



Real Estate Appraisal in Germany – Are There Any Special Things to Watch Out for?

20 years' experience, four offices, one core business: real estate appraisal.

L+P Immobilienbewertung is an all-round service provider in the real estate analysis and appraisal sector. The company's range of services comprises portfolio appraisals, market value reports, mortgage lending appraisals, and market research. L+P provides appraisals across the various asset classes, from residential and commercial real estate to portfolios and agricultural and forestry land. L+P offers specialised expertise in the appraisal of so-called operational real estates such as care homes, hospitals, and hotels. L+P's experts are also involved in the appraisal of potential building land and complex real estate developments. With its five publicly appointed and inaugurated appraisers, L+P is the optimal partner for practically all types of real estate appraisal in the German market.

CONTACT

L + P Immobilienbewertungs GmbH
Böheimstrasse 8, 86153 Augsburg, Germany
Phone: +49 821 889959 0 | Email: info@lplusp.com
Web: www.lplusp.com

As a general note: it is not only the real estate market in Germany that has its particular idiosyncrasies but also the correlating market for appraisals itself. As the term appraiser is not actually protected by copyright, selecting a competent appraiser is often a fundamental issue. There are official land appraisal panels all across Germany, which analyse the market on behalf of local authorities, compile market data, and produce real estate appraisals. Self-appointed appraisers are typically uncertified and unregulated. Chartered Surveyors, on the other hand, may be highly familiar - particularly to international clients - but they lack credibility with German authorities. Certified appraisers generally prepare appraisals for financial purposes. By contrast, the “publicly appointed and inaugurated appraiser” is a particularly German concept amongst globally active real estate experts. Reliance on their often well-above-average expertise is safeguarded by the requirements of public sector authorities.

Equipped with this level of trust, the publicly appointed and inaugurated appraiser is typically active on behalf of private individuals, local authorities, and particularly for courts as an expert witness. Despite the opportunity for various types of certification, publicly appointed and inaugurated appraisers nonetheless occupy a special position within Germany. For example, notarized sale and purchase agreements analysed by the public land appraisal boards in Germany are not publicly accessible for data protection reasons. The German Building Code (BauGB) stipulates that there must be a “legitimate interest” for access to information from the purchase price compilations. Publicly appointed and inaugurated appraisers are typically assumed to have a legitimate reason for these purposes. This means that publicly appointed and inaugurated appraisers, who are typically also represented on these panels, have exclusive access to this type of value-relevant data. In the case of tax advisers and accountants, publicly appointed and inaugurated appraisers are often the first port of call for issues relating to real estate appraisal, for example, if a tax authority requires an

apportionment of a purchase price into separate components for the land and buildings.

We currently employ five publicly appointed and inaugurated appraisers and have more than 10 Chartered Surveyors (MRICS/FRICS) and is an RICS-registered company. The 10 appraisers on our team hold certifications in compliance with internationally recognised mortgage appraisal standards, so we have the ability to assist with such appraisals.

“In Germany, around 45% of residential real estate is owner-occupied compared to around 65% in the States (German Federal Bank research report January 2020), making Germany effectively a nation of tenants.”

The German and American markets – how are they similar, and how do they differ?

By contrast to the USA, the German market is less dominated by first-time, second-time, and repeat buyers. On account of the lower level of commitment to a particular building and the increased level of mobility in the USA, real estate transactions are more part of everyday life for an American than is the case in Germany. The purchase of real estate is more of an exception than the rule for a German, not least because of the significant hike in purchase prices, which are increasingly unaffordable even despite the reasonable financing conditions. In Germany, around 45% of residential real estate is owner-occupied compared to around 65% in the States (German Federal Bank research report January 2020), making Germany effectively a nation of tenants. Looking at the regional structure of both markets, there are some features they have in common: the distribution of the population across conurbations, cities, regional agglomerations, and towns with populations of in excess of 100,000. Both markets are highly heterogeneous, and both markets are characterised by lack of transparency, but the latter is a

significantly greater problem in Germany than in the USA.

The result is that there is a special position enjoyed by real estate appraisers and their market knowledge, which helps to iron out any asymmetries in terms of the availability of information. Market reports are published only irregularly and generally refer to the large conurbations and principal use classes such as office and retail. The usability of market reports is often dependent on the quality of

data contained and analysed therein, which does not necessarily make them truly comparable. For this reason, L+P has compiled its own in-house database over many years and is able to utilise this type of property-specific and location-related information for the benefit of all its appraisals. We regularly make our wide-ranging knowledge relating to niche markets such as logistics and care properties available to interested parties on our website www.lplusp.com. Making information available and sharing our knowledge is an essential part of our corporate philosophy at L+P. And the highly positive feedback from the many decision-makers in the investment and development sectors has proven that this is the right way to go.

Most appraisals are carried out using models – what does that say about accuracy?

The major challenge in the case of all appraisals is the reliance on statistically accurate and value-relevant data from the past. Real estate appraisal is like driving a car forwards based on what we see in the rear-view mirror. Besides the hard facts relating to land and buildings, all other critical elements in an appraisal are

fraught with uncertainty. Any statements relating to the present time or the future must be considered as scenarios, something which applies across the various asset classes. The COVID-19 pandemic is a good example of this. While the current residential real estate market appears to be largely unaffected to date, the hotel, restaurant, and retail sectors have suffered significant damage, and there is little certainty as regards to future cash flows on which the owners rely so heavily. The future of office real estate is also uncertain because no-one knows quite yet how working from home and technical developments will change our everyday working environment. So how does L+P arrive at statements about the future? Our short-term forecasts derive, for example, from actual rent reductions, rental voids, and vacancies from information already in our data network. Any medium to long-term analyses are based on L+P's own market monitoring process. The in excess of 1,000 appraisal reports we produce annually across all asset classes give us invaluable insights for use in subsequent appraisal work. Continual exchange of information with property owners, financial advisers, banks, and brokers keeps our finger on the pulse. Not least thanks to our Europe-wide activities, we are able to draw on wide-ranging analyses on the different locations, all with their individual characteristics.

Appraisal work – what are the typical issues confronting the appraiser?

Clients looking to instruct a publicly appointed and inaugurated appraiser primarily obtain answers to their questions. It is possible, however, that the approach of a publicly appointed and inaugurated appraiser is different from that of a purely internationally-active appraisal company. The principal difference is that the publicly appointed and inaugurated appraiser in Germany is required to carry out appraisals in accordance with specific guidelines, which may not be readily understood abroad. This can have one big advantage: even if internationally-orientated appraisal companies enjoy significant credibility

amongst their clientele, there is often relatively little recognition in the case of public sector institutions in Germany. In the case of advice on appraisals for tax purposes, as expert witness in the case of litigation and in negotiations with the public sector, it is often advantageous to rely on publicly appointed and inaugurated appraisers, which have the full trust of this type of institution. Examples from practice include: sales and purchases, inheritance disputes, court hearings in the event of a divorce, and investigations by the German financial authorities.

Another example is German-American inheritances, which occurs when parents in Germany die and leave property to children who live in the USA. In these cases, is it worthwhile to get the property appraised by an independent real estate appraiser; the German tax authority will do that in any case. Many of the appraisals carried out by the tax authorities result in excessive inheritance tax demands. When this happens, in many cases, the appraisal carried out by a publicly appointed

and inaugurated appraiser produces a market value that is lower and serves to reduce the potential tax burden.

The same applies in the case of international divorces. If a German court is involved, then real estate appraisals are often required at the date of the marriage and then at the date of divorce, for example, for the family home, an investment apartment, or an office they use. The publicly appointed and inaugurated appraiser is able to offer certainty in this regard.

This also applies to the development process, from the purchase of potential building land to a successful planning application and the finished project, which are best accomplished with the help of professional advice. On a regional level, publicly appointed and inaugurated appraisers are able to use their local knowledge to clarify value-relevant questions at the outset or formulate the right type of questions that investors can use in their negotiations with the relevant authorities and institutions.

