

Berlin Property

The German/Berlin culture towards home ownership

Only 13% of Berlin residents own their own property and the city is still very much a renters market. In Germany, renting property as opposed to buying property is not seen as being socially inferior and people who could easily afford to buy property choose not to because renting is such good value.

Before the wall came down, Berlin enjoyed a privileged status which attracted numerous subsidies. This affected rents and house prices as both West and East Berliners were encouraged to stay in the city and subsidised housing was one of the incentives. This hangover from the past is one of the reasons that the property market in Berlin has not developed as quickly as other cities in Germany and in Europe.

Property prices

"Prices in Berlin are about 10% of those in London and over the last 18 months estimates for Berlin capital investments prices rose by 20%. Next to a buy-and-hold strategy, condominium conversion may become a very interesting exit strategy and yield driver due to the low ownership rate in Berlin," a recent report from Jones Lang LaSalle recommended. "Since demand exceeds the completion of apartments in the next few years, a shortage of appropriate apartments can be expected in partial markets", the report says.

Rents and house prices are still relatively cheap in Berlin, half that of the cities Munich and Frankfurt. Economic conditions are currently favourable and improving, interest rates are on the rise and many foreign real estate funds are making substantial investments here. These factors point to predictions that the Berlin market will catch up.

A renovated flat in a prime Berlin area can cost €1,500 a square metre while one in London is €15,000.

Rental Yields

The Global Property Guides put rental yields in the city at 4.4%. They report that the best yields, of between 6-7%, are for apartments in the city centre that are less than 90sq m. German law is very pro-tenant and a landlord can be fined if they try to increase the rent to in excess of 20% above the rent charged for comparable premises. Tax on rental income is also quite high and can be up to 25% for non-residents owning rental properties in the city. Average rents have only increased slightly in the last 10 years according to the Jones Lang LaSalle report but they are likely to increase more quickly as the property market gets hotter.

Factors to consider when buying a property

- a. The size of property is always measured in square metres (m²).
- b. The number of rooms quoted generally does not include kitchen and bathroom.
- c. In Berlin - as with most European cities, the vast majority of dwellings are

apartments. Detached houses are generally found on the outskirts of the city and tend to be exclusive and expensive.

Economic Factors

Berlin has seen huge multi-billion pound investments in property from UK and European investment banks such as Terra Firma, which are buying up vast blocks of apartments. In addition, leading multinationals such as Sony and DaimlerChrysler have set up headquarters in the city.

The recent Economist Intelligence Unit's worldwide cost-of living survey found that Berlin, while having a population of 3.4 million and being the second biggest metropolis in the European Union after London, is actually only the 72nd most expensive.

The German government has invested 75bn in rejuvenating Berlin and this considerable injection of investment has kick-started property market growth - 2006 saw a tentative 0.2% rise in prices after losses in the previous year. The German economy as a whole expanded by 2.5% in 2006, the fastest growth since 2000, and looks set to increase by a further 2.5% in 2007.

Unemployment in Berlin fell to 7%, its lowest level in four years in November 2006 and this trend is set to continue.

Prices currently are low but as unemployment decreases and the economy recovers, buying power will increase which will affect prices and rental returns.

Private equity funds such as New York-based Cerberus Capital Management and Goldman Sachs' Whitehall investment fund have also been targeting Berlin. In 2004, the two together bought 65,700 units of Berlin public housing for €2.1bn. Investors from Britain, Ireland and America spent £7 billion on properties in 2006.

Summary

Germany is a new market for most overseas investors and it will take time to develop so investors should take a 10 year view rather than expecting instant returns.

"Berlin is a market that offers the investor the ideal combination of security of investment and the potential of some significant capital appreciation," says Dr Wilfried Leyens, a former Harvard lecturer in Marketing Strategy.

Latest News form Berlin

A study conducted by the ZAV, Zukunftsagentur Brandenburg, proves that Europe's economic future is taking place in Berlin / Brandenburg. This economic region possesses the best strategic and geographical location on the entire continent.

Labour force: In Berlin / Brandenburg 61% of the working population possess the German Certificate of Secondary Education (Abitur) or a vocational training. The percentage of highly qualified persons (with a Uni or a University of Applied Science degree) is as high as 32%.

Flexible working hours: With 1517 working hours per year, the people of Brandenburg have the longest working hours in the whole of Germany (Berlin: 1497 hours, German average: 1436 hours). Through strikes only 2.4 working days per 1000 workers per year are lost. In Italy there are 86.8 days lost!

Labour costs: One hour of work in the East costs 19.76 Euro and in the West 33.59 Euros. In Eastern Europe the production costs may indeed be cheaper, but labour costs there are increasing very rapidly: In Romania by 21.8% annually, in Latvia by 11.5%, Estonia 10.8%; in Berlin / Brandenburg it is only 2.4%.

Nowhere in Europe has there been so much money invested into the infrastructure. Since 1990 in Berlin / Brandenburg the amount of 7 Billion Euros was invested in 11,000 km of roads. In addition, the construction of a completely new telephone network and the renewal of large parts of the 1,500 km of railroads and 900 km of waterways took place.

Research: Almost 50,000 scientists are concentrated in Berlin / Brandenburg. With 43 technology and new business centers, the Region has the highest ranking in Germany and in Europe it lies among the Top-Ten.

Taxation: Business taxes in Germany lie within the European average rate. Apart from this, in municipal taxes Brandenburg has an almost 20% lower rate than the German average.

Source: Bild Zeitung 24.06.2008

Investment group Sitac wants to invest 400 Million euros in Berlin.

According to media reports the British-Indian Investment Group Sitac wishes to build an extensive Business Park near the new major airport in Schoenefeld for 400 Million euros. Construction will start at the 85,000 m² land parcel at the beginning of 2009. This is the first investment for the Group in Germany. In the event of success the Business Park will serve as a showpiece for further business locations in Europe.

Source: Excerpt from the Property magazine from 22.07.2008

Lakshmi Mittal, principal shareholder of the largest steel corporation, takes over the steelworks in Brandenburg.

The Indian Lakshmi Mittal, is the principal shareholder of the largest steel corporation in the world; his world-wide blast furnaces have brought him a personal wealth of 45 billion US-Dollars and he has recently taken over the steelworks of Eisenhuettenstadt. Lakshmi Mittal has invested millions in the plant and 6,500 tons of crude steel are produced by the 3,000 plant workers every day. This is helping the Federal state of Brandenburg to become an advantageous business region, envied by its competitors.

Source: Excerpts from Spiegel online 09.2008

The solid image of the real estate branch is tarnished – and yet the freehold flat market lures with good prospects for investors

While the global economy is still shaking from the aftershocks of the US-American real estate crisis, the Analyst and author Rolf Elgeti suggests investing in freehold flat property.

As a matter of fact currently more foreign investors invest in the German market than Germans. What is the reason for this? Foreign investors have had an extremely positive experience with German real estate; in particular Berlin is currently very popular. In many larger cities of the world the real estate market is overheated. Here there is hardly any expectation for additional profit making. On the contrary, rents and purchase prices in Berlin are low. And since this cannot continue over the long term, investors have good reason to expect a solid growth of income returns.

The value of a property is still principally decided by its location. The tendency is towards the inner city locations, where Germany has experienced a population growth of 10% to 15% in the larger German cities for the last few years. With most of the inner city locations there is little chance to make a wrong move. The boroughs close to the city center of Berlin are still particularly interesting.

Source: Berliner Zeitung – Immobilien-Magazin 01.06.2008

After years of stagnation for freehold flats in Germany, prices have increased in the past year at the top by more than 9%.

In reference to a study conducted by the Institute of Urban Development, Housing Industry and Building Loan Industry (**ifs**) the daily newspaper, 'Die Welt' reports that in Germany on average, 3,6 % more is being paid for a freehold flat than in 2006. In West Germany the **ifs** has registered an average price increase of 2.8%. In East Germany there has been a price increase of 9.4%. According to the estimations of the director of **ifs**, Stefan Jokl, the higher prices are the result of the partially distinctive price increases in metropolitan areas, in which the freehold flats have increased much more than the average rate

Excerpt from the daily newspaper „Die Welt“ with a reference to a study from the Institute for Urban Development, Housing Industry and Building Loan Savings Industry dated 20th August 2008 (ifs)

Parts of Berlin become noble: The UNESCO has declared the residential complexes of the Modern Era of Berlin as parts of the world cultural heritage. The Carrée-style buildings were revolutionary in their time -1913 to1934 and found many emulators.

The UN-Cultural Organisation awarded the desired seal of approval to these buildings from the early 20th century. The six building complexes represented a new type of residential building and they had exerted a substantial influence on the further development of architecture and urban planning.

The building complexes, among them the world-famous "horse-shoe settlement", are creations of architects such as Bruno Taut, Hans Scharon and Walter Gropius. These residential building complexes were erected between 1913 and 1934 with the concept of attaching value to the natural light and sunlight and they stood apart from

the other tenements of the time. They made healthy living standards possible. With their clear forms they were decisive for the architectural constructions of the century.

Source: Excerpts from the 'Tagesspiegel' 07.07.2008