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Boom time for Berlin?

Peter Conradi finds keen buyers in the German capital, where just 12% of people are homeowners, and flats cost less than in Prague

The words "Germany", "property" and "buying opportunity" have not often been uttered in the same breath in recent years. While property prices around the world have been surging, Germany has been a picture of unremitting gloom.

But could things be about to change — especially if today's general election brings a new government, with Angela Merkel, the conservative opposition leader, ousting Chancellor Gerhard Schröder?

A number of British investors seem to think so, and while other fly-to-let devotees have been piling into the "tiger economies" of eastern Europe, they have been discreetly snapping up undervalued property in Berlin instead.

After years of steady falls, prices in some parts of the city are as low as £500 a square metre — probably the lowest of any western European capital and appreciably less than the equivalent in Prague or Warsaw. Add in low borrowing costs and a long-entrenched renting culture among the locals, a mere 12% of whom are owner-occupiers, and it is clear that Berlin has far more to offer than beer and bratwurst.

"Prices in eastern Europe are largely based on expectations," says Norbert Klink, a former banker who worked for several years in London before returning to set up a property company in his native city last year. "Berlin's different," he claims. "Even if everything stays as it is now, you will get a good return on your investment."

Klink's company, Norenva, specialises in selling not just flats but whole apartment blocks. Daunting? Not necessarily. You could pick up a small block for as little as £400,000 — and with German banks prepared to put up 80-90%, the amount of capital required is not as great as you may think. The immediate attraction is the yields.

Typically, you will take on a block already fully tenanted, giving a return of 7-10% — compared with mortgage rates of as little as 3-4%.

Chris Lockley, 39, a pilot from the West Midlands, is one of the growing band of would-be Berliners. This spring he bought a block of 12 flats in Wedding, in the former west, for a mere £216,000 — which pays him an impressive £25,700 a year. "With yields like that, it's like somebody's giving you money," said Lockley, who is planning to add another 16-flat block to his portfolio.

Individual flats can be attractive investments, too, with studios for as little as £20,000 and one-bedroom flats for £30,000 — although yields may be a percentage point or two lower.

The real surprise, perhaps, is quite how few Berliners have themselves taken the plunge and bought. But old habits die hard: housing in the east was owned by the state during the communist years, and after the Wall came down in 1989, blocks of flats were largely sold en masse to big corporations rather than to the tenants who lived in them.

West Berliners, too, were traditionally reluctant to buy — rents were heavily subsidised, while the prospect of Russian tanks rolling in made the city seem anything but a safe investment. Home ownership was also rejected as "petit bourgeois" by students and other denizens of Berlin's thriving hippie scene.

"There was no economic urge to buy property," said Klink. "It was not like Britain, where people sit around dinner tables discussing how much their property has gone up."

There are signs that attitudes are slowly changing — not least because the old rent subsidies and controls have largely fallen away — but in the meantime the city remains very much a buyers' market.

Whether you opt for a single flat or whole block, though, choosing where to buy can require some careful research.

Like London, Berlin is a collection of communities rather than a single entity — and matters are complicated further by almost 30 years of division. Although only a few vestiges of the Wall are left, there are still big differences between east and west.

Those looking for a little edge will head for the former communist east. One of the most attractive areas is Prenzlauer Berg, a leafy suburb of late 19th-century Wilhelmine buildings north of Alexanderplatz. Berlin's answer to Islington or Wandsworth, it has become increasingly popular with young, well-heeled couples with children. Walk the streets in this Teutonic "nappy valley" and you may have to fight your way through waves of yummy mummies on their bicycles, all with the obligatory toddler on the child seat at the back.

By Berlin standards, though, prices are already high, at about £1,300 per sq m, and although rents are also above average, the yields will not be as generous as elsewhere. An alternative bet is Friedrichshain, slightly to the south, which is coming up fast in the gentrification stakes.

Parts of the former west, such as Charlottenburg, are more solidly middle-class, although those looking for excitement might be lured by Moabit, a working-class area to the north, or Kreuzberg, heart of the old "alternative" scene.

Choose your property well and it should be relatively easy to find a tenant — despite alarming reports that there are as many as 100,000 empty properties in the city.

But it is worth bearing in mind that the market is very different from in Britain — not least because renting is a long-term option for the majority. Contracts are therefore usually for an unlimited period and, although there is generally a three-month break clause on either side, it can be extremely difficult to get rid of a tenant. Looking on the bright side, though, this should also make for fewer voids. It is largely because of the high yields on offer that some big international players have been ploughing in during the past couple of years. In one of the largest such deals, Terra Firma, a British private-equity firm, this May reportedly bought a job lot of 150,000 flats, many of them in Berlin.

Such purchases also reflect a confidence that prices are due to rise after the decade of stagnation that followed the end of the post-reunification boom in the mid-1990s. Growth is likely to be steady rather than dramatic, however, making this a market for long rather than short-term investment — not least because of the costs of buying, which can add more than 10% to the price.

Ultimately, it may be all about psychology. Many of Germany's recent economic woes have been due largely to the failure of the country's angst-ridden consumers to dip into their pockets and spend. But the Frankfurt stock market recently hit a five-year high and there are hopes the feel-good factor could feed through to the property market. Much depends on the prevailing mood — which, in turn, brings us back to Merkel and today's election.

HOW TO BUY IN BERLIN

Purchase costs: Stamp duty, notary fees and other administrative costs could add 5-6% to the market price. In Berlin, unusually, agents' fees — which can be as high as 6.9% — are paid by the buyer rather than seller, but you can avoid them by buying direct from the seller. (Try www.immobilienscout24.de for property listings, in German)

Mortgages: Fairly easy to obtain, with banks typically lending 70-80%. Rates can be as low as 3.5%, normally fixed for three years

Title: Good. But be careful when buying in the former communist east that there are no outstanding problems over ownership

ON THE MARKET

A two-bedroom flat on the sixth floor of this block built in 1958 in Hansaviertel, near the centre of Berlin, is on the market for £131,000 through Nordstadt, 00 49 304 053 9240, www.nordstadt.com

In Tempelhof, this block of 15 flats, with two commercial units on the ground floor, is on sale for £710,000. The agent says it offers an average 7.8% yield. Norenva, 00 49 308 105 6787, www.norenva.com

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