

# *2008 IBB Housing Market Report*

## Summary

## Foreword

Berlin always was and still is a city of tenants. Due to this special characteristic, the development of rents is a focal issue of our housing market monitoring.

At first glance, it may be comforting to see that lately rents in Berlin followed a generally moderate trend. The in-depth analysis shows a certain tension in sub-markets. Furthermore, the level of new construction activities has been low for several years. In view of the growing number of private households, the question is now whether the supply situation will be sufficient in terms of pure numbers – not to mention new qualitative needs which an ageing society brings with it. The situation is similar when it comes to energy-saving measures which have the potential not only to open up economic advantages but also to contribute towards a higher quality of living in the properties concerned.

A change in general conditions is foreseeable. So far, Berlin is feeling, at most, the first signs of the economic and financial crises. Especially with a view to low average incomes as the most urgent problem facing Berlin's housing market, there is at present little reason for optimism. However, the market is also starting to move and our organisation will be pleased to contribute towards new impulses on the supply side.

Berlin's housing market is on the move – in this report, we are taking this very literally by addressing the focal topic of "population structure and migration". Berliner's ties to their respective neighbourhoods are seen to be traditionally very strong. This appears to be confirmed by our analyses of migration within small neighbourhoods. Important indicators also vary strongly within the individual districts.

All this would be ignored if we were to merely focus on district averages. This shows how important market monitoring is even on a small-scale level. Differentiated knowledge of the market is vital also for the supply side.

However, the monitoring of Berlin's housing market will nevertheless also address the district level in sufficient detail. This motivated us to analyse and present the specific structures of individual districts, beginning with Neukölln. This "district in the focus" is to help develop a differentiated view of the facts – and to enable the analysis of selected topics solely in the context of a single district. The small-scale migration analysis for northern Neukölln is just one example.

With the "2008 IBB Housing Market Report", we would like to invite you to obtain a detailed picture of the situation on Berlin's housing market, and we wish you every success in your activities as players on the market.



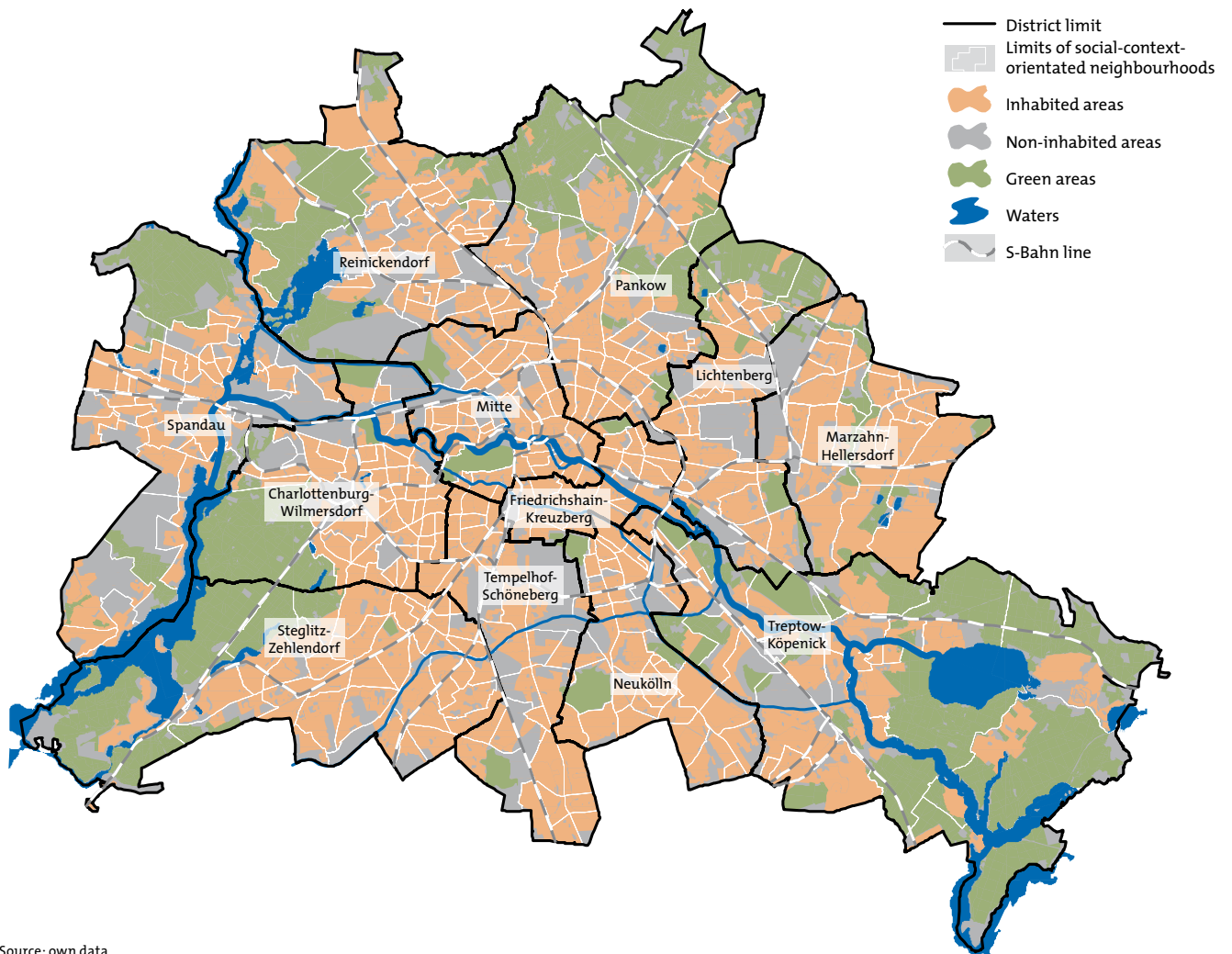
A handwritten signature in blue ink, appearing to read "d. Puchta". The signature is stylized and fluid.

**Prof. Dr. Dieter Puchta**

*Chairman of the Board of Investitionsbank Berlin*

## Berlin at a glance

### Overview map



Source: own data

## Selected data at a glance

| Parameter   | Berlin<br>2007 | Change<br>against 2006 | Trend arrow<br>2008 |
|---|----------------|------------------------|---------------------|
| <b>Economic factors</b>   |                |                        |                     |
| Gross Domestic Product (GDP) (EUR bn)   | 83.6           | +2.1 %                 | →                   |
| Unemployment rate (%)   | 15.5           | -2.0 percentage points | →                   |
| Cost of living price index (2000 = 100)   | 110.7          | +1.9                   | →                   |
| Costs per sq.m. of living space (EUR)   | 1,096          | -1.4 %                 | →                   |
| <b>Housing supply</b>   |                |                        |                     |
| Existing housing  | 1,887,516      | +0.17 %                | →                   |
| – including council housing (pursuant to housing law)                               | 205,746        | -4.6 %                 | →                   |
| – including housing with an occupancy commitment                                    | 125,102        | -0.7 %                 | →                   |
| Buildings completed   | 3,718          | +18.9 %                | →                   |
| Building permits  | 4,889          | -2.6 %                 | →                   |
| <b>Housing demand</b>   |                |                        |                     |
| Population (at the main place of residence)   | 3,416,255      | +0.4 %                 | →                   |
| Number of households  | 1,941,000      | +0.6 %                 | →                   |
| Resident(s) per household   | 1.75           | 0.0                    | →                   |
| Number of one-person households (%)   | 53.0           | +0.3 percentage points | →                   |
| Needy households pursuant to German Social Security Code II for each 100 households | 17.3           | -0.7                   | →                   |
| Average monthly household income (median) in EUR                                    | 1,475          | 0.0                    | →                   |
| <b>Rents and housing market</b>   |                |                        |                     |
| Occupancy density (residents per housing unit)                                      | 1.81           | 0.0                    | →                   |
| Housing supply (housing units for each 100 households)*                             | 98.1           | -0.4                   | →                   |
| Living space per residential unit (in sq.m.)  | 70.2           | +0.1                   | →                   |
| Living space per resident (in sq.m.)  | 38.8           | 0.0                    | →                   |
| Longer-term vacancies (share in overall stock)                                      | 5.71           | 0.01 percentage points | →                   |
| Inner-city moving (number of persons moving per 100 residents)                      | 10.3           | +0.3                   | →                   |
| Rent index, net rent without heating costs (2000 = 100)                             | 110.2          | +0.8                   | →                   |
| Ancillary rent costs index (2000 = 100)   | 116.4          | +1.7                   | →                   |

\* without homes for the elderly

## General situation and important trends

### Changing economic conditions

In 2008, the positive economic conditions in Berlin initially continued to stabilise. This means that Berlin's economic performance has increased three years in a row. However, the repercussions of the financial and economic crises were already felt in 2008. The increase in economic performance slowed down and a decline in economic performance must be expected for 2009. The labour market was not initially affected. Since 2004, employment has risen in Berlin, mostly above average. Parallel to this, the unemployment rate fell significantly on an annual average, but still remains on a high level compared to the rest of Germany. However, in view of the weakening economic environment, unemployment figures are likely to increase with a certain delay.

### Positive population trend thanks to migration from outside and a slight birth surplus

Berlin's population continues to grow at a moderate pace. Slight population growth is also expected for the coming years. For the first time since the fall of the wall, an – albeit small – birth surplus was recorded in Berlin in 2007. External migration contributed much more towards the positive population development, all the more so since the highest net immigration rate since 1993 was recorded in 2007 – primarily from the east German federal states. The share of the elderly has been increasing overproportionately for several years. In the coming years, especially the share of the very old will increase significantly whilst the share of children and youths will stabilise more or less at today's level.

### Number of households continues to grow faster than the population

The number of households in Berlin is growing faster than the city's population – the main influence on the demand side of the housing market. This means that the same number of inhabitants as in 1998 was now distributed to 8 % more households in 2007. The average household size continued to decrease, especially due to a growing share of one-person households which has already reached a level of 53 %, a figure that is quite typical for large cities. 1.75 people on average live in a household in Berlin. The number of households can be expected to continue to increase, albeit at a slower rate than in previous years. This will characterise the medium-term to long-term demand for living space in qualitative terms.

### Below-average income growth despite positive labour market impulses

Incomes in Berlin rose only marginally in recent years despite positive labour market impulses. Furthermore, the increases have been lower than the federal average for several years, so that Berlin's figure currently totals just 83 % of the average value for all of Germany. The discrepancy is particularly striking when compared to the average per-capita incomes in other large cities in Germany. Furthermore, a striking difference in buying power exists between lower-income inner city and higher-income peripheral areas of Berlin.

### Growing shares of existing new buildings

The supply side of the housing market is currently not very dynamic: The moderate growth in housing stock, which was already only moderate in recent years, has weakened further recently. Most new apartments were built in one and two family homes. New apartments resulting from construction measures in housing stock are becoming increasingly important. In recent years, their share rose continuously to around 9 % of new construction volume and is likely to continue growing. Uncertainty on the supply side is foreseeable due to the weakening economy. In autumn 2008, the IBB's housing barometer for the year 2008 already showed a clear consolidation of the investment climate on Berlin's housing market. This means that the number of completed construction projects can initially be expected to stagnate or even decline.

### Stabilising ownership situation on the rented housing market

The high share of rented housing is a key characteristic of Berlin's housing market. Following sometimes strong changes in ownership structure in recent years, the situation has now begun to stabilise. City-owned housing companies owned 16 % and housing associations 11 % of existing rented housing. However, it remains to be seen to what extent the business models of institutional investors, which acquired larger volumes in recent years, will prove to be tenable in light of the global financial crisis. Major changes on the supply side on Berlin's housing market could take place in this respect, if at all.

### Market tension, if any, in sub-areas

Berlin's housing market is currently characterised by a generally moderate rent development. Increasing rent levels are primarily found in the Friedrichshain-Kreuzberg and Mitte districts. Despite a likely backlog, rent development in Friedrichshain-Kreuzberg was no longer linked to the development of incomes. Accordingly, market tension continues to exist in certain sub-markets or parts of the city. Analyses of short-distance migration suggest that strong supraregional immigration is additionally fuelling demand. As a whole, one cannot say that the market situation in all of Berlin is generally tight. The level of asking rents is far below that of other large cities in Germany. However, the general development of Berlin's housing supply is marked by a continuously declining trend.

### Vacancies even in good locations

Longer-term vacancies continue to stagnate. Berlin's Mitte district continues to record the highest share. Above-average vacancy rates are generally found mostly in simple inner-city locations with stocks of old buildings, even in popular neighbourhoods. This demonstrates that vacancies are not automatically an indicator for relief in sub-markets. Moreover, certain multi-storey residential settlements from the post-war era in more peripheral locations are also affected by higher vacancy rates. The reasons for vacancies are correspondingly diverse: Besides unfavourable location parameters, poor structural conditions or a lack of professionalism on the part of landlords, structural reasons must also be considered in many cases. What's more, it seems that certain apartment and residential space offerings or features are no longer compatible with today's demand. A difficult social environment is an obstacle to renting out in other areas.

### Social problems becoming increasingly important as a market factor

The current survey on IBB's housing barometer for the year 2008 suggests that aspect of growing social problems due to segregation is also felt in conjunction with the most frequently quoted market problem. According to the market players, however, low incomes continue to dominate as the key problem – before rising ancillary costs. In 2007, ancillary costs were around 16 % higher than in 2000. During the same period, average net incomes rose to a much lesser degree. This also concerns the average rent burden rate in Berlin which has been increasing since 2002, totalling around 28 % for all households and more than 32 % for one-person households in 2006.

### Low incomes are the main problem of Berlin's housing market

Low incomes are basically the main problem on Berlin's housing market. The expected shortage in the sub-segment of affordable housing must hence be seen as a warning – all the more so since the average price level in use-restricted housing continues to rise. At the end of the day, the housing market will have to be judged with a view to whether an offering is implemented which corresponds to specific local demand. The residential market can only be a real location factor for Berlin if the social mix can be additionally maintained and segregation trends effectively countered. The increasing differentiation on the housing market must hence be carefully monitored with regard to this aspect.