

RESIDENTIAL RESEARCH



GERMANY INSIGHT 2017

ANALYSIS OF GERMANY'S PRIME
RESIDENTIAL MARKET



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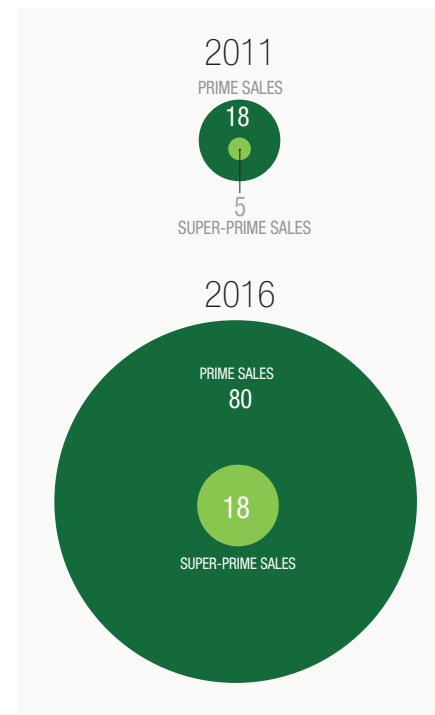
OVERSEAS BUYER ANALYSIS

The safest of havens?

Germany's key cities have been on the radar of global investors for more than a decade but their appeal goes beyond just firm economic fundamentals.

By Kate Everett-Allen

Berlin's prime market expands



Source: Ziegert
Prime sales correspond to €7,500 per sq m+
Super-prime sales are €10,000 per sq m+

Germany's top cities have been well-placed to benefit from capital flows at times of economic and political turbulence over the last decade. Investors from southern Europe shifted their assets northwards during the Eurozone debt crisis, Asian and US investors looked to Germany when returns in their own markets started to diminish and now Brexit sees Germany's key cities back under the spotlight. But what makes Germany's top cities so appealing for foreign investors?

The simple answer is high demand and low supply. Using Berlin as an example, the city's population expanded by 40,000 in 2015, and household numbers are forecast to increase by 74,000 between 2015 and 2020.

Completions, however, are not keeping pace. Estimates suggest the city needs to build 20,000 new homes each year to satisfy new and pent-up demand and although building rates almost doubled between 2012 and 2015, only 10,722 new homes were brought to the market in 2015.

Aside from the economic fundamentals, Germany's cities still have some of the

lowest home ownership rates in the world. Numbers are rising, in part due to the ECB's historically low interest rates, but with only 15% of homes classified as owner-occupied, landlords in Berlin rarely struggle with lengthy void periods. Add to this the vibrant technology and start-up industries in the city which together are attracting a younger, entrepreneurial generation and Berlin's credentials are self-evident.

Delve deeper though and there is more to Berlin's appeal than just demand, supply and good economics. Numerous safeguards have been put in place – partly to avoid a repetition of the boom and bust scenario seen in the late nineties and partly to ensure housing remains affordable for local residents.

Mortgage lending is now highly regulated. Capital gains tax is charged on all properties sold within two years of purchase, or in the case of buy-to-let homes, 10 years, to discourage speculation. Berlin has also gone one step further than other German cities by introducing a new rent cap which, means that the rent specified in a new tenant contract cannot exceed the local average by more than 10%.

But far from deterred by such stringent regulations, landlords and investors instead see the measures as pillars of support which help bolster market confidence and minimise risk.

The introduction of a permit system for short-term rentals via Airbnb and the designation of 33 neighbourhoods as "urban conservation areas" where owners are prevented from converting their rental properties to luxury condominiums to sell on, reinforces again the council's commitment to the city's rental sector but at the same time constrains the supply of homes available to purchase.

Luxury living

Analysis of sales by price band highlights the extent to which Berlin's largely nascent luxury residential market has shifted gear over the last five years. In 2011, 18 sales were completed above €7,500 per sq m, but by 2016 this figure had jumped to 80 transactions. Although not on a par with global cities such as London and New York, the city's super-prime market, which we define as sales exceeding €10,000 per sq m, is also expanding with sales up from five to 18 in the last five years.

Who's buying?

Data from our partners in Berlin, Ziegert Immobilien, shows that whilst German buyers still account for a large segment of demand within the luxury sector, overseas interest not only increased but became more diverse. European buyers

continue to represent a key component of demand but buyers from China, the US and the Middle East together accounted

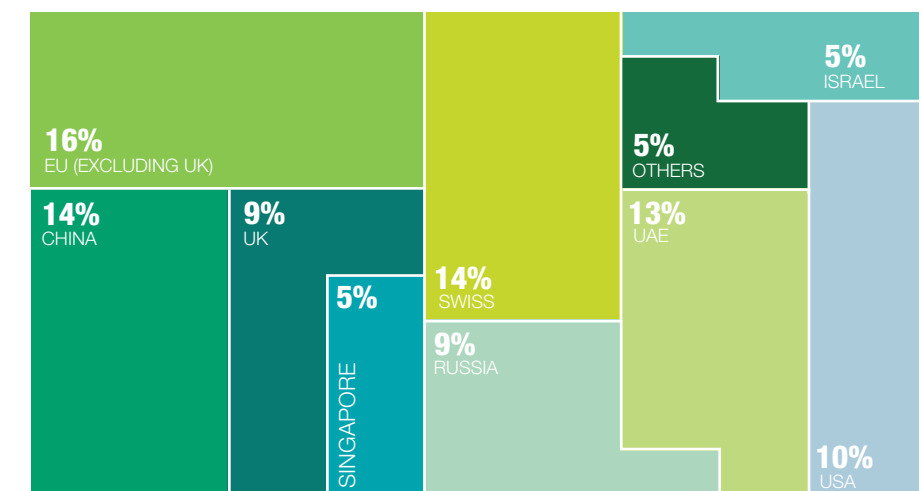
for more than 42% of sales to overseas buyers in 2016, a trend we expect to continue throughout 2017.

Key cities at a glance...

	BERLIN	MUNICH	FRANKFURT
Home ownership rate*	15.0%	21.0%	20.0%
GDP growth* (% yoy)	5.4%	4.4%	5.4%
Population forecast (2015-30)	6.0%	12.0%	8.0%
Luxury house price growth, 2016	8.7%	8.0%	4.5%

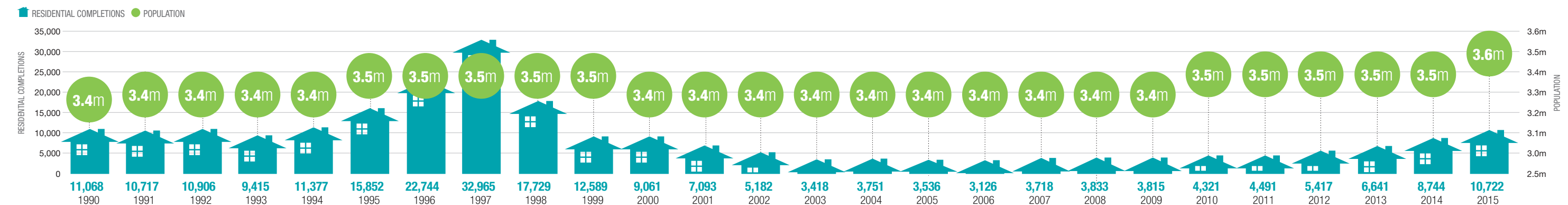
Source: Ziegert, Knight Frank Research
*latest available

Berlin's luxury overseas buyer profile 2016 (% of overseas buyers)



Source: Ziegert database

Berlin: Mind the gap



Source: Office for Statistics Berlin-Brandenburg



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