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Why you should invest in German property now

Aug 07, 2007

Germany's economy finally appears to be on the cusp of recovery. Confidence among business leaders is at its highest point in 14 years, says the Munich-based IFO institute, while the Essen-based RWI Economic Research Institute says the German economy will grow by 1.8% this year.

In addition, a strong and competitive export industry and a government committed to economic reforms suggests that this sleeping giant is due an awakening from its long slumber.



German property: an influx of foreign investment

Nowhere is this more evident than in the German property sector, which has seen an influx of foreign investment in the past year. The long period of economic stagnation, especially in the east, has kept house prices low.

Some investors now see this as an opportunity. And property prices in former East German cities such as Berlin and Dresden are up to 30% lower than the rest of the country, meaning that they can often offer the best deals.

For example, apartments in Berlin can be bought for a tenth of the price of similar properties in London and are even cheaper than several eastern European capitals, says Jane Slade in the Sunday Express. "Low property prices and historically low interest rates should enable [foreign] investors to enter the market without feeling they are risking much," she adds.

Just 40% of people own their own property in Germany, but domestic demand, and therefore prices too, are set to rise as the German government starts to liberalise the mortgage market.

German property: how to invest

As you will not typically find a "for sale" sign outside a house, though, you will have to go to estate agents (Immobilienmakler), who can provide you with a list of properties. However, you should do your research carefully and look out for the nuances in property advertisements, whether in local papers or from the estate agent.

For example, 'Grosszügige Räume', meaning 'large rooms', is probably a sign that the property is expensive to heat, while 'für Schnellentschlossene' ('for quick decision-makers') more often than not points towards a property that has been on the market for a very long time and so is probably undesirable. And beware too of additional administrative and legal fees, which can add 10%-12% to your purchase price.

German property: where to find the best deals

So, where can you find the best deals on German property? As already stated, east Germany can often provide the best buys, and the father of well-known financier Jim Mellon (see box below), who recently toured the region, points out that Dresden and Leipzig in particular have a lot to offer.

A good starting point is www.germanpropertyinvestors.com; also try www.immobiliemakler-index.de, which although not in English, provides a list of estate agents in Germany. For those wishing to invest directly, see www.bundesregierung.de and www.invest-in-germany.de.

When you are dealing with a German estate agent, you should not sign an exclusivity contract, as you should pursue offers from a variety of agents. Whatever commission is charged is usually negotiable, so don't be afraid to haggle.

German property hotspots

Dresden

A long history as a city of extraordinary beauty and cultural splendour was brought to an end following the fire bombing of Dresden in World War II, but much of 'Florence on the Elbe' has since been rebuilt. In 2004, Unesco declared Dresden and the

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It's not time to buy into the Asian rally just yet



Cris Sholto Heaton

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surrounding area of the Elbe valley a World Heritage Site, while a flourishing cultural scene and burgeoning technological sector point to a sustainable future for the Saxon capital.

Although there is an oversupply of housing in Dresden, Mellon believes that many of the low-quality housing estates will be demolished in the next two to three years. "The more bourgeois Berlin-type of apartments will then come into demand and could be capable of showing quite useful capital gains."

Angelika Barie-Dachs, a Dresden-based estate agent, says that the demand from property is about to increase dramatically. "After reunification, people had very little savings in the east." Wages are now beginning to rise though, so "we expect to see demand go up."

Leipzig



A thriving student community of 40,000 and excellent research facilities for medicine and biology should attract more people to this city over time. In fact, a modern quarter created by the authorities, called 'media city', has already "created 30,000 jobs in television across the whole of Germany".

According to Mellon, "this appears to be a strategically aware town, with a coherent and thriving centre", where it "might well be worth investing, particularly in the centre and the very close environs of the centre, which will become more attractive as incomes rise".






Berlin

"Areas such as Charlottenburg and Mitte, which are among the most exclusive in the city, are likely to see the biggest rises over the next five years," says Stuart Law of property investors Assetz Management, in the Sunday Express.

Expect to pay as little as £110,000 for a two-bed apartment in Charlottenberg, but even less in the arty district of Prenzlauerberg in the former East Berlin. Here, two-bed apartments sell for as little as £70,000. Law's UK-based company has partnerships with local agents and property developers in Germany.

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