

Berlin's walls fall to foreign investors

*Fears about overheating economies in Europe and the US have focused attention on residential property in the cash-strapped German capital, writes **Yenni Kwok***



Bankrupt and with an unemployment rate twice the national average, Berlin is a capital city with serious financial problems.

But its residential property market is booming, driven by foreign investors attracted by a bargain and the city's nightlife and bohemian mystique.

The real estate investment arms of Goldman Sachs, Merrill Lynch and even groups such as George Soros have snapped up thousands of apartments. Private investors are also in the buying mood.

"There is definitely a growing interest in the Berlin market, especially from international investors," says Lars Breuer of international property advisers Savills.

The image of Berlin as the cosmopolitan capital of the biggest European economy and the cheap prices of residential property - much lower than London and Paris - have attracted many investors from Ireland, Israel, the United Kingdom, Australia and America.

Sensing the high overseas interest in Berlin residential property, the young entrepreneurs of Berlin-based Iomauna Media, which publishes an English-language magazine for expatriates, in January set up ExBerliner Property, a real estate agency catering for foreign investors.

"We initially ran a listing to help expatriates with short-time rental property, but then we found out more and more people were interested in buying property," said Maurice Frank, managing director of Iomauna. "We handle so many clients now that I think we need to hire more staff."

The interest in Berlin reflects the general interest of foreigners in the German property market. Anglosphere buyers, according to a Deutsche Bank research report, are attracted by relatively low prices, no restriction on foreign ownership and low interest rates of 4 per cent.

Germany, with 40 million housing units, is the largest residential property market in Europe. Despite the appreciation of real estate values throughout Europe, its property market has been in a downward trend since the mid-1990s. Not only are German housing prices lower compared to neighbouring countries, but its ownership ratio is also the lowest in Europe.

Home ownership is only 43 per cent, much lower than elsewhere in Europe. "In Spain, the ownership ratio is over 80 per cent, in France, it is 57 per cent. And, in England, two out of three families own a house," said Tobias Just, senior economist of Deutsche Bank.

High unemployment, running at 11 per cent, and general pessimism over the economy have made Germans reluctant to buy property.

But that is precisely why overseas investors are looking at Germany.

"After the double-digit growth rate elsewhere, people are worried about [these economies] overheating," Mr Just said. "This could be a wrong moment to invest in the UK, France and the US."

Compared to other major German cities, Berlin's property prices are a bargain. A new condominium in Berlin costs around 2,500 euros [\$24,000] per square metre, 13 per cent less than in Frankfurt and 30 per cent lower than in Munich. Many cheaper options are also available. A good-quality flat in a desirable neighbourhood costs between 600 and 1,400 euros per square metre.

Berlin has a population of 3.4 million, equivalent to Hamburg, Frankfurt and Munich combined, but its economic performance is the worst. The city's unemployment rate is 19 per cent, and its economy has contracted seven out of the past 10 years. The city government is bankrupt, with its fiscal debt ballooning from 10.8 billion euros in 1991 to 56 billion euros in 2004.

Once a thriving government and business centre, Berlin lost its political and economic influence after World War II. The federal government moved to Bonn, while the industries left for other cities in western Germany. The banking industry went to Frankfurt, insurance to Munich and the media to Hamburg. The government moved back to Berlin after the reunification of Germany in 1990, but the high hopes and expectations in the words of Mr Just, "turned out to be inflated".

But many analysts believe this is the right time to invest in the capital. "We have reached the bottom," said Mr Breuer. "The prospect of the future is getting brighter."

Mr Frank said "prices for flats in renovated historic buildings in the desirable areas are the lowest they have been since the mid-1960s, fetching between 1,200 and 2,500 euro per square metre, but the rental prices of apartments in such buildings are rising."

He is also optimistic that the EU enlargement and Germany's hosting of the soccer World Cup next year will boost Berlin's economy and property market.

"Berlin is the cultural capital of Germany," Mr Just said. "It has several good universities, and it has a very good intellectual base. This attracts young, creative people, and could encourage new businesses."

The city has also undergone a major facelift in recent years. In an area that was once considered a no-man's land divided by the wall has risen the hi-tech central business district Potsdamer Platz. The area is a showcase of architecturally innovative complexes of offices and luxury apartments, such as the futuristic-looking Sony Centre designed by Chicago-based architect Helmut Jahn and the Daimler-Chrysler Centre by Italian Renzo Piano and English architect Richard Rogers.

Favoured are properties in the eastern Berlin districts of Mitte and Prenzlauer Berg, where old-fashioned flats abound and a bohemian lifestyle predominates. Mitte, meaning "the middle", has some of the

city's oldest structures: the imposing Berliner Dom, the splendid Crown Princes Palace and the iconic Brandenburg Gate. It is also dotted with bars, restaurants, cafés and galleries.

On the northeast of Mitte lies Prenzlauer Berg which has keenly sought after 19th century houses. It is also the location of Berlin's best bars, restaurants and clubs, and a favourite evening hang-out.

Housing prices and qualities vary in these two districts, but good quality housing in a good neighbourhood could fetch between 1,200 to 1,300 euro per square metre.

"Berlin is an opportunists' market," Mr Breuer said. "Investing in Hamburg property is less risky, but it also delivers less yield."

"For investors in search of security, long-range strategies make sense, given the risks remain in the short term," Mr Just says. "A gold rush mentality is inappropriate."

The reportage was published in the South China Morning Post daily (www.scmp.com), 14 August 2005.