

2015 IBB Housing Market Report

Summary

Foreword

Berlin's housing market still has enormous challenges to face. Demographic change has a strong hold on the market. As migration continues to rise, so too does the population. Over the past three years, Berlin's population grew by around 144,000. This corresponds to a population increase in the order of a city the size of Regensburg (population of around 155,000). In 2014, close to 3.5 million people were living in Berlin, a figure that was last reached in 1996. All of these people need somewhere to live. Furthermore, in the near future tens of thousands of refugees will have to be provided with stable living situations outside collective living quarters. On top of that, there is a trend to ever-smaller households so that the mere number of apartments on offer must urgently be increased.

In 2014, 8,744 new apartments were completed, marking an increase of close to 32% against the previous year. Estimates for 2015 foresee between 12,000 and 15,000 apartments being completed. This means that completion figures have once again picked up significantly. A look at building permits shows that this is set to continue. With building permits in 2015 estimated at around 22,000, it is safe to assume that the construction of new apartments will continue to gain momentum.

New apartments are also urgently needed in order to cushion the increase in prices for rented and commonhold apartments. In Berlin, a city with a strong tenant tradition, median rents in 2015 totalled EUR 8.80 per sqm. This figure is up 6.7% against the figure reported in our last Housing Market Report in 2014. Even if some indicators do show signs of a slowdown in price developments, effective easing of the market is still not visible in the short term. Further efforts are required of

all stakeholders in order to ensure sufficient and reasonable supply in the affordable market segment. This is already where shortages are at their worst because social housing is increasingly being phased out. IBB is doing what it can through support programmes for the construction of affordable apartments as well as for adapting existing apartments to meet the needs of the elderly and to save energy.



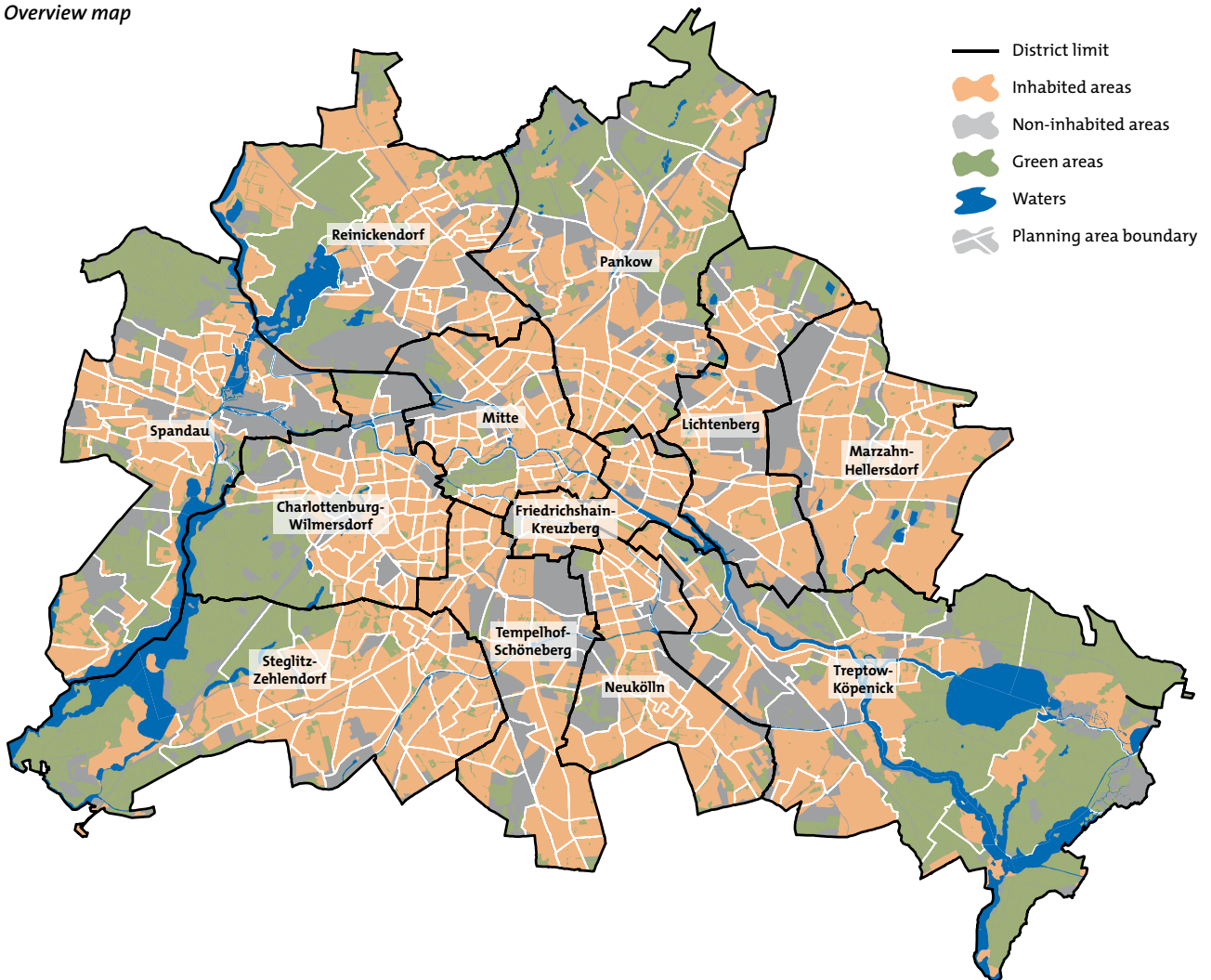
The housing market is a market that is subject to various types of interaction. IBB's Housing Market Report aims to shed light on its central processes and developments. Thanks to many years of continuity, it is helping to create improved market transparency and it offers all stakeholders, from tenants to investors, sound decision support. With this in mind, we would like to invite you once again to use this report to discover for yourself the current situation on the housing market in the capital city.

Dr. Jürgen Allerkamp

Chairman of the Board of Investitionsbank Berlin

Berlin at a glance

Overview map



Source: Senatsverwaltung für Stadtentwicklung und Umwelt

Selected data at a glance

Key figures for Berlin	Berlin 2014	Change compared 2013	Trend arrow 2016
Economic factors			
Gross domestic product (GDP) in bn EURO (2010 = 100)	105.9	+2.2 %	→
Unemployment rate (related to all members of the civilian working population - in %)	11.1	-0.6 percentage points	↘
Consumer price index (2010 = 100)	107.8	+0.8 percentage points	→
Construction costs per sqm of living space (new building) (EURO)	1,318	+8.6 %	↗
New residential building price index (2010 = 100)	110.1	+2.0 %	↗
Housing demand			
Population (at the main place of residence)	3,469,849	+1.4 %	↗
Number of households	1,963,200	+1.6 %	↗
Person(s) per household	1.81	-0.5 %	↗
Number of one-person households (%)	53.9	-0.2 percentage points	→
Needy households within the meaning of German Social Security Code II (per 100 households)	15.9	+0.5 percentage points	→
Average monthly household income in EURO (arithmetical mean)	2,301	+3.6 %	↗
Housing supply			
Existing housing	1,891,798	+0.5 %	↗
- of which commonhold flats	1,602,100	+0.3 %	→
- of which council housing (pursuant to housing law)	135,346	-4.8 %	↘
Completed new apartments (new building)	8,744	+31.7 %	↗
- of which new building	7,069	+52.8 %	↗
Building permits (new building)	19,199	+53.4 %	↗
- of which new building	16,098	+68.1 %	↗
Rents and housing market			
Occupancy density (residents per housing unit)	1.88	+2.2 %	↗
Living space per residential unit (in sqm)	73.0	+0.1 %	→
Living space per resident (in sqm)	38.8	-0.5 %	↘
Rent index, net rent without heating costs (2010 = 100)	107.7	+1.6 %	↗
Ancillary rent costs index (2010 = 100)	100.2	-3.2 %	→
Asking rent prices (in EURO net, without heating, per sqm of living space) *	8.80	+3.5 %	↗
Asking purchase prices (commonhold apartments) (EURO per sqm of living space) *	3,513	+6.5 %	↗

* Review period: 2015, change compared to 2014

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

General situation and important trends

Germany's economic development still stable while Berlin continues its growth course

In 2015, Germany's economy continued to grow primarily due to domestic demand. The driving factors of this development were the favourable labour market and strong increases in available income. Employment also continued to grow at the same rapid pace.

Berlin's economic upswing persisted in 2015 despite the dampening effects on the economy caused by temporary uncertainty in conjunction with the finance policy situation in the euro zone, the geopolitical crises in the Middle East and worries about economic development in important emerging countries. Berlin's labour market benefited considerably in 2015 from the strong expansion of the services sector. The number of people in regular jobs has already been rising in Berlin since 2006. The annual average unemployment rate in 2015 was well below the figure for 2014.

Trend in demand

With an annual increase of around 40,000 people and more, population growth in Berlin has been dynamic in recent years. Since 2012, the city's population has grown by around 144,000. At the end of 2014, around 3.5 million people were living in the city. This figure was last reached in the city in 1996. This means that the population losses recorded after the fall of the Wall have now been practically erased. If we look further, around 4.3 million people currently live in the greater Berlin area.

All of the city's districts are benefiting from this growth, especially the Mitte and Pankow districts with their high population figures. The latest forecast by the Senate Department for Urban Development and the Environment expects to see Berlin's population grow by 7.5% or around 266,000, respectively, by the year 2030 (mean variant; as per December 2015).

This population development results from both total natural population development (deaths/births) and migration. Since 2007, Berlin has been recording an excess of births over deaths that continues to rise. In 2014, there were 5,055 more births than deaths, the highest rate since 1990.

However, population growth in recent years has largely resulted from migration, especially from abroad. In 2011, an average of more than 30,000 people per year came from other countries to Berlin. With a view to the age of those coming to Berlin from other parts of Germany and other countries, it can be seen that the city is extremely attractive for people between 20 and 30 years of age. Since 2011, this age group has accounted for a good three quarters of the people moving to Berlin. In 2014, all of Berlin's districts recorded increases in the number of people moving there with Berlin's Mitte district recording the highest number, i.e. around 5,700 people.

A significant trend reversal can be seen in migration in the area around Berlin. The number of people moving here increased once again, reaching the highest level in 2014 since 2005: In total around 9,200 more people moved to the greater Berlin area than in the other direction. That being said, this figure must be seen in relation to the city's continuously growing population and is also a far cry from the "catch-up suburbanisation" figures of almost 30,000 people annually that were recorded in the mid-1990s.

Demand on the housing market is largely determined by the situation and development of private households. Compared to the previous year, the number of private households rose by 1.6% to around 1,963,200. More than four fifths of all households in Berlin are small households with one or two people and the trend is rising.

Since 2005, monthly net income for households of all kinds rose by an average of 20.5%. The strongest growth was recorded with large households with four people or more (+28%). In 2014, the average net monthly income for a household in Berlin totalled EUR 2,301. Due to their income situation, 51.1% of all households in Berlin would be entitled to social housing.

Trend in supply

The rate of new building construction that has been rapidly accelerating since 2011 is reflected in the number of completed homes. Compared to 2013, the number of completions in 2014 rose by around 32% to 8,744 apartments. Growth in 2014 is largely due to new homes in apartment complexes which account for close to 60% of all homes completed. This means that housing in Berlin is focused on rented and commonhold apartments. In 2015, 12,000 to 15,000 apartments are expected to be completed.

Building permits are a key indicator for how completions will develop in the future. Compared to 2013, the number of permits rose sharply once again to 19,199 apartments. The increase from 2013 to 2014 is almost exclusively due to building permits for apartment complexes, so that this segment with 14,061 apartments accounted for almost three quarters (73%) of all building permits. It can be assumed that this upward trend in completions will continue. This is strongly indicated by the higher number of apartments already approved in 2014 alone and up to 22,000 apartments in 2015.

Since 2012, we have been witnessing dynamic development in the conversion of rented to commonhold apartments. In 2014, 11,296 rented apartments (i.e. 0.7% of Berlin's rented apartment stock) were converted to commonhold apartments. This corresponds to a further increase of close to 23% compared to 2013.

Since 2005, the expiration of rent control agreements has reduced Berlin's stock of social housing by more than a third (-35.4%), from approx. 209,000 apartments to around 135,000 at the end of 2014. This means that at the end of 2014 approx. 8.4% of all rented apartments in Berlin were social housing.

Market for detached and semi-detached homes

The purchase price for privately owned homes rose once again in 2015. In the 4th quarter of 2015, the mean value (median) of all new or existing homes on the market totalled EUR 349,800 and was around 43% up against the value recorded at the beginning of 2008 (EUR 245,000). This corresponds to an annual average increase of around 6%.

Buying a home is primarily popular in the outer city areas. In the inner city, this segment is hardly significant and there were practically no cases recorded in 2015 within the urban rail ring. The highest asking prices with mean values (median) of more than EUR 450,000 were recorded primarily in the upmarket areas of Zehlendorf in the south-west of the city. This comparatively high price level can also be seen in the nearby surrounding areas.

Privately owned homes with the lowest asking prices in the city are mostly to be found near the city outskirts, primarily in the districts of Treptow-Köpenick, Pankow, Marzahn-Hellersdorf and Spandau. The relatively affordable level is also often reflected in similar mean values for asking prices beyond the city borders.

Market for commonhold apartments

Asking prices for commonhold apartments in Berlin have been moving in one direction only for some years now. Up to the first quarter of 2015, they rose continuously. By mid-2015, the average asking price (median) had more than doubled at EUR 3,663 per sqm compared to 2008 and the beginning of the period under review. After this, a certain degree of consolidation set in. In the last two quarters of 2015, the average asking price fell slightly in each case, reaching EUR 3,426 per sqm at the end of 2015. The differentiated evaluation shows that newly built commonhold apartments were most recently offered for an average price of EUR 4,343 per sqm. In the case of existing commonhold apartments, the mean price level totalled EUR 2,919 per sqm (4th quarter of 2015). The analysis for the city as a whole clearly shows that asking prices have shifted more in favour of the upper price range to above EUR 3,000 per sqm and higher. Around 64% of all commonhold apartments on offer in Berlin in 2015 were in this price range. Commonhold apartments in inner city districts are fetching high prices whereas in Spandau and Marzahn-Hellersdorf they remain relatively affordable.

In the municipalities around Berlin, prices for commonhold apartments are usually much lower. The highest mean prices outside Berlin can be found in the federal-state capital of Potsdam.

Market for rented apartments

Rising rents on Berlin's housing market are proof of growing market tension. The average rent (median) in 2015 totalled EUR 8.80 per sqm. This marks an increase of 6.7% compared to the average of EUR 8.25 per sqm reported for the 4th quarter of 2013 to the 3rd quarter of 2014 in the 2014 Housing Market Report. Compared to the average value for the year 2014 as a whole, this is an increase of 3.5%. A third of all apartments available for rent in 2015 had a price tag of more than EUR 10.00 per sqm. A differentiated evaluation shows that the average net rent without heating costs for new rent contracts totalled EUR 8.60 per sqm and was therefore lower than the average of EUR 13.00 per sqm charged for new apartments.

In 2015, high, above-average asking rents were primarily found close to the inner city. Within Berlin's urban rail ring, mean asking rent prices of less than EUR 10.00 per sqm are difficult to find. In 2015, only around 22% of all asking rents were below EUR 7.00 per sqm. Apartments with rents of less than EUR 5.00 per sqm (net without heating) are almost non-existent in the city (1% of all offers).

Key topic: Conversion to create new living space

Each IBB Housing Market Report addresses a current topic. This year, the spotlight is on "conversion" that has once again become increasingly relevant in recent years in Berlin.

Due to strong population growth and persistently smaller households, demand for additional housing is growing continuously in Berlin. This demand must be primarily met by building new homes. Another option is to convert existing buildings that were originally built and used for other purposes, such as former commercial, industrial and office space. There are also projects where special properties have been converted. This year, IBB's Housing Market Report presents six selected examples in Berlin that demonstrate the potential and challenges of conversion. The projects presented are a former hospital, a partially converted church, a former prison, an administration building, a factory and a former department store. Following conversion, the buildings are put to different types of use. In the projects presented, both rented and commonhold apartments were created.

The examples listed clearly show that conversion can tap into additional potential for creating urgently needed new housing even if some of the projects were of a smaller scale. It goes without saying that each of these projects must be seen and implemented as a single-case project. However, they can help to effectively ease the market.