Berlin's Real Estate Market: 2014 Year-In-Review

It's been twenty-five years since the fall of the Wall, and Berlin is now home to 3.5 million people. In 2014 alone, Berlin welcomed 170,000 new residents. Though space in the city is scarce, Berlin's most recent story is one of steady migration and population exchange, rather than booming growth, starting in the mid-2000s.

Though the wall no longer divides the city, the S-Bahn ring is an unofficial marker, dividing migrated and native Berliners. Inside the S-Bahn, one in three residents is Berlin-born. In the areas around Potsdamer Platz and Culture Forum, 81% of the populace are newcomers, compared to the 80% of native Berliners who live in areas like Heideberg in Spandau. According to a recent article in **Berliner Morgenpost**, Berlin has seen an influx of 2.9 million people between 1991-2013, 57% of those migrating from other parts of Germany. As of December 2013, approximately 15% of Berlin's population was of foreign nationality from more than 180 countries, including healthy populations of Turks, Poles and Russians, with French, Italian and Spanish populations in the east sectors of the city. Another 460,000 citizen are naturalized German citizens, the descendants of international migrants.

While migration is one key factor in explaining Berlin's expanding population, the other driving force of Berlin's real estate market in 2014, is urbanization. Germany's major cities are experiencing a renaissance of sorts, with people returning to urban life in droves and repopulating the once-dormant city centres.

According to DG HYP's report ***Real Estate Market: Germany 2014-2015,*** which includes Berlin as one of the seven "prime locations", the urbanization trend gained major momentum in 2014 and is expected to continue well into next year.

"Many major cities are being literally overrun. The populations of all the prime locations have increased significantly in recent years. Anyone who can afford to do so now moves into districts in cities which are 'IN'," says the report.

Retail and certain business sectors followed suit, joining the rising populations in cities like Berlin as they responded to the newly revitalized consumer and labour markets, supported by rising wages and Germany's strong momentum as the driving engine of Europe's economy. In other words, all the right economic factors were in place in 2014 to position prime cities like Berlin for continued growth.

This "back to the city" trend gained momentum in 2014 and is expected to continue well into next year and beyond. "When selecting a property becomes a reality," says DG HYP, "the advantages of the city prevail. And people who definitely want to live in the city are therefore responsible for the continuing high demand for houses and apartments. In contrast to the situation only a few years ago, many people who moved to the city when they were young stay there, even after they have had a family."

The above-average growth has resulted in what the report calls, "massive demand from investors", driving the market in core sectors. Retail sales – stagnant for several years- began to prosper in 2014, due to a strong consumer climate and high-spending tourism. International chain stores are finding new outlets in Germany's prime locations.

"Berlin has developed very positively, both in overall terms and as a shopping destination. As a result of the stable economic trend in Germany, the focus has shifted more strongly to the capital city of the largest economy in Europe. There is also a positive trend in the fairly under-developed economy of Berlin, and in the growing number of visitors who contribute a quarter of retail sales," says the market report.

Office sales are ticking upwards, driven by young, internet or e-commerce based companies. The trend let "to a peak result for the office market in the first half of the year – its highest half-year adjusted take-up in the last ten years of 295,000 sqm."

Although the retail and office sectors benefitted from the positive consumer drive and strong demand, the residential sector faced challenges. Housing markets in prime locations like Berlin are under pressure to meet the demands of the robust population growth and struggle to complete the volume of new construction to meet the need. Apartment prices rose 7.24% in 2014, thought the median price of one- and two-family homes rose only 3.7%

While the housing shortage is predicted to remain unchanged in 2015, the forecasted threat of a "housing bubble" such as those experienced in the U.S., Netherlands, Spain or Ireland, appears unfounded. In a report by economic research firm Natixis, a housing bubble is unlikely for a number of reasons. Though prices have increased in residential properties, Germany is at the lower end of those increases compared to the housing bubbles in other international markets. Other indicators including price-to-income ratio and the price-to-rent ratio "do not indicate any significant overheating in the German housing market in general," states the findings. Conservative mortgage financing and a low homeownership rate mitigate the threat to financial stability from the housing market.

Real estate in the prime cities, including Berlin, was affected by factors that were a study in contrasts in 2014. While the German economy got off to a good start, growth contracted by 0.2% in the second quarter, due to foreign trade and investment. Planned construction projects moved forward, and summer-time reports on Germany's economy predicted solid growth for 2014-2015. But geopolitical unrest and the crisis in the Ukraine adversely affected those expectations, cutting economic growth predictions by almost half.

However, indications are favorable that with the continuing trend of urbanization bringing a resurgence of population back to urban life, Berlin and its metropolitan counterparts should no doubt plan on forward momentum in 2015.