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LEG Housing Market Report NRW 2011

With HousingCostAtlas

LEG's managers, from left:
Thomas Hegel (CEO),
Holger Hentschel (HOO) and
Eckhard Schultz (CFO).

Dear reader,

The exceptionally widespread and positive response to the first LEG Housing Market Report NRW in 2010 demonstrated that we are on the right path. As such, we are delighted to be able to present this second edition to you. The 268-page report contains extensive, updated information on all of the housing markets in the 54 cities and districts of North Rhine-Westphalia. The LEG Housing Market Report NRW 2011 provides details of the economic and demographic conditions in the individual locations, the development of rents and purchase prices for apartments and apartment buildings, the level of construction activity, and vacancy rates. By compiling all of the available information, the report paints a multi-faceted picture of the living conditions experienced by the almost 18 million inhabitants of the state.

One encouraging development relates to the data pool: whereas the analysis in the previous year was impaired to an extent by a lack of data, this situation has improved significantly in a number of regions. Although individual data sets for some of the less densely populated districts remain incomplete this year, the present analysis is almost certainly the most comprehensive evaluation of the regions of a federal state that is currently available in Germany.

The report is intended for anyone with an interest in or enthusiasm for the topic of residential property in North Rhine-Westphalia, be they tenants and owners, cities and municipalities, economic development corporations, urban planners, estate agents or investors. After all, the figures presented in the report highlight not only those areas where new construction activity will be particularly worthwhile in future, but also where new development concepts are expected to be implemented with a view to ensuring the sustainability of the respective location.

The analysis also documents the fact that demographic problem areas are found not only on either side of the Ruhr river, but also in a number of rural regions. With around 90,000 apartments in North Rhine-Westphalia, we know that the 12 major cities and 42 smaller housing markets in the state are far from synchronous in terms of their development – and that there is just a fine line between light and shade in some areas.

We would like to take this opportunity to express our particular gratitude to our research partner CB Richard Ellis, which, as in the previous year, compiled all of the data and evaluated it in conjunction with our regional and branch managers.

We hope the second LEG Housing Market Report NRW makes for interesting reading and look forward to receiving your feedback on the report and its location portraits, which can also be viewed on the LEG website by going to www.leg-nrw.de.

Sincerely,

Thomas Hegel Management Spokesman, CEO	Eckhard Schultz Managing Director, CFO	Holger Hentschel Member of Management, HOO

Solingen

Score 24 of max. 48

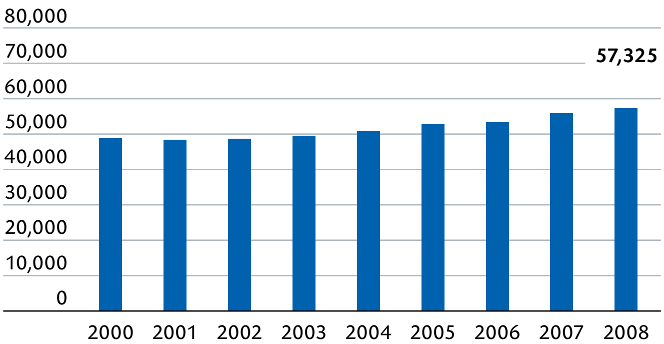
Prime rents exceed €8 in six of the eight sub-markets

Solingen is a city in the Bergisches Land region and forms the so-called Bergisch city triangle together with Remscheid and Wuppertal. With around 161,000 inhabitants, Solingen is the second-largest city in the region and belongs to the Dusseldorf administrative region. Solingen is bordered by the cities of Wuppertal and Remscheid, the Rhein-isch-Bergischer Kreis and Mettmann district. Like other cities, Solingen is subject to declining population and household numbers, and this trend is set to intensify in future. However, the consequences for the rental market did not become apparent in 2010, with asking rents rising across all market segments accompanied by falling vacancy rates.

Macroeconomic data	Solingen	NRW	Germany	Year
Residents	160,992	17,872,764	81,802,256	2009
Population density (residents/km²)	1,803	526	230	2009
Population development in %	–2.4	–0.8	–0.6	2000–2009
Population forecast in %	–4.9	–2.4	–3.6	2009–2025
Households	78,960	8,550,214	39,628,120	2009
Household development in %	–0.9	2.8	3.7	2000–2009
Household forecast in %	–2.8	1.5	1.1	2009–2020
Buying power	101.6	101.2	100.0	2011
Per capita buying power in €	20,001	19,921	19,684	2011
Workers paying social insurance contributions	50,227	5,766,861	27,380,096	2009
Development of social insurance contributions	–11.2	–2.4	–1.6	2000–2009

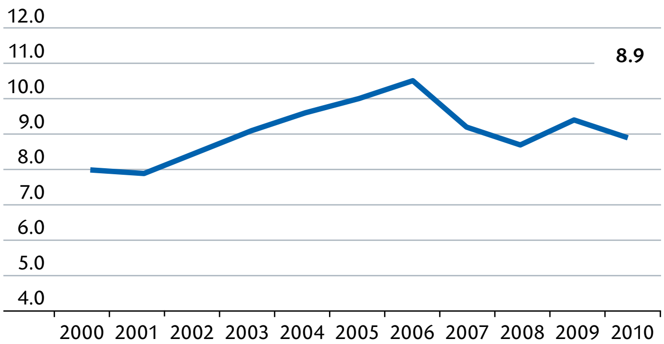
Source: NRW Statistics Office, Federal Statistics Office, GfK GeoMarketing, compiled by CBRE

Gross domestic product
per employed person in €

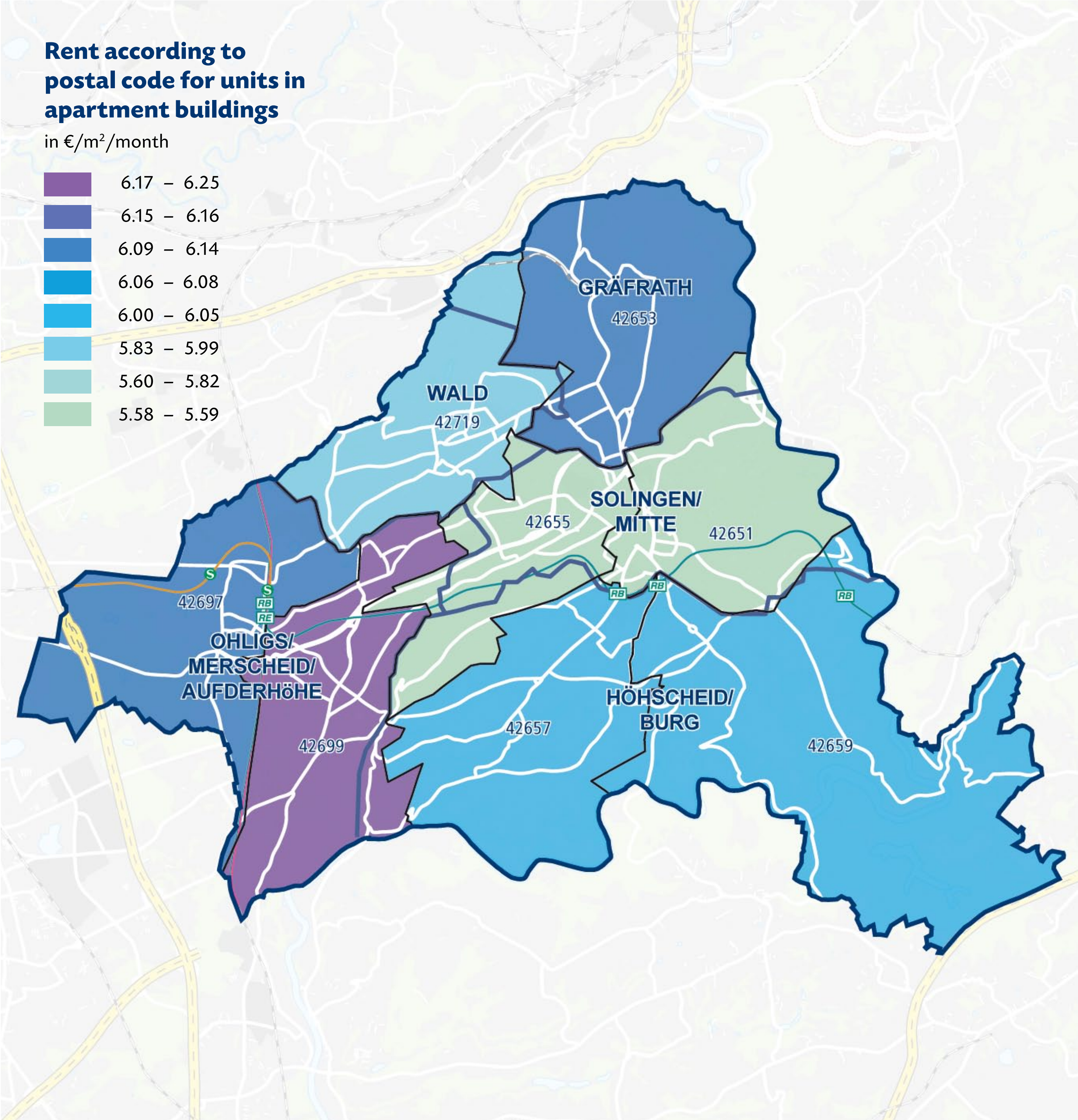


Source: NRW Statistics Office, compiled by CBRE

Unemployment rate
in % of all employable civilians



Source: Federal Labor Office, compiled by CBRE



Economic structure

The city of Solingen is known around the world for its knife and cutlery industry. Companies in this sector remain a key player in the local economy, accounting for 21 percent of total manufacturing revenues. The Solingen name for cutting tools is internationally protected. High-profile blade manufacturers including Wilkinson Sword, Zwilling J.A. Henckels, Wüsthof Dreizackwerk, Solicut, Richartz, Martor, Kretzer Scheren and DOVO Stahlwaren are all based in Solingen. In addition to manufacturing industry, there is a relatively strong service sector, which has developed as a result of the structural change that has also taken place in this region since the mid-20th century.

Meanwhile, the city is continuing to expand its expertise as a technology location: the Institute for Electroplating and Surface Technology (IGOS) means that Solingen is one of the leading locations in Germany for the electroplating industry. The city of Solingen has enjoyed generally positive economic development over recent years. Although the number of employees subject to social security fell by more than 10 percent between 2000 and 2009, unemployment has been in decline since peaking at 10.5 percent in 2006. The district recorded an 8.9 percent jobless rate in 2010. By comparison, the neighboring cities of Remscheid (10.2 percent) and Wuppertal (11.5 percent) had higher levels of unemployment at the same date. Solingen is connected to the national road network via the A 3 (Cologne-Oberhausen), A 46 (Dusseldorf-Wuppertal) and A 1 (Cologne-Dortmund) highways. The nearest airport is Dusseldorf International, around 30 kilometers away.

High asking rents lead to increase in housing costs including heating

As part of the Bergisch city triangle along with Wuppertal and Remscheid, Solingen is in direct competition with its neighbors. All three cities are still undergoing a process of structural change: they are heavily indebted, have comparatively high levels of unemployment and are currently expected to see further population decline in future. However, this adverse demographic development is set to be less pronounced in Solingen than in Wuppertal and Remscheid. Solingen's population fell by 2.4 percent between 2000 and 2009, while Wuppertal saw a downturn of 4.2 percent and Remscheid lost as many as 6.6 percent of its inhabitants. At 4.9 percent, Solingen has the lowest level of projected population decline among the three cities between now and 2025, while the number of households is expected to fall by 2.8 percent by 2020. In terms of prosperity, Solingen enjoys a strong mid-table position compared with its neighbors in the Bergisch city triangle and North Rhine-Westphalia as a whole, with average annual income of €20,001 per capita. This puts Solingen in 17th place among all of the cities and districts in the state in terms of prosperity. It is also notable that Solingen has the lowest vacancy rate in the Bergisch city triangle, with just 2.4 percent of all units in apartment complexes vacant in 2009: the corresponding figures for Wuppertal and Remscheid were 3.9 percent and 6 percent respectively.

The comparatively low vacancy rate and rising asking rents suggest that there is stable demand for residential space. Across all location and quality categories, advertised prices in Solingen increased by 1.2 percent in 2010, resulting in average monthly rents of €5.90 per square meter. This made Solingen one of the 12 most expensive housing markets in North Rhine-Westphalia in 2010. While asking rents as a whole increased by 1.2 percent, rental growth was more pronounced in the upper and lower market segments, each of which represent 10 percent of all available properties. In the lower market segment, apartments were available for an average of €4.54 per square meter in 2010, 3.4 percent more than in the previous year. The price rise in the upper segment was larger still: landlords demanded €8.28 per square meter per month for corresponding properties, up 3.6 percent on 2009.

A postcode-based analysis also shows that living in Solingen is comparatively expensive for many households. Initial rents in the lower segment were comfortably higher than €4 per square meter in all eight postcode areas, while advertised prime rents exceeded the €8 mark in six postcode areas. For households with limited purchasing power, the most affordable properties were available in postcode area 42651 in the west of the city (Burg, Burg-Höhscheid, Mitte, central Solingen), where monthly asking rents for apartments in the lower market segment amounted to €4.22 per square meter. The highest prime rents in the upper market segment were found in the sub-market of Höhscheid and Ohlings-Aufderhöhe (postcode 42699), with landlords in this area in the west of the city demanding up to €8.70 per square meter for corresponding apartments.

In light of these high rents, the housing cost burden for households in Solingen is also comparatively high: rent excluding heating accounts for 12.8 percent (€439) of the average household purchasing power of €3,440, while the figure for rent including heating is 19.3 percent (€662). The highest housing cost burden was recorded in postcode area 42655 (Höhscheid, central Solingen, Wald, Merscheid), where households with monthly purchasing power of €3,344 had to commit 13.1 percent (€438) of this figure to rent excluding heating and 20.1 percent (€674) to rent including heating. The lowest ratio of housing costs to monthly income was found in Höhscheid, central Solingen (postcode 42657), where rent excluding and including heating accounted for 12.4 percent (€446) and 18.5 percent (€667) of the average monthly household income of €3,600.

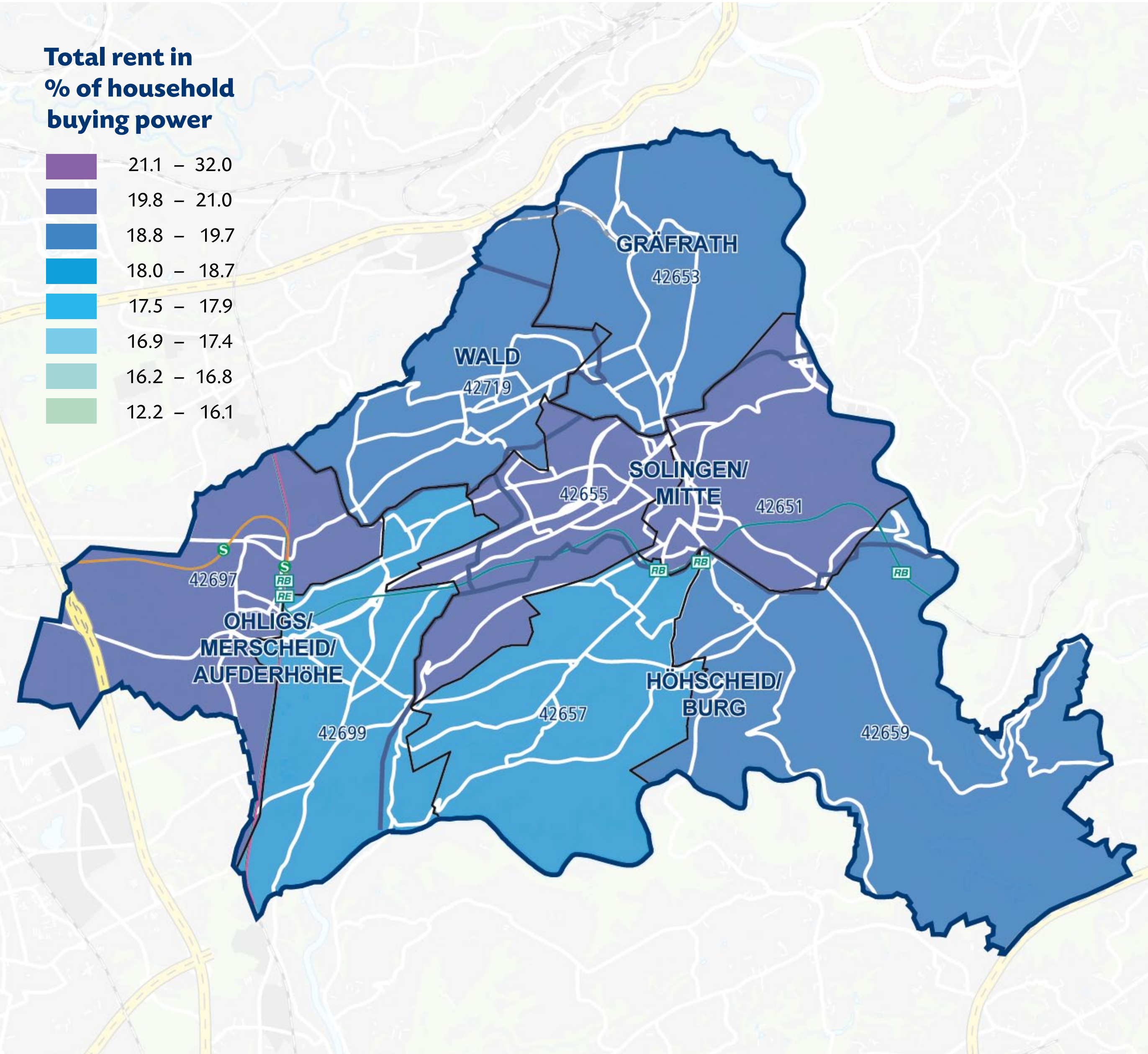
Housing stock data	2004	2005	2006	2007	2008	2009
Vacancy rate in %	2.0	2.5	3.7	2.3	2.8	2.4
Permits for new buildings	251	584	313	244	215	291
Finished apartments	346	408	254	325	189	135
Housing stock	78,578	78,985	79,239	79,563	79,750	79,876
Housing stock in apartment buildings	68.3	68.2	68.2	68.1	68.0	67.9

Source: Techem-empirica (vacancy), NRW Statistics Office, compiled by CBRE

Housing data						Housing cost					
Postal code	Number of rental offers	Basic rent in bottom market segment in €/m²/month	Median basic rent in €/m²/month	Basic rent in top market segment in €/m²/month	Vacancy 2009 in %[1]	Apartment size Ø in m²	Basic housing cost Ø in €/month	Total housing cost[2] Ø in €/month	Household buying power Ø in €/month	Basic rent in % of household buying power	Total rent in % of household buying power
42651	729	4.22	5.58	8.30	3.1	72	400	615	3,110	12.9	**19.8**
42653	301	4.59	6.13	8.48	[2.3]	74	453	674	3,471	13.0	**19.4**
42655	357	4.42	5.59	7.95	[2.7]	78	438	674	3,344	13.1	**20.1**
42657	308	4.73	6.05	7.74	[1.5]	74	446	667	3,600	12.4	**18.5**
42659	200	4.81	6.05	8.36	3.6	81	490	733	3,740	13.1	**19.6**
42697	440	4.62	6.14	8.40	n/a	75	460	685	3,444	13.4	**19.9**
42699	315	4.64	6.25	8.70	[2.2]	73	457	676	3,623	12.6	**18.7**
42719	483	4.59	5.89	8.30	[1.8]	74	437	660	3,363	13.0	**19.6**
Ø	3,133[3]	4.54	5.90	8.28	2.4	74	439	662	3,440	12.8	19.3
Ø NRW	378,959[3]	4.13	5.76	10.00	3.6	71	408	621	3,463	11.8	17.9

1) [Falling number of limited significance] 2) includes €3.00 operating cost/m² (DMB operating cost index 2010) 3) Total of offers

Source: CB Richard Ellis; based on data from: IDN Immodaten, GfK GeoMarketing (buying power data), Techem-empirica (vacancy)



Postal code allocation

42651 Burg, Burg-Höhscheid, Mitte, central Solingen, **42653** Central Solingen, Wald, Gräfrath, **42655** Höhscheid, central Solingen, Wald, Merscheid, **42657** Höhscheid, central Solingen, **42659** Burg, central Solingen, Höhscheid, **42697** Ohligs-Aufderhöhe, Merscheid, **42699** Höhscheid, Ohligs-Aufderhöhe, **42719** Central Solingen, Wald, Gräfrath, Merscheid

DIRECTORY OF SOURCES

Federal Statistics Office

Federal Labour Officet

Statistical Office of North Rhine-Westphalia

Committee of Valuation Experts for Cities and Districts in NRW

IDN ImmoDaten

GfK GeoMarketing GmbH

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GLOSSARY

Scoring: Ranking of the 54 districts and cities of North Rhine-Westphalia and the 11 other most populous cities in Germany in terms of the attractiveness of their property market.

Population forecast: Forecast of the population as prepared by the German Federal Statistical Office. 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 German Federal Statistical Office. The model applied is based on the figures from the micro-census on the development of private households in the period from 1991 to 2009. The results of the 12th coordinated population projection are taken into account.

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: Gesellschaft für Konsumforschung.

Purchasing power index: Per-capita purchasing power of the district or city compared with the national average (Germany = 100). Source: Gesellschaft für Konsumforschung.

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

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.

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

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

Entire market segment: All of the available properties recorded via IDN Immodaten in the respective period, adjusted for duplicates.

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

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.

Vacancy rate: The ratio of the active housing stock in apartment complexes for which no rent is being paid to the total active housing stock. Empirica calculates vacancy rates based on the settlement of utility costs by Techem.

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

Residential construction completions: Completed 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.

IDN Immodaten: Germany-wide database of properties available for rental and purchase, with around 1.8 million adverts from more than 100 sources added every month.

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 €3.00).

MASTHEAD

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