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GUEST ARTICLE: The Case For Investing In Berlin's Real Estate

Christian Schulte Eistrup, 2 January 2018

An investment firm makes the case for investing in the German capital city's real estate market.

We occasionally give investment managers a platform at this news service to make the case for their approach to managing money, and here the case is made for holding brick-and-mortar assets in Berlin, capital of Germany. The article is by Christian Schulte Eistrup, managing director, Optimum Asset Management.

Interest rates are, arguably, slowly "normalising" in certain parts of the world, although it appears we are some way off a change in the eurozone soon. At times one has heard it said that Berlin's real estate market is relatively cheap when compared with the likes of London or Geneva, for example. The hunt for yield by private banks and family offices has put a spotlight on forms of real estate, and certain countries.

The editors don't necessarily endorse all external contributors' views and invite readers to respond. All contributions to debate are welcome. Email tom.burroughes@wealthbriefing.com

Berlin has changed considerably in recent years, yet it remains one of the most compelling market opportunities and appealing cities in Germany. The capital still offers excellent value; provided a proactive investment approach is taken.

We were an early entrant to the Berlin property market in 2006, when the city was not so popular. However, as evidenced by the city's fourth successive appearance atop PricewaterhouseCooper's Emerging Trends in Real Estate survey, Berlin has entered new territory.

The property market in Berlin is booming and offers great value to businesses. It is one of Europe's most dynamic destinations for tech companies, large and small. The Sony Centre deal in November was one the largest European real estate deals in 2017.

Furthermore, the city is now among the most popular tourist destinations in the EU – recording the fastest expansion in the total number of nights spent in tourist accommodation between 2005 and 2015. On this metric, Berlin has seen almost twice the rate of growth for London.

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While residential prices have been rising, they remain good value compared to other major capitals such as Paris or London, where prices per square metre are at least five times higher. Berlin remains a high-growth, supply-constrained city. With one of the highest GDPs per inhabitant in the country, low unemployment and healthy wage growth – the economic fundamentals here are strong. (Eurostat, 2017)

The city has also benefitted from the continuing transfer of government ministries from other parts of Germany and according to Berlin's Senate, the population is set to grow by more than 250,000 by 2019. With this comes ever-increasing demand, including for home ownership, and pressure on the occupier supply/demand imbalance – the potential for real estate value growth is significant.

A proactive approach to asset management is key to generating strong risk-adjusted returns. This approach can generate an uplift of up to 80-100 basis points in yield, by focusing on mismanaged properties. This requires a more strategic analysis of single assets and concept creation for spaces; inspired by a combination of a property's architectural aspects and the profile of intended tenants.

Take, for instance, properties in the range of €10 million ($11.9 million) - €50 million. Property at this price point is often out of the reach of private investors, but below the radars of institutions. For example, we recently purchased buildings located around Stralauer Allee that were, in a previous life, retail warehouses. With retailers struggling due to online competition, the properties were reimagined around the concepts of media and technology. This attracted higher yielding, future focused tenants such as Porsche Digital Lab.

Within Berlin's residential stock, there is still unrealised value to be unlocked by buying high-quality buildings whose characteristics make them eligible for a condominium conversion strategy. A building purchased in the fashionable district of Charlottenburg, for example, can result in an uplift of €3,000 per square metre.

Based on our experience spanning over ten years in Berlin, there is real estate in several other selected cities that is beginning to match the capital as the best source of attractive returns with low underlying risk.

Potsdam, Dresden and Leipzig all exhibit the occupier supply/demand imbalance that attracted investors to Berlin in the first instance. The three markets offer modest risk, but with even more affordable prices and attractive yields. Each are growing centres of technology, education and industry and offer investment opportunities comparable to Berlin, specifically with regards to mismanaged but high-quality properties.

Cologne, Düsseldorf and Hamburg also offer further opportunities, on a selective basis, to participate in the positive macroeconomic and property fundamentals.

In Berlin and across these six other locations, office and residential vacancy rates are falling and demand continues to increase year on year. Some have become concerned that markets could become overpriced and thus dampen returns on new investments. In our view, strong population growth coupled with rapid property and rental price growth are clear indicators of Berlin's prosperity.