

PRESS RELEASE

Berlin's Housing Market: Significant Potential for Equity-Strong Investors

- **Market action defined by strong demand and short supply**
- **Shifting interest rates not expected to prompt price corrections**
- **Policymakers infringing on ownership rights**
- **Housing shortage in the city spurs growth in the suburbs**

Berlin, 4 May 2022 – According to the city's property valuation committee, ownership apartment sales in 2021 added up to 19,017 units sold, which is 19 percent more than the sales total of 2020. On occasion of an online press conference hosted by consultancy firm RUECKERCONSULT, industry experts explained the surge by pointing to the generally strong demand, the contracting supply of rental apartments and the still low level of interest at the time.

"Berlin is actually a renter's city by nature," said Einar Skjerven, the Managing Director of the Skjerven Group. "But the rent cap imposed by Berlin's state government caused the supply of rental apartments to decline, at one point by about 40 percent. The situation turned many people who would have loved to rent into home buyers. The demand for move-in-ready apartments right up to the end of the year exceeded anything we have ever seen," said Skjerven. He went on to say that the standing-property sector also benefits from the fact that new-build housing construction is declining at a time when the city's population is growing. Only 16,337 apartments were completed in Berlin in 2020. This equals a year-on-year drop by 14 percent. Given the regressive planning approval figures, the trend is likely to persist in the years ahead, which in turn will keep driving up prices for existing apartments, according to Skjerven.

Residential Prices Outpacing Rents

The general trend suggests as much, with non-regulated apartment prices in Berlin rising much faster than new-tenancy rents, which tend to be subject to rent control. The city's so-called rent freeze ("Mietpreisbremse") mandates that rents on new leases may exceed local benchmark rents by no more than ten percent. The difference in dynamic is confirmed by real estate service

provider PREA, which measured an increase in median rents in the inner-city borough of Charlottenburg-Wilmersdorf by 6.1 percent to 21.17 euros per square metre and an increase in selling prices for individually sold apartments by 10.2 percent to 10,458.41 euros per square metre.

No borough in Berlin shows a parallel rise in selling prices and rent rates except Spandau at 6.1 percent each, which is explained by the fact that strong rental upside potential coincides with comparatively low selling prices in this peripheral borough. In the borough of Marzahn-Hellersdorf, by contrast, a large municipal housing stock slowed the rent growth down to 3.0 percent (13.31 euros per square metre) whereas the mostly new-build ownership apartments here experienced a price hike of 10.5 percent to 5,326.60 euros as a result of the brisk construction price development. The peak figures for both rent and price growth were registered in the trendy borough of Friedrichshain-Kreuzberg. Here, PREA measured an increase by 8.1 percent to 22.50 euros per square metre and by 11.2 percent to 9,170.76 euros per square metre, respectively. PREA expects this dynamic to slow down more or less quickly.

Einar Skjerven, who pays far lower prices when buying real estate in the form of global deals, assumes that the market will continue to see a steady development despite the rise in interest rates by around 150 basis points over the past six months. “The willingness to invest remains strong, and there is plenty of equity capital pushing onto the residential property market of Berlin. Since few are willing to sell, the number of tenderers may decline but not the number of transactions.” Neither are prices likely to be affected by the current economic upheavals.

Politics Limiting Investors’ Freedom of Action

Meanwhile, Berlin’s state government keeps trying to regulate rents via landlord-tenant law revisions aimed at tenant protection. A case in point is the expansion of historic district protection and the right-of-first-refusal initiative launched in Germany’s upper house of state representatives, the Bundesrat. “There are currently around 70 areas in Berlin, home to one million residents, where capital improvements are subject to approval and where every sale until November 2021 was subject to the right of first refusal,” reported Uwe Bottermann, lawyer and partner at the law firm of Bottermann::Khorrami. The latter practice, he added, has been axed for the time being by the Federal Administrative Tribunal. However, Berlin’s state government is seeking to reintroduce the right of first refusal, according to Bottermann, and has therefore

launched a legislative initiative via the Bundesrat, which will now have to be reviewed by the Bundestag, Germany's lower house. "These measures will cause many apartments in the inner city of Berlin to retain their basic specifications," said Bottermann. "Anyone buying existing apartments in Berlin should be aware that raising their residential fit-out standard may take a long time."

Manifest Trend to Move out of the City

Since the number of apartments approved and built in Berlin lags behind demand, developers and apartment seekers have increasingly looked for alternatives just beyond the city limits. Last year, as many as 24,691 Berliners turned their back on the city and moved into suburban communities. One of the most dynamic growth regions currently extends from the new airport (BER) in Schönefeld to Grünheide, site of the new Tesla factory which recently started its production. Halfway between the two towns lies Königs-Wusterhausen. On the northern edge of this small town of 19,000 residents within the city area, DLE Deutsche Landentwicklung AG is currently developing a building plot of 600,000 square metres. "Procuring planning rights is a complex matter in Germany that must take the interests of the municipality and of its residents into account," said Simon Kempf, CTO of DLE Group AG. "We are doing everything we can to find optimal solutions here and to create attractive infrastructure along with the residential accommodation."

Image Rights:

Use of the enclosed photographs is permitted solely for the purpose of covering the companies Bottermann::Khorrami, DLE, PREA and the Skjerven Group. Please check a given image file for the respective copyright. Editing of the photographs is limited to the scope of normal image processing.

Press Contact RUECKERCONSULT GmbH

Dr. André Schlüter

Wallstrasse 16, D-10179 Berlin

0049 (0) 30 2844 987 67

schlueter@rueckerconsult.de

About Bottermann Khorrami

Bottermann Khorrami is a law firm of lawyers, notaries and tax consultants based in Berlin. The company employs around 35 people. The firm's clients include private individuals and medium-sized companies – but above all investors, project developers and investment companies. In addition to advising German

market participants, the firm specialises in representing foreign investors and companies with projects in Germany. The lawyers, tax consultants and notaries at Bottermann Khorrani work multilingually and are familiar with intercultural backgrounds.

About DLE Deutsche Landentwicklung AG: DLE Deutsche Landentwicklung Holding AG (DLE) is an internationally operating investment manager based in Berlin whose expertise covers the entire real estate value chain. As manager, DLE develops bespoke solutions and concepts for this project and for our fund shareholders—who tend to be institutional investors including many pension funds and superannuation schemes from Germany—while simultaneously taking the respective urban-planning and landscape-planning aspects into account. DLE combines its long-term expertise with its extensive knowledge of the market, focusing not least on sustainability, social aspects and an ESG-based corporate culture so as to cater to the specific needs of a given city.

About PREA

PREA is a consulting and service company that employs artificial intelligence to deliver capital growth in the real estate sector. The “mercury” data analysis system enables PREA to measure, assess, and forecast market action for any micro-environment in Germany. The company draws on insights gained from more than 250 relevant data points* to advise investors, owners, and occupiers. The consulting service across all real estate asset classes include commercial transactions and lettings, research and strategy planning, financing arrangements and investments, architecture and property developments. Spanning the entire real estate cycle, PREA uses its analytic system to create a statistical image of diverse future scenarios and thereby to determine the greatest value lever while taking socio-cultural, environmental and economic aspects duly into account. This technological approach creates value-added for property and pension funds, banks, insurance companies, family offices, endowments and other investors, always in compliance with their corporate social responsibility. With its agile project teams, consisting of investment and finance consultants, data scientists and engineers, architects and property developers, PREA has managed a combined project volume worth c. 4.7 billion euros since its formation.

PREA is a registered trademark of PREA Group GmbH.

About Skjerven Group

The Skjerven Group has been active on Berlin’s housing market since 2006, executing joint venture investment programs for international investors from Europe and USA. The investment programs are both long hold and value add. The value-add activities have mainly been conversion of residential projects to condos and sale to self users, tenants and private investors. Skjerven Group has so far completed transactions in a total volume of ca 1.85 billion euros. Skjerven Group currently employs 14

BOTTERMANN KHORRAMI



persons in the areas of investment management, asset management and sales coordination of single apartment sales.