

Focus on Germany

For well over a decade now, the German housing market has been a distinct no-go area for the well-informed overseas property investor, despite the fact the country has the world's third-largest economy. But times are changing, and for the first time you should begin giving serious consideration to Germany's new-found investment potential.

Situated in Western-Central Europe and bordered by a host of other European countries such as Holland, France and Belgium, Germany is Europe's most populated country and is the largest exporter of goods in the world, as well as the second-largest importer.

Yet in spite of this, Germany's economic growth suffered badly following reunification in 1990. Unemployment was high, especially in the poorer east, and the effect on the housing trade was considerable. Prices in the more affluent west soared following an influx of migrants from the east, but the boom could not be sustained, leading to an inevitable and dramatic collapse of the market. House prices stagnated for years.

Everything is about to change, with Germany currently witnessing an economic renaissance for the first time since reunification. Employment has reached an all-time high, with unemployment expected to go below the four million mark before the end of 2007. The country's economic growth in the second half of 2006 was greater than that of both the UK and the US.

All of which means Germany's housing trade is finally finding its feet, and there has never been a better time for you to invest. House prices have risen slightly, but are still significantly cheaper – especially in Berlin – than in the UK, and the rapidly expanding economy both domestically and internationally should ensure that Germany finally sees the property boom that so many of its European neighbours have experienced over the past 15 years.

Shaun Curran
discovers that
now is the time to
invest in German
property





Why now, and why Berlin?

There are more reasons why you should now take the plunge into the previously murky waters of the German market than just the promise of an economic boost. Firstly, Germany has a low level of house ownership – just 42% compared to nearly 70% in the UK and 85% in Spain – and the culture of rented accommodation means that the opportunity to let out properties will always be apparent.

More importantly, in Berlin there is a city that smart investors will identify as a wonderful opportunity to pursue long-term gain. The housing boom in Berlin has already started – and now is the moment for you to get involved from an early stage.

“Berlin is a fantastically cheap place to buy property. It is the largest city in Germany with a population of 3.4 million people, and its local attractions make it an eye-catching place to live”

Richard Bowser, editor of Property Investor News, sees the potential of Berlin: “The German mortgage market is entering a process of structural change that will likely see an increasing pool of liquidity being created by a new purchasing generation increasingly attracted to live and work in ‘buzzing Berlin’ – and this factor could accelerate future price growth.

“After a prolonged slump since the early 1990s, the Berlin residential market still offers yield-driven ‘value investors’ the opportunity for positive cashflow investments. Those investors with the capacity to take on the renovation of an entire apartment block with tenants in situ will likely see the best short-term returns.”

Last year saw nearly £7bn of overseas money spent on property in Berlin, primarily by British, Irish and American sources (both institutional investors and private individuals buying flats to rent), but also by investors from Spain, Norway, Sweden and France.

The potential of Berlin is enormous. It is the largest city in Germany with a population of 3.4 million people, and its local attractions make it an eye-catching place to live. Famed for its liberal lifestyle and urban eclecticism, it is a major tourist centre and home to people from over 180 nations.

“Charlottenburg is a prime area offering medium-term prospects for significant growth, but now with lower yields than existed just a few years ago,” says Bowser. “Lower-priced ‘Bohemian areas’ such as Prenzlauerberg and Neukollen in the east of Berlin are becoming sought after and perhaps offer the best prospects for maximising ROI (return on investment) if units in good micro-locations for transport etc are sourced carefully.”

And due to Germany’s mid-1990s housing collapse, Berlin is a fantastically cheap place to buy property. Large flats in the trendy areas of town can cost as little as £110,000, with those just outside costing between £70,000 and £90,000. Whereas house prices in London increased by 80% between 1996 and 2004, Berlin’s property decreased in value every year during the same period, meaning property will now cost you just £1,500 per square metre in Berlin, as opposed to £15,000 per square metre in London.

Not only does that make your investment a cheap, minimum risk one, but with the vast potential for growth similar to that experienced by the UK in the last decade, property in Berlin could yield incredible profit.

Bowser says, “As an investment opportunity, in my opinion, Berlin residential property values in the medium to long term are likely to go only one way – upwards!”

Farrell’s facts

Population: 82,422,299

Political structure: Federal republic

GDP per capita: €28,016 (£19,059)

Inflation: 2%

Interest rate: 3.75%

Unemployment: 8%

Foreign Direct Investment (FDI): €5.7bn

Tourist arrivals: 20 million (2006) (January – September 2006)

Tourist expenditure: €6bn (2006)

Taxation:

16% to 45% on taxable income between €7,664 and €52,152

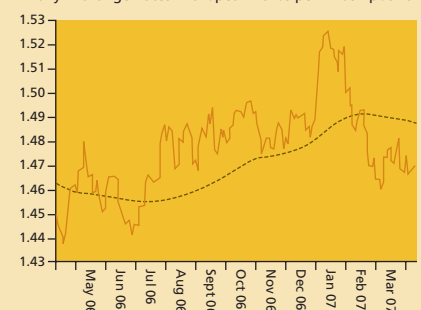
Corporation tax:

Currently 38.7%, to be cut to 29.8% in 2008

Capital gains tax: 25%

Value added tax: 19%

Daily Exchange Rates: European Euros per British pound



Currency:

Climate:

A temperate climate zone, with an average annual temperature of 9°C

Carriers:

Berlin: easyJet, Ryanair, Jet2, Aer Lingus, BA

Düsseldorf: BA, BA Connect, Aer Lingus, Jet2, Lufthansa, Air Berlin, Flybe

Frankfurt International: BA, BA Connect, Aer Lingus, Lufthansa

Farrell's view

I lived in West Berlin from 1988 to 1990 and was present at the Berlin Wall on the night of the first breach and watched East Berliners, with wide eyes and jaws on the floor, driving their 2-stroke 'trabbies' to freedom and prosperity.

I returned in December 2006 but this time looking for property in a city that has lagged the rest of the world in terms of growth and has languished at the bottom of most of the economic performance tables, playing second fiddle to new emerging economies.

But sleeping giants do not remain asleep forever and now may be the chance for an investor with a medium-to long-term view to enter the market. I would, though, like to emphasise that this is not going to be a lucrative short-term investment given transaction costs and the pace of the market, but it will bear fruit for those looking to add solid blue chip performance to their portfolio or looking to providing good assets for a pension.

So why look at Berlin in particular for property investment?

Key Points:

- Cashflow positive – strong yields, increasing loan-to-value mortgage products and liberalising financial services.
- Medium to long-term investment.
- Economic revival – Xetra DAX hitting all-time highs, growing employment opportunities and labour market reform and fourth quarter GDP growth of +3.7%. Industrial production was up +5.5% in December 2006.
- Increasingly strong exports with a trade balance of +\$206bn.

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- On a European comparable basis with London, Paris and new EU capitals, property is very cheap when measured against value factors such as wages, rents, and euros per square metre.

In terms of risk, Berlin is at the lower end of the spectrum and is suitable for novice as well as experienced investors alike.

By the time you receive this magazine I will have spent a further week in Berlin with my staff and a contact I have there, further defining the market at a local level. I will report back my findings via the weekly e-newsletter.

Mortgages:

Rate: 70% of Loan-to-Value (LTV)

Interest rate: 5.2%

Term: up to 30 years

Indicative property prices for Berlin

- 1 bedroom apartment – from £53,000 (€78,308)
- 2 bedroom apartment – from £107,000 (€158,154)
- 3 bedroom apartment – from £127,000 (€169,479)



Call now for details of investment opportunities in Germany.
Please register by filling in the form at www.jet-to-let-investments.com
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