

Management for Professionals

Tobias Just
Wolfgang Maennig
Editors

Understanding German Real Estate Markets




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Foreword

The German economy is the largest economy in Europe and ranks fourth in the world. Property values in Germany reflect that importance: the net fixed assets currently amount to approximately 8 trillion euros, of which approximately 60% is residential property, 25% is commercial and 15% is public real estate and infrastructural construction. This market size ensures liquidity, market access and relevance to investors, analysts and university graduates.

I am convinced that international investors, project developers, financial auditors, bankers, lawyers, tax experts and, last but not least, scientists find it exciting to study German real estate markets, as they are unique in some respects and have changed considerably during the last two decades. At the forefront of this change was the German reunification, which led to investments of trillions of euros. Within 10 years, the real estate markets in the New Länder (Eastern Germany) were integrated into the free market economy system of the Old Länder (Western Germany). This rather difficult integration process is continuing and will have an impact on future developments, e.g., the ongoing decline of the number of residents in Eastern Germany. The experiences gained from the changes in the German real estate sector are of interest to regions in Europe and throughout the world that will be facing similar demographic problems in the next few decades.

It is important to point out that the property markets in Germany were able to escape the problems that affected many other markets in industrialised and non-industrialised countries before and after the financial crisis. Many people inside and outside Germany wondered about the stability of the German real estate sector. Specifically, what were the reasons for this stability, and is it possible to derive conclusions for other property market regulations from them? Investors may ask whether the special development of the German property markets could present a good opportunity to commit financially to this sector. As I said, it is in fact worthwhile to analyse German real estate markets.

I would like to draw your attention to another fact: many building standards in Germany are considered to be pioneering. Moreover, in view of energy efficiency,

German real estate is considered to be of the highest standard, not only for a small group at the top, but also for a broad mass market segment. Such is the case despite the fact that the German Certificate for Sustainable Construction was established relatively recently. It is also true that properties in Germany still have a huge potential for energy-efficient upgrading, which will result in billions of euros in investments and the hope that the renovation of buildings will be an appropriate response to the challenges of climate change. I believe we can also learn from the experiences the Germans gained and will gain in this area.

The characteristics of the German real estate markets, however, have yet to be fully described. Investors must deal with special tax regulations. A look into various asset classes can be surprising: although REITs were introduced in Germany in 2007, this segment still is small. Open-end and closed-end property funds suffer from serious problems. The global convergence of investment vehicles is slower than expected, which is why special national approaches still need to be taken seriously.

This book covers a wide range of topics, as there are economic as well as real estate, legal and tax characteristics. To deal with these topics properly, extensive expertise is required. The two editors have commissioned knowledgeable authors for the particular topics. I do not know another English publication that gives such a profound and simultaneously entertaining overview of German real estate markets.

The book, of course, is mainly addressed to readers abroad, especially to investors, finance and valuation companies, developers and consulting firms. In addition, the book offers numerous new facts that domestic market players and, especially, students may find highly rewarding. Those looking for a quick introduction to German real estate market issues will find answers not only to important questions but also to questions that have not been raised yet.

Last but not least, I wish that all of you will enjoy reading the book.

Prof. Dr. Karl-Werner Schulte
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SVEN BARCKHAHN (graduated in Civil Engineering and Construction Management) was a research assistant at the Bauhaus-Universität Weimar from 2005 until 2010. In 2011, Sven Barckhahn will finish his Ph.D. thesis on the German PPP secondary market.

DR. MARCUS CIELEBACK is heading the Research department of PATRIZIA Immobilien AG since October 2008. His focus includes the risk-return based analysis and comparison of European and global real estate markets and the development of econometric models for forecasting the commercial and residential markets to develop individual investment strategies. Within these analyses special focus is given to the institutional framework of the markets, especially in the residential sector, as it provides the “rules of the game”. He is a frequent speaker at international conferences and a published author in various international journals. He studied economics at the University in Freiburg and the London School of Economics. He completed his doctorate at the University of Bayreuth in 2001 in the area of real estate finance, focussing on option theoretic aspects of special German mortgage contracts. A year later he joined MEAG, the asset management company of Munich Re Group. At MEAG, Dr. Cieleback was responsible for the strategic

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VALENTINA FARLE has been advising investors on German tax aspects of inbound real estate investments since 2001, when she joined a worldwide operating, transaction-focused law firm after having completed an LL.M. at the University of Sheffield in England, UK. Valentina undertook university studies and legal traineeship (*Rechtsreferendariat*) in Tübingen and Berlin, Germany, as well as in Madrid, Spain. She is a qualified German lawyer (*Rechtsanwältin*), a specialized tax lawyer (*Fachanwältin für Steuerrecht*) as well as a tax advisor (*Steuerberaterin*). She regularly publishes and presents on German tax issues relevant for international investors, for example regarding investment fund taxation, taxation of inbound investments and the tax treatment of partnerships under international tax law. She is a counsel at K&L Gates in Frankfurt am Main, Germany.

MARTINA FIDLSCHUSTER has been working with HOTOURL Consulting GmbH since 1993 and as Managing Partner and Owner since 2001. For many years she has been supporting investors, financial institutes, project developers and hotel operators concerning real estate issues with a focus on hotel market analysis, transactions, financing and asset management. Martina is an official expert on the hotel trade for

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DR. CLEMENS JUST, born in 1972, studied law at Hamburg and Freiburg University. After completing his First State Exam and obtaining his doctorate in Freiburg, as well as a postgraduate Master of Laws degree at the London School of Economics, Dr. Just completed his internship in Berlin. Dr. Just was admitted as a lawyer in Germany in 2001 and as a solicitor in England & Wales in 2002 and since then has worked in international law firms in London and Frankfurt, before joining SCHULTE RIESENKAMPFF as a partner in 2009. Dr. Just’s main practice areas are corporate law and capital markets law. He advises and represents national and international companies in all aspects of his fields of expertise. He has also become known as a publisher and author of standard commentary and books (*inter alia*, Just/Voß/Ritz/Zeising, German Securities Prospectus, C.H. Beck 2009; Just/Voß/Ritz/Becker, German Securities Trading Act, C.H. Beck (scheduled for publication in 2010/11); Just, The English Limited in practice, 3rd Edition, C.H. Beck 2008; Just (Ed.), English Corporate Law, C.H. Beck 2008; Münchener Vertragshandbuch, Band IV: Wirtschaftsrecht III, International Corporate Law, 6th Edition, C.H. Beck 2007). Dr. Just regularly gives lectures in these subject areas.

PD DR. TOBIAS JUST is head of Sector and Real Estate Research at Deutsche Bank Research. After his apprenticeship at Otto-Versand, Tobias studied economics in Hamburg and Uppsala (Sweden). In 1997 he graduated and started to work at the University of the Federal Armed Forces Hamburg. His PhD-dissertation on the effects of globalization on fiscal and monetary policies was awarded the university science prize in 2001. Since 2001 Tobias has been working at Deutsche Bank Research, the economics research unit of Deutsche Bank, focussing on real estate and regional economics as well as developing risk tools. In summer 2006 Tobias was Research Fellow at the American Institute of Contemporary German Studies at the Johns Hopkins University in Washington DC. Since 2008 Tobias has been heading DB Research’s sector and real estate research and has been member of Deutsche Bank’s group wide Environmental Steering Committee. Besides his 60 reports within Deutsche Bank series, Tobias has published more than 70 papers in professional and academic journals and books. Tobias regularly lectures on real estate topics at IREIBS Immobilienakademie, TU Berlin and Wuppertal University. From November 2011 Tobias will be Managing Director at the IREIBS Immobilienakademie and Professor for Real Estate Management and Economics at the University of Regensburg.

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Dr. Krämer's practice focuses on international and domestic taxation, as well as related matters such as mergers and acquisitions, reorganizations and foreign direct investment in Germany. He regularly advises on all matters of complex German and international tax issues for corporate taxpayers (including cross-border transactions and reorganizations) and related corporate law issues. Dr. Krämer lectures and is widely published on the various aspects of domestic and international tax law. Education: University of Bayreuth (First State Law Examination, 1996; Business Lawyer Degree, 1996); Humboldt University Berlin (Dr. jur., 1999); State of North Rhine-Westphalia (Second State Law Examination, 2000); State of Hesse (Certified Tax Advisor Examination, 2006).

DIPL.-JUR., ASS. JUR. PETRA LAU, is consultant for further education of vhw Bundesverband für Wohnen und Stadtentwicklung e.V. After her commercial apprenticeship, she studied law in Berlin and graduated in 1990. She graduated the second state law examination in 1993. She worked at the Forschungsgruppe Stadt+Dorf Prof. Dr. Rudolf Schäfer GmbH from 1993 to 2000. From 2000 to 2006 she worked as scientific associate at the Fachgebiet Baurecht und Bauverwaltungslehre at the Technische Universität Berlin. From 2006 to 2010 she worked as a visiting professor and an academic associate at the Lehrstuhl Bau- und Planungsrecht at the Brandenburgische Technische Universität Cottbus. After that she worked again at the Technische Universität Berlin, but in the Zentralinstitut El Gouna. Since April 2011 she has worked at the vhw Bundesverband für Wohnen und Stadtentwicklung e.V. She has worked on a large number of scientific projects. The results of many of them are published. She regularly gives lectureships on planning and building law at different universities.

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PROF. DR. WOLFGANG MAENNIG is Professor of Economics at the Department of Economics at Hamburg University. Before that he was professor at E.A.P. Paris-Oxford-Berlin-Madrid. He was a visiting professor at the American University in Dubai and at the Universities of Stellenbosch (South Africa) and Istanbul, the Federal University of Rio de Janeiro and the University of Economics in Bratislava. He was also visiting scholar at the International Monetary Fund in Washington, DC, and at Deutsche Bundesbank in Frankfurt. His research has been published in numerous academic journals, including Applied Economics, Contemporary Economic Policy, Economic Letters, Labour Economics, Regional Science and Urban Economics, Regional Studies, Journal of Sports Economics, Oxford Bulletin of Economics and Statistics, Real Estate Economics, and Transportation Research. Wolfgang Maennig has worked on many occasions as an expert on real estate issues, including projects for the German Ministry of Transport, the Federal Institute for Sport Science, and several German Olympic bid committees. He teaches real estate economics at Irebs and on the CREA (Certified Real Estate Investment Analyst) Programme at DVFA. He is a member of the editorial board of the Journal of Interdisciplinary Property Research and chairman of the working group "Real Estate Economics and Politics" of Gesellschaft für immobilienwirtschaftliche Forschung (Society for Research in Real Estate Economics).

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FRANK NICKEL is Head of Commercial Real Estate Group and Managing Director Deutsche Bank AG. Frank Nickel holds a master degree in sports and geography of the Ruhr University Bochum and started his professional career in 1985 as a trainee and later in various branches at Commerzbank AG. Before joining Deutsche Bank in 2006 Frank Nickel headed the commercial mortgages and international development of Haus & Capital GmbH and was founder and CEO of Creditweb Deutschland GmbH. In his current role at Deutsche Bank Frank Nickel is responsible for commercial real estate financing in Germany, Austria and Switzerland as well as for the acquisition of NPL portfolios from German banks. He is member of the Global Real Estate Executive Committee and is responsible for Deutsche Bank's Pfandbrief business. Moreover, Frank Nickel represents Deutsche Bank in working groups of the Bundesverband der Banken and the Verband der Pfandbriefbanken.

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Acknowledgments

During the economic crisis of 2008 and its aftermath, we developed the idea that there should be a generally intelligible book in English on the German real estate sector. However, it was only in 2010 that it became clear that the German economy was recovering earlier than hoped. We were convinced that in the coming months there would be many more questions abroad about the German property markets than in 2009. Therefore, the project had to be launched and finalised as quickly as possible.

We would like to thank our authors for having dedicated themselves to the project despite their enormous workload. The work on the book also led to some interesting networking connections and discussions beyond the individual chapters. We heard from many sides that our assessment of the growing importance of the German real estate sector in the next few years was shared, and this was an important motivation for this project. Thus, we were able to meet our ambitious schedule.

Furthermore, we would like to thank those who often remain unmentioned even though they allow such projects to be realised in the first place: Sabine Berger supported us by organising and coordinating key tasks; Ulrich Clemens produced a consistent format from many manuscripts, graphics and styles and we are grateful to Christian Rauscher from Springer Verlag who helped us in the concept and preparation phase.

Finally, of course, we thank you, dear reader, now holding this book in your hands, for having been our motivation. Without you, we would have never started the effort of writing it. We would be pleased if you find the book interesting and take it as a starting point for a study of German real estate markets. Perhaps the book will also allow for more rapid networking with market players. We are looking forward to new ideas and impetuses.

Tobias Just
Wolfgang Maennig