

2009 IBB Housing Market Report

Summary

Foreword

Berlin's housing market is regarded as attractive and affordable, especially when compared to Germany as a whole. There is a good supply of leasehold and freehold flats at generally moderate prices. When looking at the market from outside, conditions seem to be relaxed at first glance.

But a closer look reveals a much more differentiated overall picture. Part of the market is clearly dynamic. Above-average price increases can be seen in certain neighbourhoods and market segments. This is in line with the assessment made by experts polled within the scope of IBB's 2009 housing barometer.

For several years now, the number of people relocating to Berlin has been growing steadily. However, people already living in Berlin account for a large part of demand. This is why local income levels are very important for developments on the housing market. We, along with others, believe that this level, which has been significantly below the average of other large cities for several years, is the biggest obstacle to a corresponding development in demand. The investors polled also identify this issue as the biggest problem facing the market.

The market for freehold property is generally very stable although certain sub-areas can be seen which are subject to more dynamism. These include, for instance, parts of Mitte, Prenzlauer Berg or Charlottenburg-Wilmersdorf. The positive expectations of market stakeholders regarding the future development of the respective neighbourhood already seem to be reflected in demand and price, especially in certain inner-city neighbourhoods.

It will be very exciting to see how the respective locations develop further. Friedrichshain-Kreuzberg and Lichtenberg, as the "focal districts" in this report, for instance, show specific migration patterns which are orientated more towards certain building structures than towards administrative borders.

This is one of the reasons why Berlin's building structure and new construction activities are being addressed as part of the focal subject of this report. Although the absolute figure for newly built flats has been relatively low for several years, it is all the more interesting to see where new buildings are currently going up and which types of buildings are being erected.



On the whole, taking a look at smaller areas is becoming increasingly important in our analyses. A more focused view of observation levels below district level reveals the complex nature of market developments. This increases the complexity of the analysis and at the same time enables a more differentiated picture.

However, it is often possible to explore the relationships on an exemplary basis only. This is why we would like to invite you as the reader to take a look at the material in this document from your individual market perspective and to paint your own picture of the situation on Berlin's housing market with the help of IBB's 2009 Housing Market Report.

We wish you every success in your endeavours!

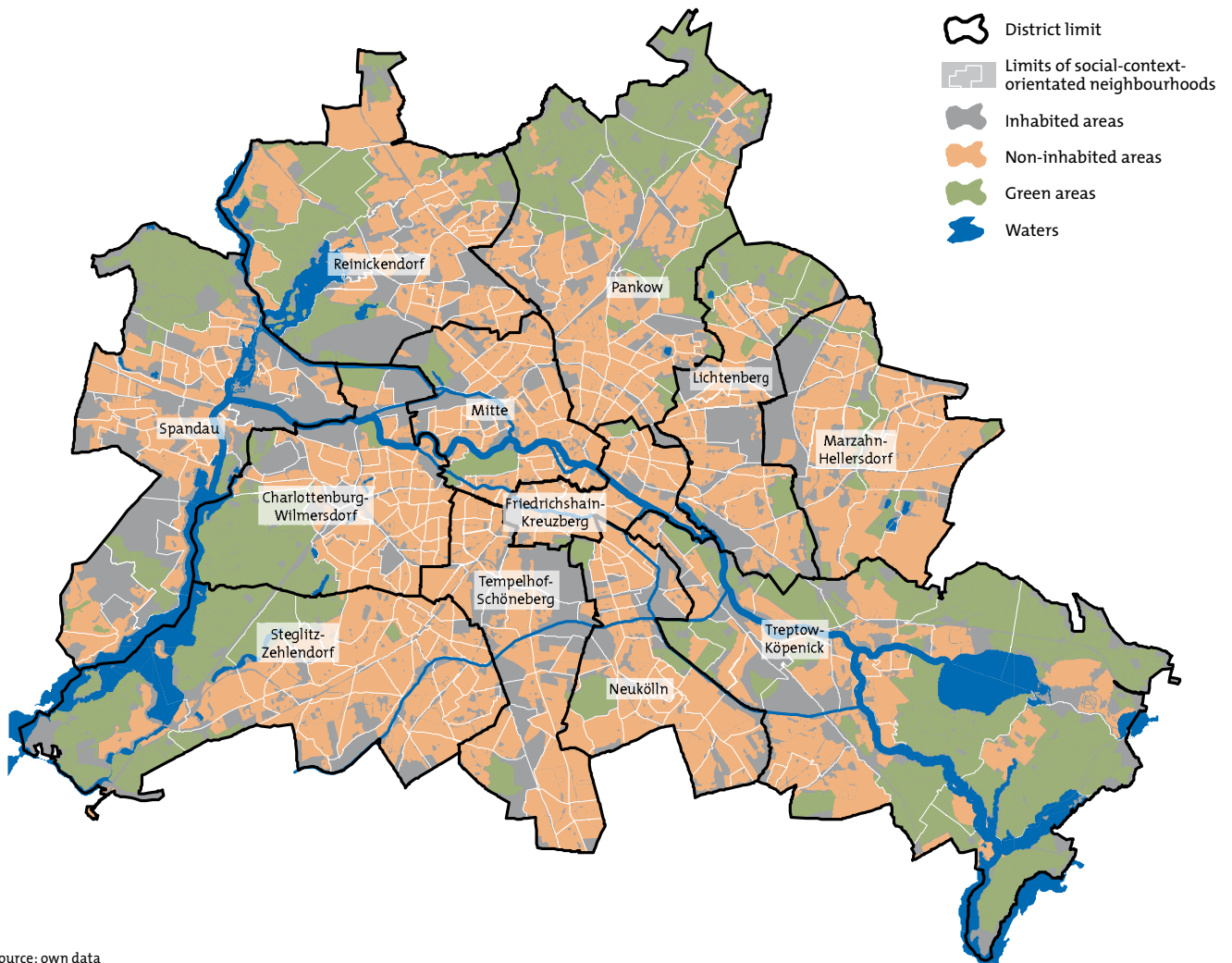
A handwritten signature in blue ink, appearing to read 'Ulrich K.' with a stylized flourish at the end.

Ulrich Kissing

Chairman of the Board of Investitionsbank Berlin

Berlin at a glance

Overview map



Source: own data

Selected data at a glance

Key figure	Berlin 2008	Change compared 2007	Trend arrow 2009
Economic factors			
Gross Domestic Product (GDP) (EUR bn)	87.5	+3.3 % (not price-adjusted)	→
Unemployment rate (related to all members of the civilian working population - in %)	13.9	-1.6 percentage points	→
Cost of living price index (2005 = 100)	106.2	+2.6	→
Costs per sqm of living space (new buildings) (EUR)	1,080	-1.5 %	→
Housing supply			
Existing housing	1,890,837	+0.18 %	→
- including leasehold flats	1,635,700	-0.21 %	→
- including council housing (pursuant to housing law)	172,629	-9.91 %	→
- including leasehold housing with an occupancy commitment (Occupancy Commitment Act)	124,677	-0.02 %	→
Flats completed	3,833	+3.1 %	→
Building permits	6,297	+28.8 %	→
Housing demand			
Population (at the main place of residence)	3,431,675	+0.5 %	→
Number of households	1,970,800	+1.5 %	→
Resident(s) per household	1.74	-0.01	→
Number of one-person households (%)	53.4	+0.4 %-Punkte	→
Needy households pursuant to German Social Security Code II, per 100 households	16.8	-0.5	→
Average monthly household income (median) in EUR	1,525	+3.4 %	→
Rents and housing market			
Occupancy density (residents per housing unit)	1.81	0.0	→
Living space per residential unit (in sqm)	70.4	+0.2	→
Living space per resident (in sqm)	38.7	-0.1	→
Longer-term vacancies (share in overall stock in %)	5.71	+0,01 percentage points	→
Inner-city moving (number of persons moving per 100 residents)	9.8	-0.5	→
Rent index, net rent without heating costs (2000 = 100)	111.6	+2.4	→
Service costs index (2000 = 100)	118.5	+0.4	→

General situation and important trends

Growing population due to migration from remote areas in Germany and moderate migration to areas near the city

Berlin's population has been growing continuously for the past ten years. This is primarily due to a positive migration balance over many years, as well as a balanced natural population trend for two years. Over the past ten years, Berlin's population grew by more than 60,000 people thanks to external migration alone. Whilst the inflow recently became increasingly steady, chiefly due to migration from remote areas in Germany, migration to areas near the city fell to a moderate level.

Household number growth continues to be more dynamic than population growth, below-average development of incomes

The gap between the number of citizens and the number of households continues to widen. On balance, Berlin's population totalled 45,000 people more than in 1999, but the number of households grew by around 159,500 during the same period. This is mainly due to the growing share of single-person households which currently totals more than 53%. This trend is not atypical for large cities in Germany. When it comes to income, in contrast, Berlin is far below both the federal average and other large cities. However, the situation differs between individual sub-areas and on individual sub-markets: On the one hand, average incomes vary significantly within the city area, whilst certain special demand also exists on the market - also dependent on individual incomes - for instance, with regard to features that make flats suitable for the elderly, or large leasehold flats. Furthermore, demand for affordable, small leasehold flats is likely to increase especially in low-income areas. This is also the segment where the experts polled within the scope of IBB's 2009 housing barometer expect demand to grow most over the next three years.

New residential space is currently being completed primarily in the form of privately owned homes and in existing buildings

Unlike in 2001 to 2005, home ownership structure in Berlin has not changed significantly in recent years. The structure of residential space on offer is also largely stable: Construction of new flats remains low. Like in previous years, between 3,000 and 4,000 flats are added each year - with apartment complexes currently accounting for around 30% of this figure. In contrast to this, the construction of new flats in existing buildings is becoming increasingly important. Despite slightly declining figures, most new flats continue to be built as privately owned homes. The number of flats with an occupancy commitment, however, continues to decline. This raises the question as to whether this will suffice to ensure an adequate supply of homes in the medium to long term - both with a view to households for which access to the market is difficult and to the preservation of the specific social mix.

Foreseeable trend towards a slight shift towards apartment complexes

With regard to the construction of new flats in the future, the trend in approval numbers suggests a shift of focus towards apartment complexes and construction of flats in existing buildings, whilst the number of new detached single-family homes is likely to remain stable. However, in view of a significant approval backlog, especially in apartment complex construction, it remains to be seen whether completion figures will in fact follow this trend - or whether the implementation period for projects will be expanded in light of the global financial crisis. The recent halt to further, especially upmarket, projects may also be an indication that the crisis has now reached Berlin's property market. Accordingly, the market experts polled also see a consolidation of the investment climate in Berlin. In the area of "measures in existing buildings / modernisation / conversion", only one of the investment fields surveyed was believed to have a positive outlook. Especially when it comes to purchases of existing residential space, only certain districts which high in demand were positively assessed, even though expectations by those polled are more or less positive for all investment areas. The relative improvement expected in the construction of new leasehold flats is particularly obvious. An end to the reluctance to invest in apartment complexes is apparently foreseeable from the experts' point of view. This might be an important stimulus for the "Berlin as a tenant city" with a tenancy rate of more than 85%.

Moderate rent development in general, tightening of the market in certain segments and neighbourhoods

Berlin's residential market is generally marked by moderate rent development. The situation on Berlin's residential market is becoming increasingly and clearly differentiated. A more in-depth analysis of the rent index shows that part of the market is currently more dynamic than the general price increase. This suggests above-average rent increases in certain neighbourhoods or market segments, in particular, in the field of small flats and flats in less attractive neighbourhoods. In contrast to this, the rent index does not show any significant increase in rents for flats in medium to good neighbourhoods and rents for large flats. This corresponds to the view expressed by the experts polled who identified an increasingly tight market situation especially in the lower rent segment in IBB's 2009 housing barometer - coupled with a particular demand for small flats. Council housing rents are on average at the same level as market rents and hence have no dampening effect on the rent price structure. Furthermore, the number of flats in council houses is constantly decreasing.

Affordable residential space distributed unevenly across the districts

The structure of asking rents shows a geographically differentiated picture: One fifth of current asking rents are currently below EUR 5.00 per square metre. However, there are hardly any flats in some districts offered in this price segment, whilst they account for more than 50% in other districts. High asking rents are found in traditionally upmarket neighbourhoods, such as along Kurfürstendamm or Unter den Linden, as well as in several areas of Prenzlauer Berg or Mitte.

Rent burden increases as incomes are low and rents increase

Even under relatively moderate boundary conditions, a large city like Berlin can experience tighter markets in limited areas whenever above-average asking rents meet with below-average local purchasing power. This especially affects residents who are about to move within their neighbourhood. One major problem on the demand side is the fact that average net incomes in Berlin have been increasing only marginally for several years and thus lag behind the increase in net rents (i.e. excluding heating costs). This leads to an growing net rent burden. Furthermore, an above-average increase in building service charges excluding heating costs also increase rent cost burdens further. That's why for several years now low incomes and increasing building service costs have been the most frequently quoted problems in IBB's housing barometer for Berlin's residential market.

Stable prices for freehold property

In contrast to rents, prices for freehold property as a whole have remained almost unchanged. At present, the 1999 price level is, at best, reached in the different segments. However, the picture is geographically differentiated in this respect too: When it comes to buying freehold property, neighbourhood aspects are apparently more important than in the case of leasehold property - also because certain expectations with regard to a positive development of the respective neighbourhood and hence of the value of the property are likely to be particularly relevant.