

## **Constructing Confidence: The New German Property Market**

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As the Irish property and construction sectors enter a period of readjustment that has been a long time in coming, the eye of the investor is focused increasingly on other territories that can offer good returns. In a market where almost any country is now seen as an option – once unthinkable locations, such as in Africa, or even China, for example – it is surprising that countries closer to home, such as Germany, are not given the attention they deserve.

The German property market is markedly different from its Irish counterpart. With around half of home-dwellers renting, rather than buying, property prices are not being driven by overwhelming demand, as it has been here in recent years. As a result of this, both residential purchase prices and rent are lower than what would normally be expected. In the commercial sector too, the market is considerably undervalued when compared to other countries – held back for years by reunification. However, it is generally considered that those differences will be reduced as the market continues to develop. As Jerry Purcell, director of Augusta Property Services says: “Given the current contrast between a stable, growing Germany and the increasingly jittery environment in the rest of Europe, that gap will narrow faster than many originally thought as investors place a premium on German property.”

Purcell is quick to point out the benefits of a resurgent German economy, particularly at a point when countries such as Ireland and the UK are beginning to feel the effects of falling prices and reduced demand.

“Economically, Germany is on the move again,” he says. “The world’s largest exporter and fifth largest economy is finally enjoying the benefit of falling unemployment, steady GDP growth, output growth and higher disposable income per capita that many other Western economies have experienced for most of this decade. The burden of reunification with the former GDR – essentially the ground-up regeneration of an entire nation of 16 million – acted as an enormous brake, both on the German economy and on the consumption patterns of the prudent citizens of the former west.

“By and large, that brake has now been released. Unemployment rates are dropping dramatically in the former east and in terms of infrastructure it now rivals, perhaps exceeds, the former west. The sense that they need no longer worry about the east is permeating the western towns and cities. A feel-good factor is returning to German life and nowhere is that being more felt than in the long-stagnant property market.”

Office space is increasingly sought-after, linked directly to the consistently reducing unemployment rate – a reduction of 675,000 in the past year, with a further fall of 750,000 the year previously. As the aforementioned ‘feel-good factor’ returns, it is also anticipated that retail rents will increase accordingly, as consumer sentiment sees shoppers returning to the streets.

Without the unprecedented boom in construction that has defined the Irish experience, there is large demand for both modernisation and refurbishment of existing properties, and also for new construction projects.

“The age profile of property owners in Germany tends to be quite mature and typically less proactive in terms of asset management,” says Purcell. “So it falls to a new era of property owners and managers, like Augusta, to unlock the considerable potential to be found in the many high-quality assets Germany offers.

“The result is a pool of retail and office property in key locations in Germany which are undervalued, under-managed and under-rented by reference to most other European countries, which is destined to catch up with the renewed growth in the economy.”

Proving the old adage that as one door closes, another one opens, it could be said that Germany is about to embark on a similar adventure to the one that Ireland appears to be taking a break from. A different outlook and demographic in terms of attitudes to property means that the growth in the market is likely to be sensible – characterised by confidence and stability.