

## Home sweet home is a rented property for many Germans Germany has avoided British-style property market bubbles

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**It takes a while for a British visitor window-shopping in any German town to realise that something is missing. But then it clicks: someone has removed all the estate agents.**

The lack of a physical presence on the high street is symbolic of two polarised national psyches. Britain is fixated by the property market; Germany is not. The Brits want to clamber on the housing ladder at the first opportunity; Germans are happy to rent.

Britain has had four boom-and-busts in the housing market in the past four decades; German house prices are actually lower in real terms than they were in 1970.

According to the Paris-based Organisation for Economic Co-operation and Development, house prices increased by an average of 83% between 1970 and 2008 in OECD countries. In Germany, they fell 17%, mainly due to a pronounced drop over the past decade when countries such as the United States, Britain and Ireland saw huge house-price bubbles. Prices in the UK surged by 282% between 1970 and 2009, the latest OECD figures show. For Germans, the financial crisis that followed the property boom has reinforced their suspicion of rising house prices.



Berlin, Alexanderplatz. Photo: Magnus Hammar, IUT

The idea that families would sit around the dinner table discussing how much their home had risen in value over the past year is alien.

Arguably, the tenant is "king" in Germany, enjoying far greater rights and protection from poor landlords, as well as the freedom to decorate their homes (although you have to repaint the walls "in neutral colours" before you leave a property).

Eviction is virtually unheard of, and both sides have to give each other three months' notice. For the landlord, this rises to six months once the tenant has stayed in the property for five years, and nine months after an eight-year rental.

With less stigma attached to renting than in Britain, just 45% of homes in Germany are owner-occupied, one of the lowest rates in Europe. This compares with 70% in the UK, 85% in Spain and 75% in Ireland, according to figures from Nomura.

There are also big regional differences among. In the west German states, the share is a good deal higher (around 60%) while the east German Bundeslaender have a share of around 13%. Berlin has a share of 15%.

"Germany as a whole is low but part of that reflects low rates in the east which I suspect is a legacy from the DDR period," says Jens Sondergaard, senior European economist at Nomura.

Other reasons include the difficulty to get mortgages – you need a large deposit – and the national reluctance to borrow. Few people would use their credit cards to go shopping; they either use their eurocheque cards which give them three days until the money leaves their accounts, or take advantage of 0% finance offers for bigger purchases.

Those who rent tend to treat the property as a real home, decorating it and doing far more of the maintenance themselves than a tenant would in Britain. On average, a tenant spends three to seven years in one property, much longer than in other countries.

In rural areas, however, many people build their own homes. Klaus Mandel, of the regional body of Heilbronn-Franken in the south-west, says 70% of people in the countryside have constructed their own homes.

There is no sign that Germany will contract the British housing "disease". The OECD cites high subsidies for the building of homes, which contributed to a rise in supply, especially after reunification, leading to a flood of properties on to the market in the mid-1990s.

Low population growth is another factor. And whereas mortgage rules were relaxed elsewhere in the 1980s and 90s – with Britain allowing 95% mortgages – Germany has stuck to strict requirements on things such as the loan-to-value ratio.

Despite the big drop in house prices since the 1990s, Alexander Koch, of UniCredit in Munich, reckons that German properties are now "only moderately undervalued" compared with household incomes and construction prices.

"The historically low level of building permits should, overall, not produce a supply bottleneck, since the population in the age group when a household is established has already been declining for several years now," says Koch.

He adds: "Overall and despite the general increase in the appeal of residential real estate, we expect no nationwide house price rally, merely a moderate nominal price increase, with greater potential in economically strong regions" such as Munich, Stuttgart, Wiesbaden, Frankfurt and Düsseldorf. Berlin, the German capital, is by no means the most expensive city; it is somewhere in the middle between Munich, the priciest, and Rostock, Schwerin and Bremerhaven, the cheapest, according to a comparison by UniCredit.