

OFF THE BEATEN TRACK

By Thorsten Wolf, SIOR

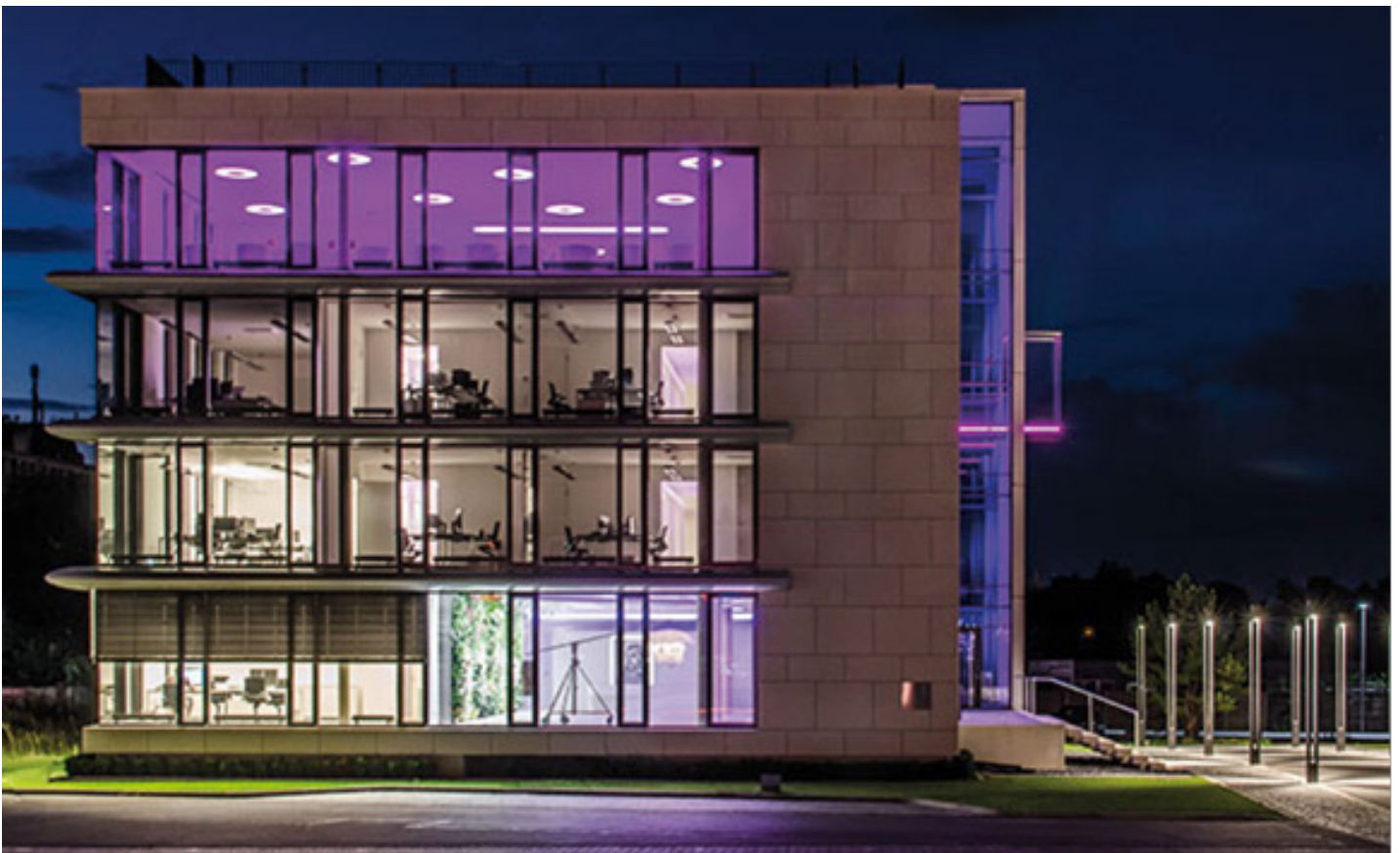
Those interested in advising clients about entering the German commercial real estate space may still face the same issues in 2015 as in previous years.

The initial yields for investment properties across all asset classes are expected to decline, rents for occupiers will continue to rise, and vacancy levels, especially in light industrial and logistic properties, may reach an all-time low.

The European Central Bank (ECB), led by the Italian Mario Draghi, a former Goldman Sachs Investment Banker, is continuing its expansionary monetary policy this year, despite warnings that this may undermine the Pan European efforts to consolidate public finances and improve the competitiveness of the Pan European's, somewhat sluggish economy. The ECB has initiated a major program for the purchase of securities, mainly including government bonds. This program has triggered a further drop in interest rates of government bonds.

It has overcome strong opposition, as each European National Central Bank will be largely responsible for buying its own country's bonds—and for bearing any losses.

Nonetheless, as Europe's most resilient and biggest economy, Germany is profiting from these recent developments as capital inflow and investment will further increase. Even more money will be reallocated into real estate in all asset classes in 2015. The non-core segment, which has not been in the focus of the non-German investor, will shift even more into focus than in previous years, putting more strain on investment yields and shorten, or even dry up, supply for products such as logistic properties or offices. Therefore, I would advise my fellow SIORs to encourage their clients to look off the beaten track of the seven major business centers in the country: Berlin, Düsseldorf, Frankfurt, Hamburg, Cologne, Munich, and Stuttgart.





In Germany, next to the “big seven,” there are at least 13 other cities that are worth taking a closer look at (See table below).

Attractive cities with a solid manufacturing and service base, such as Bremen or Bielefeld, or cities with highly successful universities with a centuries-spanning background such as Leipzig (founded in 1409) or Munster (founded in 1808) have a distinctive advantage compared to the bigger top seven metropolises. Firstly, there is less competition. Secondly, hardly any speculative investment takes place, which leads to less volatility in the commercial real estate market.

However, there is a downside to this: If you have made a decision to stay in a secondary market the time to get out may take considerably longer than in the other markets. If your client has an opportunistic approach (this is more

the exception than the rule), an even closer look is needed – some secondary tier cities have a distinctively higher transaction rate than others. But even markets that have

It is important when dealing with German market players in any asset class to remember the following general guidelines:

The German culture, although we mostly follow the same value system, differs enormously from the American way of life. For example, in the U.S. the word “no” is rarely used, whereas in Germany it is certainly a favorite. Germans are obsessed with details, but in the U.S., hardly anyone is concerned with them as the bigger picture and the result seem more important.

One of the biggest challenges is the Germany’s obsession with unfiltered honesty, which very often is perceived as rude, but is in fact deeply rooted in the German culture. It is uncommon to describe a number of positive things and then incorporate one, or at-most two, negative aspects - but always with a more optimistic conclusion. This is perceived as “small talk,” and a waste of valuable time.

What’s interesting is the different approach to dealing with ideas and projects. In the U.S. the goal is usually in the form of a vision. The major consideration is how the goal can be reached as quickly as possible. However, details are hardly asked for; you just do it and watch what happens. In this sense, the Americans appear as “doers.” In Germany all relevant information is gathered first and merged to draw a hopefully clear picture of what lies ahead. When interacting with U.S. clients I quickly had to learn that the starting point is a different vision that realizing this as fast as possible after an evaluation was beneficial.

Despite all the cultural differences, here is good news on both sides of the Atlantic: In Germany there is no such thing as London in the U.K. or Paris in France.

City	Inhabitants	State
Berlin	3.375.222	Berlin
Hamburg	1.734.272	Hamburg
Munich	1.388.308	Bavaria
Cologne	1.024.373	North Rhine-Westphalia
Frankfurt am Main	687.775	Hesse
Stuttgart	597.939	Baden-Wuerttemberg
Dusseldorf	593.682	North Rhine-Westphalia
Dortmund	572.087	North Rhine-Westphalia
Essen	566.862	North Rhine-Westphalia
Bremen	546.451	Bremen
Dresden	525.105	Saxony
Leipzig	520.838	Saxony
Hannover	514.137	Lower Saxony
Nuremberg	495.121	Bavaria
Duisburg	486.816	North Rhine-Westphalia
Bochum	362.213	North Rhine-Westphalia
Wuppertal	342.885	North Rhine-Westphalia
Bielefeld	328.314	North Rhine-Westphalia
Bonn	309.869	North Rhine-Westphalia
Munster	296.599	North Rhine-Westphalia

seen non-German market activity before the turn of the millennium are attractive. As an example, I have picked a city at the bottom of the national league table, Bielefeld (No. 18) with 323.000 inhabitants, which is similar to St. Louis, Miss., or Pittsburgh, Pa. For years, conspiracy theorists have been spreading the rumor that Bielefeld only exists as a concept of the imagination – the absolute contrary is the case:

In January the Westphalian metropolis made the headlines of the European Real Estate Press: A dated inner city retail property will be converted into a modern center with 100 shops on 26,000 m². Currently there are only 44 retail units. The Bielefeld Council had issued a positive outline planning permission for the project during the summer. In the summer of next year construction work will start and around 120 million euros are allocated for the project. In the spring of 2017 the opening is planned (source Immobilien Zeitung).

In the past decade, I have advised clients to take a closer look at Bielefeld for various reasons:

- The city of Bielefeld has one of the highest economic growth rates in Germany.
- Companies which are leaders in their fields such as Dr. Oetker (Food), Dürkopp (Trolley and Split Systems), DMG Mori Seiki (Machines), Schüco (Window and Door systems), Goldbeck (Construction of prefabricated Industrial and Light Industrial Buildings), JAB Anstoetz and Alcina have their Headquarters here.
- Bielefeld was, until recently, one of the biggest bases for the BFG (British Forces Germany), resulting in an understanding and speaking of the English language above the German par.

The author, an enthusiastic SIOR since 2007, has been working with SIORs from the U.S. and the European Regional Chapter in all market conditions but even before Lehmann collapsed such an influx of Capital being poured into the German Real Estate Market seemed not a realistic scenario. The more so this applies for the Non German Investors leaving the Safe Haven of the big cities, which is for everybody involved an even more challenging and mostly exciting undertaking. The author believes this trend will solidify as long as the monetary policies of the Eurozone persist. ■

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