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LEG Housing Market Report NRW 2014

With HousingCostAtlas



LEG's executive board, from left:
Holger Hentschel (COO), Thomas Hegel (CEO) and Eckhard Schultz (CFO)

Dear reader,

We are delighted to present the fifth edition of our extensive market analysis to you in the form of the LEG Housing Market Report NRW 2014. A great deal has happened since last year's publication. The scarcity of housing in some of North Rhine-Westphalia's cities became a top election campaign issue, certain residential districts in North Rhine-Westphalia were in the national spotlight due to overcrowding with immigrants from Southern and Eastern Europe, and the European Central Bank's low-interest policy further fuelled the run on real estate investments. But that's not all. With rent control and a number of regional action plans, politicians intend to exert a regulatory influence on the market development, which will bring significant changes with regard to landlords' flexibility. It is noteworthy to mention here that the market is willing to regulate itself – without political intervention. Although the continued strong demand for housing allowed landlords to raise asking rents again almost across the board, they were unable to match the sometimes extremely high growth rates recorded in the previous year. In the luxury segment in particular, the increase in asking rents not only lost momentum but in some cases the prices were even adjusted downward.

LEG Immobilien AG has positioned itself optimally in this eventful market environment. This is demonstrated not least by the more than satisfactory corporate development one year after our IPO, which gained us an Immobilien Manager Award in the Management category in February 2014. In figures: total assets climbed by more than 3.5 per cent in the 2013 financial year (31 December 2013 = €5,423.1 million). The net asset value amounted to just under €2.6 billion as of 31 December 2013. We achieved rent growth of 3.0 per cent per square metre in the free-financed portfolio in 2013 (on a like-for-like basis). On the one hand, this growth rate reflects the trend on the markets. However, it is also an indication of the quality of our property portfolio and the company's high level of property management expertise, of which we are very proud.

Of course we need to produce good figures – our investors and employees expect this from us. But we cannot implement our growth targets if our tenants are not satisfied. And our tenants come from a vast range of nationalities. Our Group now provides homes for people from 45 countries in its more than 95,000 apartments. As one of the biggest housing providers in North Rhine-Westphalia, LEG Immobilien AG thus also has a major social role to play. We are aware of this responsibility.

We therefore make an active contribution to the successful integration of new citizens, for example with language courses, training and job placement services, and assistance with dealing with public authorities. In addition, cultural events and tenant festivities help neighbourhood integration. Thus, our Group provides guidance and security, improves people's training and career opportunities, averts conflicts and promotes a positive way of living together. We even get involved abroad: for instance, LEG Immobilien AG was recently mentioned on the "DESWOS Roll of Honour" for its housing construction project in Southern India.

We would like to take this opportunity again to thank our project partners. CBRE has compiled a data pool that now covers five years and analysed it in close cooperation with our regional divisions, branches and customer centres.

We hope you find the report an interesting read!

Sincerely,

Thomas Hegel
CEO

Eckhard Schultz
CFO

Holger Hentschel
COO

Moderate development in residential rents and purchase prices

Although asking rents increased by 4.2 per cent year-on-year in 2013, Bielefeld remains one of the more affordable major cities in the state of North Rhine-Westphalia, with average rents of €6.25 per square metre per month. Apartments in the lower market segment were available for an average of €4.63 per square metre per month. Even in the upper market seg-

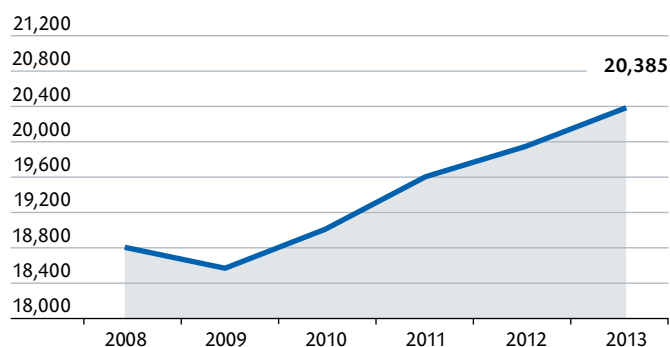
ment, average monthly rents did not exceed €10 per square metre. Prospective tenants in Bonn, Cologne, Dusseldorf, Münster and Aachen can only dream of such prices. Demand is stable but far from explosive. Tenants in Bielefeld are also more easily able to absorb the steady but moderate price rises thanks to the improvement in their purchasing power.

Macroeconomic data	Bielefeld	NRW	Germany	Year
Residents ¹⁾	328,284	17,545,987	80,585,684	June 2013
Population density (residents/km ²)	1,254	523	229	2012
Population development ¹⁾ in %	0.4	0.1	0.4	June 2011 – June 2013
Population forecast in %	–0.9	–2.4	n/a	2011–2025
Households	169,200	8,619,900	40,561,600	2012
Household development in %	1.9	1.5	4.4	2002–2012
Household forecast in %	4.1	2.5	3.1	2009–2025
Purchasing power	96.1	100.1	100	2013
Per capita purchasing power in €	20,385	21,248	21,220	2013
Workers paying social insurance contributions	134,236	6,050,508	28,920,588	2012
Development of workers paying social insurance in %	2.1	2.7	4.9	2002–2012

1) Forward projection based on 2011 census

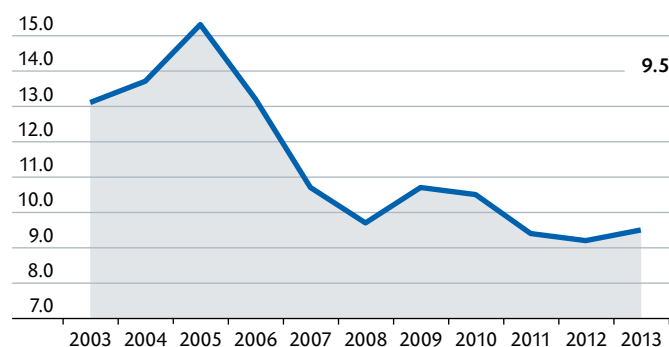
Source: NRW Statistics Office, BBSR (households), Michael Bauer Research (purchasing power), compiled by CBRE

Purchasing power
per capita in €



Source: Michael Bauer Research, compiled by CBRE

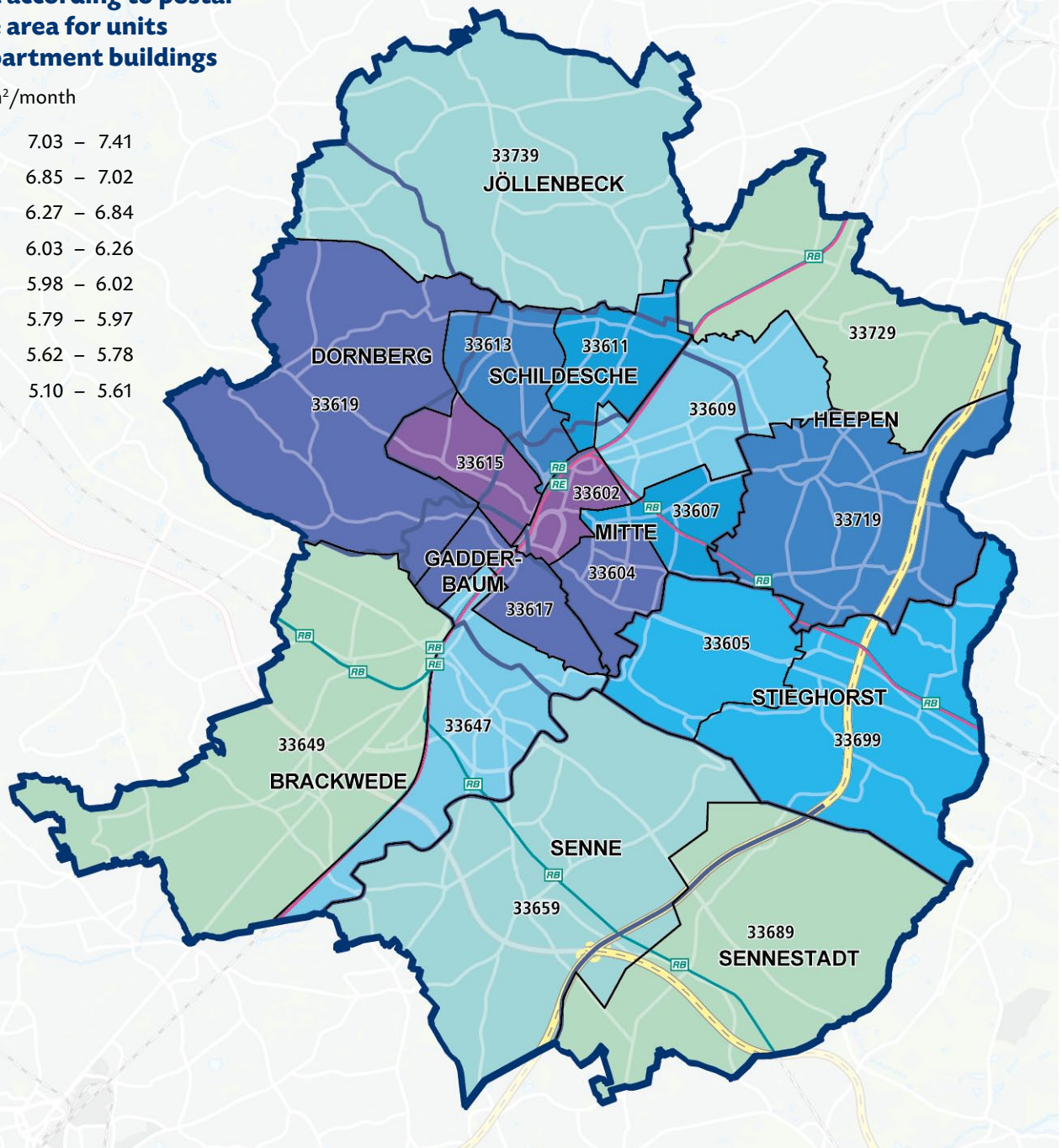
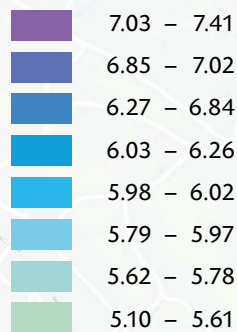
Unemployment rate
in % of all employable civilians



Source: Federal Labour Office, compiled by CBRE

Rent according to postal code area for units in apartment buildings

in €/m²/month



Structural characteristics

Although around 30,000 students are registered at universities and colleges in Bielefeld, the city's demographic development is somewhat lagging behind that of the other university cities in North Rhine-Westphalia. While Münster, Cologne, Düsseldorf and Bonn can boast substantial population growth, Bielefeld is struggling to maintain the status quo. Between mid-2011 and mid-2013, the number of inhabitants in the city increased by just 0.4 per cent. According to forecasts by the State Statistical Office, Bielefeld is even set to become one of the regions with a declin-

ing population in the future: in 2025, the number of inhabitants will be 0.9 per cent lower than in 2011. However, the number of households is expected to enjoy considerably more favourable development. The city has recorded growth in recent years, with the number of households rising by 1.9 per cent between 2002 and 2012, and the outlook for the years to come is even better. The Federal Institute for Research on Building, Urban Affairs and Spatial Development (BBSR) is forecasting a 4.1 per cent increase in the number of households in Bielefeld between 2009 and 2025.

Bielefeld, which is home to the headquarters of a number of multinational companies, benefited from the stable macroeconomic development in Germany in 2013. The unemployment rate amounted to 9.5 per cent, meaning that the city remained below the 10 per cent mark once again. In terms of annual purchasing power, Bielefeld is still ranked in the lower mid-range when it comes to prosperity in North Rhine-Westphalia. At €20,385 per capita, the city was placed 35th among the 54 housing market regions analysed in the past year.

Balanced relationship between housing costs and prosperity

The Bielefeld rental market provided a little surprise in 2012: average monthly asking rents increased by 4.2 per cent to €6.25 per square metre. Among the top 12 cities in North Rhine-Westphalia, the only markets that managed to outperform Bielefeld in the same period were Cologne with a growth of 5.2 per cent (to €9.56) and Aachen with growth of 4.6 per cent (to €7.79). Dortmund came in just behind Bielefeld with rental growth of 4.1 per cent (to €5.65), followed by Münster with rental growth of 4 per cent to €8.93 per square metre per month. The other top cities saw more moderate price rises. Furthermore, the five-year trend shows that asking rents in Bielefeld have now increased for three consecutive years; as a result, the city by the Teutoburg Forest now has the sixth-highest asking rents among the top cities of North Rhine-Westphalia.

Rents per square metre in the upper and lower market segments enjoyed even stronger growth than in the previous year. Average monthly asking rents for high-quality apartments amounted to €10 per square metre in the past year, an increase of 5 per cent compared to 2012. In the same period of the previous year, rents for apartments in the upper market segment rose by 4.5 per cent. Prices for relatively modest apartments also saw more dynamic development, with growth of 1.3 per cent in 2012 being followed by an increase of 3.1 per cent in 2013. Prospective tenants with a focus on apartments in the lower market segment now face average monthly rents of €4.63.

This means that Bielefeld is also the sixth most expensive major city in North Rhine-Westphalia for affluent tenants and those with low purchasing power alike.

Tenants spend €59 more on rent including heating than in 2009

Development over the past five years shows that landlords in Bielefeld have used the stable demand for housing to realise price adjustments. All in all, tenants are now required to pay €0.58 per square metre more for their apartments (excluding heating) than was the case in 2009. Housing costs (excluding and including heating) have also increased continuously. In 2013, households spent an average of €432 per month on housing costs (excluding heating), €47 more than in 2009, while housing costs (including heating) increased by €59 in the same period, from €589 to €648.

Compared to the price environment in the other university cities of North Rhine-Westphalia, however, there are no extremes in the Bielefeld market despite price adjustments. The growth in purchasing power over a number of years means that, while housing costs have increased, households are not subject to an excessive burden. At €20,385, the income available to the average resident was €1,822 or around 10 per cent higher in 2013 than in 2009. Accordingly, the development of household purchasing power has been similarly positive: on average, each household had available income of €3,225 in 2013, an increase of €308 compared to 2009. In other words,

solid income growth means that little has changed for new tenants in Bielefeld in recent years when it comes to the percentage housing cost burden. Households were required to commit an average of 13.2 per cent of their monthly purchasing power to rent excluding heating in 2009; by 2013, this figure had risen only slightly by 0.2 percentage points to 13.4 per cent. Compared to other university cities in North Rhine-Westphalia, therefore, the housing cost burden for tenant households in Bielefeld is relatively moderate. In 2013, households in Bonn were required to spend a good 16 per cent of their monthly purchasing power on housing costs excluding heating; meanwhile, rent excluding heating accounted for 16.1 per cent of monthly household purchasing power in Aachen, 17.2 per cent in Münster and as much as 18.6 per cent in Cologne. By contrast, the housing cost burden in Bochum – a city that also has a large student population – was just 11.9 per cent. The proportion of monthly net income attributable to rent including heating is also stable for new tenants in Bielefeld. In the period from 2009 to 2012, the housing cost burden including heating fluctuated between 19.4 per cent and 20.3 per cent. The past year did not see a significant deviation from this trend, with prospective tenant households having to spend an average of 20.1 per cent of their monthly purchasing power on rent including heating.

In this respect, too, tenants in Bielefeld – and the around 30,000 students in the city in particular – have a slight advantage com-

Housing stock data	2005	2006	2007	2008	2009	2010	2011	2012
Completed apartments	1,922	891	1,009	706	675	798	617	612
Permits for newly built apartments	2,054	1,241	709	796	845	903	539	715
Housing stock ¹⁾ (number of apartments)	154,188	155,037	155,918	156,514	156,957	168,814	169,205	169,731
Housing stock ¹⁾ in apartment buildings in %	65.1	65.1	65.0	65.0	64.9	66.9	66.9	66.9
Vacancy rate in %	n/a	n/a	n/a	n/a	2.6	2.8	2.6	2.5

1) up to 2009 based on 1987 housing census, from 2010 based on 2011 housing census

Source: CBRE-empirica vacancy index, NRW Statistics Office, compiled by CBRE

pared to their counterparts in many other university cities in North Rhine-Westphalia: rent including heating accounts for a larger proportion of the average monthly budget in Bonn (21.7 per cent), Aachen (22.5 per cent), Münster (23.3 per cent) and Cologne (24.6 per cent).

The analysis of rent and housing costs shows that there is no shortage of (student) housing in Bielefeld. This is partly because the population has seen far less pronounced population growth than Bonn, Aachen or Münster in recent years and the number of inhabitants is actually forecast to decrease between now and 2025. Another factor is the lack of notable growth in the average apartment size advertised in Bielefeld since 2009: in 2013, the average apartment was 69.2 square metres in size, compared to 68 square metres in 2009. By contrast, the average apartment size in the university cities of Aachen, Bonn, Münster and Cologne has fallen over recent years.

Affordable south, expensive centre

There are substantial differences in terms of rent and the housing cost burden at the level of the individual sub-markets. In 2013, the highest monthly asking rents excluding heating were found in Gadderbaum, Mitte, Schildesche (postal code 33615) at €7.41 per square metre, followed by Mitte (postal code 33602) at €7.38 per square metre. By contrast, the most affordable sub-markets were again located in the southern part of the city: prospective tenants in 2013 were able to find monthly rents of €5.10 per square metre in Senne and Sennestadt (postal code 33689), while average asking rents in Brackwede (postal code 33649) amounted to €5.55.

Meanwhile, households in Dornberg, Schildesche (postal code 33619) have been confronted with the highest housing costs in the city and some of the most pronounced price rises since 2009. They were required to spend an average of €532 on rent exclud-

ing heating in 2013, €110 more than in 2009. Housing costs including heating accounted for €769 of average household purchasing power in the past year, up €137 compared to 2009. This substantial price growth can be attributed to the average rent excluding heating, which increased from €6.03 per square metre in 2009 to €7.02 in 2013, as well as the fact that the apartments advertised were, on average, almost 6 square metres larger in 2013 than in 2009.

Prospective tenants can find more affordable housing in the sub-markets of Mitte (postal code 33607), where monthly housing costs excluding heating amounted to €373, and Senne, Sennestadt (postal code 33689), where the figure was just €369. In Senne, Sennestadt, households benefit from the lowest asking rents in the urban area (€5.10 per square metre), while the small average size of the available apartments (61.9 square metres) is responsible for the comparatively low level of housing costs in Mitte. Smaller apartment sizes are also the reason why the sub-markets of Mitte (postal code 33607) and Mitte, Heepen (postal code 33609) to the east of the city centre have the lowest housing costs including heating, coming in at €567 and €594 respectively.

Prices for apartment buildings remain below the €1,000-per-square-metre threshold

Trends on the Bielefeld property investment market in 2013 were inconsistent. Although potential buyers of owner-occupied apartments had to accept a further rise in asking prices compared to the previous year, the price curve levelled off considerably. The average asking price for an apartment was €1,416 per square metre, 3.4 per cent more than in 2012. By comparison, asking prices rose by 7.7 per cent between 2011 and 2012. An identical scenario was observed in the bottom market segment. Asking prices for modest owner-occupied properties averaged €739 per

square metre, up 2.9 per cent on 2012; however, this compared to price growth of 6.6 per cent in the same period of the previous year. In contrast, sellers of high-quality properties increased their asking prices compared to the previous year: owner-occupied apartments in the upper market segment cost an average of €2,769 per square metre in 2013, up 9.8 per cent from 2012. Between 2011 and 2012, purchase prices in the top segment in Bielefeld had risen by just 4.3 per cent.

The favourable overall price level and comparatively moderate growth rates are consistent with the moderate rents in the city compared to the other popular university cities in North Rhine-Westphalia. Bielefeld is ranked sixth among the top 12 cities in terms of both rents and purchase prices for apartments. Investors seeking to invest and rent properties in Bielefeld can expect to generate lower rental income than landlords in, for example, Münster, Bonn or Aachen. Accordingly, sellers in Bielefeld are unable to realise the same kind of high purchase prices seen in these cities. Instead, potential owner-occupiers in Bielefeld benefit from the relative affordability of apartments compared to markets with strong demand, such as Cologne, Münster, Düsseldorf, Aachen and Bonn.

Bielefeld also occupied a mid-range position among the top 12 cities when it came to purchase prices for apartment buildings in 2013. Purchase prices declined by 1.2 per cent to €986 per square metre in the past year, thereby remaining below the €1,000 threshold. This means that apartment buildings in the city are, on average, considerably more expensive than in Bochum, Dortmund, Duisburg, Essen, Gelsenkirchen or Wuppertal, but significantly more affordable than in Aachen, Bonn, Düsseldorf, Cologne or Münster. It is notable that Bielefeld was the only one of the top 12 housing markets to see falling purchase prices for this property type.

Housing market, cost, and expenditure ratio according to postal code area

Housing data					Housing cost					
Postal code	Number of rental offers	Basic rent in bottom market segment in €/m ² /month	Median basic rent in €/m ² /month	Basic rent in top market segment in €/m ² /month	Apartment size Ø in m ²	Basic housing cost Ø in €/month	Total housing cost ¹⁾ Ø in €/month	Household purchasing-power Ø in €/month	Basic rent in % of household purchasing power	Total rent in % of household purchasing power
33602	601	5.14	7.38	12.41	64	475	676	3,199	14.8	21.1
33604	353	5.15	6.85	10.22	69	475	691	3,087	15.4	22.4
33605	239	4.69	6.00	9.84	70	420	639	3,063	13.7	20.8
33607	329	4.88	6.03	8.93	62	373	567	2,580	14.5	22.0
33609	244	4.41	5.79	8.22	67	386	594	2,772	13.9	21.4
33611	231	4.92	6.13	9.43	68	418	631	2,966	14.1	21.3
33613	402	5.27	6.82	9.55	62	420	612	2,802	15.0	21.8
33615	347	5.25	7.41	11.67	65	482	685	3,206	15.0	21.4
33617	109	5.00	7.00	9.02	70	491	709	3,465	14.2	20.5
33619	311	4.86	7.02	10.42	76	532	769	4,251	12.5	18.1
33647	355	4.67	5.97	8.54	68	404	615	2,891	14.0	21.3
33649	258	4.58	5.55	8.57	73	403	630	3,619	11.1	17.4
33659	229	4.57	5.71	8.17	78	445	688	3,622	12.3	19.0
33689	284	4.10	5.10	6.92	72	369	594	2,927	12.6	20.3
33699	135	4.42	5.98	7.93	77	460	700	3,580	12.9	19.6
33719	201	4.59	6.33	8.80	65	413	617	3,348	12.3	18.4
33729	231	4.44	5.60	8.50	75	421	656	3,390	12.4	19.3
33739	287	4.39	5.77	8.02	81	466	718	3,989	11.7	18.0
Ø	5,146 ²⁾	4.63	6.25	10.00	69	432	648	3,225	13.4	20.1
Ø NRW	284,848 ²⁾	4.30	6.15	11.43	72	445	671	3,590	12.4	18.7

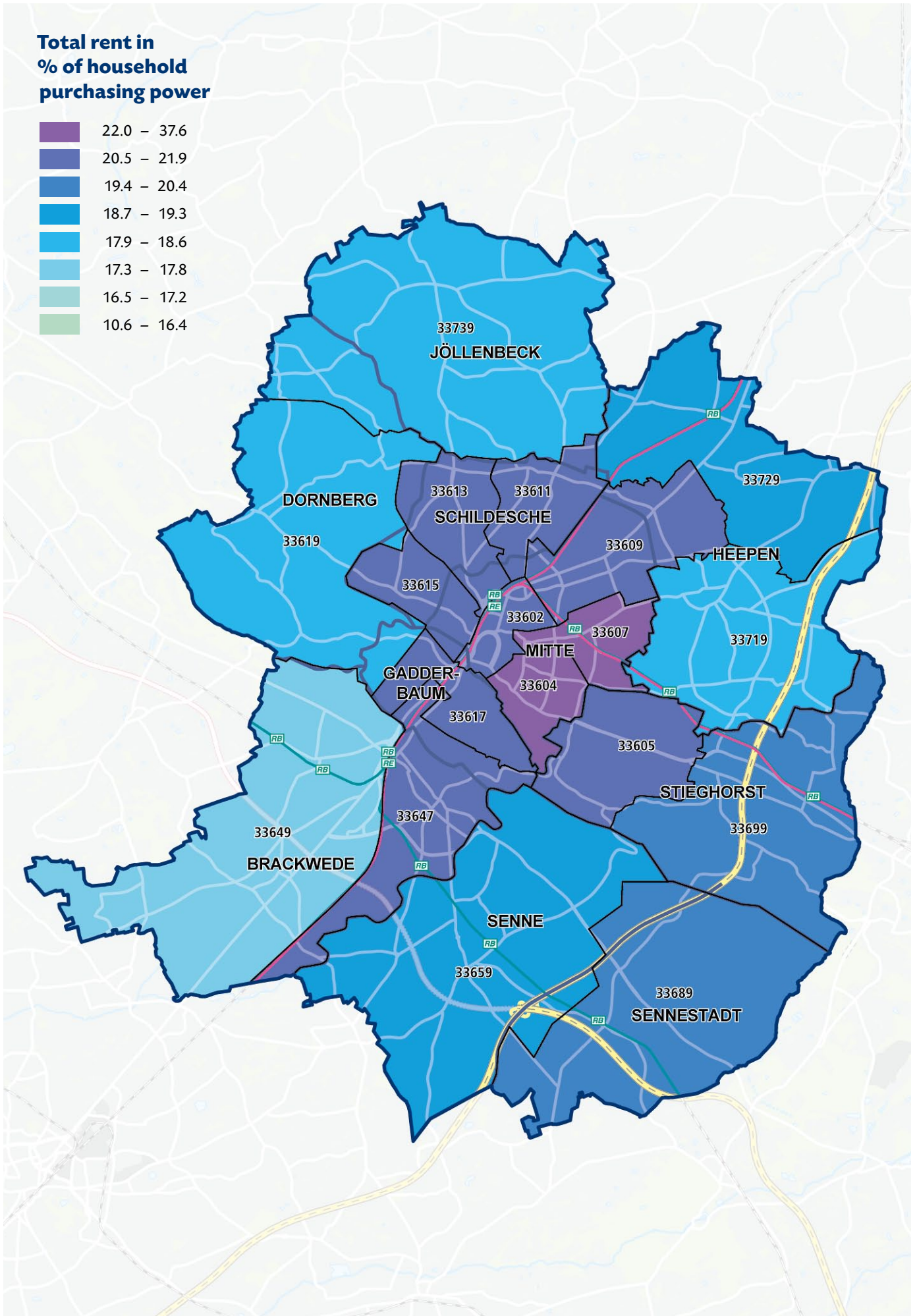
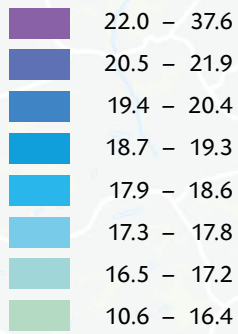
1) includes €3.12 operating cost/m² (DMB NRW operating cost index 2012) 2) total of offers

Sources: CBRE; based on data from: empirica-systeme, Michael Bauer Research (purchasing power)

Postal code allocation

33602 Mitte, **33604** Mitte, Stieghorst, **33605** Stieghorst, **33607** Mitte, **33609** Mitte, Heepen, **33611** Mitte, Schildesche, Jöllenbeck, **33613** Mitte, Schildesche, Dornberg, **33615** Gadderbaum, Mitte, Schildesche, **33617** Gadderbaum, **33619** Dornberg, Schildesche, **33647** Gadderbaum, Brackwede, Senne, **33649** Brackwede, **33659** Senne, Sennenstadt, **33689** Senne, Sennenstadt, **33699** Stieghorst, **33719** Heepen, **33729** Heepen, **33739** Jöllenbeck, Dornberg

**Total rent in
% of household
purchasing power**



DIRECTORY OF SOURCES

Office for Urban Development, Planning and Traffic for the city of Münster: Current planning status of former British army barracks:
Online under:
www.muenster.de/stadt/stadtplanung/konversion_wohnstandorte_uebersicht.html

Federal Labour Office

Federal Institute for Research on Building, Urban Affairs and Spatial Development (BBSR)

CBRE GmbH

City of Duisburg, short reports on statistics and city research: Residents with an Immigration Background 2013
Online under:
www.duisburg.de/vv/I-03/medien/TI_0314-text.pdf

empirica-systeme GmbH

Michael Bauer Research GmbH

Münstersche Zeitung: Former military grounds split in three
Online under:
www.muensterschezeitung.de/staedte/muenster/Oxford-Kasernen-Dreiteilung-des-ehemaligen-Militaergelaendes;art2565,2304536

State Statistical Office for North Rhine-Westphalia

GLOSSARY

Population forecast: Forecast of the population as prepared by the Federal Institute for Research on Building, Urban Affairs and Spatial Development (BBSR). The model applied is based on assumptions with regard to the development of the birth rate, life expectancy and the net migration rate.

Household forecast: Forecast of the number of households as prepared by the Federal Institute for Research on Building, Urban Affairs and Spatial Development (BBSR). The model applied is based on the figures from the BBSR's population forecast.

Household purchasing power: The income available to private households from employment and self-employment including transfer benefits (unemployment benefits, child allowance, family allowance, annuities, pensions, training assistance, capital gains, income from agriculture and forestry, income from letting and leasing, etc.). Source: Michael Bauer Research GmbH.

Purchasing power index: Per-capita purchasing power of the district or city compared with the national average (Germany = 100). Source: Michael Bauer Research GmbH.

Vacancy rate: Active housing stock (apartments only) available for immediate use, as well as vacant apartments which are not presently being offered for rent due to faults, but which could also be activated in the medium term. Source: CBRE-empirica vacancy index.

Median: The numerical value separating the higher half of a sample from the lower half such that 50 percent of the values in the sample are contained in the upper and lower halves respectively.

Entire market segment: All of the available properties recorded via empirica-systeme GmbH in the respective period, adjusted for duplicates.

Top market segment: The segment containing the most expensive 10 percent of the available properties in the entire sample.

Bottom market segment: The segment containing the cheapest 10 percent of the available properties in the entire sample.

Price range in the middle market segment: The range of asking rents covered by 80 percent of the available properties recorded.

Multiple: Purchase price (excluding incidental costs) / gross rental income (before deduction of non-recoverable management costs).

Residential construction completions: Completed apartments in residential and non-residential buildings, including existing measures. Source: Statistical Office of North Rhine-Westphalia.

Residential construction approvals: Approved construction measures for apartments in residential and non-residential buildings, including existing measures. Source: Statistical Office of North Rhine-Westphalia.

Housing stock: Total number of apartments in residential and non-residential buildings. Source: Statistical Office of North Rhine-Westphalia.

Housing costs (excluding heating): Average apartment size x rent excluding heating per square meter (median).

Housing costs (including heating): Average apartment size x (rent excluding heating per square meter (median) + utility costs of €3.07).

Housing cost burden: Proportion of the monthly purchasing power of a household accounted for by rent excluding and including heating. Formula: Housing costs (excluding/including heating) x 100 / monthly household purchasing power.

MASTHEAD

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