

The "Hidden Dimension": Valuation, Taxation and Zoning of Entertainment Properties in Germany

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SUMMARY

Due to a change in national legislation in 2002 (“Law on legalising of professional sex-workers”), professional nightclub labour is moving to the real estate marketplaces in Germany, along with an intense development of these specialized entertainment assets. By defining several streets as “exclusion areas” through planning mechanisms (zoning) since the 1960s for street and in-house prostitution, the zoning, clustering and agglomeration of entertainment properties caused an increase of land values. Derived from this case-study, the purpose of my paper is to highlight the following methodical questions and topics: Why is the cooperation between landowners of these estates with the planning and taxation/valuation authorities mostly rare? Even by using the profit method to appraise the market value, the attributes of entertainment assets are hard to determine since likely turnover data, maintenance costs, expenditures (cleaning, heating, security patrols etc.) and taxation are hidden dimensions; income streams are vague. Property values, especially land prices, have risen significantly since the last two years in Frankfurt. But can a “market value” for entertainment and/or leisure estates such as discotheques, betting agencies, brothels, gambling halls, "internet cafés", and massage salons precisely and reliable be appraised? Obviously, the rent-seeking behaviour of landowners in the area is evolving. As a consequence of the amended German Federal Building Code in 2013, planning authorities seek to regulate – and banish – places of entertainment. Taxation authorities are interested in the income of these landowners, the staff, and middlemen. Massive public intervention, enforced by strict zoning mechanisms, land valuation mapping (GIS), and property taxation tools will influence the market values of the affected buildings in all metropolitan cities in Germany. Which lessons can be learned, which methodical conclusions can be drawn?