

Economic situation and leasing market are still intact in Germany



Christian Schiffmacher,
 Editor-in-Chief,
 Institutional Investment
 Real Estate Magazin

With retrospective effect as of January 1 2007, REITs have now been introduced in Germany too. So far, however, only two German REITs are listed, in the form of alstria office REIT-AG and Fair Value REIT-AG. One crucial reason for this is the past year's sharp correction in real estate shares, which was triggered among other factors by the subprime crisis.

Yet, just like the leasing market, macroeconomic parameters in Germany are still extremely good. For example, in the first quarter the GDP grew by 1.5% compared with the previous quarter, which is the strongest growth for 12 years! Even if early indicators such as, for example, incoming orders, show a different picture, the economic situation in Germany thus remains largely intact. This tallies with the sentiment of most citizens – at least outside the financial sector.

The leasing market, too, is developing extremely positively. In most major German cities, reports CBRE, office space turnover rose in the 1st quarter by more than 20% compared with the 1st quarter of the previous year. Vacancies are on the decline almost everywhere, and top rents are rising. Yet even in Frankfurt – the German city which is most dependent on the financial sector – office space turnover rose by 22.2%: only the vacancy rate in Frankfurt rose from 10.6 to 10.8%, but even there top rents saw an increase from EUR 34.90 to EUR 39.00. For coming quarters CBRE expects for the banking metropolis “a continuation of the positive trend in demand and thus a rise in office space turnover”. A positive outlook is also indicated for the other German metropolises.

In addition, at the current level – compared with government securities – real estate is not expensive. Since the majority of German real estate shares and REITs are listing below NAV, investors are presented with the opportunity to access real estate at considerably more favourable rates than with direct investments or other investment vehicles (such as real estate funds, for example).

With this edition we highlight, in addition to the peculiarities of the German real estate market (for example, the extremely far-reaching tenant protection legislation), the key points of German REITs in the international context as well as investment opportunities in German REITs and real estate shares.

Wishing you an enjoyable read,
 Christian Schiffmacher