SKJERVEN GROUP - *Monthly Newsletter* BERLIN - OCTOBER 16, ISSUE #10/2020

BER *What impact will the opening have on the* BERLIN REAL ESTATE MARKET?

"Did you hear about the new grammar reform? it includes a new tense, Futur III, to allow us to speak of the completion of Berlin/Brandenburg airport." This is just one of many jokes about the scandalous airport BER in recent years. On October 31st, 2020 this running gag will finally come to an end and the airport will be ceremonially opened.

This raises the question: What effect will the completion of Europe's largest airport construction site have on Berlin and the local real estate market? First of all, the infrastructural and traffic focus will shift from Berlin-Tegel in the north of the city to the south. This will not only shift air traffic, but intensify it. The increase in international direct flight connections will further strengthen Berlin's status as a global metropolis. A total of 28 million passengers per year are expected to be transported via the BER.

Upgrading around Tegel

The most obvious effect on the residential property market is the upgrading of the Reinickendorf district, which is home to Tegel Airport. Where aircraft still fly over the roofs today, aircraft noise will soon cease.

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In addition, the area will in future be home to a research and industrial park for urban technologies, a smart city, various green spaces and local recreation facilities. In addition to test tracks for autonomous driving and mobility hubs, it is also planned that the Berlin Beuth University of Applied Sciences will move into the former main terminal.

But also the sub-markets in the immediate vicinity of BER will benefit sustainably from the opening and experience an enormous revaluation. Global corporations will be followed by SMEs and local suppliers and will enliven the environment around the tarmac.

Numerous new construction projects will drive a structural change. For example, approx. 54,000 m² of campus space, mainly office space, supplemented by a hotel and local amenities, is expected to be completed in 2023 directly adjacent to BER, developed by the Düsseldorf project developer Alfons & Alfreda in a joint venture with the Frankfurt aamundo Immobilien Group.

Great Potential

The BER will unleash enormous potential in the real estate market. However, this will require a change in people's minds. Residents and office users as well as investors must become aware that the new airport will change the existing traffic flows and with it the Berlin urban structure. Spatial priorities must be rethought and reconnected, and the corresponding corridor will gradually expand from the center to the south.

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This rethinking will take time - as will future travel. For with just under 25 kilometers instead of the previous 10 kilometers, BER is much further away from the city center than Tegel. These additional commuting minutes will not only be reflected in the traffic flows, but will also be a new point of reference for any rental and purchasing decisions. The sub-markets between the city center and the new international airport will attract new attention - the potential for value growth here is correspondingly high. And the companies and start-ups in Berlin will also reorient themselves in the long term.

The runway in Schoenefeld will not only be used for airplanes, but also for many other things and will serve as a runway for various projects - both in terms of the real estate market and the corporate landscape and start-up scene.

Real estate prices in Germany rise despite crisis, but risk of bubbles low

The real estate and housing markets in Germany have so far been largely unaffected by the Corona crisis. As a current weekly report of the German Institute for Economic Research (DIW Berlin) shows, rents and real estate prices have continued to rise despite the historic economic slump. However, the momentum has slowed down somewhat, at least in terms of rents. Compared with the first quarter of 2020, they have recently risen by around one percent. Before the turn of the year, the increase was still around 1.4 percent. The proportion of districts with falling new contract rents has risen from just under 15 percent to around 27 percent. At 3.3 percent compared to the beginning of the year, the price increase for apartments in the second quarter remained roughly as strong as before the crisis (3.2 percent). Overall, the price upturn on the real estate market is thus entering its tenth year and has now reached virtually all regions in Germany. The corona crisis is thus not reflected in a calming of the real estate market.

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"It is good news, at least for the stability of banks and financial markets, that the Corona crisis and the associated distortions in the real economy have so far not caused any turbulence in the real estate and housing markets in Germany".

"If the economic crisis were to spill over to the real estate sector and real estate loans were then to default on a larger scale, this could cause additional difficulties for many banks. The last thing politics, business and also the taxpayers need right now are stumbling banks and collapsing real estate markets - the challenges are big enough already".

Claus Michelsen
DIW Head of Economic Affairs

On the other hand, the development is also a cause for concern, according to Michelsen, because it is precisely the low-income households that have to accept a drop in income during the crisis as a result of short-time work (Kurzarbeit) and loss of income from self-employment. As a result, the rent burden ratio, i.e. the proportion of disposable income accounted for by rent, is likely to rise and restrict consumption opportunities. "The already tense housing market situation will thus become even more problematic, at least for parts of the population," said Michelsen.

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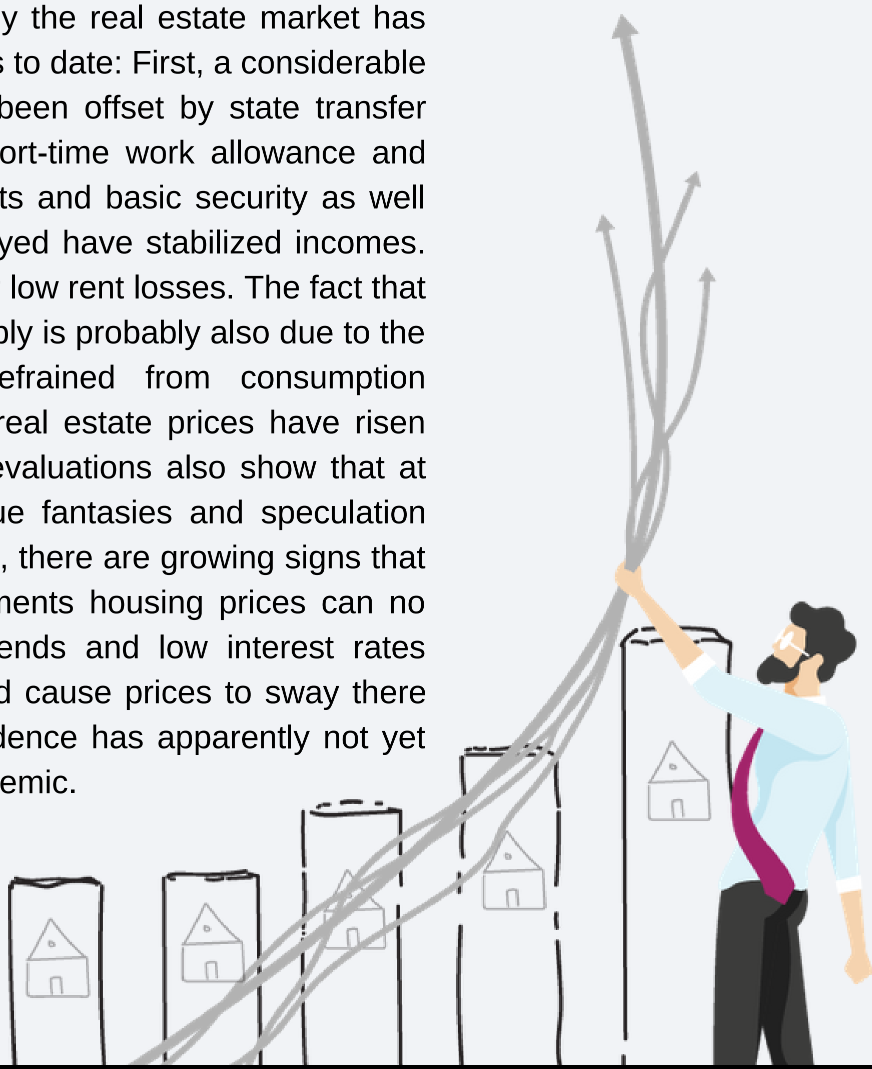
Partly strongly rising purchase prices for real estate, but healthy price-rent relationship

There are two main reasons why the real estate market has not experienced major upheavals to date: First, a considerable portion of the lost income has been offset by state transfer payments. For example, the short-time work allowance and easier access to housing benefits and basic security as well as assistance for the self-employed have stabilized incomes. This is also reflected in the so far low rent losses. The fact that rents have so far been paid reliably is probably also due to the fact that households have refrained from consumption elsewhere. Secondly, although real estate prices have risen massively in recent years, the evaluations also show that at least not across the board value fantasies and speculation have driven prices. Nevertheless, there are growing signs that in some cities and market segments housing prices can no longer be explained by rent trends and low interest rates alone. The economic crisis could cause prices to sway there in particular - but investor confidence has apparently not yet been shaken by the corona pandemic.



No danger of a Real Estate bubble

The researchers have also examined the danger of a real estate bubble. It is true that explosive price patterns can be detected in growing and rapidly expanding cities, both for owner-occupied homes and rented apartments and for building plots. However, with regard to the relationship between purchase prices and rents, this is not the case in most cases. Indicators such as the development of lending also tend to speak against a speculatively driven price bubble. For example, the volume of new business in the area of housing loans is stable in relation to gross domestic product.

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Study:

Apartments and houses will become significantly more expensive by 2030

Rising prices for residential property can also be expected in the future. The corona crisis is unlikely to change this situation. Experts from the Hamburg Institute of International Economics (HWWI), who produce an annual purchase price forecast for the Postbank Housing Atlas, arrive at this assessment. Although the calculations are based on data collected before the corona pandemic, the forecast is likely to be largely stable. In more than half of the 401 German districts and cities, homeowners can therefore expect their property to increase in value in real terms until at least 2030. According to the HWWI's analysis, one reason for the unbroken high level of demand is above all the attractiveness of the major cities: The population figures in and around the urban centers are likely to continue to rise.

Berlin with significant price increases

For Munich, the experts forecast an annual purchase price increase of 1.70 percent in real terms. On average, real estate buyers in the Bavarian capital will have to invest 8,079 euros per square meter as early as 2019. According to the calculations, high rates of increase are also to be expected in Düsseldorf and Cologne: In Nordrein-Westfalen's state capital, the forecast increase is 1.21 percent annually. In Cologne, home ownership is likely to become more expensive by an average of 1.06 percent per year. For Berlin, the expected price increases are 1.0 percent per year and thus significantly higher than forecast in the Housing Atlas 2019, which showed an annual increase of 0.76 percent. In Frankfurt am Main, prices will rise by 0.8 percent annually until 2030. This is the weakest increase among the seven largest German metropolises.

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Changing job market:

How more home office changes the demand for office and residential in Berlin and other German cities

The Covid 19 crisis has significantly changed the importance of home office and a long-term increase in remote working would also have consequences for the demand for housing in Germany. Increased use of home office reduces commuting costs and extends the catchment area of a regional labor market. In housing markets with a large difference in the price of housing compared to the surrounding area and where housing is not as affordable, people will be increasingly drawn to the surrounding area. These effects would be particularly pronounced if the increased importance of private office space, own outdoor and green spaces in the wake of the Covid 19 crisis, as well as the desire for more living space, were to be reflected in housing demand in the long term. JLL has investigated which areas could benefit particularly strongly from the spatial expansion effects of housing demand. A total of 25 cities in Germany can be identified which not only have a very high price differential to the surrounding area, but also where real estate ownership is below average - necessary conditions for expansion effects to occur at all.

After Munich, Cologne, Düsseldorf and Frankfurt am Main have the greatest potential for expansion. With Darmstadt, Jena and Karlsruhe in 5th to 7th place, there are some small surprises. Only in 8th and 9th place come the city states of Berlin and Hamburg.

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Changing job market:

Top 20 according to the Expansion Potential Score

Name	Score total*	Home Office Potential	Price difference to surrounding area (in €/m²)	Name	Score total*	Home Office Potential	Price difference to surrounding area (in €/m²)
München	100	99	1.976	Münster	83	90	1.693
Köln	98	97	1.309	Freiburg/Breisgau	81	85	1.148
Düsseldorf	93	96	1.888	Bayreuth	80	73	1.058
Frankfurt/Main	93	99	2.171	Braunschweig	79	96	1014
Darmstadt	92	100	1.081	Oldenburg	77	92	819
Jena	89	87	1.516	Koblenz	75	87	1083
Karlsruhe	88	98	931	Landau/Pfalz	75	67	914
Berlin	86	91	2.001	Leipzig	74	80	861
Hamburg	85	92	2.097	Bremen	71	83	582
Dresden	84	89	962	Suhl	70	70	1181

Source: JLL

*The scoring values are normalized to a scale from 0 to 100, where the value 100 represents the highest relative potential for demand shifts. The Total score includes the home office potential and the price drop as well as the other indicators mentioned above. The table contains the regions that also meet the necessary conditions.

In addition to these indicators, the strength of possible expansion effects is influenced by other factors, which are combined into a potential figure in this analysis using a scoring system. The most important factor is the home office potential of the respective labor market, which is determined on the basis of the local industry structure and the home office affinity of the respective industries. The larger the share of home office-affine industries in these 25 regions, the more the home office trend can shift the demand for housing to the surrounding area.

The potential expansion of the demand for housing into the surrounding area means that the cities identified do not lose any of their attractiveness. It is not without reason that the level of rents in these housing markets is very high in relation to the surrounding area, which is an expression of the relative attractiveness overall. A possible relocation will only affect parts of the total demand, urban living will remain the preferred form of housing for many people. Nevertheless, a relocation effect could have an impact on the level of rents and purchase prices and could have a somewhat dampening effect, especially where the market is very tight.