey in the 2018 microcensus. Every four years, it provides a detailed insight into the housing situation of households in Berlin. Berlin is a city of tenants and that's why rented households are primarily considered with a view to three points: their structure, the amount of space and number of rooms available to them and their housing costs. A key finding of the report is that almost 40 percent of households spend more than 30 percent of their respective net income on gross rent, heating not included. The worrying trend in recent years is all too evident here, as the burden is particularly high for households that moved into their homes in 2015 and later.

To ensure that households with small and medium incomes are not forced out of their neighbourhoods by this development, Berlin has, for instance, significantly stepped up its measures to protect the social environment (so-called Milieuschutz). There are plans already in place to increase the current 59 social conservation areas (Milieuschutz areas). In an effort to give tenants in Berlin a breather before further rent increases take place, Berlin's House of Representatives passed a law to introduce a rent cap, which prohibits excessive rents and at the same time takes into account the needs of landlords who are committed to the common good. IBB's Housing Market Report 2019 once again shows us how much the housing policy measures by the Senate are necessary for all Berliners.



Katrin Lompscher

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

Foreword

In 2019, Berlin's housing market once again faced enormous challenges. Despite a slow-down in the pace of migration, Berlin's population continues to rise each year, totalling 3,644,826 in 2018. This population growth is particularly driven by young adults who see Berlin as an attractive place to study and work, especially in the digital economy. Berlin's surrounding area, which grew faster than the capital itself in 2018, is also benefitting from Berlin's growth.

For several years now, Berlin has been responding to the strong growth in population and the almost non-existent vacancy rate with persistent construction activity. The Senate Department for Urban Development and Housing predicts that 194,000 new apartments will be needed by 2030. The number of newly approved apartments was at a high level in 2018, and the total number of completed apartments, i.e. 16,706, once again significantly exceeded the previous year's figure. Capacity bottlenecks in the construction industry and longer implementation times will continue to pose challenges for the construction of more residential buildings. Accordingly, the construction backlog again increased sharply and now totals around 64,000 apartments. There is still enormous potential for market relief here, and we will continue to focus on this. To support the construction of affordable housing, the Federal State of Berlin improved its housing subsidy regulations further in 2019.

The dwindling supply of housing has led to a dynamic increase in asking rents in recent years. In 2019, there were first indications that this development would level off. Average asking rents rose slightly by EUR 0.13 per sqm to EUR 10.45 per sqm. Asking rents are particularly high for very small and very large newly built apartments and the same applies practically to the entire city centre.

The housing market situation is reflected in the housing costs of private households. Reason enough for us to examine the residential and rental cost burdens more closely in this year's focus topic. To this end, we identified important findings from the Housing 2018 supplementary microcensus, which is conducted every four years. These show that many households in Berlin face high housing costs amounting to at least 30 percent of their net household income – especially for those who moved into their homes in 2015 or later.

2020 will be a key year for Berlin's housing market: Its further development will also be decisively determined by the 'Act to revise legal regulations on rent limitation' (*Gesetz zur Neuregelung gesetzlicher Vorschriften zur Mietenbegrenzung*). First discussed in June 2019, the law was passed by the House of Representatives in January 2020 and is intended to cap the rent level of around 1.5 million rental apartments in Berlin which were built before the end of 2013. I make no secret of my concern that reluctance on the part of the big housing investors will prevent the desired market relief in the form of additional housing. It is therefore all the more important to make additional efforts to promote new residential construction. We as IBB want to continue to make our contribution here.

With the IBB Housing Market Report 2019 we invite you again to take a look at current developments on Berlin's housing market and to form your own opinion of the future challenges facing the German capital.



Dr. Jürgen Allerkamp

Chairman of the Board 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 2018	Change compared 2017	Trend arrow 2020
Economic factors			
Gross domestic product (GDP) (2010 = 100%), price-adjusted	123.5	+3.1 %	
Unemployment rate (related to all members of the civilian working population - in %)	8.1	-0.9 % percentage points	
Consumer price index (2010 = 100)	112.2	+2.2 % percentage points	
Construction costs per sqm of living space (new building) (EURO)	1,569	+5.0 %	
New residential building price index (2015 = 100)	112.8	+6.3 %	
Housing demand			
Population (at the main place of residence)	3,644,800	+0.9 %	
Number of households	2,026,300	+1.2 %	
People per household (average household size)	1.8	+0.3 %	
Number of one-person households (%)	52.9	+0.5 % percentage points	
Needy households within the meaning of German Social Security Code II (per 100 households)	13.0	±0.0 % percentage points	
Average monthly household income in EURO (median)	2,100	+3.7 %	
Housing supply			
Existing housing	1,949,252	+0.9 %	
- of which rental flats	1,644,400	+0.3 %	
- of which council housing (pursuant to housing law)	97,872	-5.4 %	
Completed apartments (total)	16,706	+6.6 %	
- of which new apartment buildings	14,327	+12.1 %	
Building permits (total)	24,218	-2.1 %	
- of which building permits for new buildings	20,739	-3.4 %	
Rents and housing market			
Occupancy density (residents per housing unit)	1.9	±0.0 %	
Living space per residential unit (in sqm)	73.2	±0.0 %	
Living space per resident (in sqm)	38.1	±0.0 %	
Rent index, net rent without heating costs (2015 = 100)	105.6	+2.2 %	
Ancillary rent costs index (2015 = 100)	102.7	±0.0 %	
Asking rent prices (in EURO net, without heating, per sqm of living space)*	10.45	+1.3 %	
Asking purchase prices (commonhold apartments) (in EURO per sqm of living space)*	4,633	+10.3 %	

*Review period: 2019, change compared to 2018; data basis: empirica-systeme Marktdatenbank (powered by Value AG)

Sources: Statistical Office for Berlin-Brandenburg; Senate Department for Urban Development and Housing; empirica-systeme Marktdatenbank (powered by Value AG)

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 in 2019

Housing policy in 2019 was shaped by a number of events.

The most important events are listed below in chronological order:

January 2019	Annual Report on the Conversion Ordinance (<i>Umwandlungsverordnung</i>): The measure to protect the social environment (Milieuschutz) is having an impact.
February 2019	2019 rent concept adopted: The scheduled rent increases in the social housing sector due on 1 April 2019 are suspended.
May 2019	The state-owned housing companies correct their new construction forecasts upwards – from 24,019 apartments to 26,149 apartments. The 2019 representative list of rents for Berlin (Mietspiegel) is published.
June 2019	18 June: The Senate adopts the main points for a Berlin rent law/rent cap. The 'Expropriate Deutsche Wohnen & Co.' initiative hands over a petition with 77,000 signatures for a referendum to the Senate Department for the Interior and Sport.
July 2019	The Berlin-Brandenburg Capital Region Development Plan comes into force. 'Let's make the city together!' – 'Guidelines for citizen participation in urban development' is published. 'Berlin is counting on you' – The Senate Department for Urban Development and Housing launches a campaign for new residential construction.
August 2019	Berlin develops a strategy for integrated infrastructure planning in the growing city. The Senate adopts the 2030 Urban Development Plan for Housing: 194,000 new apartments and 14 new quarters by 2030. Berlin expands support for new housing construction with improved terms and conditions for support. 30 August: The Senate publishes a draft bill on the rent cap.
September 2019	The Senate adopts 'Guidelines for citizen participation in urban development'.
Oktober 2019	22 October: The Senate takes note of the draft of the 'Act to revise legal regulations on rent limitation' and forwards it to the Council of Mayors for further consideration.
November 2019	26 November: The Senate decides to introduce the bill to the House of Representatives.
December 2019	The Berlin Housing Demand Report on the Development of Berlin's Housing Market is published by the Senate. 1,778 apartments are approved as part of efforts to promote new social housing (IBB New Housing Fund).

General situation and important trends

The construction industry has reached capacity

The full impact of subdued economic growth in the Federal Republic of Germany is not yet being felt in Berlin. By mid-2019, the number of people employed in regular jobs in the capital city had increased by around 53,400 to 1.53 million (+3.6%). That being said, on average 152,000 people were still registered as unemployed. This corresponds to an unemployment rate of 7.8%. Berlin continues to be an attractive place to study and work, especially for young people. The information and communication sector and the high number of start-ups are attracting more and more people to the city. Over the years, this has earned Berlin a reputation as an important digital and academic location. While some industries are flourishing, the lack of skilled workers and capacity constraints are making themselves felt in other important parts of Berlin's economy, especially in the construction industry. By mid-2019, the order books of Berlin's main construction industry reached a new record level of EUR 1.45bn. Housing construction accounted for around EUR 580m of this figure. The shortage of skilled workers and the continuing rise in the number of orders are slowing down residential construction.

Trend in demand

Berlin's population continued to grow in 2018. Up by 31,300, the figure fell slightly short of the previous year's level (extrapolated population). By the end of 2018, Berlin recorded a population of 3,644,826. The area around Berlin also benefits from the strong draw of the capital city. The population there grew by 5.5% between 2014 and 2018, whereas Berlin recorded growth of only 5.0% over the same period. Since 2007, Berlin's population has also been increasing due to the natural excess of births over deaths, but inward migration continues to account for the greatest share of gains in population. The external migration balance, i.e. the difference between outward and inward migration, has been positive since the turn of the millennium. Since 2011, this balance has totalled at least 40,000, and was even well over 50,000 in 2016, a year impacted by special effects. In 2017, the figure fell well below the 40,000 mark for the first time. Up slightly to a total of 34,449, the external migration balance rose slightly in 2018, but remained well below the level of previous years.

A differentiated view of migration balances illustrates the importance of foreign countries for Berlin's population development. All in all, Berlin once again recorded an increase in 2018, primarily through inflows from abroad (+31,010). The majority of people came from the UK, India, Poland, the US, Bulgaria and Romania. There were also net population gains compared to the old federal states. On balance, however, losses were recorded compared to the area surrounding Berlin and the new federal states.

Looking at migration movements by age group clearly shows that 18 to under 30-year-olds account for the biggest share of Berlin's population growth. For several years now, increases of between 32,000 and 36,000 have been recorded, as was also the case in 2018. Six to under 18-year-olds and the 30 to under 45-year-olds account for small increases. In contrast, the biggest share of children leaving the city in 2018 were under the age of six; these children left with their families before starting school. Each of the two oldest categories also recorded losses of more than 2,000 people.

A look at future demand is important for market and investment activities. There are indications that population growth will continue. The mean variant of the population forecast by the Senate Administration for Urban Development and Housing expects a further increase of 7.5% or around 266,000 people by 2030. All twelve districts can therefore expect positive population development.

In 2018, the number of households in Berlin rose to 2,026,300, with single and two-person households still accounting for close to 81%. Around 10% of households were composed of three persons, 9% of at least four persons.

The level of net household income has a decisive impact on options on the demand side of the housing market. In 2018, the average monthly net household income in Berlin totalled EUR 2,100. Below-average mean values were recorded in Neukölln, Lichtenberg, Mitte, Spandau and Friedrichshain-Kreuzberg. The district peak in 2018 was recorded in Pankow with EUR 2,400. Around a quarter of all households in Berlin had a net household income of less than EUR 1,300 per month in 2018. Another quarter of households had monthly incomes of between EUR 1,300 and EUR 2,000.

Berlin's unemployment rate reached 7.8% in October 2019, a slight increase over the previous year (+0.1 percentage points). From a geographic perspective, there were individual focal points with unemployment rates of over 9%, for instance, in Neukölln and Mitte. In contrast, below-average unemployment rates were recorded in the eastern districts of Pankow, Lichtenberg, Marzahn-Hellersdorf and Treptow-Köpenick as well as in Steglitz-Zehlendorf.

Trend in supply

For the third year in a row, the number of apartments approved for construction stagnated at a level of 24,000 to 25,000 apartments (2018: 24,218). In 2018, multi-storey residential construction once again accounted for the lion's share of 81.0%. The number of apartments completed has been rising steadily since 2009 and in 2018 reached the highest figure for the past 20 years of 16,706 completed apartments. Here, too, apartments in multi-family houses accounted for around

three quarters (12,858) of residential construction. Housing construction is also on the rise in the area around Berlin with around 7,400 new apartments built in 2018. With more than 24,000 completed apartments, construction in the capital region in 2018 reached a new high since 1994.

Since 2014, the Federal State of Berlin has again been supporting the construction of apartments with an interest-free building loan as part of the IBB New Housing Fund. The apartments funded under this programme are subject to rent and occupancy commitments, so that initial rents of between EUR 6.50 and EUR 6.70 per square metre or EUR 8.20 per square metre (for higher income limits) are achieved. To this end, the housing subsidy regulations were revised in 2019. By the end of 2019, 11,728 subsidised apartments were approved since the new construction promotion programmes were reintroduced. Some 3,166 of these apartments have already been completed (as of 31 December 2019). This includes almost all apartments from the 2014 and 2015 funding years. Most of the subsidised new apartments were approved between 2014 and 2018 in the districts of Lichtenberg, Marzahn-Hellersdorf and Treptow-Köpenick. Accounting for a share of 87.9% of approved apartments, most of the new subsidised apartments were built by state-owned housing construction companies. Classified according to apartment size, 72.3% of the apartments approved are one and two-room apartments.

Market for detached and semi-detached houses

Asking prices for single and two-family homes (including land, new and existing buildings) have been rising rapidly since 2015. Within five years, the average purchase price for a home has increased by around EUR 185,000 or 50.7%, respectively. In the fourth quarter of 2019, a median price of EUR 549,990 was achieved for the entire segment, corresponding to an increase of 10.3% or EUR 51,390 within one year. Within the sub-segments, the purchase prices for existing properties in 2019 were brought closer to the purchase price of newly constructed detached and semi-detached homes. The average asking price in both segments was approximately EUR 550,000. The most rapid rise in prices was recorded for second-hand homes. Within five years, the average purchase price increased by 56.9% or EUR 199,000, respectively. Newly built owner-occupied homes were only slightly lower (55.4% or EUR 196,000).

Market for commonhold apartments

In contrast to asking rents (see 'Market for rented apartments' below), the dynamic increase in asking prices for commonhold apartments continued in 2019. Coming in at EUR 4,777 per sqm (new and existing buildings) in the fourth quarter of 2019, these prices were up by EUR 409 per sqm compared to 2018, corresponding to an increase of 9.4%. Compared to 2015, buyers of a 100-sqm commonhold apartment had to

pay an average of around EUR 150,000 more only five years later. The average asking price for a second-hand commonhold apartment in the fourth quarter of 2018 was EUR 4,600 per sqm, up again by 12.3%. In 2019, the price trend for newly built commonhold apartments was less dynamic than for second-hand commonhold apartments and for this market segment overall (+1.9%). Nevertheless, 2019 was again a record year in this segment, with an average asking price of EUR 5,759 per sqm.

Market for rented apartments

While average asking rents in Berlin have long been rising at a dynamic pace, they did begin to stagnate in 2019. The Berlin-wide median rent of EUR 10.45 per sqm marks an increase of only EUR 0.13 per square metre or 1.3% compared to the previous year. The highest average asking rents according to building age were achieved with apartments that were built after 2011. Broken down according to apartment size, the most expensive apartments were the smallest, followed by the largest apartments. In a comparison of districts, Mitte (EUR 13.45 per sqm), Friedrichshain-Kreuzberg (EUR 13.01 per sqm) and Charlottenburg-Wilmersdorf (EUR 12.62 per sqm) stood out from the other districts with average asking rents that were higher than in the rest of the city. The lowest average asking rent was recorded in Marzahn-Hellersdorf (EUR 7.90 per sqm).

Once again in 2019, more than two thirds of asking rents totalled at least EUR 9.00 per sqm. In the inner-city districts of Mitte, Friedrichshain-Kreuzberg and Charlottenburg-Wilmersdorf in particular, this share increased to well over 80%. These three districts were also largely responsible for the most expensive price category of at least EUR 14.00 per sqm. In contrast, across the city as a whole, only around 10% of asking rents were advertised at under EUR 7.00 per sqm. This was the case for 30% of asking rents advertised in Marzahn-Hellersdorf, followed by 20% in Lichtenberg. In 2019, the highest asking rents were to be found almost throughout the entire city centre within Berlin's urban rail ring. With only a few exceptions, the average rent level here was EUR 12.00 per sqm and upwards. Dynamic developments in the German capital also have an impact on the areas around Berlin. In 2019, average asking rents rose to EUR 9.47 per square metre, with concentrations in the municipalities south-west of Berlin.

Key topic: What is it like living in Berlin? Housing situation and housing costs of Berlin households

Every four years, most recently in 2018, the microcensus is supplemented by the supplementary 'Housing' survey, a detailed survey of the housing situation of 1,771,000 households in Berlin. This year's main topic highlights important key figures on housing supply, the rental rate burden and the ownership structure identified in the survey.

In 2018, 1,470,000 households were living in rented accommodation, with only 301,000 households living in owner-occupied housing. Of these tenant households, single-person households (53.0%) dominated, followed by two-person households (28.3%). This picture is further underpinned by the household types. Likewise, more than half of households were single people, followed by childless couples. Single parents and couples with one or more children accounted for similar shares. Furthermore, almost half of all households had a monthly net household income of between EUR 1,500 and EUR 3,200. Around one-third of households were below this level, while more than one-fifth had at least EUR 3,200 per month at their disposal.

An average Berlin rental apartment had a floor space of 66.6 sqm, with an average of 37.5 sqm per person. Both ratios were above the national average. That being said, however, single-parent households in Berlin often live in particularly small homes, while older households very often live in larger apartments.

In 2018, an average of slightly more than 28% of household income in Berlin was spent on rent (gross, heating not included), and as much as two-fifths of households had a rent burden of at least 30% (gross, heating not included). At district level, the highest rate of 46.2% was recorded in Neukölln. Above-average burdens (30% and higher) are felt in the lower, but in some cases also in the middle-income groups and generally by households with only one income earner. Almost one in ten single-person households spent at least 50% of their income on rent. A look at the recent past is particularly revealing. Households in Berlin that did not move into their current apartment until after 2015 very often have to cope with rent cost burdens of more than 30%.

Looking at home ownership, there is a clear increase in numbers compared to the previous survey in 2014: In just the four years between the two surveys, the proportion of owner-occupied dwellings rose by almost a fifth to around 17%. Ownership rates also rise with age: After all, a quarter of over-65s have owner-occupied residential property. However, about one-eighth of these households still had outstanding commitments on real-estate loans.

Where does Berlin's housing market stand today?

Comparing the supply and demand sides, it becomes clear that Berlin's housing market is facing major challenges. On the one hand, there is growing excess demand arising from sustained population growth (2014–2018: +5.0%) and comparatively much slower growth in housing stock (2014–2018):

+3.0%). This resulted in excess demand of around 145,000 apartments lacking in Berlin in 2018 (including a fluctuation reserve). In addition to quantitative undersupply, the evaluation of the supplementary survey of the 2018 microcensus revealed that especially single-parent households in Berlin often lived in particularly small living spaces, while older households lived in larger apartments much more often. The scarce supply in turn is affecting average asking rents, which rose by a quarter in the period under review from 2014 to 2018. The comparative rent customary in the location, which is calculated on the basis of both existing and newly concluded rental agreements, increased by 15.2% in the same period under review. The rising cost of housing is offset by the increase in the disposable income of private households (per capita), but at 9.9%, growth was significantly lower than the average rate at which asking rents are rising.

In order to cope with the rise in excess demand, the Federal State of Berlin continues to promote new residential construction, which is leading to increasing numbers of apartments completed each year. In 2018, 16,706 apartments were built and 24,218 apartments approved for construction. However, the shortage of skilled workers and the high level of orders are pushing the construction industry to capacity, and this may slow down the housing market. The construction backlog in 2018 was at a record level of over 64,000 apartments approved but not yet completed. Despite the still tense situation on Berlin's housing market, there are signs of a let-up. Asking rents, which have been rising dynamically for many years, stagnated for the first time in 2019, rising by only EUR 0.13 per sqm or 1.3% year-on-year. In 2019, other German cities also saw slowing effects. In Munich, Hamburg and Leipzig, for example, the pace of growth for average asking rents also flattened out. In absolute figures, Berlin again ranked midfield behind Munich (EUR 17.83 per sqm), Hamburg (EUR 11.57 per sqm) and Cologne (EUR 11.39 per sqm).

Despite a variety of efforts, as can be seen by the completion figures, the challenges facing Berlin remain great. There is still an enormous amount of catching up to do before we can once again talk about a balanced housing market. In 2020, the housing market in Berlin is also facing far-reaching administrative intervention. At present, it is almost impossible to forecast how the market will adjust to the rent cap that come into effect in 2020. Against this background, it is important that changes in market structures and actions by stakeholders be recorded quickly and continuously in order to be able to draw the necessary conclusions for housing and building policy.

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The summary of the Housing Market Report 2019 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 2019, the supplementary Table Volume for 2019 as well as additional interactive presentations and a summary in German can be found at: www.ibb.de/wohnungsmarktbericht.

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