

Notable downturn in German economy, but opportunities in the real estate market



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A year ago at this time, I wrote that the economic situation in Germany was still relatively stable. Only incoming orders betrayed a decline in GDP. Real estate companies were still profiting from a strong rental business, and office space turnover was growing robustly.

Since then, the situation has taken an about-face. Economists are now projecting a 6% slump in GDP for 2009. As in nearly all other Western industrialized nations, this is by far the largest economic downturn since the Second World War. And, of course, the negative economic conditions are also affecting real estate companies – especially those active in the commercial sector.

Even so, the German housing market has remained quite stable. Germany, unlike other European countries, did not see a residential upswing in recent years. There have only been insignificant price increases since the 1980s, and new building developments have been leveling out at historical lows.

Despite the talk of a mild drop in prices in some regions and segments, the residential housing market in Germany remains fully intact. As proof, a whole series of housing funds have been floated in recent months. These funds are offering payouts of 4-5%, which seems relatively interesting when compared to government securities.

What investors are looking for in these unstable times are stable investments. It should be clear that I am talking about real estate investment companies. This, however, is precisely what the Germany equity market is lacking: solid financed real estate investment companies in the housing sector. Until now, investors – especially foreign institutional investors – were more interested in companies that dealt with residential portfolios (even in bad locations) and private residential properties – and these preferably with high leverage. Such business models have since lost all interest. Many players in the German market had never really understood anyway what all the fuss over these models was about. We can only hope that in the medium term, solid real estate investment companies will find their way into the capital markets.

Wishing you an enjoyable read,
Christian Schiffmacher