

REAL ESTATE

Real Estate Practice Group discuss property prices

By Dr. Reinhard Nacke

As in previous years, the Real Estate Practice Group once again met at the European Conference, which was held in Portugal. The debate between the ten attendees was extremely animated, with the development of property prices in different countries as the main discussion topic.

A study by two Swiss scientists on the subject was presented at the meeting. This identified a link between high national debt and property prices. To summarise, the thesis put forward in the study is that property buyers consider any specific future costs they

may incur when making their investment decision. For example, if the property is in an affluent district where tax revenue is in line with spending, then prices will remain stable or potentially rise if there is uncertainty. However, if a local district is burdened with high levels of debt, potential buyers will have to expect outgoings to be higher in future, as interest and loan obligations will have to be covered in addition to normal expenses. According to the study, investors will only be willing to take on board these added costs when buying property if the seller makes appropriate concessions on the asking price. This particularly

applies to countries that not only levy property tax, but also municipal surcharges based on income tax, such as Switzerland.

The scientific authors highlight that this price development does not just apply to local authorities, but also to countries. Those making investments in highly indebted countries should expect prices to remain at a low level until public budgets are consolidated and the cost burden placed on citizens also returns to normal, as demand will continue to be low. Depending on their level of optimism, investors may identify this as an opportunity or a risk. However, meet-



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ing attendees also identified a range of other factors that influence price. For some time now, there has been a clear international trend of movement from suburbs and surrounding areas into booming cities. This appears to be in consequence of cities increasingly recognising over the last few decades that they need to eliminate the factors that are detrimental to living environments and conversely, also ensure positive features are present in



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these areas. For example, traffic and therefore noise has been significantly reduced in many cities, as has air pollution caused by vehicle fumes and heating. In addition, many municipalities have successfully improved the appearance of urban green spaces and their connections, as a result of which it is now quite common to live in a “green area” at the heart of the city.

The meeting also explored the benefit of appreciating and understanding these correlations to lawyers, accountants, tax advisors and corporate consultants. Clients expect lawyers to have knowledge of property law and tax advisors to be au fait with property taxation. However, there is a competitive advantage for consultants if they are also able to offer guidance beyond this.

To underline the expertise of GGI real estate lawyers in this field, the topic of “prices” will be a central feature in the latest issue of FYI, a publication targeted directly at clients and potential clients of GGI members.

A further key issue under discussion at the meeting was how the ac-

tivities of the Practice Group can help to successfully attract new clients. The decision was made to investigate whether GGI should attend real estate trade fairs, such as MIPIM in Cannes and EXPO Real in Munich, to appeal to clients and potential clients. To this end, a survey will be conducted among GGI members to determine the level of interest among firms in attending such events, preferences between EXPO Real and MIPIM and whether interested members would be prepared to cover any reasonable costs incurred as a result.

The decision was also made to amend and update the “International Real Estate Handbook” published by the Practice Group.

GGI Member firm
FPS Rechtsanwälte & Notare
 Law Firm
 Dusseldorf
 Germany
 Dr. Reinhard Nacke
 E: nacke@fps-law.de
 W: www.fps-law.de