

RESEARCH



# INVESTMENT GUIDE: GERMANY



AN INTRODUCTION TO BUYING COMMERCIAL PROPERTY IN GERMANY

TABLE 1

## Germany in numbers

Population	80.5 million (1st in EU)
GDP (2013)	€2.5 trillion (1st in EU)
GDP per capita (2013)	€30,731
Inflation (June 2014)	1.0%
Unemployment (June 2014)	5.1%
Commercial property investment volume (2013)	€26.1 billion
Cross-border investment share (2013)	40%

Source: Knight Frank/Real Capital Analytics/  
Eurostat

# WHY INVEST IN GERMANY?

**Size of market:** Germany is the European Union's most populous country and its largest economy. It is the second largest commercial property market in Europe, behind only the UK.

### Economic strength and stability:

The German economy has comfortably outperformed most of the rest of Europe in recent years. Its unemployment rate is one of the lowest in Europe.

**Diversity of locations:** Unlike many other European markets, investment activity is spread across a number of key centres, rather than being dominated by a capital city. The "big five" of Frankfurt, Munich,

Berlin, Hamburg and Düsseldorf typically account for more than 50% of commercial investment activity.

**Property market stability:** The German market is traditionally very stable, with yields exhibiting a much smaller degree of volatility than in cities such as London and Paris.

**Diversity of stock:** The German market offers a diverse range of investment product. The office investment sector takes the largest share of activity, but there is also a sophisticated and varied retail sector and a well-established logistics market, which benefits from Germany's strategically important location in the centre of Europe.

**Property market liquidity:** There are a wide variety of investors active in the market, providing a range of buyers and sellers for German property. Well-established domestic investors, such as open-ended funds, closed-end funds and special funds are joined in the market by a variety of international buyers.

**Enhanced returns:** German commercial property has offered attractive returns in recent years when compared with historically low German government bond yields. The spread between German prime property yields and 10-year bond yields has been around 250-300 basis points.

TABLE 2

### Property market data – the "Big Five" (Q2 2014)

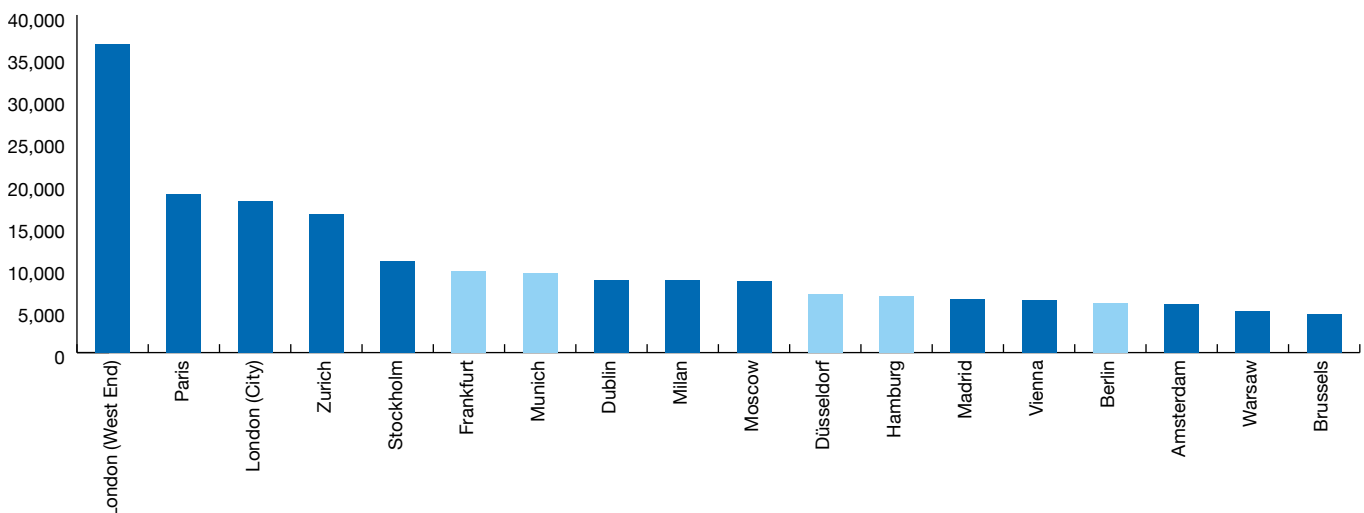
	Office	Logistics	High Street Retail	Shopping Centres
Prime gross initial yields (%)				
Berlin	4.75	6.50	4.25	4.75
Düsseldorf	4.75	6.25	4.25	4.75
Frankfurt	4.70	6.25	4.25	4.75
Hamburg	4.50	6.25	4.25	4.75
Munich	4.40	6.25	4.00	4.50
Prime rents (per sq m per month)				
Berlin	23.00	5.50	300.00	115.00
Düsseldorf	27.50	5.25	280.00	120.00
Frankfurt	38.00	6.70	310.00	130.00
Hamburg	25.00	5.70	310.00	135.00
Munich	34.50	6.80	360.00	155.00

Source: Knight Frank

FIGURE 1

### German prime office capital values – the European context

€ per sq m



# MAIN GERMAN CITIES



TABLE 3

## The "Big Five": facts and figures

	Population	Total office stock	Commercial investment volumes (2013)	Key industries	Key office districts	Key retail locations
Berlin	3.4 million (city)/ 5.1 million (metro)	18 million sq m	€3.1 billion	ICT, life sciences, creative industries, electronics	Potsdamer Platz/ Leipziger Platz, City East, City West	Kurfürstendamm, Tauentzienstraße, Alexanderplatz
Düsseldorf	0.6 million (city)/ 1.5 million (metro)	9 million sq m	€2.6 billion	ICT, advertising, media, financial services	Banking District, City Centre, Kennedydamm	Königsallee, Schadowstraße, Flinger Straße
Frankfurt	0.7 million (city)/ 2.6 million (metro)	12 million sq m	€4.4 billion	Banking, financial services, business services, media	Banking District, City, Westend	Zeil, Goethestraße, Freßgass
Hamburg	1.7 million (city)/ 3.2 million (metro)	14 million sq m	€2.4 billion	Port services, media, banking, aerospace	City Centre, HafenCity, Harbour Fringe	Jungfernstieg, Neuer Wall, Spitalerstraße
Munich	1.4 million (city)/ 2.7 million (metro)	20 million sq m	€4.3 billion	ICT, insurance, media, high-tech industries	City Centre, Bogenhausen, Westend	Maximilianstraße, Kaufingerstraße, Neuhauser Straße

Source: Knight Frank/Real Capital Analytics/Destatis/Eurostat



# GERMANY IS A LARGE, DIVERSE AND STABLE COMMERCIAL PROPERTY MARKET AT THE HEART OF EUROPE.

## Property ownership

### Who can own property in Germany?

Property can be owned by any individuals or legal entities with legal capacity. There are no restrictions on the foreign ownership of property in Germany.

### Forms of ownership

Property rights in Germany can be held through either land ownership or limited rights in rem. The latter include several forms of property rights that provide certain legal powers over property, but not the full ownership of land, including heritable building rights.

The main forms of property ownership are:

**Freehold ownership ("Eigentum"):** The owner of the freehold title owns both the land and the buildings on it, for an unlimited time period. Ownership can take three forms:

**Sole ownership ("Alleineigentum"):** There is a single owner with the sole right to control and dispose of land.

**Co-ownership ("Miteigentum"):** There is more than one owner, each of whom owns an undivided share of the land. Each co-owner has the right to dispose of its share.

**Joint ownership ("Gesamthandseigentum"):** Land forms part of jointly held assets. Each owner has a share of the joint property, but does not have the right to dispose of its share independently.

### Heritable building rights

**("Erbbaurecht"):** Ownership of a building is granted for a fixed long-term period, along with the right to use, but not own, related land. Heritable building rights are usually created for periods of between 30 and 99 years. These rights can be sold or inherited and the holder is entitled to construct buildings on the land. An annual ground rent ("Erbbauszins") is payable to the land owner.

### Condominium ownership

**("Wohnungseigentum"):** This form of ownership usually relates to residential apartments, but it can also apply to the part-ownership of commercial premises, where it is known as "Teileigentum". The holder has full ownership of a unit within a larger property, such as an apartment or an office, and co-ownership of communal areas.

## Commercial lease structures

Lease agreements are usually based on standard terms for leases laid down by the German Civil Code ("Bürgerliches Gesetzbuch"). Additional provisions may be negotiated by the landlord and tenant, but must comply with the Civil Code. Commercial leases are less highly regulated than residential leases, which are generally viewed as more tenant-friendly.

**Rents:** Commercial rents are usually quoted in Euros per sq metre per month, and are payable monthly in advance.

**Lease lengths:** Commercial property leases are usually for 5-10 years, and often include an option to renew for a further five years. Longer leases of 15-20 years are typical for some property types, including supermarkets and department stores. The maximum lease

term is 30 years, after which each party is entitled to terminate the lease with the statutory notice period.

**Break clauses:** Options for the early termination of leases are freely negotiable. For longer leases, there is often a tenant option to break at year five.

**Rent revisions:** It is common for commercial leases to contain automatic indexation clauses. However, these are only allowed if the duration of the lease is a minimum of ten years. Rents are generally linked to the German consumer price index, with adjustments to rents being either made annually or when the CPI changes by a specified amount, usually 10%. Alternatively, some commercial leases provide for "stepped" rental increases.

**Building repairs:** Under German law, the landlord is responsible for maintenance and repair but, in practice,

most lease agreements shift some responsibilities to the tenant. The landlord is generally responsible for structural and major repairs, while the tenant carries out internal repairs and decoration.

**Service charges and utilities:** The tenant pays service charges to the landlord to cover costs including water, cleaning, heating and waste disposal. The landlord may also recover the cost of property tax and building insurance through service charges. The tenant will pay electricity costs directly to the electricity supplier.

**Subletting or assignment of leases:** Subletting is only permitted with the consent of the landlord. However, if the landlord refuses to allow a sublease without good reason, the tenant is entitled to terminate their lease.



Sony Center, Berlin

## Purchasing and owning property

### Property acquisition process:

A property purchase requires the signature of a notary on a sale and purchase agreement and an appropriate amendment in the local land register ("Grundbuch").

## Fees payable on property purchases

**Transfer duty:** The purchase of a property is subject to a real estate transfer tax ("Grunderwerbsteuer"). This is between 3.5% and 6.5% of the purchase price, depending on the German state.

**Land registry fees:** The property purchaser must pay a fee to have its name entered as the legal owner on the local land register. Typically, the fee is between 0.2% and 0.5% of the purchase price.

**Agents' fees:** Real estate agents' fees for commercial property transactions are usually between 1.0% and 3.0% of the purchase price, plus VAT. However, fees are often slightly higher for residential property or smaller investment volumes.

**Notary fees:** Notary fees are typically between 0.5% and 1.5% of the purchase price.

**VAT:** The sale of property is normally exempt from VAT, but it can be applicable in certain cases.

## Taxes associated with the ownership and sale of property

**Real estate tax:** An annual real estate tax ("Grundsteuer") is payable on all property in Germany. It is assessed by the local tax office. Property owners will often shift the cost of the tax to the tenant through service charges.

**Income tax:** Rental income from property is subject to the normal personal and corporate income tax rates, regardless of whether the owner is tax resident in Germany or abroad.

**Tax on capital gains:** Any capital gain upon the sale of property is subject to personal or corporate income tax. Property is exempt from tax on capital gains if it has been held for more than ten years.

## Definitions

**Yields:** German commercial property yields are usually quoted on the basis of gross income divided by the purchase price (i.e. gross initial yields). However, yield profiles can vary between sectors and investors. It is common for investors to quote prices in terms of the "factor", which is calculated as a multiple of the rental yield. For example, a factor of 20 is equivalent to a 5% yield.

**Space measurements:** Measuring practices vary between cities and developers, with some property owners quoting net areas and some quoting gross areas. Measurements normally follow either the DIN 277 standard, or guidelines published by the Gesellschaft für Immobilienwirtschaftliche Forschung (Society of Property Research) (gif).

## Valuation methodology

International banks and investors typically seek market valuations based on the RICS Professional Standards in Germany, with methodology including the sales comparison and income approaches. German investors will often look at a gross multiplier on income in addition to the approaches outlined above.

German banks often require market valuations in accordance with German methodology plus Mortgage Lending

Valuations which are usually undertaken by German valuers. There are prescriptive rules relating to German valuations, Mortgage Lending Values in particular may not always represent market value.

German funds also have prescriptive rules relating to valuations and these can be based on a sustainable value methodology.

The main German valuation methods are regulated by the federal Real Estate Valuation Ordinance (Immobilienwertermittlungsverordnung – "ImmoWertV").



Frankfurt skyline

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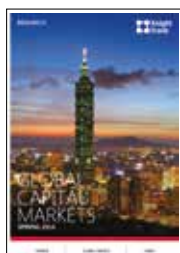
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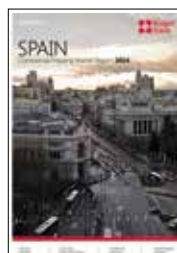
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