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Deutscher
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Leaseholds in the Residential Market

As seen by freeholders and investors

Published March 2020



More transparency

for leaseholds in the residential market

Last year's centenary of the German leaseholds resonated strongly with the public. For one thing, the centenary served as an occasion for events and publications. Leaseholds were also described as "saviours" to relieve the shortage of affordable housing or to prevent speculation in land. Leaseholds are also attracting increasing interest from investors as an alternative strategy to the low yields on the property market.

Despite the centenary and the discussions, it would seem that the reality and the dynamics of the leaseholds market are not sufficiently transparent. Questions arise such as: what durations are marketable; what ground rents are normal in the market; and what are the criteria for setting them? Little detail is known as to whether general market trends have led to a change in the terms of leaseholds contracts, and in particular what investors think of them.

This study of leaseholds in the German residential market is intended to increase transparency. After a brief introduction and a description of the value drivers for leaseholds, we shall present two perspectives on them. One is the viewpoint of freeholders whom we asked in a survey to tell us about what they see as the usual contract parameters. More than 110 representatives of freeholders from across Germany took part in the survey. Their answers have substantially improved our knowledge of the usual levels of ground rents, durations and compensation provisions in today's contracts. A further element consisted of qualitative interviews with selected private-sector investors and residential developers to identify their perspectives as freeholders on the subject of leaseholds. We shall highlight the pros and cons when deciding on an investment and provide an answer to the question

of what constitutes an attractive leaseholds contract from an investor's perspective.

This study has been produced in collaboration between the German Leaseholds Association (Deutscher Erbbau-rechtsverband e. V.) and JLL. It is intended as guide for anyone granting, taking out or evaluating residential leaseholds. We are therefore very pleased that the results of this study are based on a broad range of data.

About the German Leaseholds Association:

The German Leaseholds Association was established in 2013. It is made up of well-known freeholders who represent a substantial proportion of space over which leaseholds have been created across Germany, and also service providers in the industry. The German Leaseholds Association represents the interests of freeholders in Germany vis-à-vis public authorities, the media, politicians and regulators, and sees itself as a universal point of contact on issues relating to leaseholds. It is independent, politically neutral and non-profit-making. The President of the Association is Hans Christian Biallas. Its Managing Director is Dr Matthias Nagel.

www.erbbaurechtsverband.de



Leaseholds *in general*

When housing is in short supply, and its affordability and the steady rise in housebuilding costs are coming under scrutiny, attention is returning to a market previously dominated by church and municipal institutions and foundations. There is a shortage of building land, particularly in the conurbations. The result is rising land prices. Against the background of the current market environment, city, town and municipal authorities are increasingly having recourse to the leaseholds as an instrument of housing policy. When allocating municipal housing land, many councils are discussing prioritising the granting of leaseholds over sales, and some now have specific plans to do so. At the same time, property companies and institutional investors are increasing their presence as freeholders or leaseholders.

What are the special features of the leaseholds? For a limited and freely negotiable duration (usually between 30 and 99 years), a landowner makes his land available either for use or for development. The leaseholder is granted a right to use the land in return for payment of a ground rent, usually annually. The amount of the ground rent can be negotiated freely between the parties. The ground rent is usually determined on the basis of the land value; the percentage is often higher for commercial leaseholds than for residential properties. The durations are also usually longer in the case of residential use. The leaseholder is placed in

a position equivalent to an owner and, depending on the structure of the leaseholds contract, is granted full powers of disposal and decision-making in respect of the buildings, and can resell or mortgage the leaseholds and use the property himself or let it. The leaseholds will expire if it comes to an end through lapse of time, or it is not renewed. It can also come to an end earlier if the leaseholder breaches his contractual obligations (reversion). In either case, title to all the buildings passes to the freeholder, who also owns the land. The leaseholder may receive compensation for the building of a previously agreed sum. This is usually based on the market value determined in accordance with the Property Valuation Ordinance [Wertermittlungsverordnung (ImmoWertV)]. For social housing, there is a special provision governing compensation: there is a prescribed statutory minimum of at least two-thirds of the then current market value. To create a leaseholds, a notarised leaseholds contract is required, and it must then be registered in the land register so that the contractual terms are protected as rights in rem. Whilst the leaseholds is registered in the property register as a first-ranking encumbrance, a separate leaseholds register is created in which all rights and encumbrances equivalent to those in or over land are registered.

Historical development

In Germany, the leaseholds was rediscovered after the First World War, at a time when large numbers of people needed to be reintegrated and provided with housing. Since then, the Leaseholds Act has regulated the separate ownership of the land and the buildings which are otherwise usually owned together. The concept has been in existence since much earlier in Europe as one of the original forms of property ownership, particularly in Anglo-Saxon countries. In the United Kingdom, leasehold title is particularly widespread for historical reasons. According to estimates, around 5% of space in use is subject to leaseholds. The reason why residential use is predominant in leaseholds properties lies in the origin of the leaseholds. Its original purpose was to promote house-building by making it possible for lower-income households to own residential property and to limit speculation in land. In the 1950s and 1960s in particular, many German local authorities used it as an instrument to enable lower-income families to own their homes.

The contents of a leaseholds contract

A leaseholds contract contains, inter alia, terms governing the nature and extent of the rights of use, any requirements for approval by the freeholder to particular dispositions of the leaseholds (e.g. creation of encumbrances or sale), the duration of the leaseholds, the ground rent and the termination or winding-up of the leaseholds on expiry or reversion, e.g. a compensation clause. Index-linked inflation clauses have become established, pursuant to which the ground rent is adjusted to reflect changes in the Consumer Price Index at prescribed annual intervals. For residential properties, the law provides that indexation may take place every three years at most. Overall, there is less freedom on the financial and time-related content of a leaseholds contract for residential properties than for commercial properties.

Current developments in the allocation of municipal land

Many German cities such as Berlin, Hamburg, Cologne and Frankfurt/Main own leaseholds land and see the leaseholds as an appropriate means to strengthen the supply of housing by imposing long-term restrictions on use, to curb speculation and to exert sustainable long-term influence on urban development. Leaseholds are appearing increasingly in urban housing strategies and land policy decisions. Cities differ in the leaseholds models used when allocating land and in the approaches taken in their urban land policy. Some cities link the allocation of leaseholds land to conditions relating to housing policy or pre-emption rights in favour of the city.

Distribution and use of leaseholds for residential purposes in Germany's ten most populous cities

City	No. of Leaseholds	Ground Rent	Comments
Berlin	4,100 (total)	6.5% (commercial)	Increased use of leaseholds since 2016. 2018: Ground rents halved for co-operatives and non-profit associations for 20 years from the conclusion of the contract, in conjunction with certain conditions. Leaseholds contracts are concluded for up to 99 years.
Hamburg	4,400 (total) 4,100 (residential, of which 3,600 for apartment buildings)	1.8% (commercial) 1.5% (residential)	Since mid-2018, land for housing construction has usually been allocated by way of a leaseholds. At the end of 2019, the State Senate proposed changes to the framework. These include: <ul style="list-style-type: none"> • Indexation on early renewals linked to CPI (and not based on strong rises in land values) • Increase in compensation from 66% to 100% Due to falling interest rates, the ground rent was reduced from 1st January 2020. Leaseholds over residential land are granted for 75 years.
Munich	no data	2.5% (detached houses) 4.25% (apartments)	At the end of 2019, the governing party requested that municipal residential land be allocated exclusively by way of a leaseholds. There is an exception for co-operatives: there is a choice between purchase and a leaseholds in the case of conceptual rental housing construction ("Konzeptioneller Mietwohnungsbau"). Land for conceptual rental housing construction (apartments) will be allocated to private parties exclusively by way of leaseholds – basically for a single capital payment at the beginning of the term, which is for a duration of 60 years.
Cologne	257 (total) 161 (residential)	6% (privately financed housing) 2% (subsidised housing)	no data
Frankfurt am Main	4,500 (total, mainly residential)	2% or 2.5% (residential)	Since 2004, municipal land has been allocated exclusively by way of a leaseholds. When new contracts are concluded, a requirement is imposed that buildings are constructed to passive building standards. In future, at least 30% of the floor area will be required to be subsidised housing (+ ground rent reduced to 2% of guideline land value). Leaseholds are granted or renewed for a term of 99 years. Ground rents are adjusted to reflect the CPI every 5 years. Pre-emption right agreed in favour of the City on the conclusion of lease addenda. Compensation is 2/3 of market value.
Stuttgart	1,900 (total) 1,100 (residential)		Stuttgart has four small-scale residential areas held by way of leaseholds. On change of owner, the City checks the right to acquire using specified criteria.
Düsseldorf	450 (total) 200 (residential, very few apartment blocks)		Increased use of leaseholds when allocating land.
Dortmund	no data		Land is offered both for sale and for allocation by way of a leaseholds. Servicing charges are added to the purchase price/ground rent. Land is allocated without reference to social criteria.
Essen	700 (total) 600 (residential, mainly apartment blocks)		no data
Leipzig	5,527 (total)	4%	Pilot projects for affordable housing have been running since March 2017. Since August 2018, land for subsidised housing has been allocated exclusively by way of a leaseholds. The term is 99 years.

Sources: Local authority websites; local authority housing programmes; GEWOS Institute for Urban, Regional and Housing Research.



Drivers of value of leaseholds

Valuation Approaches for leaseholds

Using a simplified mathematical approach, the value of the site and the value of the leasehold would together add up to the value of the unencumbered property. In other words, the value of the leasehold would equal the value of the unencumbered property less the capitalized ground rent. However, this methodology does not reflect market practice because it takes no account of the use of the land by the leaseholder and any restrictions on use.

The valuation approach called “Münchener Verfahren“, developed by the real estate valuer Alfred Werth, has become the established market practice in the banking industry for valuing leaseholds. As a starting point, it is assumed that the title is an unencumbered freehold without any restriction of uses. Then, a total of four potential adjustments are applied to reflect the restrictions in a leasehold ownership in comparison to a classic freehold interest.

The adjustments are explained below and illustrated by way of a sample calculation.



Freehold
(building + site)



Discounts
(because of restrictions)



*Value of the
Leasehold*

Adjustments: Valuation Parameters and Assumptions

The adjustments are crucial to the value of a leasehold. The following are the essential valuation parameters and assumptions when determining them.

Duration and residual term of the leasehold contract

Context	Approach
<p>Durations vary depending on the use of the property. Whilst they are usually 99 years or more for residential properties, for commercial properties they vary between 30 and 99 years.</p> <p>Whilst a long duration can usually be considered as non-critical for financing purposes, a very short residual duration may affect the suitability of the property for refinancing and thus the loan conditions. Pfandbrief Act §13 para.2 stipulates that loans may be granted against the collateral of fixed-term rights only if the repayment of the debt or mortgage is scheduled to end no later than ten years before the expiry of the right, and it will not continue longer than is required for the accounting depreciation of the building according to financial principles. In practice, this means that leaseholds with a term of less than 20 years are not considered suitable for lending by most Pfandbrief banks, and so they are seen as hard to sell.</p>	<p>In valuation theory, the right to the freehold site is viewed as perpetual (indefinite). Due to the limited duration of the leasehold, the value of the land after the expiry of the leasehold contract is deducted from the building assuming a freehold ownership. This value is discounted to the valuation date over the remaining residual term of the leasehold.</p> <p>In simple terms, the longer the residual duration of the leasehold contract, the higher the value of the leasehold, as long as the level of the ground rent is at market level.</p>

Compensation clause upon expiry of the leasehold

Context	Approach
<p>If the right to the land and all the building thereon will revert to the freeholder upon expiry of the leasehold, the (former) leaseholder must normally be compensated for the buildings. The amount of the compensation depends on the terms of the leasehold contract.</p> <p>Whilst the compensation is freely negotiable for commercial buildings, for residential buildings it is limited by statute in some cases. Under Heritable Building Rights Act §27 para. 2, compensation in respect of a leaseholds intended to meet the housing needs of sections of the population of reduced means must be at least two-thirds of the market value of the building at the expiry of the leaseholds.</p>	<p>As a result, the residual value of the building for which no compensation is payable in future is deducted from the value of the building assuming a freehold ownership. The value is discounted back to the valuation date over the remaining residual duration of the leasehold.</p>

Other restrictions on disposition

Context	Approach
<p>This adjustment is made if – as is quite normal – the leasehold contract includes restrictions on disposition, such as restrictions on development, requirements for approval, pre-emption rights, requirements for consent etc. One of the most common examples of this is the requirement for the freeholder's consent to the sale of, or creation of an encumbrance (by way of land charges / mortgages) over, the leasehold. The reason for agreeing restrictions on disposition is to protect the freeholder against “unfair” dealings in the leasehold, e.g. a sale to criminals or creating land charges over it for many times its value.</p>	<p>It is difficult to generalise the adjustment required in respect of restrictions on disposition.</p> <p>In practice, deductions are applied at the valuer's discretion based on empirical evidence. The decisive factor is an assessment of the extent to which the restriction impairs the operation and marketability of the leasehold.</p> <p>The deduction adopted is normally a percentage of the total value (3%-10%) or of the land value (5%-50%).</p>

Amount of the ground rent

Context	Approach
<p>If the ground rent – which is freely negotiable – reflects local market conditions, in practice it will fall in a range between 2% and 6% of the land value of the property (depending on the use). For residential properties and commercial properties in prominent locations, the range can be reduced to 2%-4% of the land value.</p> <p>In many municipalities, the level of ground rent is used as a policy instrument to control urban development. There are also examples in practice where the freeholder entirely waives payment of a regular ground rent and receives an initial lump-sum payment instead.</p>	<p>The ground rent is capitalized over the residual term of the leasehold. The resulting cash value is deducted from the value of the freehold.</p>

Contract parameters

in residential leaseholds contracts – survey results

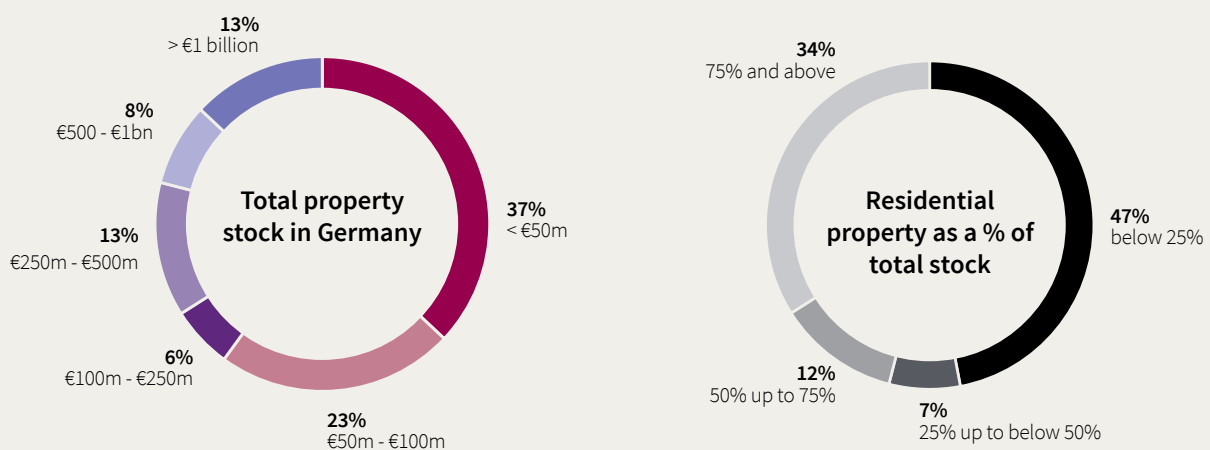
In papers on the subject of leaseholds, one often reads about the “usual amount” of a ground rent, or “typical” contract durations. A relatively broad range of figures is then given, such as 2% to 6% for the ground rent, or 30 to 99 years for the contract duration.

To obtain a more accurate picture of the usual terms of residential leaseholds in the German market, we carried out a survey of freeholders granting leaseholds in December 2019.

More than 110 representatives of predominantly state, local authority or church institutions responded. Private enterprises and private freeholders are also represented.

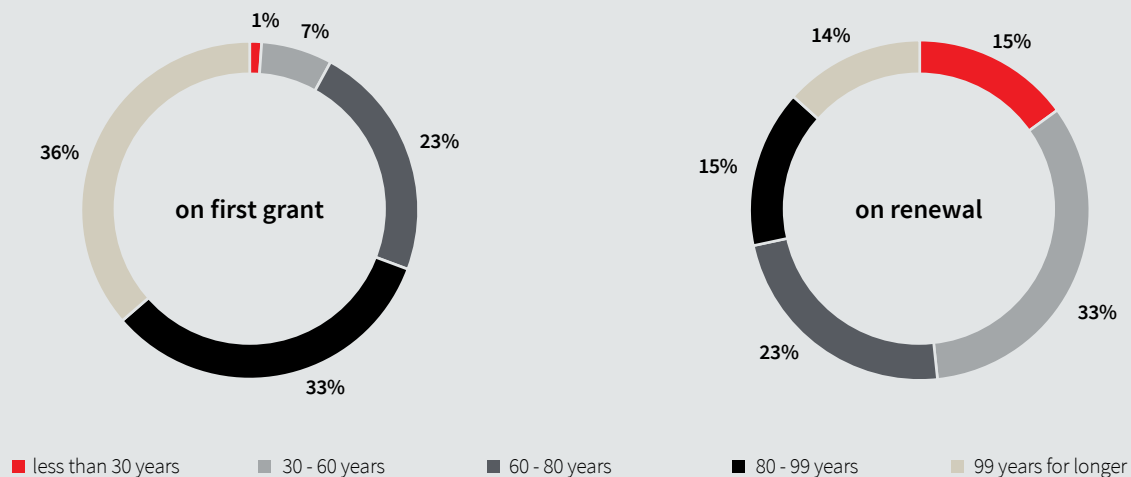
Our survey was not only focused on the ground rent and the duration; we also wanted to learn about details in relation to indexation, restrictions on disposal and compensation provisions.

Total property holdings of the survey respondents

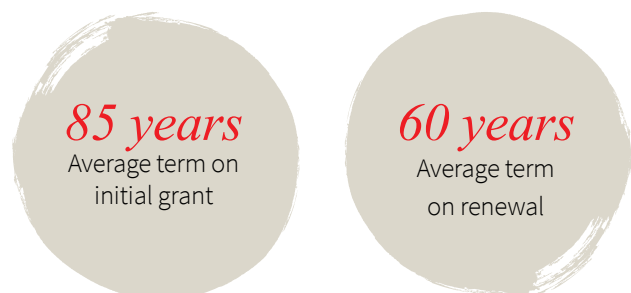


The institutions which responded covered a broad spectrum in terms of size. 60% of respondents represent freeholders with property holdings valued at up to €100 million. However, 13% of respondents responded on behalf of institutions holding property valued at over €1 billion. A good one-third of all the companies responding had a clear focus on the housing sector. In relation to their own residential properties, 33% of respondents also indicated that at least 75% of this land was subject to leaseholds; for a further 15%, the proportion of leaseholds was between 50% and 75%.

Normal term agreed for residential leaseholds

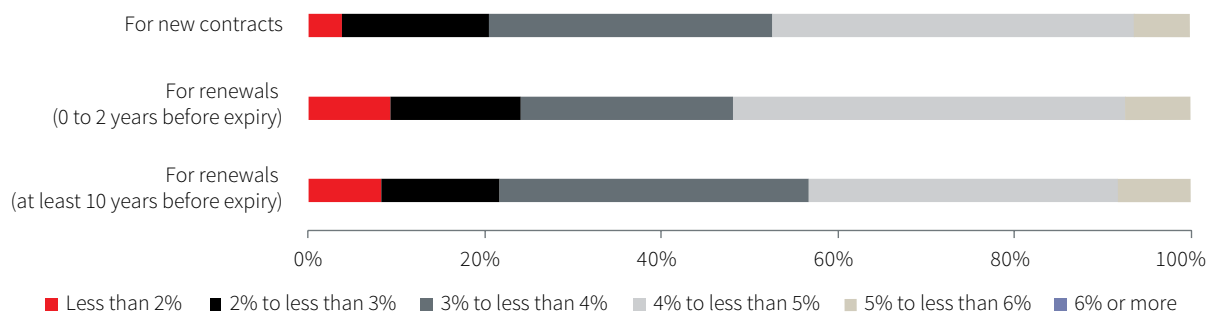


There are clear variances in the contractually agreed terms, both on the initial grant of a new leaseholds or a renewal of an existing leaseholds. 36% of respondents said that they agreed a term of 99 years or longer on initial grant, whilst only 14% did this on renewal. In contrast, a term of less than 60 years is agreed only rarely (8%), whilst this is the rule rather than the exception for renewals in almost half of all cases.



Many freeholders usually talk to their leaseholders very early about possible renewals. 38% said that they did so five or more years before the expiry of the contract; 18% negotiate three to five years in advance. Only 20% commence discussions in relation to a renewal when the leaseholds is due to expire in less than two years.

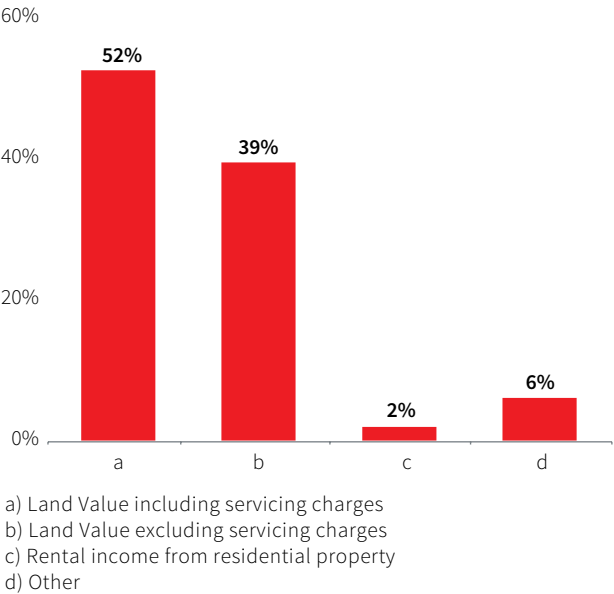
Current average agreed residential ground rent



There is a broad range of answers in relation to average ground rents actually agreed. Approx. 40% agree a ground rent between 5% and 6%; approx. 30% more are currently in the range between 3% and 4%. There is very little difference between initial grants and renewals. Across all cases, the average ground rent currently agreed is approx. 3.7%.

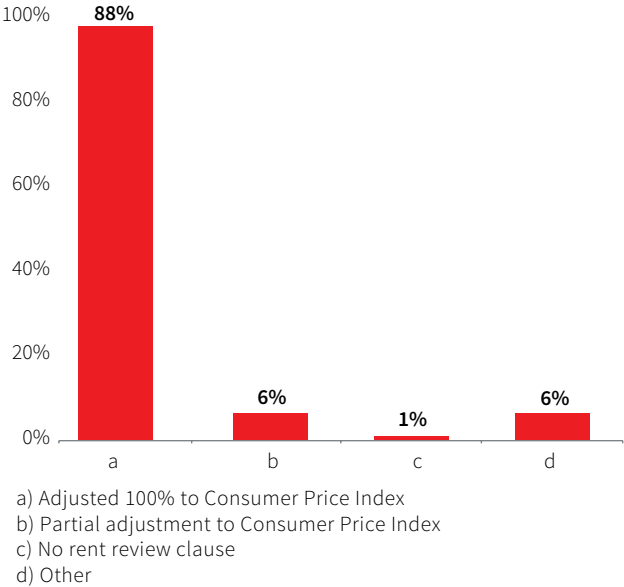


Normal basis for setting ground rents charged in present-day agreements



Ground rents are set on the basis of the land value, whether including servicing charges (52%) or excluding them (39%). Only in exceptional cases (2%) is reference made to a residential property’s rental income.

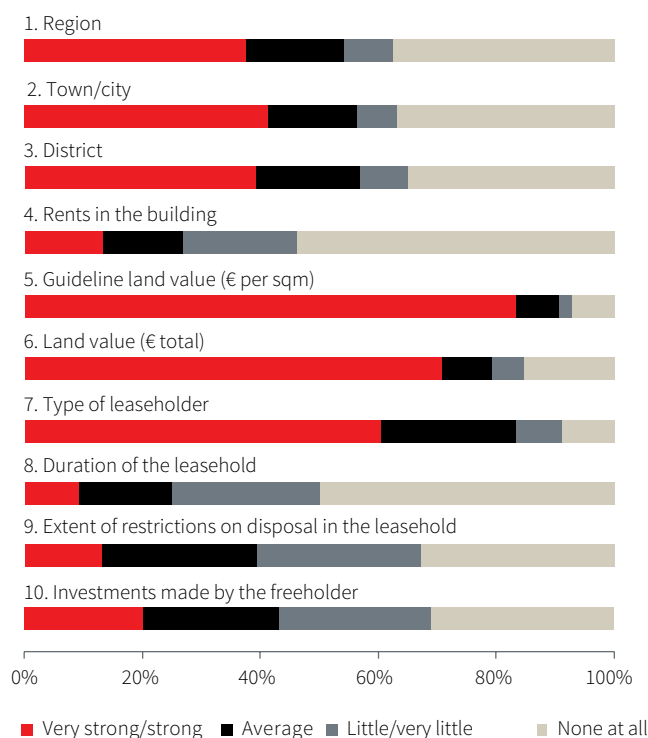
Usual rent review clauses for residential ground rents



The responses to our question on rent review clauses also reflect the fact that changes in rents in the property are of only minor importance. 88% of freeholders use indexation based on 100% of changes in the Consumer Price Index; a further 6% base it on part of the change.

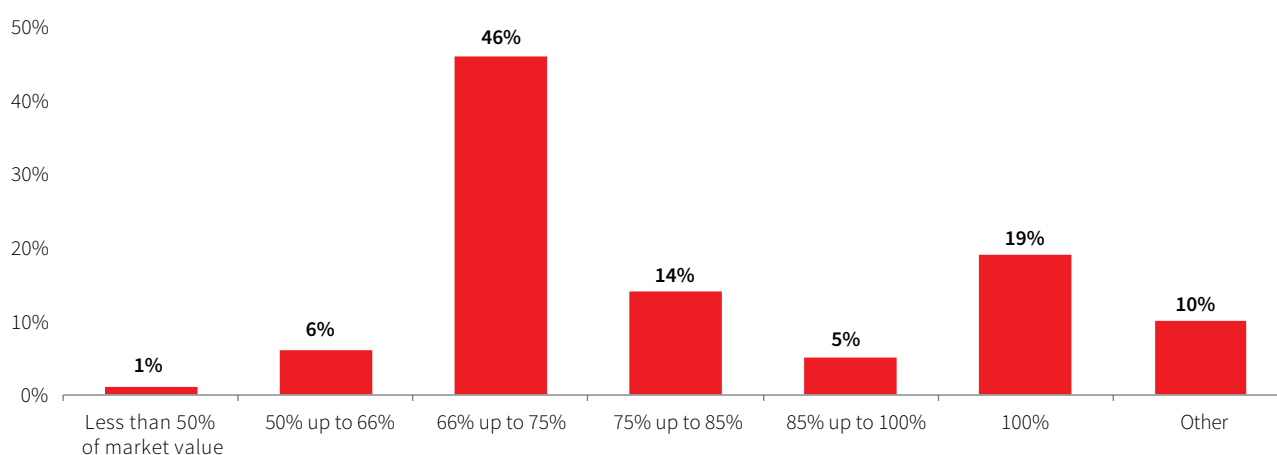
It is normal to agree time periods for reviewing ground rents. 46% indicated that they review them every three years where a review is agreed; 32% review them every five years. There are many other individual variants, such as a first review after five or even ten years, followed by a review every three years. The time of the review often depends on when the Consumer Price Index has increased by a certain percentage (often 10%).

Parameters on which the level of the ground rent depends



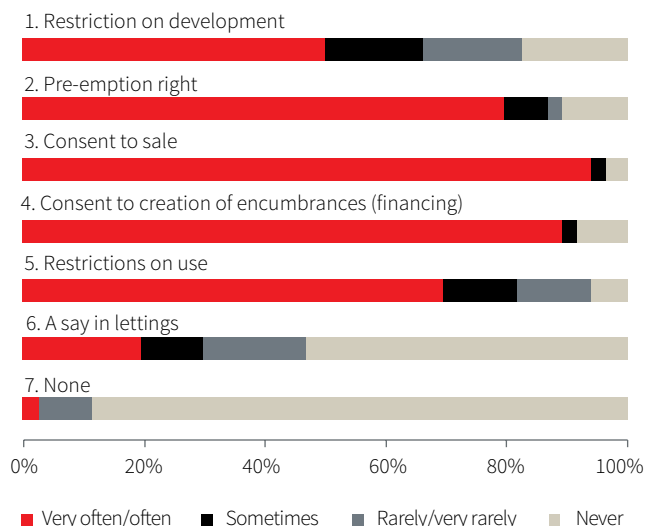
Not only is the land value the most common basis for measuring the ground rent; the level of the ground rent also depends most on the (guideline) land value. More than 80% of respondents indicated that this parameter is the biggest influencing factor. The land value comes second, as does the type of leaseholder. Whether it is, for example, a private business or a non-profit foundation plays a significant role for many freeholders when setting its level.

Usual compensation provisions at the expiry of residential leaseholds



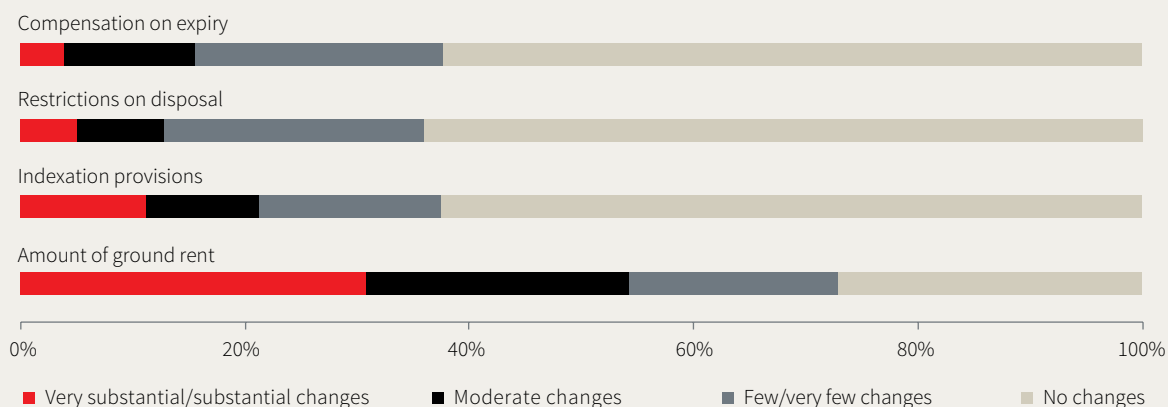
Whilst the amount of compensation is freely negotiable for commercially-used buildings, pursuant to Heritable Building Rights Act §27 it is at least two-thirds of value for residential buildings if the leaseholds was created “to meet the housing needs of sections of the population of reduced means”. Amongst the respondents, in almost half of cases (46%), compensation of between 66% and 75% is payable, but still almost a fifth of respondent freeholders pay compensation of the full value of the leaseholds on its expiry. Some freeholders also indicated that the percentage of compensation on early reversion is significantly lower than on the expiry of a leaseholds contract.

Restrictions on disposal currently agreed in residential leaseholds contracts



There is hardly a single leaseholds contract in which the freeholder does not need to give its consent on sale of the leaseholds. Consent to creation of encumbrances is also frequently or very frequently included in the contract as a restriction on disposal, and 80% still include pre-emption rights often or very often. Only three percent of respondents stated that in most cases they do not agree restrictions on disposal.

Changes to parameters on initial grant or renewals of residential leaseholds as a result of market developments over the past five years



The current market situation and trends in recent years are characterised by increasing urbanisation and a growth in the population of many cities. This means that a shortage of space can be seen in many places, whether in the residential or the commercial sector. Moreover, for several years a low-interest rate environment has prevailed on the capital markets and this is currently reflected in negative yields on long-term government bonds and offers property investors very favourable financing terms.

Against this background, some survey respondents report that they are currently concluding very few new leaseholds contracts, or none at all. More than 70% of freeholders granting leaseholds have already, to varying degrees, made adjustments to their ground rents; others are preparing adjustments.

For some local authority freeholders, urban planning parameters (for example, restrictions on disposal) have assumed substantially more significance. This significance is likely to increase further in future, due to the increasing scarcity of space.

The investor perspective

Survey respondents

A functioning market has two sides: a seller and a buyer. In this sense, the freeholder functions as the seller, and we wanted to find out what potential buyers thought of leaseholds as an investment product.

To represent the investor perspective, six important players in the residential market covering the entire spectrum of the investment market were asked about their dealings and experiences with leaseholds, and possible potential and risks. The interviewees were from private firms specialising in residential property, some of which are active throughout Germany, and based in Baden-Württemberg, Bavaria,

Hesse, North Rhein-Westphalia and Hamburg. The respondents usually act as leaseholders. Those firms which hold portfolios have holdings of between 2,500 and 130,000 residential units. The proportion of leaseholds in this total stock is between 6.4% and 7.5%. Two of the firms (real estate brokers and portfolio and asset managers) have either no or very few leaseholds properties in their holdings

Advantages and disadvantages of investment in leaseholds

The majority of the investors surveyed found it difficult to identify fundamental and significant advantages of investing in leaseholds compared with acquiring freehold property. It was very much acknowledged that from a social policy point of view and for reasons of municipal urban development, leaseholds are a sensible instrument in order to maintain public control over the development of space.

Advantages

- Little competition in the bidding process
- Lower initial investment
- Interest is tax-deductible



Disadvantages

- Financing
- Rental adjustments
- Fungibility

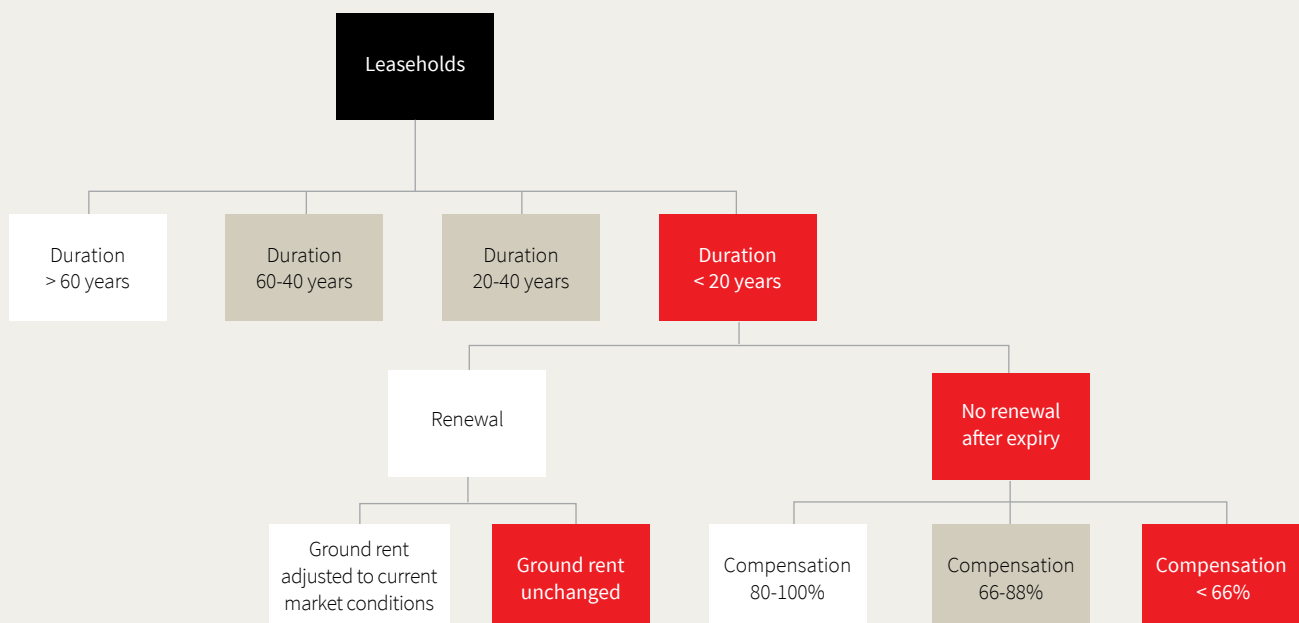
An advantage mentioned several times was that there is less competition in bidding processes for leaseholds or residential portfolios with a more than negligible share of leaseholds, since leaseholds are an exclusionary criterion for many investors. This advantage is associated with one of the disadvantages which was also mentioned several times: that the marketability of leaseholds is significantly limited – in terms of both the limited number of potential buyers and the time-limited nature of a leaseholds contract which may not have long to run.

A further advantage which was identified was the lower initial investment because it is not necessary to acquire the land. However, large investors did not attach much importance to this advantage, given the current conditions on the financial markets and the wide availability of capital. For the investors surveyed, the tax deductibility of rent played a positive, if subsidiary role.

Of course, the actual content of a leaseholds contract can also be disadvantageous to the leaseholder. Apart from that, there are fundamental disadvantages, the most important being the matter of financing. Banks usually finance leaseholds only subject to restrictions and the terms are not very attractive for borrowers. For example, short unexpired terms give rise to substantial discounts on value. The question of financing does not only have to be considered at the time of purchase; finance may not be available at all for subsequent investment in the building when the unexpired term of the leaseholds has become even shorter. Some investors indicate that they will finance leaseholds only with equity capital.

A further essential point which is considered a disadvantage is the matter of rental adjustments. It is common practice to link changes in the ground rent to general changes in prices. But growth in residential rents may be weaker, or they may even be static. This divergence is seen as problematic.

Standardised investment decision



What makes an attractive leaseholds contract?

Investors' requirements are clear:



Ground rent adapted to the current financing environment

The amount of the ground rent need not itself preclude investment, since a potential purchaser will decide whether or not he can generate his required minimum yield on the basis of his investment analysis. Even though there is a limit to the level of achievable rents and, moreover, loan capital can currently be obtained very cheaply, many freeholders are still demanding relatively high ground rents. For this reason, it is often not possible to reach agreement on the grant of a new leaseholds.



Linking ground rents to changes in rents

Adjustments to ground rents should be linked not to changes in general prices but to changes in rents. This is because, whilst general prices normally move upwards, residential rents are not usually indexed. Over time, this difference has a negative impact on the overall yield.



Compensation in the full value of the property

What is important to investors is, firstly, clear provisions for defining the value and the valuation on expiry of the leaseholds. Secondly, compensation needs to be 100% of the value, as this guarantees that ongoing investments in the property over the entire duration of the contract will remain economically viable.

Director of a medium-sized property agency:

“The benefits are very modest and scope for reselling can be very limited.”

Director of a housing company from southern Germany:

“Leaseholds are a sure thing, as long as the economic effect can be clearly defined for the purchaser.”

Comments on the market situation and prospective developments

Although many local authorities increasingly require that land is allocated by way of leaseholds, because of historic and psychological hesitancy towards leaseholds in Germany, in the view of most of the investors surveyed a lengthy cultural shift will need to take place before they are permanently established in the market. Germany has a lot of catching up to do compared with the acceptance of leaseholds in other countries, such as for historical reasons in the United Kingdom. The concern was also expressed that, after a possible economic downturn, demand for property and land might reduce appreciably as a result, leading to a substantial drop in demand for leaseholds in this country.

Another reason for a degree of caution towards leaseholds is the frequent decoupling of indexation of ground rents (based on the Consumer Price Index) from changes in rents. For leaseholds to become more acceptable, when new rights are created it would be desirable to have ground rent provisions based on changes in values for the use in question and adapted to the level of the current interest rate environment.

Many investors want increasing professionalism on the part of the freeholders, which would usually allow the renegotiation of older contracts, where the terms are often not sufficiently clearly defined, to proceed by agreement in business-like discussions.

With one exception, none of the investors surveyed would avoid leaseholds in principle. As long as a minimum level of profitability can be achieved, it is irrelevant to the initial investment analysis whether a property is freehold or held under a leaseholds.

All the investors confirmed that in Germany there is a solid legal framework for leaseholds which aligns the interests of freeholders and leaseholders very well. The majority see no need to make changes to leasehold legislation.

Chairman of the management board of a listed housing company:

“The leasehold is an instrument that we understand well, and which has established itself with us.”



Outlook

After significant increases in land and construction costs in recent years, and now that supply has become much tighter, local authorities and the housing industry are increasingly concerning themselves with leaseholds once more. Our study shows that there are many different ways to structure leaseholds contracts in practice. The different terms of, and broad ranges in, ground rents or compensation on reversion or termination mentioned in our surveys point to a lack of standardisation among leaseholds contracts in the housing industry.

Investor attitudes to individual types of contract are divided: some are restrained, whilst others advocate openness. The voices of restraint came from those investors who regret a lack of transparency in the sector. In contrast, other investors view leaseholds positively, as long as the impact of the terms of the contract on property values can be measured.

Here, factors including the reduced equity capital requirements, the higher ongoing yields and the deductibility of the ground rent outweigh possible disadvantages arising from the restrictions on disposal. To summarise: clear contract terms whose impact can be calculated are essential if leaseholds are to be marketable. A lack of clarity leads to reductions in value, which may benefit some market players, but which are a barrier to market acceptance and positive growth in leaseholds.

One of the most striking quotations from our investor interviews was: “Germans love their cellar and their garage, but they hate leaseholds.” However, the significant increase in building costs in recent years is currently putting their love for their cellars to the test. Climate protection and the sustainability debate are going to ensure huge changes in the automotive industry and will challenge the German love of garages. It is just possible that the aversion to leaseholds will also waver in the future.



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Erbbaurechtsverband

Contact

JLL

Ralf Kemper

Head of Valuation & Transaction Advisory
Germany, Member of the JLL Strategy
Board Germany
+49 (0) 69 2003 1092
ralf.kemper@eu.jll.com

Dr. Konstantin Kortmann

Head of Residential Investment
Germany, Member of the JLL Strategy
Board Germany
+49 (0) 69 2003 1390
konstantin.kortmann@eu.jll.com

Helge Scheunemann

Head of Research Germany
Hamburg
+49 (0) 40 350011 225
helge.scheunemann@eu.jll.com

German Leaseholds Association

Deutscher Erbbaurechtsverband

Dr. Matthias Nagel

+49 (0) 511 202813 0
info@erbbaurechtsverband.de

Authors

Matthias Barthauer

Senior Director Research
Hamburg
+49 (0) 40 350011 268
matthias.barthauer@eu.jll.com

Marina Matic

Senior Research Analyst
Hamburg
+49 (0) 40 350011 351
marina.matic@eu.jll.com

Honoré Achille Simo

Senior Director Valuation &
Transaction Advisory
Frankfurt
+49 (0) 69 2003 1283
achille.simo@eu.jll.com

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