



PROPERTY: BERLIN

Good buys in Berlin

Low property prices in Germany's reunified capital have attracted canny investors, says Alexander Garrett

In its heyday, the Funkhaus was among East Berlin's most important buildings, a conduit of both culture and propaganda for the East German regime. As the HQ of GDR radio, it housed more than 5,000 employees and for 38 years until 1989 was the centre from which all radio programmes were produced and broadcast, while its recording studios turned out plays, concerts, operas and film scores.

After reunification, GDR radio was shut down and the complex of buildings akin to a small town was left largely empty. Now it has been bought by an Israeli investor, Albert Ben-David, who has plans to restore the Funkhaus as a cultural and media hub for the city. The extraordinary 1950s-style halls, theatres and studios with their legendary acoustics make it a "unique site", says Ben-David, explaining his decision to invest: "Berlin is a sleeping capital, but it's only a matter of time before it wakes up."

As well as encouraging musicians, artists and other creative industries to take up residence – there are 45,000 square metres of rental space available – he harbours plans

to develop loft-style apartments alongside the river Spree. "It would be ideal for artistic and media people who want to live and work in this area," says Ben-David, who would consider a joint venture with the right partner.

Berlin is a city that has certainly caught the eye of property investors in the last couple of years and it's not hard to see why. It's the capital of the country with Europe's largest economy, and a city with an unrivalled history and some of the continent's most exciting architecture, and yet property prices in Berlin are lower than

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those in parts of Bulgaria.

There are some good reasons for this: the city has one of the lowest proportions of home owners anywhere in Europe – around 13 per cent – and many Berliners, both East and West, have enjoyed rock-bottom subsidised rents for years. What's more, Berlin has been a city in depression since



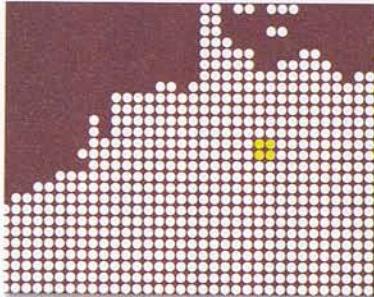
There are plans to convert the vast studios of Berlin's Funkhaus building complex, former home of GDR radio, into a cultural and media hub for the city (see below). Loft-style apartments may also be offered for sale

reunification. Instead of people flocking there, the population actually fell – it's just beginning to recover – and it has been blighted by unemployment and public debt ever since.

Investment banks and private equity firms – never ones to follow the herd – scented an opportunity and started buying large numbers of apartments in Berlin, mainly being sold by the local government. In 2004, Goldman Sachs acquired some 64,000 apartments for €2.1bn – around €33,000 apiece – and others followed in their wake. Soon private investors were taking notice, and by the following year, buying an entire apartment block in Berlin for the price of a bijou pied-à-terre in Knightsbridge had become a fully-fledged stampede.

Now there's a host of companies offering investment property in Berlin, which is often a sign that the party's over and the opportunity has been missed. However, unlike booming prices in other 'emerging markets', progress in Berlin has so far been slow.

According to Norbert Klink, whose company Norenva was the first to market the apartment >>



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» blocks to overseas buyers, prices for these rose by around 15 to 20 per cent last year. Another commentator puts the rise at 20 per cent over two years.

Klink sees a number of positive signs in the economy. "The World Cup was a big success because it brought a lot of visitors to Berlin, and since the start of this year we've seen rising consumer spending," he says. "The economic outlook is better – you can feel it on the street."

He's still selling those apartment blocks, but the price has gone up. Among current offers, a refurbished block of 21 flats in the southwestern Schönefeld district is selling for €980,000, with forecast rent of €68,000 providing a yield of 6.9 per cent. Yields can be higher, but mainly if you buy property in a less desirable location in poor condition.

For anybody contemplating investing in Berlin, the key question is whether they will be able to obtain rent rises in coming years. Rents have been heavily regulated, the so-called 'rent-mirror' in each district stipulating what rents should be and giving heavy protection to tenants. But that is set to break down, insists Klink. "Some stipulations against open market rents are reaching the end of their lifespan, the government can no longer afford to provide subsidies, and it is increasingly the case that when a tenant moves, you can charge an open market rent," he explains. So for investors, it is a waiting game: hang on long enough and it is likely that rents – and property prices – will move upwards.

There's also been growing interest among smaller investors in buying in to Berlin's property market. One company set up at the beginning of last year to tap into this is Berlin Capital, which



Above: up-and-coming Tiergarten has good potential for buyers. Below: images from the Holländer Hof development in Weissensee, where apartments start from €56,000, available through Berlin Capital



markets individual apartments to buyers in the UK and Ireland. "We're selling studios priced from around €30,000 to €50,000," says director Julian Power. "We've had everyone from a 21-year-old to investment bankers buying them." Berlin Capital has developed a 'turnkey' service whereby these small investors

"Berlin's economic outlook is better – you can feel it on the street"

can have their property put into a rental pool for ten years, so they don't have to worry about lettings management or maintenance. In its latest scheme, a development called Holländer Hof, which is in Weissensee, part of the Pankow district in the north of the city, apartments start at €56,000 and investors receive a 4.4 per cent return net of all their costs. That's hardly spectacular, but

if prices take off as some expect then the capital returns could be all the reward needed.

So where in Berlin to buy? Some parts of East Berlin, still dominated by the plattenbauten or slab apartments, are clearly off limits. At the other end of the spectrum, Prenzlauer Berg – Berlin's trendiest quarter – is priced too highly to be of interest to investors. Klink says once-edgy Kreuzberg, part of Wedding and Tiergarten are all central districts with good potential, while Charlottenburg-Wilmersdorf offers a more conservative environment, akin to Chelsea and Fulham. "I hear so often from overseas buyers that it's got to be central," he says. "But that's a mistake. Berliners like to live near the lake and the forest in the southwest of the city, where it's a nice environment, but not far from the centre and is still inexpensive."

It's worth being aware that Berlin is not the easiest place to buy as the wheels of

bureaucracy still grind slowly, and mortgages are much more restricted than in the UK. You can probably borrow 60 to 70 per cent of the purchase price, but by the time transaction costs are taken into account, you should reckon to borrow as much again as you have in cash, says Klink.

Recognising that its industrial past will never come back, Berlin wants to position itself as a city of arts, culture and science. It's a bit ironic that it's cold-hearted investors who are giving the city their vote. But maybe one or two of them will realise along the way that, money-making opportunity or not, Berlin is actually a rather fine and inexpensive place to live.

DETAILS CONTACTS

Funkhaus www.nalepastrasse.de
Berlin Capital www.berlin-capital.com
Norena www.berlin-properties.com
GETTING THERE British Airways flies five times daily from London Heathrow to Berlin's Tegel airport. Prices start from €109.80 return