



# New city planning

*Berlin is Germany's perfect mixed-use development case study*

by Joshua Abadayev

**I**n days gone by, when there was no such thing as building codes or urban planning, towns and cities grew organically.

The logic behind this growth was inseparably linked to the prominent trades and professions that drove local economies in the past. In Berlin, for example, the Weberwiese area was a place where cloth workers and dyers lived and worked, while the Scheunenviertel district hosted a popular cattle market. Later, in the 1920s, Berlin's character was shaped by the many different businesses that operated in

the city. Shops and restaurants lined the streets and people lived around the inner courtyards. These historical examples have one thing in common — people lived where they worked.

The year 1933 saw the publication of the *Athens Charter*. One of the urban planning document's key elements was to segregate individual walks of life. At a time when much industry was still “dirty”, and impaired people's quality of life, this made good sense. The new approach to town planning spawned the notion of central business districts, which

are still the preferred locations for office use today. On Sundays and public holidays, however, many of these districts are deserted, a side effect of these once highly desired monocultures.

### Emergence of a new mindset

It was not until 2007 that a new course was set in Europe with the Leipzig Charter. Since then, urban planning has focused more strongly on mixed-use concepts again.

The real estate sector needed another decade or more to embrace this idea. Nowadays, many new developments have been designed to allow residential, office and hotel space to coexist alongside each other, with gastronomy and leisure facilities in direct and functional proximity. The idea is to make these areas a place for people from different backgrounds to meet up, such as locals encountering tourists, for instance.

**According to the real estate services company CBRE, the vacancy rate at the start of the third quarter of 2019 in Berlin had dropped to a historically low 1.5 percent.**

In practice, however, this gives rise to an all too common problem. Mixed-use developments are often built in a city's most luxurious spots. When a building site already costs more than €10,000 a square metre, as is the case in Berlin-Mitte, usage is predestined for the high-end segment. Generally, only cash-rich international companies make the grade as office occupiers and, as a rule, residential units are luxury apartments. This means that anything less than a five-star hotel is simply not viable within such a development. Added to this, the proportion of commercial properties in the direct vicinity is generally very high.

### Creating vibrancy

There is no question that projects of this kind may well pay off for investors. They provide risk-diversification benefits as cashflow is not dependant on one single source. In actual fact, however, they fall somewhat short of the city mixed-use ideal. The types of luxurious mixed-use developments that can be found in London, New York and even in Frankfurt am Main, do not really embody the essence of a sustainable district development. Their

**Table 1: Office vacancy rates in Germany**

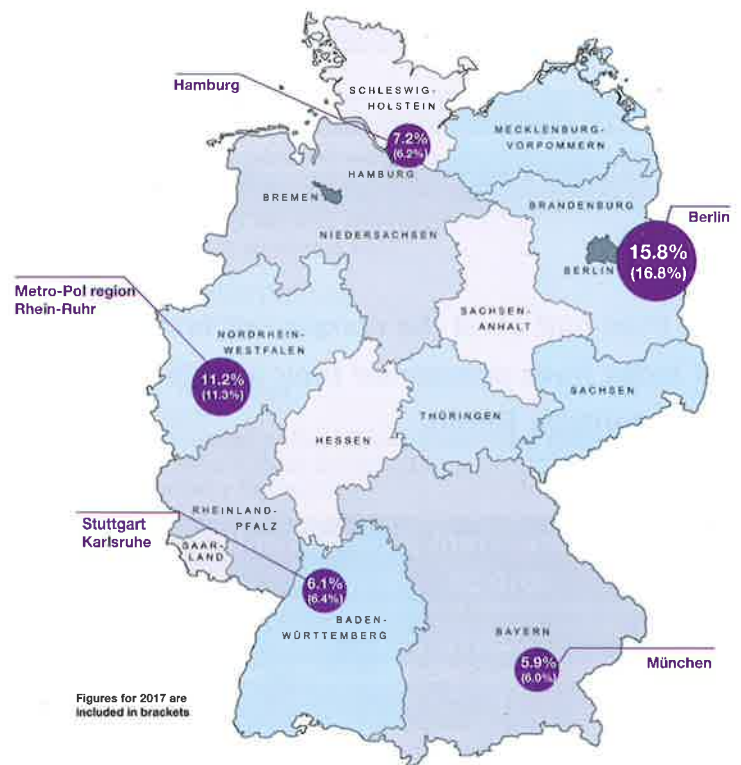
Location	2018 Q3	2019 Q3	Y/Y difference
Berlin	2.4%	1.5%	-0.9%
Dusseldorf	7.2%	6.8%	-0.4%
Frankfurt	8.1%	7.1%	-1.0%
Hamburg	4.2%	2.7%	-1.5%
Munich	3.0%	2.7%	-0.3%
Top 5 cities average	4.4%	3.6%	-0.8%

Source: CBRE

qualification as a role model for other European metropolises is therefore limited — particularly when considering how to develop Berlin.

Instead of focusing on luxury developments, it is important to encourage the creation of mixed-use properties and districts in various parts of a city. Places where people live and spend their free time are exactly the areas where versatile commercial space is needed. This kind of approach enhances the quality of life in these locations, and it will help cities to once again achieve a natural and organic mix between living and working, without the problems this created at the start of the last century.

### German startup head offices by region (2017–2018)



Figures for 2017 are included in brackets

Source: KPMG Deutscher Startup Monitor 2018



Berlin's fashionable Kreuzberg district, in the east of the city, is home to a number of tech startups.

### Self-sufficient districts make sense

As useful and sophisticated as the mixed-use concept for using space may be, if the figures are wrong, it will not be successful.

This is precisely why the case for multi-use real estate developments in Berlin is so strong. On the one hand, office space vacancies have dropped to an all-time low: According to the real estate services company CBRE,

Location	2018 Q3	2019 Q3	Y/Y difference
Berlin	32.50	36.50	12.3%
Dusseldorf	27.50	28.00	1.8%
Frankfurt	41.00	42.00	2.4%
Hamburg	27.50	31.00	12.7%
Munich	37.00	39.00	5.4%

Source: CBRE

**More than half of all the companies on the DAX index have positioned their innovation departments in Berlin.**

Location	2018 Q3	2019 Q3	Y/Y difference
Berlin	20.29	24.79	22.2%
Dusseldorf	14.98	16.50	10.1%
Frankfurt	21.00	21.07	0.3%
Hamburg	15.93	17.50	9.9%
Munich	18.77	19.54	4.1%

Source: CBRE

the vacancy rate at the start of the third quarter of 2019 in Berlin had dropped to a historically low 1.5 percent (see table 1 on page 29). By comparison, the rate in Hamburg and Munich, where commercial space is also in short supply, comes in at 2.7 percent in each of these cities. On the other hand, prime rents have already risen to €36.50 per square metre (see table, left), a price level that many prosperous companies are not willing or able to pay.

At the same time, Berlin is experiencing a boom. Last year, the economy in Germany's capital city expanded by 3.1 percent. In the current year, the Berlin Senate anticipates growth of around 2 percent, which is considered a realistic scenario, at a time when the whole country faces the distinct possibility of a recession. The city's supply shortage, however, poses a threat and could act as a constraint on growth in the years ahead. The capital also has the potential to perform even better in the future, with the tech sector as a major contributing factor. More than half of all the companies on the DAX index have positioned their innovation departments in Berlin. Various calculations also show that one or two startups are launched every day in Berlin, which is why the city now proudly bears its "Silicon Allee" nickname.

Established companies, as well as young enterprises, need attractive but affordable space for organic growth. This is why developing and designing mixed-use spaces that accommodate the requirements of startups as well as of large corporations away from CBD locations is so important. The long list of potential tenants in such developments generates a steady cashflow for investors and, in all probability, can banish vacancy fears when first rental cycle ends.

### Berlin as a German case study

In the case of Berlin, there is no other city in Germany where the diametrically opposed development between robust economic growth and a lack of space is so evident.

Like no other city, it is therefore important for Berlin's development to have vibrant, mixed-use districts for today's world of work and play. A look at the metropolis on the River Spree is also worthwhile for other major German cities such as Hamburg, Munich and Frankfurt am Main.

Ultimately, these other major cities will be able to learn how Berlin deals, both positively and negatively, with its shortage of space and future building plans. ❖

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