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Is the German property market at the end of a 7-year cycle?

The weekend edition of "Die Welt" newspaper suggests that the real estate boom, which has seen prices hit record levels in almost all major German cities, is at the end of a seven-year-cycle and is about to "flip round." Reiner Braun, the director of the Berlin research institute Emprica, says one indicator above all is telling.

"The prices on the real estate market have risen markedly more than rents," Braun told the newspaper. "Measured against rents, the potential for prices to decline is at 27 percent."

The situation could be particularly critical in Germany's so-called A-cities, places like Berlin, Hamburg or Stuttgart. According to figures published earlier in the week, Munich rents, for example, increased by only 29 percent from 2011 to 2016 compared to 85 percent for property prices. That, say Empirica analysts, means that housing prices in the Bavarian capital could decline by as much as a third.

These potentially dark omens were publicized just days after the Bundesbank - Germany's central bank - called the German real estate market overheated. The bank also cited the difference between property prices and rents. And other potentially worrying signs are downward trends among investments in real estate funds and in the stock prices of real estate companies.

"Last fall, after the stock prices of German real estate government had sometimes doubled in recent years, investors began to cash in their profits," analyst Thomas Beyerle told Die Welt. "Because stock markets deal in the future, developments there often reflect later events in the real estate markets."

Less than a year ago, despite high incidental costs of real estate transactions, the Wall Street Journal called Germany "Europe's best property market." So can the salad days have truly come to an end so swiftly? As is often the case, the picture is mixed, and expert opinion divided.

Continuing shortages equal rising prices?

The Bundesbank has a history of fretting about German property prices - members have predicted that the market was overheating since 2013. Other analysts, citing different data, are quite bullish on German real estate. One indicator that suggests prices could in fact keep rising is the failure of construction to keep up with need.

"Especially in the big cities right now, demand can hardly be met," real estate expert Michael Voigtländer of the Cologne Institute for Economic Research told the 3Sat TV network. "Because of heavy increases in population, 30,000 new apartments are needed every year in Berlin. But only 10,000 get built, and the number of building permits issued is 22,000. The shortage remains. That's why rent will keep going up in many cities."

Perhaps not surprisingly, institutions pushing property to investors are quite sanguine about the market's prospects. In a report published last month, Deutsche Bank cited high demand, insufficient construction and extremely low vacancy rates to argue that that the real estate markets in Munich and Berlin were still very robust.

"All the macroeconomic conditions that might signal an end to the cycle - such as a turnaround in interest rate policy, a massive expansion of supply and/or a slowdown in migration to Germany - are not yet fulfilled and it is likely to be several years before they materialize," the report concluded. "Consequently, we expect rents and property prices in the major German cities and across the country to continue to rise sharply in 2017."

Experts say not enough apartments are being built to meet demand

Last November, the website Global Property Guide put together similar indicators and arrived at the screamer headline "German house prices are on fire!" Earlier this month Forbes magazine reported that Austrian real estate developers, enamored with Berlin's potential, were still flooding into the German capital. And the latest "Emerging Trends in Real Estate Europe" survey by Price Waterhouse Coopers (PWC) put four German cities in the top five of the best places to invest in property for 2017, with Berlin leading the pack.

"Fashionable, youthful, fast-growing and under-supplied, the German capital tops the table again this year and scored highest on all four survey categories: investment, development, and prospects for rental and capital growth," the report reads. "A financier sums it up: 'In Europe the major darling right now is Berlin.'"

A source of post-Brexit stability

But investors aren't equally bullish on all German cities. Deutsche Bank is cautious on Hamburg and Düsseldorf, while pointing out that the Frankfurt real estate market stands to benefit from the Britain's exit from the EU. PWC, on the other hand, thinks that Berlin, Frankfurt and Hamburg, like Germany as a whole, will profit from Brexit.

"Germany replaces the UK as Europe's Number 1 safe haven," the PWC report quotes one "pan-European investor" as saying.

The German market is taking over from the UK as the investors' favorite

Smaller German cities are also gaining in popularity.

"Prices in the biggest German cities are starting to level out," Die Welt real estate editor Michael Fabricius said in a video interview accompanying the main article. "Other cities are starting to make their way up the rankings."

According to Global Property Market, Hanover recorded the high year-to-year increase in apartment prices in 2015-16, with values increasing by slightly over ten percent in the respective second quarters. Fabricius says the prospects are also good in other so-called B-cities such as Kassel or Friedrichshafen. That conforms to a European wide trend identified by the Deutsche Hypo Bank as well as Price Waterhouse Cooper.

"Today, it is not so much Europe's big global gateways but its smaller capitals and second-tier cities that are being ranked highly," PWC's Emerging Trends report concluded.

But even pessimists are reluctant to use the term "real estate bubble" and speak of a slip in the German property market instead of a full-bore nationwide crash like the one that followed the sub-prime loan crisis in the US in 2007.

"If the German economy continues to grow robustly and create new jobs, there will just be a dip in the German residential and office market," Andreas Schulten, the chairman of a Berlin real estate research society told Die Welt. "The idea of a seven-year cycle is a popular simplification of a complex reality."