



Brits buy homes, the Germans rent – which of us has got it right?

Germany seems to offer cheaper rents and more choice than the UK. But is the grass really grüner?

By Jon Palmer

Published in the Guardian, 19 March 2011



Flying the flag: The German property market is the envy of many.

Photograph: AFP/Getty Images/Johannes Eisele

First-time buyers in Britain are struggling. House prices remain high, mortgages are hard to come by, and deposits are difficult to find. Many are now renting until long into their 30s, but survey after survey suggests that homeownership is still the ultimate goal for a British family. Yet in Europe's most economically successful country, Germany, renting is the norm. Is the grass really grüner on the continent?

As the Germans like to say, "Jein" – or yes and no. For a start, renting is not necessarily the cheap option. In thriving cities like Hamburg, Cologne and Munich, tenants might be spending up to half their wages on rent. And the prospect of paying a landlord well into old age appeals to Germans no more than it does to the Brits.

"The interest in home ownership is certainly growing," says Dr Jan Linsin, head of research Germany at property services company CB Richard Ellis. But young Germans don't feel too

frustrated if they cannot get on the property ladder, whereas the Brits do. The difference in attitude reflects the difference in the housing markets – over the past 10 years UK residential property prices have nearly doubled, while in Germany they have risen a mere 2%-3%.

So what keeps prices down, and why don't more Germans buy? Firstly, there is the supply of good quality rental accommodation. According to CB Richard Ellis, German housing associations and municipal authorities hold about 12% of stock, private housing companies 10%, and property funds about 1%; the rest is held by private investors.

Regional variations are enormous – in Berlin, the rental property share is an incredible 90% of the total residential market, which obviously keeps prices down; even in prosperous Hamburg the rental market is nearly 80%. But in other states like Saarland and Rhineland-Palatinate, homeownership is almost 60%, the highest in Germany.

Secondly, the Germans keep the purse strings tight. Stringent lending requirements ensure there isn't an oversupply of housing finance available – lenders are risk-averse and normally require a deposit of 20% or substantial collateral, and proof of good earnings over several years, which for many would-be buyers is impossible.

Germany's tax regime is not particularly favourable for property owners either. It is highly likely the Grunderwerbsteuer (property transfer tax) will soon rise to about 5% in many states – an average increase of about 1% – and Grundsteuer (annual land tax) is also expected to follow suit – it is currently about 1.3% of the value of single-residential properties. And while there used to be Eigenheimzulage (mortgage relief) worth up to £1,000 a year, plus a further £680 per child for the first eight years following a house purchase, it was dropped in 2006.

So how does renting work out in practice in Germany? We compared renting and buying in London with Munich, which is easily the most expensive city and the closest Germany has to London.

Despite having a population of only 1.34 million, Munich is home to commercial powerhouses like Siemens, Allianz and BMW, several leading universities and institutes, and numerous high-tech firms.

Heike and Steffen Hengstler and their eight-year-old son Leon live in a decent-sized two-bedroom flat (105 square metres) in a prime location – just two minutes' walk from the fast-flowing Isar, five minutes from the prestigious Deutsches museum and 10 minutes from Marienplatz, the heart of the city. The closest equivalent in the UK would be London's Bayswater, with Hyde Park and Marble Arch just half a mile or so away.

The Hengstler's rent is £1,170, including bills totalling £200; the same kind of accommodation in Bayswater would cost about £2,000 a month, bills included, so you can understand why the Hengstlers are smiling: renting is about £830 a month cheaper than here. If they were to buy a similar property in Munich it would cost them perhaps more than many British people assume to be the average in Germany.

In Munich, a two-bed centrally-located flat would fetch around £400,000. Assuming the Hengstlers paid 25% in cash, the repayment mortgage over 20 years at an assumed rate of 4% would be around £1,800 a month, plus £200 for bills – so renting saves them about £1,400 a month.

So while the grass in Germany is definitely a shade or two greener, it is not as verdant as you might have thought. The fact is that wherever you are, you don't want to be paying rent in your retirement. Although Germany is better value than the UK, buying property is still out of the reach of most.

The grim reality of today's property markets – whether it is Munich or London – is that most young people cannot get on the property ladder without parental help or inheriting.

Where tenants get a better deal

Heike Hengstler rented in London for a few years before moving to Munich where she works as a freelance graphic designer. She and husband Steffen, who has his own web-design firm, rent a generous, two-bed apartment in the centre of Munich.

Heike also has a flat in her hometown of Hamburg that she lets out, and one in Munich. She has no doubts that Germany offers tenants a better deal than the UK: "There's more to rent here and it's all very transparent. You can check if your rent is fair using the Mietspiegel [rental index] on the Munich city website. If you are paying too much, the tenants' association will step in for you."

Rents are tightly controlled and cannot normally be increased by more than 20% nominally over three years. Unlimited contracts are standard and tenants, if given notice, can demand continuation.

Deposits are normally for three months and must be repaid with interest on moving out. Agents normally take a two-month fee, although many landlords let directly.

Property is normally freshly decorated in white before tenants move in, and must be repainted when they leave.

"Because tenants rent in the long term, they may do some renovating. Sometimes the incoming tenants might have to pay extra towards them as a condition of taking over the flat – and that can run to a few thousand euros," Heike says.

But tenants get a "pretty good deal" compared with Britain, she says. "It's easier and cheaper for young people to get a place to live and to move about, but in the long term no one wants to be paying rent here either."

Ownership isn't an obsession

One reason why the Germans aren't as obsessed with homeownership as the Brits is that it has been many years since Germany has experienced a house price bubble.

Unlike most of the rest of Europe it didn't enjoy a housing boom during the past decade. In fact, real house prices have fallen since the mid-1990s, says the Rics European Housing Review 2011, an authoritative annual study of Europe's property markets.

"With long-term falling house prices, it is unsurprising that there hasn't been a rush towards owner-occupation over the past decades, because of the potential capital losses from purchase," the report states .

But things are looking up: German house prices rose by around 4% in 2010, compared to a decline of 2% the previous year, and a separate study from website Rightmove and currency

firm Moneycorp says Germany is rising up the ranks of popular countries for Britons looking to buy overseas homes.

The Rics report says it is "misleading to classify Germany simply as a nation of renters", though it acknowledges the country has the highest proportion of people renting in the EU. Latest data shows the homeownership rate stable at around 42% – though it is just 20% in Hamburg. **Rupert Jones**