

# *2012 IBB Housing Market Report*

## Summary

## Foreword

Tension on Berlin's housing market continued to rise last year. This development is due to the persistently high number of people moving to the city whilst relatively few new buildings are being completed. However, the rise in the number of construction permits issued now suggests that the number of new buildings completed will also increase.

These buildings are urgently needed because according to the latest population forecast from December 2012, Berlin's population is set to increase by around 254,000 to approx. 3,755,000 by 2030. This increase is roughly equal to population figures in cities like Kiel or Aachen. Sound estimates show that in the years to come between 10,000 and 12,000 new apartments will be needed each year in order to meet with additional demand.

Growing demand on the rental apartment market means that asking prices for new apartments can be raised in a manner that was not possible up until recently when the housing market was less tight. The upsurge in the level of rent asking prices is gradually spreading to all areas of the city.

Just like in previous years, it can be seen that housing demand levels and rates and the development of asking rents differ considerably within the city. The strongest pressure is being felt in central city districts. It must be generally noted, however, that average asking rents in Berlin are much lower than in other major German cities like Hamburg or Munich.

The market for commonhold apartments is also marked by dynamic developments. In this case, the flight of capital into real estate – as a presumably secure monetary investment – and the resultant high demand are leading to rising asking prices for both existing and new buildings



Just like in previous IBB Housing Market Reports, the 2012 Report once again contains a special topic. This time, the focus is on the special evaluation of the 2010 microcensus which was published in 2012. This special evaluation provides a good opportunity to take a look at the current housing situation for households in Berlin and to examine developments over the past ten years.

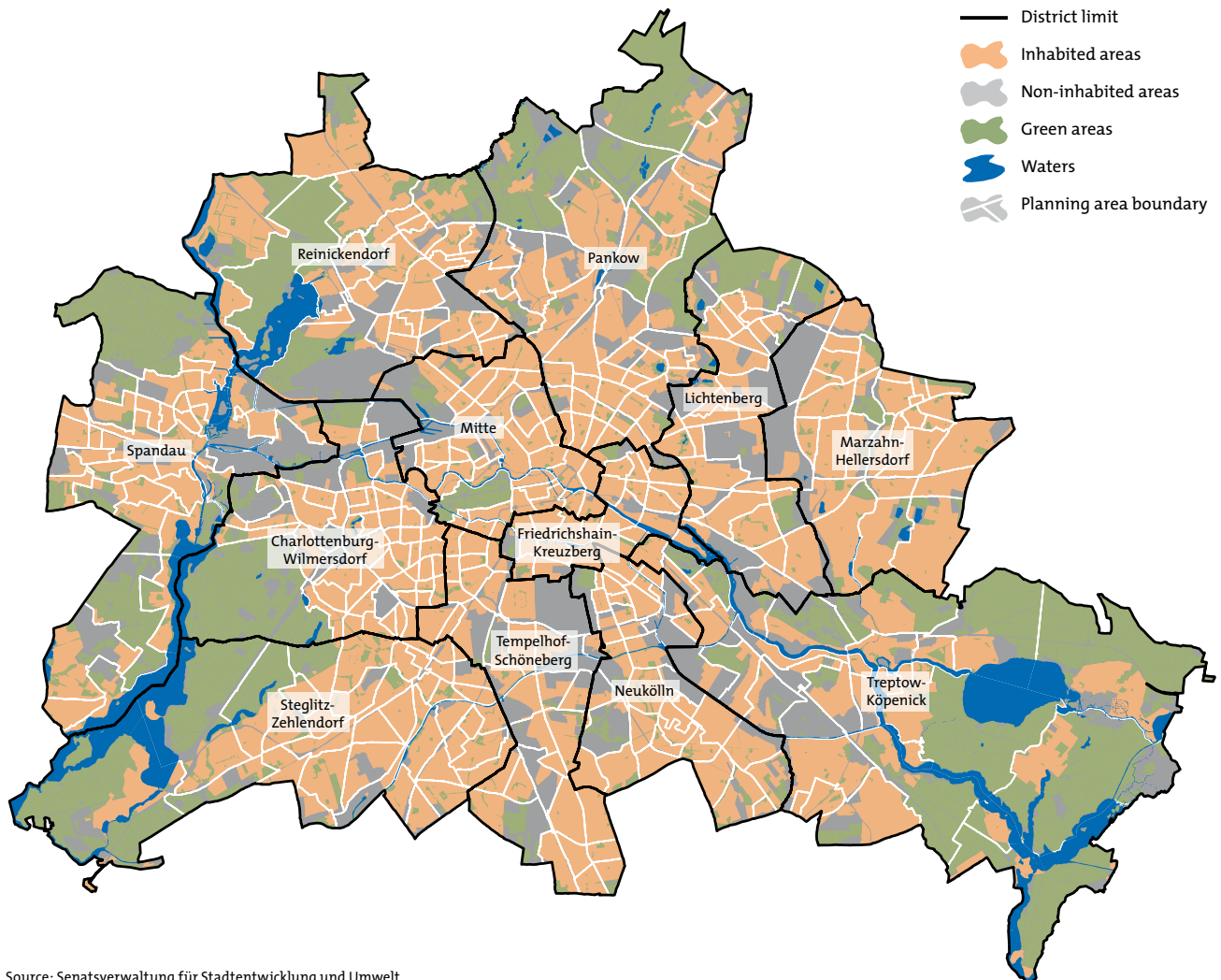
All in all, Berlin's diverse housing market continues to be highly dynamic. That's why we would like to invite you the reader to take a look at the material in this report from your very own market perspective and to paint your own picture of the housing market with the help of IBB's 2012 Housing Market Report.

**Ulrich Kissing**

*Chairman of the Board of Investitionsbank Berlin*




























## Berlin at a glance

### Overview map



Source: Senatsverwaltung für Stadtentwicklung und Umwelt

## Selected data at a glance

KenKey figures for Berlin	Berlin 2011	Change compared 2010	Trend arrow 2013
<b>Economic factors</b>			
Gross domestic product (GDP) in bn EURO	101.4	+2.3 %	
Unemployment rate (related to all members of the civilian working population – in %)	13.3	–0.3 percentage points	
Consumer price index (2005 = 100)	110.5	+2.4 %	
Construction costs per sqm of living space (new building) (EURO)	1,221	–2.7 %	
<b>Housing demand</b>			
Population (at the main place of residence)	3,501,872	+1.2 %	
Number of households	1,995,200	+0.3 %	
Resident(s) per household	1.75	+0.02	
Number of one-person households (%)	54.1	+0.5 percentage points	
Needy households within the meaning of German Social Security Code II (per 100 households)	16.1	–0.6 percentage points	
Average monthly household income in EURO (arithmetical mean)	2,107	+2.0 %	
<b>Housing supply</b>			
Existing housing	1,903,231	+0.2 %	
– of which commonhold flats	1,638,900	+0.6 %	
– of which council housing (pursuant to housing law)	162,192	–1.9 %	
– including commonhold housing with an occupancy commitment (Occupancy Commitment Act)	122,113	±0 %	
Completed new apartments (new building)	4,491	+3.9 %	
– of which new building	3,517	–3.6 %	
Building permits (new building)	7,358	+34.5 %	
– of which new building	5,604	+44.1 %	
<b>Rents and housing market</b>			
Occupancy density (residents per housing unit)	1.84	+0.02	
Living space per residential unit (in sqm)	70.7	+0.1	
Living space per resident (in sqm)	38.4	–0.3	
Longer-term vacancies (share in overall inventory in %)	5.0 (2010)		
Inner-city moving (number of persons moving per 100 residents)	9.1	–0.1	
Rent index, net rent without heating costs (2005 = 100)	108.8	+1.5	
Ancillary rent costs index (2005 = 100)	108.0	–0.5	
Asking rent prices (in EURO net, without heating, per sqm of living space)	7.40	+14.0 %	
Asking purchase prices (commonhold apartments) (EURO per sqm of living space)	2,200	+19.6 %	

## General situation and important trends

In the climate of a global downturn that began in 2011, economic development in Germany initially proved to be robust. Growth was once again exclusively due to successful exports. Over the course of 2012, however, the consequences of the crisis have also been felt in Germany. Fewer investments had a dampening effect on the economy. At the beginning of 2013, German companies considered economic prospects to be mostly positive once again. But it remains to be seen whether the economy will see an upward trend.

In 2012, Berlin as a centre for business emerged relatively unscathed from the euro crisis. Generally speaking, the economy in Germany's capital city is less dependent on industrial sectors that are susceptible to crisis compared to business centres in the southern federal states. Berlin's labour market is currently in a phase of consolidation now that structural changes have been largely implemented. For some time now, the decline in unemployment figures in Berlin has been above the national average. Despite this, the city's relatively high base unemployment is slow to decline because many new jobs are being taken up by people with better qualifications from other regions and by commuters from the greater Berlin area.

The relatively robust development in company services, the growing number of people in jobs, the rise in wages and, above all, growing consumer spending thanks to the explosion in tourism are all having a stabilising effect. This is why, when compared to the nation average, Berlin's economy is developing at a much more stable rate in today's conditions.

The current economic climate is also being fostered by a building sector that continues to thrive in Berlin – not least due to the growing focus on assets which results directly from the financial crisis. Construction orders, most especially in housing but also in other areas, rose over the course of the year and have now reached the highest level since 2002. With an order volume totalling EURO 1.52bn, order books of Berlin-based construction companies for the period from January to September 2012 were up by EURO 107.0m (+7.6 %) against the same period of the previous year. Turnover totalling EURO 1.96bn was already recorded in the first nine months of 2012; that's an increase of 6.9 % against the same period of the previous year. This means that considerable impetus can be expected for construction activities in Berlin in the months to come.

On the downside, Berlin's economic recovery is leading to tension on the housing market which is due to the growing number of people moving to Berlin, especially from outside Germany. According to the latest population forecast from December 2012, Berlin's population will increase by around 254,000 (approx. 7 %) to approx. 3,755,000 by 2030. This increase is roughly equal to a population the size of one of Berlin's districts or of a big city like Kiel or Aachen. This will also put further pressure on demand for housing.

### Market for detached and semi-detached homes

While the rate at which prices for commonhold apartments rose and asking rents increased considerably over the past three years, asking prices for detached and semi-detached homes rose only slightly. The market for detached and semi-detached homes in Berlin is faced with strong competition from the greater Berlin area and is not a key area of focus for investors, so that significant price increases were only possible in selected locations.

### Market for commonhold apartments

Commonhold apartments are now primarily on offer in the city centre and in traditionally good residential areas. The flight of capital into real estate – as a presumably secure monetary investment – and the resultant high demand is leading to rising asking prices for both existing and new buildings. There is a growing trend towards newly built properties and the luxury segment and this is influencing the level of prices accordingly.

### Market for rental apartments

Growing demand on the rental apartment market means that asking prices for new apartments can be raised in a manner that was not possible when the housing market was less tight. What can be seen is that the rise in asking rent prices is now spreading out over the entire city. Within one year, the average asking rent (median) rose by a good 14 % from EURO 6.49 per sqm to EURO 7.40 per sqm.

Within the city, however, housing demand levels and rates and the development of asking rents do continue to differ considerably. The strongest pressure is being felt in central city districts. Considerable increases in asking rents and asking prices are now being noted in areas which up to now remained largely unaffected by this development. Compared to other major cities like Hamburg or Munich, the current average asking rent of EURO 7.40 per sqm (net without heating) is much lower in Berlin, and so too are available household incomes.

The housing sector and investors have not been quick to respond to the shortage in housing supply. Since planning in this area requires a lead time of at least two years, there is still no sign of any change in the rate of building completions compared to 2011, but this is certainly not the case where building permits are concerned. In 2011, building permits were issued for around 5,600 new apartments, that's around 30 % more than in the previous year. However, 10,000 to 12,000 new apartments will be needed in Berlin to cover additional demand in the years to come. Now that there is a trend towards reliable figures, such as rising rents and population figures, new apartments are being planned to cover more diverse demand. Municipal housing associations are becoming more involved in new housing while the public sector is making properties and funds available in order to promote the construction of new apartments.

Politicians have responded to the shortage in housing with a host of measures. The "Alliance for Social Housing Policies and Affordable Rents" is one of the most important measures. In September 2012, the Federal State of Berlin and its municipal housing associations agreed that by 2016 they would expand municipal housing from the current level of 270,000 to 300,000 apartments through acquisitions and new buildings, that they would adapt their current stock of housing to meet demands and limit rent increases in existing municipal housing. Moreover, the urban housing associations have undertaken to rent out 50 % of apartments inside the urban rail ring line and 33 % outside, which are due to be re-rented out, to households in Berlin which qualify for a certificate entitling them to live in subsidised housing. This will considerably improve the potential for lower income households to find housing with urban housing associations.

### Spotlight on the microcensus supplementary survey on the housing situation

Each IBB Housing Market Report contains a current topic that is looked at more closely. The special evaluation of the 2010 microcensus which was published in 2012 provides a good opportunity to take a look at the housing situation for households in Berlin and to examine developments over the past ten years. The microcensus is an official survey involving the biggest survey of households in Germany. Once a year, one percent of all households are questioned about their living situation, and about their housing situation every four years. In Berlin, this survey is conducted for around 18,000 households.

In light of the growing shortage on the housing market, this supplementary survey focuses on the topic of rents and rent burdens borne by households in Berlin.

The advantage of the rent prices identified in the microcensus supplementary report is that they cover the entire range of the rental apartment asking rents which only refer to apartments currently on the market or indexed rents which only consider rents agreed to within four years prior to the survey.

In order to be able to compare the rent prices identified with other rent data in the report (rent index and asking rents), the Berlin-Brandenburg State Statistical Institute was commissioned by the Senate Department for Urban Development and the Environment to perform a special evaluation of the microcensus data for this report on the basis of net rents without heating costs.

On average, net rent without heating costs totalled EURO 5.23 per sqm and was hence significantly below asking rents.

In the period from 2002 to 2012, the increase in existing rents in Berlin was on the whole more moderate. Net rents without heating costs rose on average by approx. 22 %, i.e. almost 3 % each year. However, there were considerable differences found from one district to the next. The highest rate of increase since 2002 of 29 %, for instance, was found in Friedrichshain-Kreuzberg. In Spandau, on the other hand, rents have risen by only 16 % since 2002.

Even if the increase in net rents without heating costs has been moderate on the whole, the rent burden on households did in fact rise. The rent burden is the share of net rent (without heating and service charges) in net household income. In 2002, the average rent burden for households in Berlin totalled approx. 20 % of net household income. By 2010, this figure had risen to around 23 %. Apparently, average net household incomes did not rise during this period sufficiently to compensate for the higher rent burden.

It is especially households where the household reference person is unemployed which must today spend a greater share of their income on rent than in 2002. These households spend an average of 31 % of their income on net rent without heating costs. This is not only the result of higher rents, but is especially due to the changes in social benefits which were introduced with Hartz IV social security legislation in 2005.