

Money

Berlin rivals Europe's hot spots

As the German economy surges, the capital offers investors rich pickings, writes Christopher Browne

Christopher Browne
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While investors, developers and agents revel in the bargain-basement property prices of Bulgaria, Poland and Slovakia, a rank outsider has suddenly come into the reckoning.

Berlin is emerging from its worst cashflow crisis for 60 years and its properties are selling like very reasonably priced hot cakes. Heavily bombed during the Second World War, the city was largely rebuilt afterward, and again after the fall of the Berlin Wall. But many of its eastside residents fled to the capital's highly developed west, leaving behind almost half a million empty or unfinished properties.

Then a severe recession took hold, industrial output fell and Berliners were bent on survival rather than growth. It was the election of Angela Merkel's centre-right government and a favourable exchange rate that restored the city's confidence and caught the eye of overseas property investors.

Although it lacks the classical beauty of Florence, Rome or Paris, Berlin is not only steeped in history but has an enviable culture of art, music, opera - and modern architecture. The glass cupola above the Reichstag (parliament) is a Lord Foster creation, the city's towering new Sony Centre entertainment complex is the work of the architect Helmut Jahn and its Jewish Museum was designed by Daniel Libeskind. Dull the city isn't.

It was the oversupply problems of the Nineties that have made property prices some of the lowest in Europe. You can snap up a studio or one-bedroom apartment in a less fashionable district for £25,000 or £30,000 respectively. With borrowing rates from the German banks as low as 3-4 per cent and rental yields of 7-8 per cent, you can get better returns here than in almost any other European capital.

Only 12 per cent of Berliners own their own homes and the average family stays in the same place for eight years - many for 20 - so most properties are sold with tenants in situ, which bodes well for the security-minded investor. It also means that anyone who buys an empty property has 3.4 million potential tenants.

The downside is that the city's stamp duty on property sales rose from 3.5 to 4.5 per cent in January - a neat ploy to cut Berlin's £40bn debt burden.

'The once-communist east is catching up with the west and Berlin has become a collection of micro-locations, rather than an integrated city,' says Norbert Klink of estate agents Norenva. 'Investors must study the individual characteristics of each area and the returns they produce. If, for instance, you buy in a fashionable district such as Mitte, Prenzlauerberg or Friedrichshain, your yields will be lower than a more run-of-the-mill area that offers yields of 7-8 per cent.'

Julian Power, a partner at Berlin Capital Investments, says: 'If the overseas investor chooses to buy direct from the developer or owner, he

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will get a package with a 4 per cent rent guarantee. If he buys through an estate agent or property broker, he can get 8 per cent yields in the less fashionable areas and 6 per cent in smarter districts.'

The only missing link has been the off-plan property package, but this could be about to change. London entrepreneur Francis Pike has almost finished converting a turn-of-the-century block into 28 apartments in fashionable Kreuzberg and is about to start work on a 30-apartment development in Albrecht-Achilles-Strasse, near Kurfurstendamm, Berlin's elegant shopping boulevard.

'Berlin's had a long, hard struggle, but a younger, more go-ahead element is moving in,' says Pike. 'The city centre is getting busier and the shops are starting to fill up. Two years ago, my friends said I was bonkers to buy in Berlin. Now they are asking for price lists.'

- Anyone interested in buying a Kreuzberg studio flat or apartment (prices from £30,000 to £272,000) should contact Aylesford International on 0207 351 2383. Contact Berlin Capital Investments on 0207 099 7277 and Norenva on 0049 (0)30 3950 4828.

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