



BERLIN HOUSING MARKET:

Few opportunities and good entry points despite political intervention

There are few potential sellers at the moment. “You need a certain network to be able to discover and lift the treasures,”

Einar Skjerven
Owner & CEO of the Skjerven Group



Berlin, 06 March 2023 – Despite many political barriers to entry, Berlin remains a popular destination for international residential investors. “The sheer size and stability of the rental market, the steady growth of the city and the insufficient new construction compared to demand make for investment opportunities that are unique in Europe,” says Einar Skjerven, managing director of Skjerven Group. However, this does not mean that international buyers are welcome everywhere in the German capital. **“Especially in the inner-city districts of Mitte, Pankow, Friedrichshain-Kreuzberg as well as in Tempelhof-Schöneberg and Neukölln, reservations about international investors have grown noticeably in recent years,”** says Skjerven. **“There are city councillors there, some of whom openly fight against institutional investors entering the housing market and advocate a significant expansion of the municipal housing sector at the expense of private sector players.”**

Neighbourhood protection areas restrict property rights

In the past, this was done by exercising municipal pre-emptive rights in connection with so-called social preservation statutes. With the aim of protecting long-time residents from displacement

from sought-after inner-city districts, modernisation measures and the division of residential buildings into condominiums were declared subject to approval on the basis of the German Building Code (§172). In the event of a change of ownership, the districts in the areas with social preservation statutes (Milieuschutz) also had the option of entering into the purchase agreement and exercising a right of first refusal in favour of cooperatives or municipal housing associations. This practice was declared unlawful by the Federal Administrative Court last year. The restriction of owners' rights continues to exist in the now 60 milieu protection areas.



Low housing construction leads to product shortage

The number of completed flats in Berlin fell by just under three per cent to 15,870 units in 2021. 20,000 new flats per year is considered a political target and is expected to be significantly missed again in 2022. **“This leads to a significant housing shortage with a potential for rent increases that is considerable in some cases,”** says Skjerven. The average existing rents in Berlin are given by the Berlin Brandenburg Association of Housing Companies (BBU) as 6.52 euros per square metre as of 30 June 2022. At the time of comparison, the rent index for Munich shows an average net cold rent of 12.05 euros per square metre.

High evaluation potential due to low rents and declining purchase prices

Due to the sharp rise in interest rates, the purchase prices for residential buildings in Berlin are currently coming under heavy pressure. The market reports of the estate agents still show purchase prices of more than 30 times the annual net rent for residential and commercial buildings for 2021. **“Since interest rates of more than four per cent per year can now be achieved with risk-free US government bonds, home buyers today hardly pay more than 22 times the rental income for a rental house and 24 - 25 times for houses divided into condominiums.”** The reason for the difference, he says, is the potential for value appreciation that can be realised by successively selling the flats individually.

According to Skjerven, the drop in prices for residential and commercial buildings and the low existing rents, despite all the obstacles, mean ideal entry conditions for equity-strong buyers, with the particular difficulty that there are few potential sellers at the moment. **“You need a certain network to be able to discover and lift the treasures,”** says Skjerven, who has been working for international investors in Berlin since 2006.