



21.03.2016

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The buying dragon

Current status of the German real estate market and Chinese investments

“China shopping for German Real Estate” This headline could be on top of today’s newspapers. Last year Chinese real estate investments in Europe increased 22%, reaching EUR 8.5 billion. By 2020 China’s foreign outward investment is said to triple to almost 20 trillion US Dollars, of which 11% goes into real estateⁱ. This month, Ted Li, Head of EMEA China Desk at Cushman & Wakefield said that Chinese investment flows in Europe will focus particularly on Germany. Does Germany now have to fear and prepare for a buying dragon scenario in their real estate market?

China’s real estate market

With apartments in Shanghai currently selling for 80.000 Yuan/m²ⁱⁱ (11088 Euro/m²), Chinese real estate investors are looking to Germany for investment solutions. Competition in China’s 1st and 2nd tier cities is fierce and prices are high. Since 2014 the Chinese government has lowered its interest rates six timesⁱⁱⁱ. Presently, demand and construction in 3rd and 4th tier cities dropped, but China’s top-tier cities like Shanghai remain popular. The Chinese government has enforced laws to limit the acquisition of 2nd and 3rd properties. Real estate is not to be sold within 5 years and high taxes are

imposed on resellers. In some regions, houses may only be purchased by the future resident. In the Chinese mindset, however, the purchase of a property is not just for living in it. A property is a basic investment; it is a necessity for marriage and parents, who already buy apartments for their children in advance.

Bloomberg reports Shanghai's home prices have risen 18% last year and Shenzhen's even 52%, which prompts the question of China's housing bubble. Some remain confident that the Chinese government will implement supportive monetary policies to help the property sector. Others fear that the bubble will burst, since prices in Shanghai rose 2.7% in December 2015, the most since 2013, and continue with 2.2% in January this year^{iv}. The Chinese Academy of Social Sciences (CASS) think tanks reported that within 1,5 years the prices in some cities could drop drastically. In light of such forecasts many see 'going global' as risk spreading, investing in stable markets abroad.

Why Germany

Germany is a reliable target for Chinese. In 2013 the CASS declared Germany as one of the safest countries to invest in for China, because of its high GDP, good infrastructure, low risk and high innovation levels^v. In light of recent terrorist acts in Europe, this has not changed as Germany ranks 2nd place for 'Most stable and secure countries for real estate investments' in 2016, just behind the US, holding its place from 2015^{vi}.

Additional to a welcoming clean environment, no pollution, picturesque landscapes and architecture, Chinese are drawn to Germany for its cheap prices. High turnover is the aim of any investment. Whilst German real estate prices have been increasing, compared to prices in London and Paris, German properties are a bargain. Inviting profit chances also come from the Sino-German Double Tax Treaty, which entered into force in 2014, offering opportunities to optimize the tax structure of Chinese investments, e.g. by lowering the tax burden for higher yield returns. Further favorable is the depreciative trend of the Yuan against the Euro, which has encouraged Chinese investors over years to invest in Europe.

For Chinese, Germany is in the top 10 of countries to study abroad^{vii}. Berlin and Munich are in the top 5 of most attractive real estate locations in Europe. The respective universities rank on the 41st place (Humboldt-Universität Berlin) and 35th place (Ludwig-Maximilians-Universität München)^{viii}. High competition at Chinese universities often leads to students taking on a study that they didn't choose, a study abroad enables them to enroll in their desired major. In their new five-year plan the central government plans on increasing enrollment of students from rural areas into key colleges – adding to the university admission scramble. This aspect in the combination of low costs and German prestigious universities attracted the currently 28.000 Chinese students studying in Germany. Chinese are the biggest international group of students in Germany and is expected to rise 3% annually^{ix}. From Germany's property sector point of view, Germany as academic magnet is beneficial, because many Chinese parents are quick to acquire an own apartment for their children studying abroad, as the same apartment would costs double or triple as much in Beijing or Shanghai, expanding demand for real estate services. 20% of the students also hope that their study in Germany will increase their chances of a career in Germany^x. Students, who continue to work, contribute to demand increase in real estate and thus

further German economic growth. Chinese buyers and investors are in this way intensifying economic relationship, because their engagement in terms of investment and property buys ties up capital in Germany.

Challenges & Solutions

Chinese investors and buyers have encountered three main challenges, when entering the German market. Firstly, even in a digital age, the geographical distance between Germany and China is root cause for threats to successful business. Secondly, most Chinese investors or individual buyers do not have the required network in Germany and often do not know where to start. Brokers and brokers specialized on Chinese customers however facilitate on the market. Thirdly, cultural problems and different standards, e.g. regarding environmental protection and in reaching agreements. These challenges hinder Chinese investments and some Chinese to buy German property^{xi}.

Following the trend of Chinese investments into German properties, German brokers have begun to facilitate a start into the German economy. They are providing specialized services for Chinese customers. Special brokers not only know the German market, for example the best locations in Germany or how to make the most of the Sino-German Double Tax Treaty, but also Chinese expectations. Unlike other countries, the acquisition of a German property does not equal the right to stay. Visa procurements at the German embassy are elaborate and tedious, but a property purchase opts no solution. Chinese also have different standards when it comes to real estate. Specialized service providers also know the importance of Feng Shui. According to Feng Shui, a Chinese harmonizing environment philosophy, the architecture of a house is significant and can differ from German requirements. The Chinese front door should for example face the West and the street, to bring luck to the inhabitants.

Outlook

The decrease of vacant properties in big German cities is expected to continue. With this outlook, Germany will hold its position as reliable investment country for real estate. Chinese investments and buys in the property sector a likely to increase as the worry of the Chinese housing bubble and the uncertainty of Chinas economic stability and development grows. Risk spreading investments into the stable German house market are therefore likely. Also for other international investors investments make more sense than ever. Even though Europe is facing emergency situations, with Germany's strong position, this development will not influence the housing market. To Chinese who fret a real estate bubble in Germany experts provide relieving prospects: In Germany, even with increasing prices for properties, there is no sight of a real estate bubble. Green light for the German property market as risk spreading investment option.

However, if foreign investments are short-termed, and if the foreign market share becomes increasingly larger, the risk of volatility in German property sector increases. Germany has thus to watch the amount of foreign investments into real estate; though not just the Chinese share, but the combination of all foreign shares. Germany also needs to be aware of the investment's length of time. Whilst in the past foreign buyers did not trigger a sale surge, it is guaranteed for the future. To support long-term investments, Chinese students studying in Germany should for example be encouraged to search employment, limiting short-term stayers.

The buying dragon – German real estate and Chinese investments

To assist interested Chinese in coming to Germany, special brokers are playing a key role. The specialized intermediaries will limit miscommunication and the obstacles for Chinese to invest in the German property sector. Special address has to be given to cultural and legal differences. The existing brokers can build up on their relationship with Chinese business partners. The importance of relationships and trust within the Chinese nation cannot be underestimated. With time and an expanding intermediary-China network more Chinese can be expected to come and invest.

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