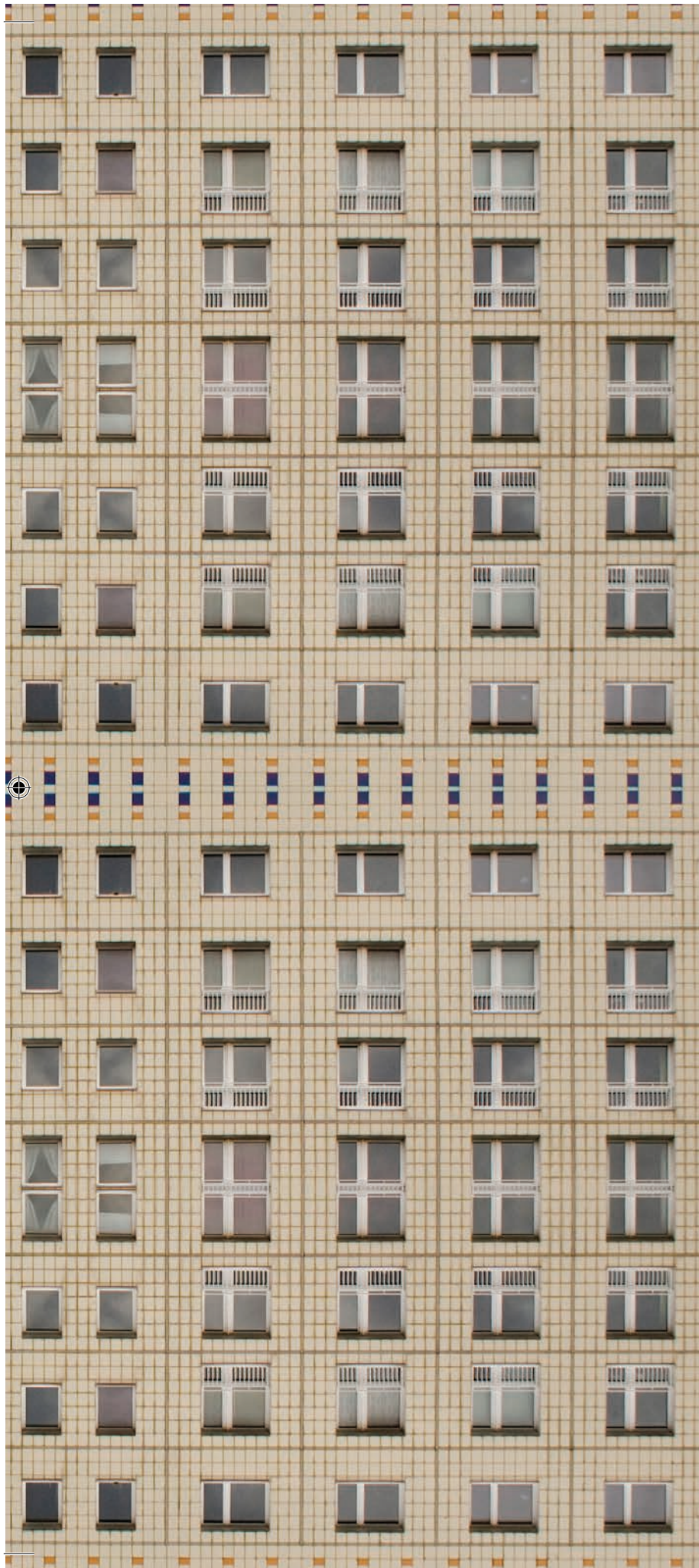




FEATURES





By Emily Manthei

BERLIN: INVESTMENT JACKPOT OR REAL ESTATE HEADACHE?



EUROPE'S FORGOTTEN CAPITAL HAS BECOME A BUSTLING CENTRE FOR STARTUPS, TECH FIRMS, CREATIVES... AND REAL ESTATE DEVELOPERS. BUT WITH GRASSROOTS CITIZEN GROUPS REJECTING PLANS FOR A GOOGLE CAMPUS AND THE MAYOR THREATENING A MORATORIUM ON FOREIGN INVESTMENTS, IS BERLIN A FRIENDLY PLACE FOR INVESTORS?

Germany's economic stability, robust renters market and growing population have drawn investors from all over the world to German properties. Between 2009 and 2014 alone, property values increased by 70 per cent in undervalued Berlin, Europe's cheap, cosmopolitan centre. A deluge of new residents, including economic migrants relocating from elsewhere in Europe and refugees from further abroad, have created a housing shortage that begs for new growth in the residential market.

In 2018, the brokerage unit of Berkshire Hathaway partnered with Rubina Real Estate in Berlin to tap into the growing market. For many investors, the presence of Warren Buffett's famously secure investment firm signals that Berlin is a haven for residential property investors.

In the meantime, conditions in Berlin changed. A left-wing coalition was voted into power locally in 2015, ushering in a new real estate political agenda prioritizing affordable rents, public ownership, local investment and sustainable urban development. One of the first policy changes of the coalition, spurred by a citizen ballot initiative, was a "Rental Price Brake" law that limits the amount landlords can charge new tenants to 10 per cent above the neighbourhood average and strengthens a tenant's ability to resist eviction; it has since been adopted in other major German cities. A city-wide ban on short-term rentals, many owned by property speculators, followed.

Last year, Berlin's Mayor, Michael Müller, made headlines in *Handelsblatt Global* by suggesting an overall ban on foreign residential property ownership in Berlin. And shortly after, locals began regularly demon-

strating against the *Mietenwahnsinn*, or "rental price madness" in Berlin, with several large developments frustrated or reversed as a result.

On April 6th, more than 40,000 demonstrators marched outside a real estate convention while gathering signatures in support of a referendum proposed in January that would expropriate more than 200,000 rental units held by private companies.

If the city-state of Berlin passes the controversial referendum, it could use Article 51 of the German Constitution to transfer the housing stock of all private companies that own more than 3,000 units to public ownership.

"It's not as easy anymore to just purchase a big plot of land and put in anything that you wish. The local government, especially those districts controlled by green or left-wing politics, look more closely into the concept as well. Something that used to be a purely bureaucratic process has turned into something biased by politics," says Lennart Siebert, who works for urban development consultancy Belius.

A NEW WAY FORWARD

Despite the pushback against gentrification, Berlin is still growing at a rapid rate and requires new construction, especially housing. Foreign investors wishing to make their mark in Berlin should think carefully about partnering with local content-providers or consultancies to collaboratively design properties. "We show them the circumstances of the surrounding neighbourhood, to give the feeling of how people live and work there, and how it will be once they have changed it. Every building project has an impact on its surrounding... I think that's something very important,

to touch ground with the space itself and think outside the box," Siebert stresses.

Developers who work with a local consultancy like Belius are encouraged to consider the impact of a property, beyond numbers on a page, by diving into the content and the process. The first step is to workshop the idea itself by holding a public meeting to discuss the project proposal. Inviting specific members of the local government, people with neighbourhood influence and community members to join the developer and hear their idea allows representatives to respond with their own needs and desires. "Most developers don't know all the options that are on the table, and what they mean. People like us [Belius] try to find the intersecting ideas [between politicians, neighbourhood locals and developers] and zoom in," explains Siebert.

MODEL IMAGE

This kind of workshop and open-format system allows developers to gain the insights and expertise they need to contribute valuable projects to Berlin, despite tightening regulations.

But for many foreign developers, this on-the-ground involvement is more trouble than it's worth. Like Berkshire Hathaway, foreign investors often turn to a local partner to make an impact on the ground.

"Some developers are doing very good work, and every time we work together, we learn so much from them. They're very inspiring because they are not afraid to do things at eye level, while still earning their return on investment," Siebert explains, citing examples like UTB Project Management and Artprojekt Group.

Artprojekt Group, a developer based in Berlin, maintains a diverse portfolio of projects that cater to the micro-climates of the city's needs. Some projects focus on new housing, owner-occupier apartments or commercial space, while others are made up entirely of social housing and affordable artist workspace, or reserved for experimental uses, like urban farming and co-working. "The goal is to establish liveable and inspiring spaces for the needs and desires of people of different social and economic affiliations," reads a company statement. To do this, Artprojekt strategically spreads the risk of investment across its entire portfolio.



Another investment strategy that has proven successful in Berlin is foreign-local partnerships. Companies that bought public land before the state of Berlin stopped selling it often have trouble developing it because of bureaucratic and political obstacles. Instead, some of these landowners have given long-term leases to local content creators who couldn't afford to develop their own projects.

One successful collaboration is between Abendrot, a Swiss pension fund, and their long-term tenant, the Holzmarkt cooperative. The pension fund collects a monthly lease, paid collectively by the various businesses and artists that are part of the Holzmarkt cooperative. The cooperative was formed by the nightclub owners and regulars who held parties on the same space when it was still a derelict piece of old East

Below: Last year, Berlin's Mayor, Michael Müller, made headlines by suggesting an overall ban on foreign residential property ownership in Berlin
Right: (from top) An artwork in front of the subway entrance Moritzplatz in Kreuzberg protests against the rampant construction of luxury real estate in Berlin; An apartment complex in Berlin



Berlin. Using their successful concept and understanding of local politics and the area, the cooperative created a viable social arts project while Abendrot maintains a secure investment as the landowner.

IS BERLIN A GOOD INVESTMENT?

"It's a lot about the intrinsic motivation as well as the calculation. Most of the time when we do the calculation, it proves that this kind of social, sustainable development can also be lucrative," maintains Siebert and his team at Belius. When they choose to work with developers, they aim to show them both the financial value as well as the social value of an investment.

From a financial perspective, it's hard to beat property ownership in Berlin. There is plenty of room for appreciation in the market, and the city is only becoming more desirable. But in a city where renters, activists and working-class people aren't afraid to advocate for themselves, investors should not underestimate how much influence locals have on projects and developers.

"For us," Siebert says, "a good developer is someone who not only works at eye level, but is willing to go into dialogue and collaboratively develop the project. I think that's an important first step."

