

Family Office Insights

Opportunities in the German Real Estate Market for Family Office Investors

Investments in German real estate, in particular, in office and residential buildings, are increasingly popular amongst family offices and other ultra-high-net-worth investors. Family offices have always been an inherent part of real estate investors in Germany and their current demand of participating in the real estate market remains strong. Property prices of key locations in Germany are on the rise and Germany is attracting a large amount of foreign and domestic investors looking for good quality, high yielding property. Many cities are experiencing a sharp increase in population but lack the space for expansion of residential property, which leads to a rise of rental and property prices.

While continents such as the Americas have seen real estate growth across the board, Europe is a very mixed region in terms of real estate performance. In times of looking for a safe haven in the event of financial crises, ultra-low mortgage rates and stock market uncertainty, especially Germany, takes the lead in attracting European and international investors. As the largest and most stable European economy, Germany offers investors a reliable financial, political, legal and geographic environment, making it the most attractive and highest-turnover investment market in the Eurozone. One of the lowest joblessness rates in Europe, a GDP growth of 1.9%, rising population and employment figures, the migration crisis, extremely healthy consumption and an excellently qualified workforce are guarantees for lastingly successful real estate markets. These positive framework conditions initially drew a number of real estate investment pioneers from overseas and established a trend. Real estate products are being sourced and marketed extensively, especially in the big cities like Berlin, Frankfurt and Munich. Access to products has become easier since the transparency of the German real estate market, and the market has increased greatly due to the high proportion of international investors.

For most family offices, capital preservation ranks first among the primary objectives in investment decisions. At the same time, today's low-interest environment requires taking higher risks to achieve consistent returns. Therefore, it is valid to take real estate investments in Germany into consideration as highly secure but still dynamic assets in a diverse asset allocation.

The risk-adjusted returns of German real estate investments show attractive alternatives compared to, for example, government bonds. With Prime office rents in Germany still significantly lower than those in central London or central Paris, there is room for rental profits for long-term investors entering the German market. This upside potential also applies for the German residential property market and provides a very stable cash flow for investors, combined with the low risk profile in Germany in general. Considering the high occupancy rate, rising rents in residential properties in Germany's big cities, and the still relatively low cost of living for residents show that the potential is far from exhausted.

The German real estate market offers investors low volatility, which contrasts with, for example, London or Paris, with far greater yield variance. It provides price stability and is – thanks to a diversified and strong economy – perceived as more likely to weather a recession. Furthermore, German real estate is known for its generally good building substance and high quality of service providers and execution of construction.

In general, there are no limitations on the acquisition of property in Germany by foreign investors. The range of investor groups active in Germany is broad and high asset liquidity facilitates smooth entry and exit for investors. Local banks are offering 100% plus mortgages to German-based investors and around 80% to non-domestic investors.

Apart from direct investments, it is also popular for family offices to co-invest. A co-investment strategy allows a family office that is not prepared to make direct investments on its own to achieve the potential of a higher return that it might realize from investing solely through funds as a limited partner. Investing in property funds on the other hand can help to spread risk and to realize bigger volumes for better cost structure. Roundtrip transaction costs amount to 9% - 16% of the purchase price.

Germany offers interesting tax incentives for investors buying residential property to let. Most input costs can be written down either in the year created or over a number of years against rental income. This can include the interest on a loan attached to the property as well as notary, estate agent or management fees. There is also a large incentive in the form of a depreciation write down of 2% p.a. over 50 years on the purchase price of the physical property (not land) for properties built after 1924.

In principle, a foreign property holding company is not subject to trade tax if the property holding company is managed from abroad and does not have a permanent establishment (*Betriebsstätte*) in Germany. The resulting corporate income tax is comparatively low (at a rate of 15.82%) and does not necessarily occur in case of exits out of share deals. Any profit from the sale of a residential investment unit is tax-free, provided the property has been held for at least 10 years.¹

As an international law firm with three offices in Germany (Berlin, Frankfurt, Böblingen (Stuttgart)), we can outline key legal and technical facts family offices as investors need to know about German real estate property and property portfolios, including tax aspects.

In particular, our Berlin office offers extensive experience advising family office investors. Our clients benefit through local business and cultural connections in the German real estate market as well as from a deep understanding of the particularities the operative business of family offices may involve.

We would be happy to offer you guidance in your endeavors to maneuver in the German real estate market.

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¹ Please note that the above does not express any opinion as to any tax or tax related matters or can be construed as such.