



**HWI/Berenberg study: Living in Germany's 20 biggest cities**

## **Rents rising fastest in Berlin – share of income taken up by rent in Berlin now almost as high as Munich**

Hamburg. The Hamburg Institute of International Economics (HWI) and private bank Berenberg have examined the residential property market for tenants and owners in Germany's 20 biggest cities. In the period analysed, from 2004 to 2014, net rents grew fastest in Berlin, rising 57 % for medium quality dwellings and 67 % for high quality dwellings. Although Berlin remains relatively inexpensive with prices per square metre ranging from EUR 7.45 (medium quality dwellings) to EUR 8.75 (good quality dwellings), household incomes in the city are also low. Measured in terms of disposable income, Berlin residents have almost reached Munich levels with rents for medium quality dwellings taking up nearly 21% of take-home pay. Residents of Munich spend the biggest proportion of their pay packets on accommodation, with rents for medium quality dwellings eating up 22% of disposable income. With average prices per square metre ranging from EUR 12 for medium quality dwellings to EUR 14.10 for good quality dwellings for a three-room apartment of 70 square metres, Munich tops the table for rent prices. In absolute figures, the average resident of Munich still has EUR 20,253 left in his wallet each year after rent, more than anyone else despite the highest proportionate rental payments. Someone in Berlin, on the other hand, only manages second-to-last place in the league table with a disposable income of EUR 13,962. Tenants pay the least in Duisburg, where rents only take up 13.9 % of disposable income, followed by Bielefeld (15.1 %), Bochum (15.2%) and Wuppertal (15.3 %).

“Three out of every four households in Germany’s 20 biggest cities live in rented accommodation. Whereas the proportion of people owning their own homes is much higher in other countries, the trend for renting in Germany offers many opportunities for capital investors,” says Ken Zipse who heads up Berenberg’s Real Estate Office. Average net rents for medium quality dwellings in 2014 varied between EUR 4.80 (Duisburg) and EUR 12 (Munich) per square metre. The range for good quality dwellings stretches from EUR 6.10 (Bochum) to EUR 14.10 (Munich). Upscale apartments in top locations in Munich currently attract rents of up to EUR 21.30. Rents of up to EUR 16 are also being demanded for dwellings in top locations in Berlin. Rents rose in almost all of the 20 cities during the period under review (such as Dresden up 47.7 %, Stuttgart 45.8 %, Hannover 40 %, Essen 40 %, Bremen 37.3 % and Hamburg 29.7 % for medium quality dwellings). By contrast, it was cheaper in 2014 than in 2004 for tenants to live in medium quality dwellings in Duisburg (down 9.4 %) and in good quality dwellings in Bochum (down 1.6 %).

### **Competition for inexpensive dwellings particularly strong**

“Even by looking at the average figures, the burden of rents is high for households in many big cities. However, 70 % of households have an income that is below the average. The situation on the rental market is proving much tougher for these households,” comments study author Dörte Nitt-Drießelmann, an HWWI economist. “Rising numbers of refugees and the increasing volume of single and pensioner households will make the situation even more difficult for low-earners, single parents and students. The low-cost accommodation segment is already under tremendous pressure today. Although national, regional and local authorities have started responding to the growing demand by expanding their construction-promotion programmes, it is questionable whether these efforts will be enough.”

### **Owned homes:**

#### **Massive differences in house-price development in the ten-year period, ranging from +74 % in Munich to –22 % in Wuppertal**

In terms of the development of house prices, Munich heads the list comparing different cities. Prices in the Bavarian capital rose by 73.5 % for medium quality dwellings and 84.0 % for good quality dwellings over the last decade. House

prices for both types of dwelling have also risen by over 50% in Stuttgart, Berlin and Hamburg. In contrast, prices for medium quality dwellings declined in five cities (Wuppertal, Essen, Frankfurt am Main, Dortmund and Bochum) during the period from 2004 to 2014. Prices in Wuppertal even fell for high quality dwellings. In 2014, a square metre of floorspace cost an average of EUR 1,561 across all 20 big cities for medium quality dwellings and EUR 2,212 for high quality dwellings. The span ranges from EUR 950 in Duisburg to EUR 3,600 in Munich for medium quality dwellings and from EUR 1,200 in Wuppertal to EUR 4,600 in Munich for high quality dwellings. At present, up to EUR 22,000 is being paid for top locations in Munich. And in Berlin, a square metre in very good locations may cost up to EUR 15,000 at present.

### **Rental and ownership markets not moving in sync**

In the period from 2004 to 2014, there were huge differences in the development of the rental and ownership markets in the 20 biggest cities. On the one hand, there are cities like Munich, Stuttgart and Hamburg where house prices rose much faster than rents. On the other hand, the correlation in cities like Essen, Dresden, Frankfurt am Main and Wuppertal moved in completely the opposite direction. In Munich, buying (prices up 73.5 %) has become much more expensive than renting (up 23.1 %). In 2014, it would have been necessary to pay 27 annual net rents to acquire a residential property in the case of medium quality dwellings and 29.4 annual net rents in the case of good quality dwellings. Multiples of 21 annual net rents and more are also prevalent in Düsseldorf, Berlin, Hamburg, Stuttgart, Bonn and Dortmund, whereas in Essen it is enough to pay 13.2 annual net rents for medium quality dwellings to buy a 70sqm apartment.

### **Undersupply of one- and two-room apartments in the big cities**

Rising population numbers resulting from internal migration and immigration have put even more pressure on the housing market in Germany's 20 biggest cities. "Especially in Berlin and the other three cities with populations over a million – Hamburg, Munich and Cologne – far more new dwellings need to be built than is happening today," says Ken Zipse, head of Berenberg's Real Estate Office. Berlin requires around 17,200 new residential units each year to 2020 to meet the growing demand. This is followed by Munich with around 9,800, Hamburg with 8,300 and Cologne with 4,400 new dwellings needed each year.

Only in Frankfurt, Düsseldorf, Dresden, Münster and Bielefeld did new construction stay ahead of the forecast demand in 2014. “What are needed more than most are smaller apartments for one- to two-person households and dwellings for households with below-average incomes,” states Zipse. At present, around three-quarters of households in the 20 biggest cities consist of one or two persons. In simple arithmetic terms, the supply is not enough to be able to provide all single households with a one- or two-room apartment. In Hanover, Hamburg and Nuremberg there is a big mismatch between household structures and dwelling supply, even though the stock of one- and two-room apartments has already been expanded.

## Annual net rents (medium quality dwelling) as a proportion of disposable income per inhabitant

	Average floorspace (sqm)	Net rent for average floorspace	Disposable income after net rent	Disposable income per inhabitant		
<b>Munich</b>	39.6	22.0% = €5,702	78.0% = €20,253	€25,955		
<b>Stuttgart</b>	39.5	21.9% = €4,977	78.1% = €17,762	€22,739		
<b>Bonn</b>	44.7	21.7% = €4,559	78.3% = €16,444	€21,003		
<b>Cologne</b>	40.8	21.1% = €4,308	78.9% = €16,105	€20,413		
<b>Berlin</b>	40.7	20.7% = €3,639	79.3% = €13,962	€17,601		
<b>Münster</b>	45.3	20.4% = €4,485	79.6% = €17,447	€21,932		
<b>Frankfurt</b>	38.9	20.3% = €4,108	79.7% = €16,141	€20,249		
<b>Hanover</b>	47.7	20.1% = €4,007	79.9% = €15,925	€19,932		
<b>Hamburg</b>	40.1	19.6% = €4,307	80.4% = €17,692	€21,999		
<b>Düsseldorf</b>	43.1	18.7% = €4,396	81.3% = €19,147	€23,543		
<b>Essen</b>	42.5	18.4% = €3,570	81.6% = €15,852	€19,422		
<b>Nuremberg</b>	42.2	18.1% = €3,768	81.9% = €17,042	€20,810		
<b>Dresden</b>	38.7	17.2% = €3,019	82.8% = €14,554	€17,573		
<b>Bremen</b>	42.5	17.2% = €3,570	82.8% = €17,236	€20,806		
<b>Leipzig</b>	43.7	17.0% = €2,832	83.0% = €13,815	€16,647		
<b>Dortmund</b>	42.3	16.2% = €2,893	83.8% = €15,000	€17,893		
<b>Wuppertal</b>	44.6	15.3% = €3,051	84.7% = €16,852	€19,903		
<b>Bochum</b>	42.7	15.2% = €2,818	84.8% = €15,754	€18,572		
<b>Bielefeld</b>	42.7	15.1% = €3,177	84.9% = €17,872	€21,049		
<b>Duisburg</b>	40.1	13.9% = €2,310	86.1% = €14,340	€16,650		
	0	€5,000	€10,000	€15,000	€20,000	€25,000 p.a.

Data basis: Average floorspace in square metres per inhabitant (2012), disposable income in euros per inhabitant per year (2012), net rent (medium quality dwelling) per sqm in euros (2014)

Sources: HWWI/Berenberg (2016).

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### About Berenberg

Founded in 1590, Berenberg is one of Europe's leading private banks today, offering services in the divisions of Private Banking, Investment Banking, Asset Management, and Corporate Banking. Headquartered in Hamburg and led by managing partners, Berenberg maintains a strong presence in the financial centres of London, Zurich, New York, and Frankfurt, and has a total of 19 offices in Europe, the Americas, and Asia. More than 1,330 employees carry the bank's long tradition of success into the future.

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