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Why Berlin Is Europe's Best Place To Live, Work And Buy Real Estate

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There is a new buzz in the Berlin air. The grim, wounded city once cast adrift in the ocean of Communist Germany has now turned into a thriving global capital that draws investors, companies and a talented workforce from across the world.

“Economically, Berlin has finally started picking up, wages have increased significantly over the last year and unemployment is at a record low,” says Sebastian Fischer, managing director of realtors Engel & Völkers. “Furthermore, the city’s growing—there’s a forecast regarding population growth made by the city to 2025 and we are already above the most bullish scenario.”

A key reason the German capital is booming is that it offers great value to businesses. A study published last February by global real estate advisors Savills shows that the total co

Spectacular economic growth and great political stability are combining to make Berlin increasingly attractive to [+]

sts of renting office and living space are significantly lower in Berlin than in nearly every other leading world city, clocking in at just $28,400 per employee per year against $111,900 in New York, $105,400 in Hong Kong and $88,800 in London. Only Johannesburg and Rio de Janeiro are more affordable.

This is partly a consequence of Berlin's unique history: "The city was divided into a Western and Eastern part," notes Fischer. "The Eastern part was Communist and there was no property ownership. West Berlin was a capitalist enclave in Communist land so, for many people, it made no sense to own property at all. When the wall came down, Berlin was quickly rebuilt—a lot of tax incentives were [there] to move the city forward and build new apartments and office buildings—but it took a very long time for the people that were expected to come at the end of 1990 to actually come here."

Since then, both rents and real estate prices have been rising fast but, compared to other major capitals like Paris or London, "Berlin still has a lot to catch up," according to Oliver Blum, managing director of the local branch of international realtors John Taylor.

That said, competitive accommodation costs are only one factor driving the German capital's astounding success. As Yolande Barnes, director of World Research at Savills, points out, "the real test of whether a city is good value for occupiers lies in how productive an organisation can be in that city and how competitive a city is in attracting human capital to its job market"—and Berlin scores highly on both accounts.

The city has invested heavily in infrastructure and, today, "the general surroundings for a company wanting to settle somewhere in Europe are extremely good," according to Fischer. "You can drive from one side of the city to the other in 30 minutes, the public transport is excellent and the healthcare is very good."

But Berlin's greatest advantage is perhaps its vibrant atmosphere. A Savills study ranked the German capital first among the world's tech hubs for buzz and wellness, a liveability measure that covers everything from nightlife and entertainment to pollution levels, quality of the local parks and commuting times. The city's dynamic, entrepreneurial culture, its ten universities, the thriving tech, music and art industries, and a firm cosmopolitan feel are so appealing that the local population has continuously swelled for the past five years, with up to 40,000-50,000 people moving in every year.

"Berlin is very diverse and very exciting," says Fischer. "You can be whatever you want to be—it's very easy to feel at home here. Young people love it and—if you are a company—being sited in a place where people want to work, where they feel welcome and productive, really is a differentiation factor."

As an example, he quotes Deutsche Bank: "They moved part of their risk management from London to Berlin, very close to the technical universities, and are saying that they never get so many talented young people so cheaply anywhere else in Europe."

Google is another big-name company that has latched onto the German capital's potential. The Silicon Valley giant already funds Factory Berlin, a hub for growing tech start-ups and mature companies, and is planning to open its own campus in the fashionable Kreuzberg area later this year.

Google is set to open its campus in Berlin's fashionable Kreutzberg area / AFP / John MACDOUGALL (Photo credit [+]

"In the last five years, the start-up scene in Berlin has grown rapidly, giving rise to many successful companies, such EyeEm and GoEuro, and thus becoming a leading European ecosystem," the company stated in a blog post last November. "We are firmly convinced that the future will provide even more growth potential for entrepreneurs and we want to contribute our part."

Google's move is likely to accelerate the growth of the city's already buoyant tech sector. "Last year, more money was pushed into start-ups in Berlin than anywhere else in Europe—more than in London, more than in Paris," says Fischer. "Sometimes, the idea is born in, say, Switzerland, but the Swiss guy decides to move to Berlin because of the living costs or the infrastructure."

Germany's political stability and rock-solid economy have also played a part in drawing foreign businesses and supporting Berlin's economy. "The biggest beneficiary from the Eurozone and its low interest rates is Germany," says Blum. "It is a big export country and is happy when the euro is not too high. For companies, last year has been amazing. Germany is also extremely stable and we see a lot of people who want to invest here just for that—it's not only the yield attraction, it's the security of the country."

The UK's decision to leave the European Union, for example, has given Berlin a boost, according to Blum: "People in London were waiting to see what would happen but now that we are talking about a hard Brexit [where the UK is set to leave the single market as well as the EU] it looks like lots of companies may move to Berlin, unless Britain decides to put really low taxes."

This combination of spectacular economic growth and political stability has also contributed to fuel the local real estate market, with the German capital acquiring a reputation as a safe haven. "Berlin has become the 'go-to' investment destination because, on the one hand, it is a very safe environment in Europe's most economically successful country, and, on the other hand, you have very dynamic real-estate trends," says Fischer. "Three years ago, five years ago, it would have been impossible to find buyers for Berlin property in New York or Hong Kong. However, the political events of the last 12 months, be it Brexit, be it the Trump vote, which nobody really anticipated, have really put the city on the map."

An added incentive for many people is that Berlin currently has the lowest property ownership rate in Germany at just 14%. According to Anita Gaertner of Berlin Sotheby's International Realty, this makes rental investments particularly appealing: "Investors are snapping up properties to rent out." At the same time, owner-occupiers are also fuelling demand because they want to take advantage of the low interest rates and buy a home to avoid rising rents. As a result, continues Gaertner, "demand for residential property is now greater than ever."

One downside of the market's new vigour is that the German capital is beginning to see the first signs of affordability squeeze that are so common across many global cities. The income of the average Berliner, explains Fischer, hasn't increased as much as local real estate prices.

The city's inner circle, hemmed in by the main tram routes, has become particularly expensive, so people are moving further out—but now even some of the outer areas are starting to rise in value. "Young families may have to move 30 minutes from Berlin to get something adequate for their needs," notes Blum. However, he adds, the city has plenty of scope for expansion: "We have space in every direction. There are still a lot of areas where it is attractive to live."

The question, counters Fischer, is how quickly you can enable developers to build on those spaces. "Although people perceive Germans to be very organised and efficient, this is not the case when it comes to [building permits]. We need about 35,000 apartments every year and the planning authorities are lagging behind the high demand that we have."

That said, this opportunity to build more housing is one of the reasons that leads both Blum and Fischer to believe the Berlin market is sustainable in the long-term. Another is the country's solid approach to lending: "German banks have given healthy loans to property owners so we won't see in the future something like a weird credit crunch," says Blum. "The whole market is invested on a very healthy credit base."

The upcoming German elections are unlikely to affect the Berlin real estate market/ AFP PHOTO / John [+]

Nor do realtors think that Germany's upcoming election will have a significant impact on the local real estate sector: "It's really difficult to say who will win—it could be the Conservative Party (CDU), run by Angela Merkel, or the more left-wing social-democrat party (SPD), run by Martin Schulz, but neither is really radical," says Fischer. "Whatever happens, there will be moderate changes. [If Schulz wins] I do see a little bit of a danger for the real estate industry of things becoming over-regulated. However, Berlin already has a left-wing [administration] and investors and developers in the real estate market do not seem to be afraid."

Populist, anti-EU parties that could shake up Germany's economy and, consequently the real estate industry, are unlikely contenders for victory, according to Blum. "For sure there are these kinds of voices in Germany, but, no matter what happens, this party, Alliance für Deutschland, won't be strong enough to win the election."

In his view, the single biggest issue that could affect Berlin's real estate market in coming months is interest rates, which they have thus far remained very low despite continuing speculations of an imminent hike. "As long as [European Central Bank President] Mario Draghi leaves interest rates so low, the music is still playing," says Blum. "If the European Central Bank moves to increase them, we'll see another big run so that everybody catches the train, then maybe we'll see the market consolidate. However, at the moment, whether it is office buildings, retail space or residential, it's booming, booming, booming."

Sotheby's International Realty's Gaertner agrees that activity will remain strong, particularly for high-quality new buildings, and identifies the metropolitan region of Berlin as having the best prospects for an increase in value.

Fischer, on the other hand, believes we'll see prices adjust naturally in the near future, with consolidation staggered for different price brackets. "I think that, in the middle [bracket], prices will grow, although not at the same speed as they used to. At the top end, I'm not so convinced, because there is much more inventory coming onto the market, so the pressure is not as strong. I think those prices will be flattening for a year or two and only top product will convince buyers at top prices."

He sees this as a sign of the Berlin market having matured: "It has really grown up. It's very liquid, very secure and transparent, with property prices that are very stable or increasing—it's a very healthy environment to be in. Five years ago, Berlin was seen as an emerging city but now it really is a core market where people like to place their money, like to work, like to move their companies and like to be in."