



## GSW: Foremost in Berlin

Owning and managing around 70,000 homes, GSW is the foremost private housing company in Berlin. It was founded in 1924 and, in a privatisation move, transferred by the state of Berlin to an international consortium in 2004. Since then, the company has been meeting the challenges of the dynamically changing real estate sector.

The GSW provides tenants and buyers with attractive housing in carefully developed surroundings under good conditions.

### News from GSW 1,300 Flats Purchased

Over the last 12 months, the GSW has bought more than 1,300 flats in numerous locations in Berlin. The transactions took place in several package deals and

encompass a total of 89,000 square metres of rental space. The investment volume of the transactions came to over 50 million euros. The most recent purchase in December 2006 was a portfolio of 333 flats and 21,000 square metres of rental space in Friedenau, Steglitz, Mariendorf, Tempelhof, Kreuzberg, Spandau, Tiergarten and Wedding. The net rent excluding service costs from the flats, which mainly date from the 1950s, is 4.42 euros per square metre per month, while the occupancy rate is around 88 per cent.

"All the property purchases from the last 12 months show potential for a growth in value," said Thomas Zinnöcker, chairman of the managing board at GSW. "We will make use of this potential in the coming months by investing in these assets and improving the occupancy situation."

During the current business year, he is also planning to make additional purchases for GSW's own portfolio.

15,000 flats plus the simultaneous average increase of 18,500 "demand relevant" households a year means that, each year, an additional 33,500 flats are required.

Even though this figure has not been verified empirically, a marked decrease in the currently high level of housing vacancies in Berlin can still be expected. According to an analysis by the Berlin Senate for Urban Development, in 2005, around 152,000 flats stood empty. The model calculation assumes that more than one fifth of these will be absorbed every year.

In practice, however, these vacancies are unlikely to be absorbed within this time period. Flats are always vacant due to renovations, or because the prices and rents demanded are too high. Due to the scarcity and expense of living space, it can be that more than one household live together in one flat. And last but not least, it's expected that the building of new flats will pick up in the long term.

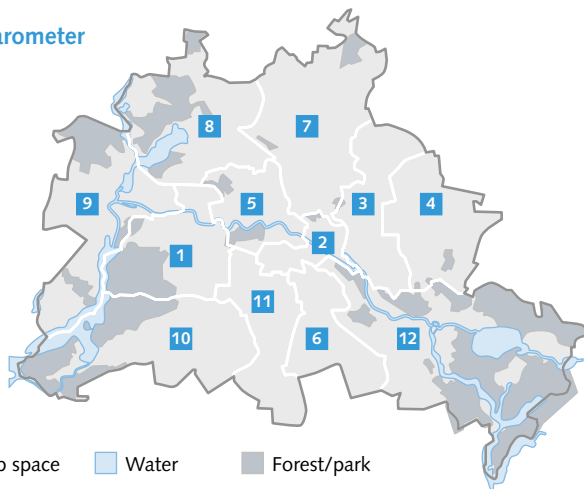
2005. From January to October 2006, building permits were granted for just 2,464 flats. No sharp rise in new developments is expected in the coming years: The government has axed nearly all subsidies and tax concessions, and rents and prices are still so low that privately financed investment in new developments is only rarely worthwhile.

### Drop in vacancies

Based on the net decrease in housing and the simultaneous growth in the number of households, the head of GSW, Thomas Zinnöcker, concludes that "the gap between supply and demand is closing." Taking into account the assumptions in the model calculation, then the yearly reduction in housing stock of around

However, price increases are to be expected in many segments of the Berlin housing market in the years to come. Up until now, rent levels for housing and purchase prices for owner-occupied flats in Berlin have been well below those of other big metropolises. This is particularly true of mid-range and basic quality housing. According to the 2007 Plötz German property guide, out of the 10

### Berlin Barometer



District	Residents	Number of flats
1 Charlottenburg-Wilmersdorf	315,204	190,286
2 Friedrichshain-Kreuzberg	263,388	145,483
3 Lichtenberg	259,514	141,405
4 Marzahn-Hellersdorf	250,098	130,609
5 Mitte	324,368	190,489
6 Neukölln	305,797	164,859
7 Pankow	355,521	201,537
8 Reinickendorf	243,917	131,991
9 Spandau	224,659	117,318
10 Steglitz-Zehlendorf	288,268	155,923
11 Tempelhof-Schöneberg	332,547	184,996
12 Treptow-Köpenick	235,607	126,941
<b>Berlin total</b>	<b>3.398.888</b>	<b>1.881.837</b>

District	Vacancy rate in %	Migration balance <sup>1)</sup>	Income <sup>2)</sup> in euros/month	Unemployment rate in %
Charlottenburg-Wilmersdorf	4.42	3,057	1,575	16.2
Friedrichshain-Kreuzberg	6.48	4,700	1,175	20.2
Lichtenberg	5.22	- 2,900	1,475	16.7
Marzahn-Hellersdorf	7.86	- 12,271	1,550	18.2
Mitte	8.41	- 1,529	1,350	22.6
Neukölln	5.73	- 778	1,325	21.4
Pankow	6.44	11,742	1,450	13.6
Reinickendorf	3.42	3,561	1,725	13.7
Spandau	4.42	5,091	1,550	18.9
Steglitz-Zehlendorf	3.62	5,854	1,775	10.8
Tempelhof-Schöneberg	4.20	- 951	1,550	14.3
Treptow-Köpenick	5.81	5,739	1,625	12.3
<b>Berlin average</b>	<b>5.55</b>	<b>21,315</b>	<b>1,500</b>	<b>16.6</b>

1) Arrivals minus departures 2001 to 2004, 2) average income

Source: Statistisches Landesamt Berlin May 2006, Senat für Stadtentwicklung, Bundesagentur für Arbeit, as of: 2005 and 2007

largest cities, Berlin comes seventh in terms of prices for mid-range and basic owner-occupied flats; only Bremen and the Ruhr centres of Dortmund and Essen rank lower. In terms of mid-quality rented housing, Berlin is in the same position. In the lowest segment, the city comes last among Germany's 10 largest cities due to its large number of unrenovated older buildings.

On the following pages, the differentiated analysis compiled by GSW and Jones Lang LaSalle, which is based on a wide range of data sources, shows how rents and prices in Berlin's 12 districts are developing today, and how they are likely to develop in the years to come.

## Jones Lang LaSalle: Worldwide Consultant

Jones Lang LaSalle (JLL) is one of the world leaders among real estate agents and consultants, offering strategic, multi-disciplinary services and problem-solving for those who own, use and invest in commercial property. The company operates in more than 450 cities in over 50 countries. It provides owners and users of property, as well as investors, with comprehensive, integrated expertise in property and investment management. More than 440 employees work at JLL's German offices in Berlin, Düsseldorf, Frankfurt, Hamburg, Munich and Wiesbaden.

One of the fundamental aspects of JLL's business and services is a detailed knowledge of the market. The company works in co-operation with more than 150 researchers all over the world, who keep track of national and regional developments and property markets in 36 countries. With the help of extensive databases, JLL provides detailed market analyses and forecasts, as well as personalised consulting for investors, owners and users.

## News from Jones Lang LaSalle New Investment Record

With a total transaction volume of some 242 billion euros, direct investment in European real estate reached a record level in 2006. Jones Lang LaSalle reported on this development in its latest issue of the European Capital Markets Bulletin. The investment figure equals an increase of 39 per cent or 68 billion euros compared with 2005 investment levels.

In particular, cross-border transactions rose sharply. With a volume of around 150 billion euros, they accounted for about two thirds of the total investment volume in 2006.

# Rents: Partial Rise

At first sight, the Berlin property market for rented housing appears pessimistic, GSW head Thomas Zinnöcker admits. In most districts, and for the whole city on average, rents are still falling. But the situation merits a closer look, says Zinnöcker. "Some districts are moving towards a rise in rents; the first ones have already got that far," he said.

According to the analysis by GSW and Jones Lang LaSalle, this development on the housing market has advanced furthest on the outskirts of the city and in middle-class districts. Spandau and Charlottenburg are out in front, followed by Treptow-Köpenick and Steglitz-Zehlendorf. At the other end of the spectrum are central and eastern districts with a high proportion of basic older buildings: Mitte, Friedrichshain-Kreuzberg, Lichtenberg and Neukölln. Mixed-structure districts on the city outskirts such as Pankow, Reinickendorf and Marzahn-Hellersdorf (lots of prefabricated concrete buildings, but also newer city villas and detached houses) come somewhere in between.

One main reason for Spandau and Treptow-Köpenick's position at the top is the constant population influx over the past few years (see table). These influxes were even higher in Steglitz-Zehlendorf and Pankow, but in these districts, they affected the home ownership market more and had less of an effect on rented housing. In districts where rents are falling, there is not such a clear-cut relationship with population changes; here, activity on the market was (and still is) mainly formed by social developments.

Nonetheless, all Berlin districts are near "six o'clock" on the property clock – the point where years of rent decreases swing round



Older buildings on the up – traders would speak of a bull market.

Photo: Xyyyyyyyyy xxxxx

### Mixed Picture

Rental price range 2006 in euros/m<sup>2</sup>/month

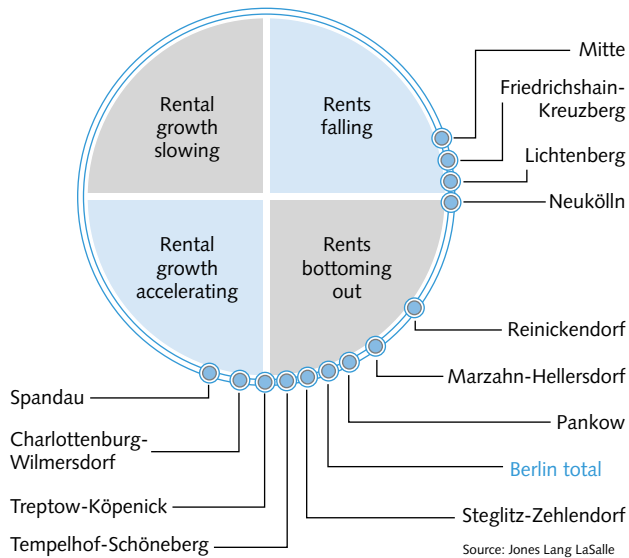
District	4.0	5.0	6.0	7.0	8.0	Average rent	Trend 2007
Charlottenburg-Wilmersdorf						6.60 – 7.10	6.85 ↗
Friedrichshain-Kreuzberg						5.70 – 6.00	5.85 ↘
Lichtenberg						5.10 – 5.40	5.25 ↘
Marzahn-Hellersdorf						4.70 – 5.70	5.20 ↘
Mitte						5.00 – 6.70	5.85 ↘
Neukölln						4.60 – 5.50	5.05 ↘
Pankow						5.50 – 5.90	5.70 ↘
Reinickendorf						5.30 – 6.50	5.90 ↘
Spandau						5.40 – 6.10	5.75 ↗
Steglitz-Zehlendorf						6.50 – 7.20	6.85 ↘
Tempelhof-Schöneberg						5.70 – 6.20	5.95 ↘
Treptow-Köpenick						5.40 – 6.10	5.75 ↗
<b>Berlin Average</b>						<b>5.60 – 6.30</b>	<b>5.95 ↘</b>

Source: GSW, Jones Lang LaSalle

## Property Clock: Flats for Rent

1. Quarter 2007

This diagram shows where, according to Jones Lang LaSalle's assessment, the housing markets are positioned within their rent price cycle at the beginning of January 2007. The local markets can move around the clock in different directions and at different speeds. The clock is a convenient method of comparing the relative positions of individual city districts in their rental cycles.



and become rent increases. In the most critical districts, this could take some time, but in top districts, a momentum has set in which should bring about an upswing in rents, says Andrew Groom, head of Valuation Advisory for Jones Lang LaSalle Germany.

### Rents are gaining momentum

This coincides with the latest analysis from the BBU (Association of Housing Companies in

Berlin and Brandenburg) for the years 2003 to 2005. It doesn't differentiate trends according to location, rather building age.

In the case of older buildings, it already detected a rise in rents for the years 2003 to 2005.

This first affected large homes in good locations near the centre; now, rent levels in older buildings are rising because of continued modernisation. Today there are still about 150,000 homes without central heating, a bathroom and/or indoor toilet.

On the other hand, the BBU diagnosed rent stagnation in the case of post-war homes, many of which are small in size and only moderately comfortable. For this segment, the German Property Association (Immobilienverband Deutschland, IVD) even detected a further drop in prices in its 2006 market analysis. As long as these homes have not been recently renovated, the rental turnaround is likely to set in later here than in other segments.

Reports on housing from the interwar years are currently all ambiguous. On the one hand, it's often valued for its good city locations, the functional layouts, and the frequently high amount of green spaces in the immediate vicinity. On the other hand, such flats still need to be modernised, and often have either small rooms or a small number of rooms (bedsits and one-bedroom flats). The rental trend depends on the conditions in each neighbourhood.

There is a recognisable connection between the current rental trend and the vacancy rate. The latter is lowest in middle-class western

Older buildings situated near green space can be attractive – if the infrastructure is favourable

## A Clock for the Housing Property Market

The position of a property market in its development cycle can be represented on the property clock. This symbolic clock was first used by Jones Lang LaSalle to provide an overview of various markets around the world. The clock is based on the fact that property markets develop in a cyclical manner. On the heels of very high property prices follows an accelerated decline in values (oversupply, on the clock between 12:00 and 3:00) that eventually slows down as it approaches the lowest point (market correction, 3:00 - 6:00). After bottoming out, prices begin to climb again with increasing speed (market stabilisation, 6:00 - 9:00), slowing down as they approach the highest price level (expansion, 9:00 - 12:00).

The cyclical development of property markets is largely explained by the slow reaction times to changes in demand. For this reason, increases in the supply of new space typically are strongest during the oversupply phase. Construction of additional space is weaker in the phase of market correction, and can in extreme cases even be negative in phases when rent prices are rising. Buildings that were planned in reaction to higher prices in the expansion phase are only finished once the market has already moved on to the next phase.

Real estate that is planned, or, as the case may be, deliberately not planned, during a phase of low property prices, are finished during a phase of higher demand and are not always able to meet that demand. This situation in turn leads to price increases and, as a consequence of this, renewed construction of a surplus of supply.

Movements on the property clock can go forwards, but also backwards.

districts and highest in central neighbourhoods with a lot of unrenovated older buildings and those with prefabricated concrete buildings.

The reduction in vacancies also leads indirectly to rent rises. Landlords in the neighbourhoods which are already in high demand today should profit from this the most in the years to come. But there is also value increase potential in average and basic locations, especially for buyers who are able to purchase residential property at a clear price advantage due to partial vacancy, and who are then prepared to actively work on improving the tenancy situation – something that promises to be successful.



Photo: Xyxyxyxyxyxy xyxyx

# Purchase Prices: Optimism Among Buyers

The average purchase prices for housing in different districts of Berlin are poles apart. They are highest in the middle-class districts in the west and southwest, and lowest in neighbourhoods around the city centre with a high share of low-end older buildings and sometimes difficult social structures. Districts on the outskirts of the city, which often have a very heterogeneous range of housing, are in the middle.

The upswing has already clearly made more progress in the prices of property for sale than in rents. According to Jones Lang LaSalle's Berlin property clock, in eight of the 12 districts, as well as the Berlin average, prices are

already rising again; only in four districts are they still falling. One of the main reasons for the lead held by the property-buyers market is that expectations of future developments are already having an effect on the prices – and these expectations are generally positive. The rents which can currently be fetched, on the other hand, are not affected as heavily by future prospects, but more by the current state of the market. "Anyone who wants to purchase housing in mid-range and better locations should do so soon," said GSW Director Thomas Zinnöcker. "They will probably never again get it at today's prices." That applies to private investors as well as owner-occupiers.

*Prices are already rising*

The positive expectations on the Berlin property-owning market can be explained by the following factors:

- a low price level compared with other German cities, and even more so with major European cities
- attractive economic development
- rising demand accompanied by falling supply (see p.1)
- very low rate of ownership (see p. 6).

The extent to which purchase prices are connected to future expectations is also shown by an analysis of returns on rent. These are the lowest in the middle-class city quarters in the west and southwest, as well as in Berlin-Mitte. Here, buyers often accept a relatively low rate of return of below 6 per cent, as they definitely expect to be able to rent space out and anticipate an especially high potential rise in rents.

## Upwards Trend

Sales price range 2006 in euros/m<sup>2</sup>/month

District	500	1,000	1,500	2,000	Average sales price	Trend 2007
Charlottenburg-Wilmersdorf				█	1,500 – 2,000	1,750 ↑
Friedrichshain-Kreuzberg	█				550 – 750	650 ↓
Lichtenberg	█				700 – 950	825 ↓
Marzahn-Hellersdorf		█			900 – 1,300	1,100 ↑
Mitte		█			750 – 1,000	875 ↓
Neukölln		█			900 – 1,300	1,100 ↓
Pankow	█				750 – 950	850 ↓
Reinickendorf			█		1,200 – 1,500	1,350 ↑
Spandau			█		1,300 – 1,800	1,550 ↑
Steglitz-Zehlendorf			█		1,500 – 1,900	1,700 ↑
Tempelhof-Schöneberg		█			1,100 – 1,500	1,300 ↓
Treptow-Köpenick		█			850 – 1,000	925 ↓
Berlin average		█			1,000 – 1,400	1,200 ↑

Source: GSW, Jones Lang LaSalle

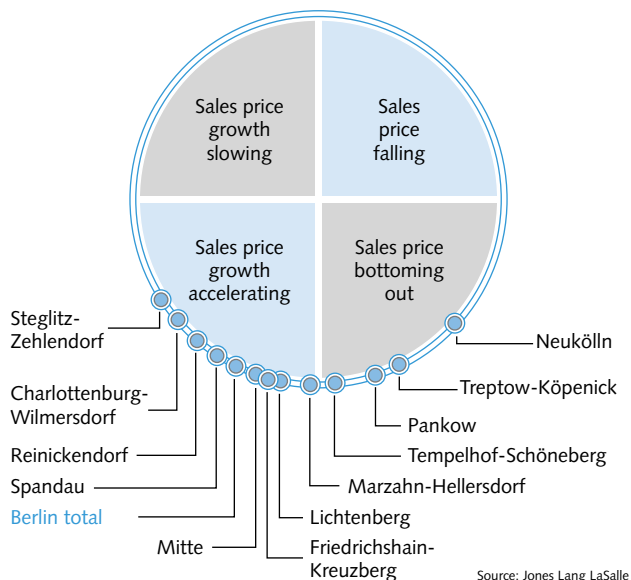
The individual districts will probably only change their positions on the Jones Lang LaSalle market clock slowly. The four western districts of the city, where prices are currently rising the fastest, should remain the favourite purchase regions in future, too – for users, due to their living quality, and for investors, due to their potential growth in value.

The districts of Mitte, Tempelhof-Schöneberg, Pankow and Treptow-Köpenick, with some attractive neighbourhoods, may catch up. They are to some extent more attractive for owners and landlords than Friedrichshain-Kreuzberg and Lichtenberg, which for that reason could fall back on the clock in terms of price development. Neukölln, with its social issues and problems with its building structure and image, is likely to retain its position at the bottom of the table and at first experience further falls in rents.

## Property Clock: Flats for Sale

1. Quarter 2007

The diagram shows where, according to Jones Lang LaSalle's assessment, the housing markets are positioned within their purchase price cycle at the beginning of January 2007. The clock allows for comparison of the positions of individual districts in their own cycle. The positions are not necessarily representative for the investment market as they relate exclusively to the average purchase price.



## MASTHEAD

GSW Berlin mbH  
Kochstr. 22  
10969 Berlin  
Germany

Tel. +49 (0) 30/25 34 - 0  
Fax +49 (0) 30/25 34 - 15 44  
Thomas Rücker, Head of Corporate Development and Communications  
thomas.ruecker@gsw.de  
www.gsw.de (also for download of housing market report)

# Forever a City of Tenants?



Photo: Xxyxyxyxyxyxyxyxyx

Generous, stylish flats in older buildings are an alternative to a suburban house of one's own

**B**erlin doesn't have that many residential property owners – but that is changing due to privatisations.

At only around 13 per cent, Berlin has the lowest rate of owner-occupiers in all of Germany's federal states. For the country as a whole, the rate is 40 per cent; in the cities of former West Germany it is also higher than in Berlin (see table 1).

Berlin's low rate of property ownership has both historical and structural reasons:

- since the mid-19th century, homes in the city have been built close together and in

## Berlin Lagging Behind

Freehold quotas in German cities in %

Bremen	37
Stuttgart	28
Cologne	24
Hanover	23
Hamburg	22
Essen	22
Düsseldorf	20
Frankfurt	16
Berlin	13

Source: GSW, Jones Lang LaSalle

large units. Around 90 per cent of all flats are in multi-storey buildings.

- From 1939 to 1990 hardly any flats for private ownership were built or purchased; in West Berlin the housing market was dominated by subsidised multi-storey buildings (social housing, depreciation models). In the city as a whole, until 1998 building rental housing was favoured over property ownership, due to high tax rebates.
- Since 1990, economic conditions have been problematic. The unemployment rate is far above the national average. The range of potential buyers is smaller, for example middle-class entrepreneurs and higher-level employees in private companies.
- A mentality of dependence was and still is widespread; it is only recently that individual housing, insurance and savings plans have started to become more commonplace.

## Urban living for middle-class families

Developments since the fall of the Wall show that many people are interested in acquiring private property. In 1990, the ownership rate was only around 10 per cent; since then the number of households in their own four walls has risen by about 40,000. At the same time, more than 100,000 households moved out of the city into the surrounding area of Brandenburg. A large proportion of them acquired their own housing in green, inexpensive areas.

But there's also suitable property for private ownership in the city. For middle-class families, an attractive alternative to owning a house is buying a stylish flat in an older building situated in an attractive neighbourhood and thus well serviced with infrastructure, meaning that even high-income households often do not own a car. Other attractive housing is in the form of smaller units from the pre- and post-war period. Such housing is, however, often a high in need of modernisation and conversion.

The sizes of the flats are also often well suited to privatisation – not only in older buildings. As many multi-storey blocks of flats were built to suit the needs of families in the past, today there is a lot of accommodation with higher numbers of rooms. The average living space per inhabitant in Berlin, at about 39 square metres, is above that in the cities of Hamburg, Frankfurt, Stuttgart and Cologne, but slightly below that of Munich and Düsseldorf.

The privatisation of flats that were formerly for rent only began in West Berlin when the city was still divided. In those days, however, the business was dominated by sole proprietors who did not always act in a socially conscious manner. Tenants often felt under pressure and

those who bought flats frequently felt cheated afterwards, for example because of unfavourable partition deeds.

But for a long time now, privatisation has been conducted in a more professional and reputable way, in part thanks to protective regulations for tenants in cases of conversion. At companies such as the GSW, housing stocks scheduled for privatisation are carefully selected according to their suitability in terms of structure, space and social aspects. The residents are thoroughly informed about

alternatives to buying and the company's privatisation code. This systematic approach requires a high level of staffing but

it not only enables privatisation processes to take place considerably faster, it also raises returns.

As a rule, the individual privatisation of housing is not only attractive for the property company selling it, but also for the buyer. People who had previously been tenants get a discount price, gain more security and freedom of choice, and make lasting savings on rent. Other buyers accumulate assets and provide for their retirement.

More and more people are recognising these advantages, which is why privatisation is likely to remain a lively market segment, with the effect that the ownership rate in Berlin will continue to rise. Eventually, even central districts – places where the rate has so far been the lowest due to the lack of houses designed for one family – will catch up with locations further outside the city centre, giving Berlin a more urban property ownership landscape.

## Sales on the City's Edge

Proportion of freehold flats in %

District	Proportion of freehold flats in %
Steglitz-Zehlendorf	23.9
Reinickendorf	23.4
Treptow-Köpenick	18.5
Marzahn-Hellersdorf	16.5
Tempelhof-Schöneberg	14.6
Neukölln	12.2
Spandau	10.6
Charlottenburg-Wilmersdorf	10.2
Pankow	9.4
Lichtenberg	4.8
Mitte	4.1
Friedrichshain-Kreuzberg	3.9
<b>Berlin average</b>	<b>12.3</b>

Source: GSW, Jones Lang LaSalle



Quality of life: A bar on the banks of the Spree near the trendy media district of Osthafen

Photo: Xyxyxyxyxyxyxyxyxy

## Underrated Cinderella

On one hand, Friedrichshain-Kreuzberg is right at the bottom in Berlin in terms of income, the social structure and the property market. On the other hand, it has great potential for development and high returns.

Opinions are split among investors and homebuyers about Berlin's smallest district in terms of area. Some avoid this neighbourhood, where the average income is the lowest and the unemployment rate the highest. Others make a point of coming here because of its vicinity to the city centre, the lively way of life, the exciting development projects underway, and the low prices for first-time buyers.

Friedrichshain-Kreuzberg has, on average, the youngest, most mobile inhabitants in Berlin. The district itself is also young; it has only existed in this undivided form since 2001, but its two halves share a common history. Most of its buildings and neighbourhoods were built in the period of rapid expansion and industrialisation from 1840 to 1914. Then, the city was bursting out of its old borders and creating mass accommodation for workers, low-level employees and civil servants. Kreuzberg to the south and Friedrichshain to the east of the centre, were characterised by tenement housing and narrow courtyards. Although it's been thinned out a lot, the building and population density is still the highest in Berlin.

During the war, some streets and blocks of houses were completely destroyed, but some large neighbourhoods remained almost unchanged. The Spree, which flows between the two neighbourhoods, became the border here after 1945. At that time, the most striking building project in Friedrichshain was the 2.2-kilometre long Karl-Marx-Allee in the Stalinist "wedding-cake" style. Nearby, large prefabricated concrete buildings sprang up, leading towards Alexanderplatz. Gradually

the historical neighbourhoods in the east of Friedrichshain fell into disrepair; in 1989, some buildings remained unchanged from when they were built.

Kreuzberg, which had previously been central, was now in a peripheral location in West Berlin due to the city's division and the building of the Wall. The north-western area around the Anhalter Bahnhof station, Hallesches Tor and Ritterstraße was especially badly damaged and only rebuilt slowly and irregularly. First, areas were built with blocks of rented flats in a suburban style and plenty of green spaces; later, high-rises appeared, and then post-modern buildings. Among the prominent office buildings in the north of the district are the headquarters of the Axel Springer publishing house and of the GSW.

Of the large, established areas left untouched by the war, the southwest area near Viktoriapark and Chamissoplatz remained relatively respectable. The location and surroundings were very attractive; when they were restored, the quality of the pre-war buildings was preserved. On the other hand, in the eastern part of Kreuzberg, around Kottbusser Tor and the old Görlitzer Bahnhof, whole blocks of streets were torn down; others were left to deteriorate in anticipation of a city motorway which was never built. It was not until 1980 that there

### Small and Lively

	Friedrichsh.- Kreuzberg	Berlin total
Size in km <sup>2</sup>	20.16	891.85
Residents <sup>1)</sup>	263,000	3,340,000
Population density/km <sup>2</sup>	13,065	3,745
Average rent	5.85	5.95
Average sales price	650	1,200
Average return	10.8 %	6.0 %
Fluctuation <sup>2)</sup>	13.4 %	9.5 %
Average age	37 years	42 years
Share of single households	65.2 %	51.0 %
Foreigners in Friedrh.	ca. 9.0 %	12.3 %
Foreigners in Kreuzbg.	ca. 33 %	12.3 %

1) Rounded

2) Number of households that move yearly

Source: Statist. Landesamt, Senat für Stadtentwicklung, Jones Lang LaSalle

