



Howell on ... Berlin

WITH AN ECONOMY IN RECESSION, HIGH UNEMPLOYMENT AND PRICES FALLING BY UP TO 30%, MY MONEY'S STILL ON BERLIN

For the last 10 years I have produced an annual review called "John Howell's Top 10". It started as a light-hearted review of my top 10 favourite investment destinations for the coming year.

Berlin is the only destination ever to have come from nowhere in the Top 10 to number 1 in one year. OK, so Berlin is unique in other ways that some might say are more important. With the extension of the European Union to Romania it is now at the geographical centre of Europe. Although it is not the capital of Germany, many Germans would, after a beer or three, consent that it is the most potent symbol of Germany – and Germany is the most populous and richest country in Europe. Berlin is also a powerful symbol of the end of the Cold War and the reunification of the East and West of Europe.

So it should be a very successful investment location. But it is not. After reunification in 1992, property prices in Germany rose sharply and then collapsed just as quickly. Over the last 10 years a property could have lost up to 30 per cent of its value.

It does not tick any of the boxes on my normal check list. The economy is not doing well. It has been in recession for several years and grew only a very tiny amount last year. There is high unemployment. Property prices have been falling

and there is no obvious external pressure that is going to bring about a change.

But I believe there are signs this will change and, for the investor who is in a financial position to take a bit of a risk and prepared to take a punt on Berlin as part of a wider balanced portfolio of international investments there is a good chance the decision to do so would prove profitable.

BADLY UNDERESTIMATED

When the Germans made the incredibly gutsy decision to unify/reunify (depending on your political point of view) East and West, they underestimated by miles the difficulties. They underestimated how bad the economy of Eastern Germany really was. They underestimated the difference in the work ethic of Eastern and Western Germany and the time it would take to put this right. When they swallowed Eastern Germany, they got a bad case of indigestion. I believe this is about to 'pass through the system'. Once this happens they will be unstoppable!

In the last year we have seen growth in the economy and unemployment has fallen. Property prices in major cities have risen 10 per cent or so. Are these blips or are they the start of a long-term trend?

If they are at the start of a long-term trend then you would be getting into that market on the ground floor. If they are blips then it seems unlikely that the market will collapse any further but you might have to wait a few years for the growth to occur.

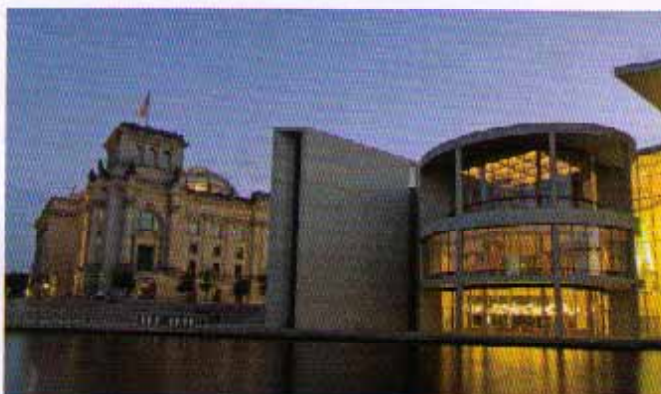
Whilst this article deals only with Berlin, the same general argument applies to other cities in Germany, in many of which getting finance, for example, can be easier.

PRE-WAR PROPERTIES BEST

Berlin is a city not only in the past divided between East and West but also divided into very distinctive and independent neighbourhoods. Some of these will do much

better than others. Some of them are seriously bad places to even think about investing.

I believe the biggest gains will come from the older (pre WWII) properties. Berlin has one of the lowest concentrations of old property of any city in Europe. Investors have the RAF and the American Airforce to thank for this investment opportunity. Less than 25 per cent of the



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city predates 1939. Many of these remaining buildings are character buildings but are in poor repair, but there are now developers specialising in the restoration and conversion of these properties.

But what are the obstacles? Well, the Germans remain one of the last groups in Europe who are still convinced by the argument that it is better to rent than to buy. I believe that attitude will change as it has changed in countries such as the Czech Republic, Hungary, Slovakia and Poland. In the meantime, this gives lots of good middle-class tenants interested in the long-term rental.

The city owns thousands of properties which it is releasing into the market place. This is both an opportunity and a threat. But the most serious obstacle is that my analysis might be entirely wrong. Maybe Berlin is in for another 30 years of downwards spiral. But I doubt it.

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