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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

District of Coesfeld

Rents in the district range between €5 and €6

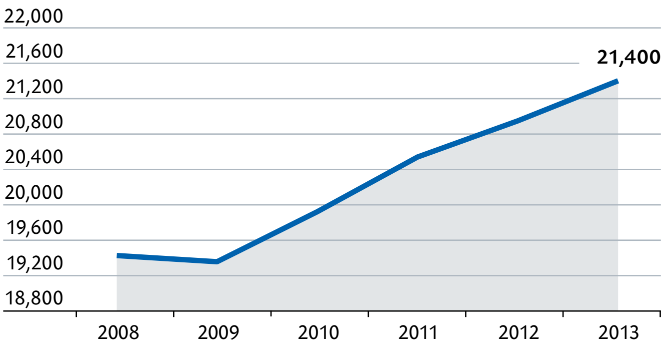
There were contradictory trends in the rental apartment market in the District of Coesfeld in 2013. While prices rose slightly overall and in the lower segment, advertised rents for high-quality apartments decreased for the second year in a row. Average asking rents amounted to €5.63, up 1.3 per cent on the 2012 level. Apartments in the upper segment were on the market for €7.89 per square metre, corresponding to a year-on-year decrease of 1.4 per cent. The comparatively high housing costs including heating of €732 resulted partly from the larger than average apartment sizes. At 83.6 square metres on average, the apartments on offer in 2013 were larger than anywhere else in North Rhine-Westphalia.

Macroeconomic data	Coesfeld, district	NRW	Germany	Year
Residents[1]	215,021	17,545,987	80,585,684	June 2013
Population density (residents/km²)	197	523	229	2012
Population development[1] in %	−0.1	0.1	0.4	June 2011–June 2013
Population forecast in %	−2.5	−2.4	n/a	2011–2025
Households	96,900	8,619,900	40,561,600	2012
Household development in %	6.4	1.5	4.4	2002–2012
Household forecast in %	8.0	2.5	3.1	2009–2025
Purchasing power	100.8	100.1	100	2013
Per capita purchasing power in €	21,400	21,248	21,220	2013
Workers paying social insurance contributions	57,643	6,050,508	28,920,588	2012
Development of workers paying social insurance in %	11.5	2.7	4.9	2002–2012

1) Forward projection based on 2011 census

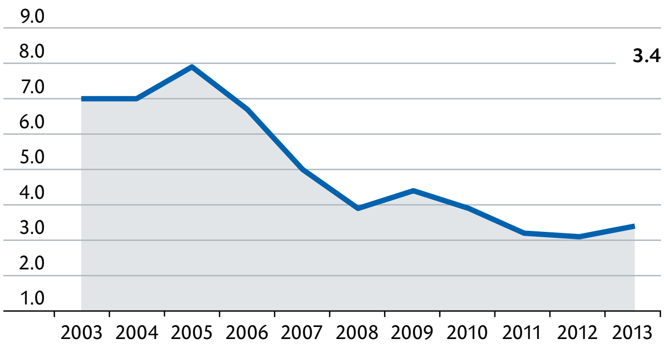
Source: NRW Statistics Office, BBSR (households), Michael Bauer Research (purchasing power), compiled by CBRE

Purchasing power
per capita in €

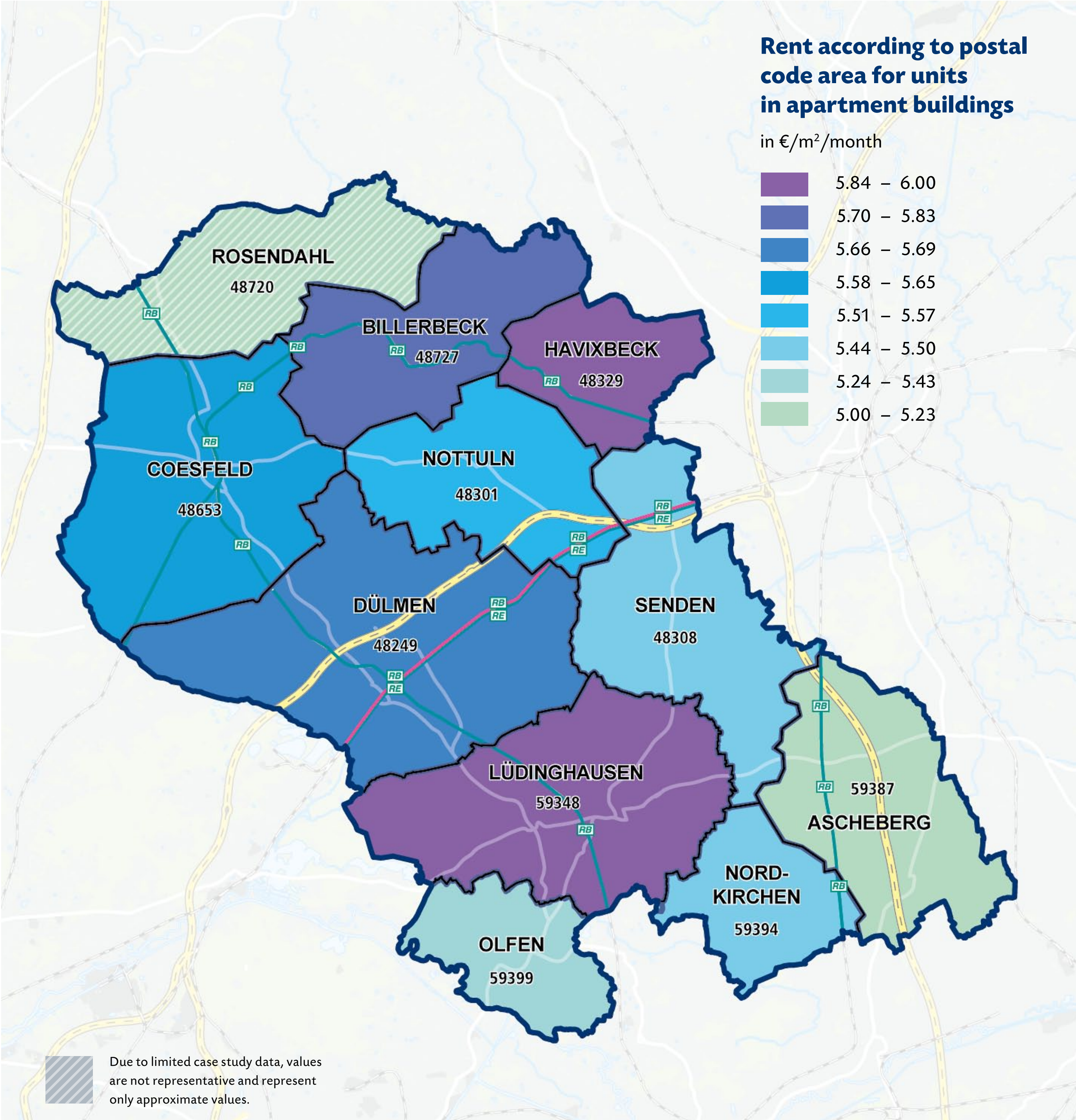


Source: Michael Bauer Research, compiled by CBRE

Unemployment rate
in % of all employable civilians



Source: Federal Labour Office, compiled by CBRE



Structural characteristics

The District of Coesfeld maintained its leading position as the housing market region with the lowest unemployment rate in North Rhine-Westphalia again in 2013. Only 3.4 per cent of the employable residents were unemployed. Although this represents a slight year-on-year increase of 0.3 percentage points, there is hardly any indication of a negative trend, since the number of employees subject to social security also develops positively. In 2012, 11.5 per cent more people had permanent job than in 2002. Despite very low unemployment figures, the economic prospects of the district's 215,021 inhabitants are average on the whole. In 2013, their average income was €21,400 per capita, placing the district in mid-range compared to the affluence of the other 53 towns and districts in this report.

Like most rural regions in the state, the five towns and six municipalities of the district posted population decreases. In mid-2013, the number of residents was 0.1 percentage points lower than in mid-2011. The trend will remain negative in the future, although not significantly so. According to forecasts by the Statistical Office of North Rhine-Westphalia, 2.5 per cent fewer people will be living in Coesfeld in 2025 as compared to 2011. A positive trend in household numbers is expected in the district. According to the Federal Institute for Research on Building, Urban Affairs and Spatial Development (BBSR), the number of households already climbed significantly by 6.4 per cent in the 10 years between 2002 and 2012. By 2025, the number of households is expected to be 8 per cent higher than the 2009 level.

Apartments in the upper segment become cheaper again

Tenant households in the District of Coesfeld faced moderate price increases in 2013. Average monthly asking rents rose only slightly by 1.3 per cent to €5.63 per square metre. In the same period of the previous year, landlords had raised the average prices for housing by 2.6 per cent. Demand for rental properties in the lower segment was somewhat higher than in the previous year. Advertised rents for more basic apartments climbed by 0.9 per cent. Prospective tenants on a low budget in the region between Olfen and Billerbeck can now expect prices of €4.33 per square metre per month. In the previous year, there had been a price increase of 0.7 per cent. However, it is notable that landlords of high-quality apartments had to reduce their prices for the second year in a row. Advertised rents in the District of Coesfeld decreased by 1.4 per cent to €7.89 per square metre per month. In the year before, rents for apartments in the upper segment had already fallen by 0.9 per cent. However, falling prices for high-quality rental properties were recorded in several different housing market regions in North Rhine-Westphalia in 2013. Coesfeld is therefore not an exceptional case. Of the 54 cities and districts analysed in this report, 15 posted decreases in rents in this market segment compared to the previous year, including six major cities.

The five-year analysis is unfavourable from tenants' perspective, as costs for rental apartments have gradually increased over this period. Whereas in 2009 advertised monthly rents excluding heating had averaged €5.20 per square metre, in 2013 tenants had to pay prices of €5.63 – a rise of €0.43 per square metre. Housing costs also went up accordingly. Tenant households in the district spent €471 on rent excluding heating last year, €60 more than four years previously. In the same period, housing costs including heating climbed by €84 to €732. However, the apartments on offer in 2013 were also 4.6 square metres larger on average than those on offer in 2009. In addition to the rise in asking rents, the higher housing costs were therefore also attributable to larger apartment sizes.

Housing cost burden at moderate level compared to rest of the state

Rising prices per square metre and larger apartment sizes have driven up total rent costs in Coesfeld in comparison to 2009, even though household purchasing power in the district has also increased. With average monthly income of €4,022, households in Coesfeld have €150 more than four years previously. However, the share of net household income that tenants had to spend on housing costs excluding and including heating grew significantly. In the past year, housing costs excluding heating took up an average of 11.7 per cent of monthly purchasing power, 1.1 percentage points more than in 2009. The housing cost ratio for rent including heating rose by 1.5 percentage points to 18.2 per cent in the same period. A similar level could be found in some neighbouring rural districts such as Borken (18.9 per cent) and Steinfurt (18.3 per cent).

An analysis at postal code level shows that prospective tenants face relatively similar rental prices in the towns and municipalities in the district. The highest asking rents in 2013 were demanded for apartments in Lüdinghausen (postal code 59348), at €6 per square metre per month, while the cheapest area was Ascheberg (postal code 59387; €5.18 per square metre). The District of Coesfeld thus has a low rental price range of €0.82.

Households in the district have to spend between 16.3 and 20.4 per cent of their monthly purchasing power on housing costs including heating. The highest housing cost burden for new tenants is found in Billerbeck, a commuter town that has grown in recent years (postal code 48727, 20.4 per cent). Due to the above-average number of detached and semi-detached houses rented here, this was also the area with the largest residential units on offer. The advertised rental apartments/houses had an average size of 96.2 square metres in 2013, making them the third largest in the entire state. The lowest ratio of housing costs to purchasing power can be found in Senden (postal code 48303, 16.3 per cent), where comparatively low asking rents and smaller apartment sizes coincide with high purchasing power, resulting in a favourable housing cost ratio for tenants.

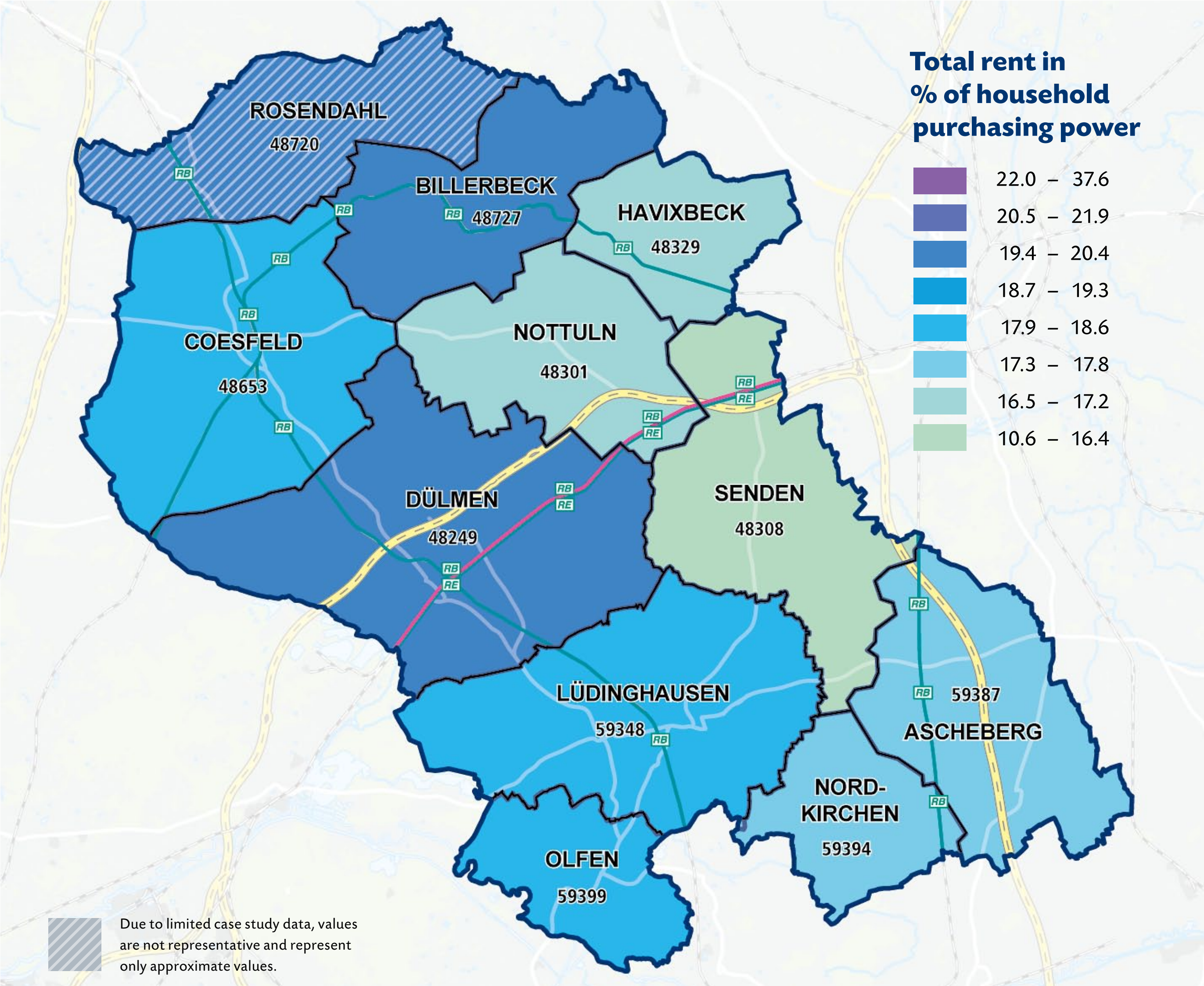
Housing stock data	2005	2006	2007	2008	2009	2010	2011	2012
Completed apartments	878	797	780	429	482	644	631	684
Permits for newly built apartments	819	887	496	495	707	609	787	658
Housing stock[1)] (number of apartments)	81,304	82,090	82,840	83,198	83,714	93,951	94,559	95,185
Housing stock[1)] in apartment buildings in %	27.0	27.0	27.0	26.9	26.9	29.1	29.1	29.2
Vacancy rate in %	n/a	n/a	n/a	n/a	3.4	3.6	4.0	3.8

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

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	Apartment size Ø in m²	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
48249	197	4.43	5.67	7.50	85	480	744	3,746	12.8	**19.9**
48301	237	4.22	5.57	7.65	83	460	718	4,307	10.7	**16.7**
48308	198	4.11	5.50	10.00	81	447	700	4,300	10.4	**16.3**
48329	147	4.48	5.87	7.80	80	467	715	4,240	11.0	**16.9**
48653	281	4.50	5.64	8.05	82	462	717	3,861	12.0	**18.6**
48720	34	n/a	n/a	n/a	n/a	n/a	n/a	3,900	n/a	**n/a**
48727	80	4.29	5.71	7.71	96	550	850	4,167	13.2	**20.4**
59348	332	4.38	6.00	7.92	83	496	754	4,155	11.9	**18.2**
59387	111	4.36	5.18	7.60	85	442	709	4,105	10.8	**17.3**
59394	97	4.23	5.50	7.97	87	477	747	4,208	11.3	**17.7**
59399	96	4.19	5.37	7.94	85	454	719	3,952	11.5	**18.2**
Ø	1,810[2]	4.33	5.63	7.89	84	471	732	4,022	11.7	18.2
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

48249 Dülmen, **48301** Nottuln, **48308** Senden, **48329** Havixbeck, **48653** Coesfeld, **48720** Rosendahl, **48727** Billerbeck, **59348** Lüdinghausen, **59387** Ascheberg, **59394** Nordkirchen, **59399** Olfen

DIRECTORY OF SOURCES

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

CBRE GmbH

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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 actived in the medium term. Source: CBRE-empirica vacacy 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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