

Berlin is Calling

The second of a series of articles on investing in Germany

Christopher Browne reports

So where did you spend your last summer holiday? In Croatia, Bulgaria or Slovakia perhaps with their alluring scenery and enticing coastlines. If you did, then you may well have sought out some suitable property - after all this trio is near the top of many investors' current wish-lists. However I doubt very much if more than a few of you spent your two- or three-week break in Berlin?

The reason I say that is the capital of Germany has never been the leisure-lover's favourite location. It may have a rich history, a famous fallen wall and several world-renowned orchestras to speak of, but Berlin doesn't have the pizzazz of a Venice, Florence,

Rome or Paris. What it does have however is investment property: a lot of it in fact.

Buyers who have grown tired of the London residential letting scene are now turning to Germany and more specifically Berlin to unload their investment cash into low-priced apartments and residential blocks with rental yields some three or four percentage points higher than in many parts of the UK. While years of economic decline have taken their toll on the German economy, this has resulted in lower prices for Berlin properties and has now made them attractive targets for foreign investors.

You can find apartments outside the city centre for as little as £490-£500 a square

metre - far less than in Prague, Warsaw or Budapest. You can also buy a studio in one of the city's less fashionable districts for £20,000 and a one-bedroom apartment for £30,000. With borrowing from German banks as low as 3-4 per cent and better returns than almost every other European capital, it may be time to book that Berlin break and be ready for some serious house hunting.

But before we set off, let's look at the facts. Only 11 per cent of Berliners own their own homes. This means that in a city of 3.4 million people there is a huge pool of potential tenants. The average Berlin family stays in the same home for eight years compared with the nine-year span of the typical UK homeowner - although many older families are happy to remain in situ for 20 years or more.

In Berlin however the tenant rules. It's very tricky for a German landlord to evict a tenant as they are protected by robust property laws - unlike the UK where the 1997 Landlord and Tenant Act has made it relatively easy for an owner to move a tenant out if he wishes to sell on his or her asset. However the German laws aren't always so pro-tenant. Unlike the UK where anyone with an AST must give a month's notice before they leave, the German tenant must wait three months before he can move on - to then give his landlord time to find a successor.

But, hold on a minute, something's stirring behind the walls of those sturdy German houses. The population of a country that ▶





has the second lowest percentage of homeowners in Europe has suddenly acquired a covetous streak.

Yes, German tenants are now opting to buy their homes from their landlords. OK, it's unlikely that houses will become the obsession they have in the UK - with dinner parties interrupted by tales of cool deals or TV programmes featuring the designs of the times. But the Germans are getting just a little bit house-proud.

"More and more Berlin landlords are selling their houses and apartments back to the incumbent tenant, instead of putting them on the open market, because it can be very difficult to move tenants on - particularly if they have lived in the same place for 10 years or more," says Bernhard Kuhn, a Berlin-based partner at Lovells, the global law-to-property corporation.

Berlin estate agent Dr Norbert Klink, owner of Norenva Property which sells apartment blocks, says: "Until now the Germans have never really been interested in owning their own homes. The average Berliner has been very happy to pay a comparatively low rent, to put a new kitchen and bathroom into an apartment and then carry on living there for years and years. One of the key reasons for the disinterest in home ownership is that until recently they hadn't heard about the property booms in countries like France, Spain, Italy and the UK and how much money can be made out of investment and home ownership."

Norenva which handles deals of £675,000 to £6.75m is one of a mere handful of estate

agents who haven't been a call for them however in the past few months Norenva has seen an upsurge of interest particularly from investors in the UK and the Irish Republic. "Our turnover has perked up and the rise in demand for property has speeded up the selling times which is a real bonus for buyers, sellers and agents," says Klink.

Although Berlin's low property prices and rent levels are due to Germany's still ailing economy, Klink believes that Angela Merkel's centre-right government will have little effect on either prices or attitudes. "It's an unholy marriage that's unlikely to last more than one four-year-term," he says dismissively. So while the Germans may be notoriously indecisive about who they currently wish to lead them, they are increasingly recognising a good thing when they see one - i.e. home ownership.

Before the Wall came down, East Berlin was a cluster of ugly state-owned prefabs. These were put up in the 1970s by the leaders of the German Democratic Republic - for economy rather than style. "After 1945 and the end of the war, accommodation was very cheap. Many buildings were rebuilt and then cheaper ones erected and there was a real political will to keep rents low," says Klink. After the fall of the Berlin Wall in 1989 most of East Germany's prefabricated blocks were sold on to large corporations, rather than to the tenants who lived in them. West Berliners were equally reluctant to buy their own homes. Their rents were subsidised and they were content to keep the status quo.

Since then the subsidies and rent controls

tenantocracy is having a change of heart. The city's structure has also changed. "The once-communist East is catching up with the West and Berlin has become a collection of different communities rather than a single integrated entity. This means that anyone who looks to invest now must study the individual characteristics of each area and the scale of total returns it produces. If for instance you invest in a fashionable location, then your annual yields will be lower than in a run-of-the-mill area which often has more favourable returns of 9 and 10 per cent," says Klink, who knows all about figures as he worked for the Royal Bank of Scotland in London before founding Norenva in 2004.

It's unlikely that the cool Berliners will go buy-to-let crazy but they're certainly keen to change old habits. "Remember how the sale



of council homes to tenants in the 1980s under Thatcher stimulated and expanded the desire for ownership in the UK and led to the property boom. It looks as if the same is now happening in Germany, particularly among the young professionals who

who has just bought two apartments in the city's outskirts.

So when you've unpacked your bags and started planning your hard-earned two-week break, there's a phrase you must remember. It's buy-with-let. No, it's not a slip of the keyboard. It's the German custom of buying and selling properties with their tenants intact. The reason is those strict German property laws. Berlin tenants have become the new untouchables. To save the hassle of trying to move them out, landlords sell their properties with the tenants still in-situ.

It's certainly contrary to the British way of where owners, agents and developers always like to market their investments as empty, ready-to-move-in units. Take a quick scan of any lettings agent's property list or the houses-to-rent columns of a newspaper and you'll rarely if ever find a ready-made property complete with ready-made tenants. The German approach makes sense - particularly if your tenants are on 12-month contracts, have good track records and are reliable payers. Why change a system that works. Buying-with-tenants



save the new owner the high costs of advertising and lettings agents' fees as he seeks new tenants, while the seller will forego the expense of refurbishing the property before putting it up for sale. But the Brits are learning and at least two UK websites are now buying and selling tenanted properties on behalf of investors.

Don't mention this to the large investment funds and consortia that buy in Berlin. They prefer 'situations vacant' signs to 'occupied' ones. "The current trend is to purchase large empty buildings with market potential or the offices of companies that have gone bust, so they can be converted into condominiums or blocks of flats that can be sold off quickly as single units," says Kuhn. It's flexibility as well as changing attitudes that has perked up the Berlin market.

"Many of the older German companies that once held on to business premises even if



they were loss-makers are now selling them and using the proceeds, instead of waiting for an upturn in the economy," he says.

The heftiest deals are being struck by US and UK banks and private equities investors who are buying blocks of "many thousands of apartments at a time in billion-pound plus deals and ending up with far better returns than they could ever get in the UK," says Kuhn.

If however you are a commercial property investor, then a Berlin food discount store or small co-operative supermarket could fit very neatly into your personal portfolio. Laws that restrict the spread of the giant chains and one-stop wonders like Walmart and Asda have helped to stimulate the middle-to-low end of Germany's retail sector (See 'Germany Calling?' in the August PIN) pushing its market share up from 30 to 40 per cent in the past 12 months, says Kuhn.

"Discount stores and independent supermarkets are opening up on a grand scale and giving better returns to investors than the commercial equivalent in the UK. They appeal to the buyer or consortium that wants to spend between £1.5m to £20m on a single property. They invariably have 1,000-1,200 square metres of shopping space, 80 to 100 parking spaces and can be easily moved in or out of a small or large portfolio," says Kuhn. Apart from their durability, it's the units' small staffs and long 15 to 20-year leases that appeal to the typical commercial property buyer.

Then there's all that office space. Eighteen million square metres of it that make Berlin the third largest market in

Europe after London and Paris. Rents are cheap and falling, business start-ups proliferate, Berlin leads the 'Knowledge Economy' and has Europe's largest fibre-optic network. So it's not all doom and gloom in a city that's trying to forget the torpor of a struggling economy. "I love it - it's smart, tidy, cosmopolitan and it has great restaurants," says London recruitment agency chief Nick Rogers-Dixon. But then he may be biased, as he and his wife Polly are about to buy their second Berlin apartment block.

The Wimbledon-based couple bought their first in a solid, respectable, middle-class district of south-west Berlin. "Because it isn't a top-notch area we get a very good annual yield of 9 to 10 per cent," says Nick Rogers-Dixon who paid £1.15m for the block with its 27 units - 24 apartments and three business units. "We've have had outstanding results from the commercial units," he says.

This enterprising pair's next target is a 13-apartment block in a more upmarket part of the city. "We may get a lower yield than the other one because it's in a fashionable district but we'll still get 7.5 per cent from letting to the smart set which is a lot better than we would get in the UK. The Berlin market is moving very quickly and we looked at ten properties before choosing this one," says Rogers-Dixon.

The tourists are also coming too and last year Berlin attracted six million of them - at least one million more visitors than in 2003. So isn't it time we joined them with our property guides, calculators and digital tape measures?

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