



BERLIN RENT CAP (MIETENDECKEL) SEVERELY REDUCED SUPPLY OF RENTAL APARTMENTS

The supply of rental apartments in Berlin has collapsed by up to 60% due to the rent cap (Mietendeckel) and remains at this level after its abolition. This is the result of a new study by the ifo Institute. Already after the announcement of the rent cap, the supply of apartments in Berlin fell sharply. In the area not affected by the rent cap, supply increased at an above-average rate after the announcement of the rent cap, but this trend reversed with its abolition.

The abolition of the cap caused rents to rise again significantly for the apartments affected by it. Previously, rents in Berlin had risen by an average of 11 percentage points less per quarter than in other major German cities as a result of the cap.

For apartments not affected by the rent cap, rents rose by an average of 5 percentage points more than in other major German cities during the period in which the Berlin rent cap regulations were in force. Even after the abolition of the rent cap, rent growth was still higher than in other major cities.



"The Berlin Senate has done Berlin tenants a disservice with the Mietendeckel. The situation on the housing market has worsened. Tenants have up to 60% fewer apartments available, and rents have risen. The winners are the landlords,"

says Einar Skjerven, Managing Director of the Skjerven Group.

On April 15, 2021, the Federal Constitutional Court declared the Berlin rent cap unconstitutional. Apartments that were ready for occupancy for the first time before 2014 (regulated area) were subject to the Berlin rent cap. Newly built apartments that were ready for occupancy for the first time from January 1, 2014 were not affected by the rent cap (non-regulated area).

The study is based on data from the real estate portal [immowelt.de](https://www.immowelt.de). For the evaluation, the authors compared developments in Berlin with those in other major German cities with at least 500,000 inhabitants. The data relate to rental and purchase offers, not to the actual conclusion of contracts.



**JLL:
Rents and Purchase
Prices in Berlin
Continue to Rise**

Living in Berlin is becoming increasingly expensive. This not only affects new leases and rents in existing properties, but also home ownership. Anyone who wanted to buy an apartment in the German capital in 2021 had to pay an average of 12% more than in the previous year. JLL has calculated a median of €5,560 for the prices paid per square meter. **Purchase prices have thus almost doubled since 2014. The situation is similar for new leases: Asking rents were 13.85 per square meter, according to JLL.**

Residential Construction Shrinks

Measured against demand, too little is being built in Berlin. Building permits have been declining for years and in 2020 even fewer apartments were completed than in the previous year. Due to the pandemic, approval processes at Berlin authorities have slowed down. There were also staff and material bottlenecks on construction sites.

Slight Decline After Strong Growth

In 2020, a slight decline in immigration to Berlin was observed for the first time after years of growth. This is mainly due to the restrictions caused by the Covid 19 pandemic, as Berlin has benefited greatly from the immigration of young people from abroad in recent years. This path has been almost cut off in the last two years.

However, it can be assumed that the decline due to the pandemic is only a temporary effect and that immigration will return to the old level once the restrictions are lifted, due to Berlin's continued high attractiveness.





Ukraine War Exacerbates The Situation

Additional demand is being generated by the war in Ukraine. According to the Senate, more than 50,000 Ukrainian refugees have already applied for a residence permit in Berlin. They need housing in the short term, mostly in the affordable segment, which contributes to the further tightening of the housing market. However, project developers are facing new challenges due to the war situation. On the one hand, financing interest rates have risen significantly, and on the other, the availability of building materials and skilled labor on construction sites has declined sharply. In addition, significant increases in the cost of materials are making themselves felt.



Central Districts Clearly On The Up

Prospective buyers are paying an average of €6,540/sqm in Berlin Mitte. In the districts of Pankow and Charlottenburg-Wilmersdorf, prices are 6,150 euros/sqm and 6,100 euros/sqm respectively. The lowest-priced condominiums are on offer in Marzahn-Hellersdorf at 3,770 euros/sqm and Reinickendorf at 4,230 euros/sqm.



The purchase price range thus extends from around 3,000 euros/sqm in Marzahn-Hellersdorf and Spandau to more than 10,000 euros/sqm in Berlin Mitte.

Institutional Investors Still Interested

Institutional investors are not deterred by the price increases. Based on the preliminary figures for 2021 from Berlin's expert committee, 511 transactions involving apartment buildings can be identified, which represents an increase of 11% compared with the previous year. The transaction volume increased by 17% to €2.43 billion. In the case of residential and commercial properties, the transaction volume even increased by 36% to €3.58 billion with 401 sales, which is 5% more than in 2020.



The Serviced Apartment Market Continues to Grow




The Corona pandemic is not over yet, the war in Ukraine and the economic uncertainties cast shadows on numerous industries. Nevertheless, business expectations among providers of serviced apartments in Germany are brightening considerably. While at the beginning of 2021 only 13% of those surveyed assessed the market outlook as good or very good, according to a recent report by the company Apartmentservice, this figure has now risen to 42%. This is due not least to the fact that occupancy rates have now risen significantly again, the report says.

Further Growth Planned

This is matched by the fact that the serviced apartment segment as a whole continues to grow. By the end of 2024, Apartmentservice expects further expansion of 37% in Germany, which would be equivalent to around 15,000 additional units.

In addition, conversions and acquisitions have become important components of many operators' expansion strategies. Uncertainty reigns above all, over the extent to which the classic hotel industry will spread into the serviced apartment sector. Last year, there were many indications of a major commitment. At that time, comparatively good occupancy figures in the long-stay segment had attracted the classic hotel industry. In the meantime, however, many have adopted a wait-and-see approach.



ifo: Shortage of Materials on Construction Sites More Dramatic Than Ever Before

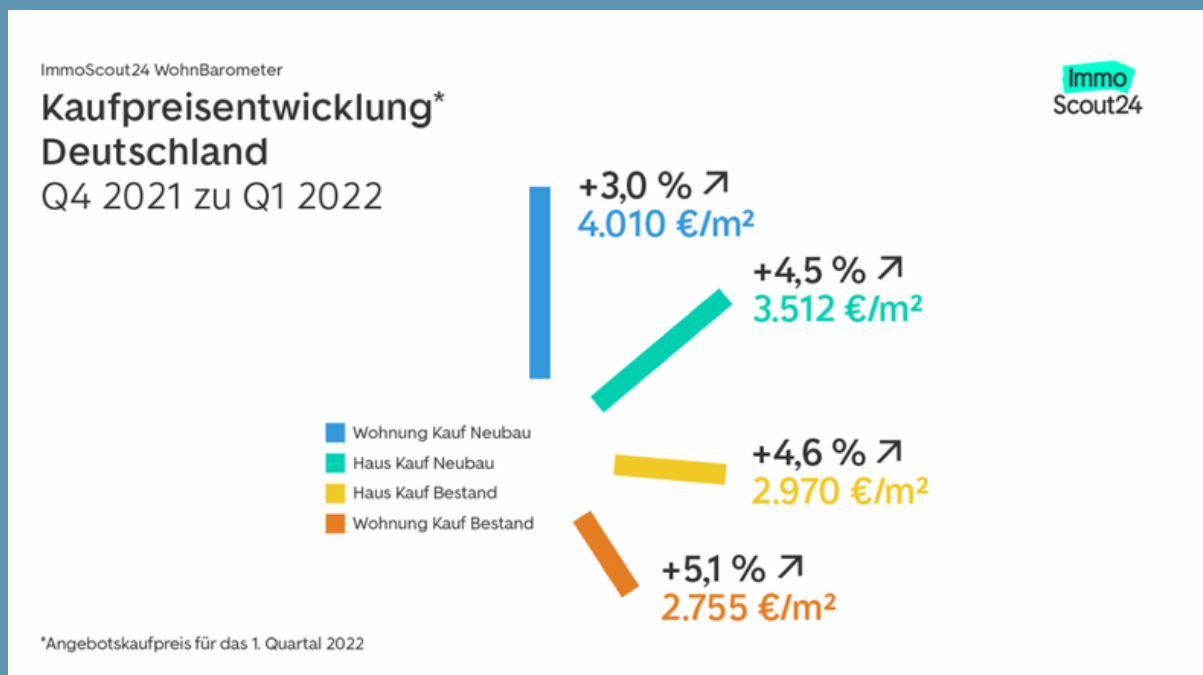


According to a study by the ifo Institute, the shortage of materials on construction sites is more serious than at any time since the start of the time series in 1991. Companies are correspondingly gloomy about their expectations, the institute explains.

In building construction, the proportion of companies affected by supply bottlenecks rose from 37.2% in the previous month to 54.2% in April. In underground engineering, 46.2% of companies expressed this view, up from 31.5% in March. The forecasts are correspondingly subdued: in April, business expectations stood at -46.9 points in the building construction sector, also the lowest level since 1991, while in the underground engineering sector the figure fell to -48.6 points.

In addition to the shortage of materials as a result of the Ukraine war and the sharp rise in energy prices, there are continuing uncertainties. In ongoing projects, the question arises as to the extent to which cost increases can be passed on. New projects are hardly calculable, while at the same time interest rates continue to rise for building owners. Order cancellations are on the rise: According to the data, 7.5% of building constructors reported this (March: 4.6%). Among underground engineering contractors, the figure rose from 3.9% to 9.3%.

ImmoScout24 Expects Continued High Growth Rates in Purchase Prices for Residential Real Estate



For Germany and the top 7 metropolitan areas, the ImmoScout24 Residential Barometer presents the development of purchase prices for condominiums and single-family houses in existing and new buildings for the first quarter of 2022. The price momentum of condominiums and single-family houses for sale increased significantly in Germany in the first quarter of 2022 compared with the previous quarter.

Single-family homes in particular were 2.7% to 6.7% more expensive than in the fourth quarter of 2021, depending on the city. Apartments for sale showed the highest price momentum in Dusseldorf, followed by Berlin. ImmoScout24 continues to expect significant growth rates in residential property purchase prices of up to 14% within the next 12 months.



Berlin and Dusseldorf with Highest Price Dynamics

In Dusseldorf the offer prices for inventory owner-occupied dwellings increased by 6,8%. Newly built apartments were offered 3.4% more expensive than in the fourth quarter of 2021. Compared with the other top 7 metropolises, offer prices in Dusseldorf are nevertheless in the lower third at €4,927 per square meter in the existing stock and €5,790 in new construction. **Berlin follows with a price increase of 4.8% in the portfolio and 3.2% in new construction.** This puts the German capital roughly in line with the national average. In Berlin, sellers were asking an average of €5,926 per square meter for an existing apartment in the first quarter of 2022 for a new-build apartment for sale. At €4,934, the median asking price for an existing apartment in Berlin is just under €1,000 below the price level in Frankfurt am Main at €5,908 and almost €3,000 below the asking price in Munich at €7,871.

Significant Price Increases Expected in Berlin and Dusseldorf

ImmoScout24 expects for Germany as a whole a further development of the offer purchase prices for apartments and existing single-family houses of up to 14% within the next 12 months. **Prices for new apartments are expected to rise by 13% and those for new houses by 12%.** The forecast is based on the assumption that demand for real estate for sale and rent will continue at a high level and that the war in Ukraine, with corresponding effects on supply chains and construction and renovation costs, will not end anytime soon. In a metropolitan comparison, the ImmoScout24 WohnBarometer forecasts the highest increase in purchase prices for existing apartments in Dusseldorf at 12%. Berlin follows with 11%, Cologne and Stuttgart with 9% and Frankfurt am Main and Hamburg with 8% each.

With the new building dwellings ImmoScout24 expects a two digit growth of approximately 10% in the Top 7 metropolises of Germany. Exceptions are Berlin with a plus of 12% and Munich with a moderate increase of only 2%. For single-family homes, ImmoScout24 expects similar price increases of 7% to 12% in 12 months.



ifo:

Sentiment in the German Real Estate Industry Brightens Up

The real estate industry remains cautious in its assessment of the current situation. However, its outlook is more positive than in the previous month.

The ifo Institute's sentiment barometer for companies in the real estate and housing sector shows a slight drop in the business climate from -4.1 in March to -5.8 points in April. Expectations in this regard improved slightly. In terms of sales development, the value increased significantly, climbing from 7.1 to 15.1. Real estate managers also expect sales to continue to develop positively.

With regard to the outlook for prices and the number of employees, companies are also considerably more optimistic than in March - the sector expects to recruit further staff and also anticipates rising prices. By contrast, the assessment of the order backlog slumped from 12.8 to -6.3 points. Expectations regarding the development of orders, on the other hand, improved somewhat.