

## Acquisition of real estate by non-residents in Germany

Non-residents' acquisition of German real estate has recently been a recurring central topic of public debate. This has led to the impression that non-residents have been buying more and more property, especially in urban centres. The cross-border acquisition of real estate is captured statistically in the German balance of payments. The available data do not support the assertion that buyers from other countries have stepped up their activities, however. Last year, non-resident owners<sup>1</sup> reduced their real estate portfolio by more than €0.8 billion net. Recorded purchases of €0.7 billion contrasted with sales of just under €1.6 billion. This means there was no qualitative change in the situation compared with the previous year. In 2011, too, sales outweighed purchases (by €0.1 billion).

This was not always the case in the past. From 2006 to 2008, non-residents bought real estate in Germany on a major scale. Acquisition peaked in 2007 at €8.6 billion net. This involved transactions that were small in number, but on a very large scale. This was due, for one thing, to the privatisation of public housing stocks. For another, this period saw the sale of one big retail enterprise's properties to a foreign asset management company. Within the same period, the 25 largest transactions alone accounted for almost two-thirds of the real estate acquired.

A look at the regional distribution of the (direct) buyers of real estate in Germany shows that most of them come from other countries in Europe. In this context, Luxembourg and the Netherlands traditionally play a significant role, not least as a result of transactions by the mutual funds and holding companies domiciled there. Lately, there has been a moderate rise in purchases, from Russia and China in particular. For some years now, investors from the United States have been selling more than they

have bought. For the United Kingdom and Denmark, this has been the case since 2008 and 2009 respectively.

All things considered, the volume of cross-border real estate transactions recorded in the balance of payments has been rather small compared with the value of the stock of German real estate or the annual turnover of this sector. According to the overall balance sheet, the value of all real estate in Germany in 2011 amounted to €9.8 trillion,<sup>2</sup> and sales on the German property market at the end of the period under review amounted to roughly €148 billion.<sup>3</sup> The share of purchases by non-residents was therefore just under ½% in mathematical terms.

Caution is nevertheless warranted in interpreting this figure. Specifically, there are a number of points in connection with the recording of the balance of payments statistics that have to be taken into consideration. For example, the acquisition of real estate by a non-German citizen residing in Germany or by an enterprise located in Germany, which is itself in foreign ownership, is deemed to be a domestic transaction and is not entered into the balance of payments. Actual cross-border acquisition of property is indeed to be reported by the resident buyer or seller from an exemption limit of €12,500 upwards. Despite this low reporting threshold, however, purchases (and sales) of real estate by non-residents are

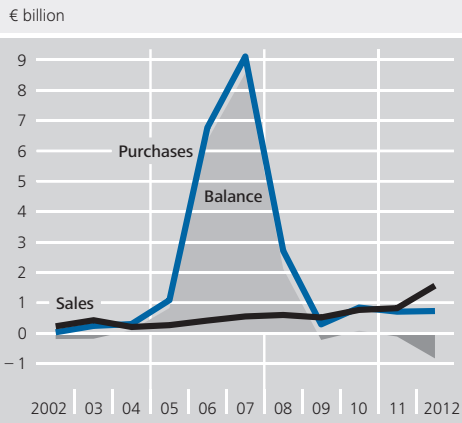
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<sup>1</sup> The deciding criterion, as in the balance of payments generally, is the buyer's or seller's place of residence or where the enterprise is officially registered, not their nationality.

<sup>2</sup> Residential property, public and commercial real estate as well as building land.

<sup>3</sup> According to data from the report on the real estate market in 2011 by the working group of senior committees of surveyors in the Federal Republic of Germany. See Arbeitskreis der Gutachterausschüsse und Oberen Gutachterausschüsse in der Bundesrepublik Deutschland, Immobilienmarktbericht 2011 (available in German only). The data on sales relate to 2010.

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probably underreported in the data as the agencies responsible for collecting the data are scarcely able to identify instances of failure to submit a report, especially in the case of resident private individuals. As a rule, the Bundesbank is able to ascertain failure to comply with the reporting requirement only

in the case of large-scale transactions (by means of press analyses), while conducting separate examinations of the business activity of large reporting bodies (banks, mutual funds, insurers) or in the context of plausibility studies (comparing rent payments to non-residents with the reported purchases). For any additional measures to improve data quality, the Bundesbank is reliant upon the voluntary cooperation of others. To close the reporting gaps, it would be helpful if fulfilment of the reporting requirement could be made part of the notarised documentation process, for example.

Against this background, the now currently available data on non-residents' purchases and sales of domestic real estate for 2012, as well of those of the past few years, should be regarded as the lower limit for the transactions that actually took place.