

# Elise-Averdieck-Street-Hamburg

Naterski Matthias, 2009-01-12

## Location for closure

### Property

The property with 33 residential units and 1 commercial unit was built in 1957. The residential units are one-room-apartments. The house has three floors and no balconies and the whole size is about 1,265 square meters, the gross rental income/year is around 117,000€ The price for this object is 1,450,000€ which corresponds to 1,145€ per square meter. The average level of rent currently charged for the residential units is actually 7.88 €/square meter, the commercial rent is 5 €/square meter. The property is not in the best condition.

### Deferred maintenance

Windows €105,600, HVAC €44,000, Doors €27,600, Roof €20,100, Facade €13,350, Exterior fittings €12,950, Basement €6,000, Entrance €9,660, Staircase 4,500, Outdoor facilities 2,600. Total cost €257,360.

### Tenants

In this property the tenants are not very ideal, we can say they are antisocial and they are not very careful with the building. The entrance-door has been mainly damaged by feet/kicking the door. The apartments are not very well-kept. Most of the windows have no curtains, the tenants on the whole use blankets to block out the windows at night. The floors are covered in graffiti. Only a few older tenants still live in this house, they are tenants who are careful with the property, and they have enjoyed living in the building for many years. Sometimes if you stand in front of the property, you can hear tenants arguing with someone very loudly in their apartments, regardless of other tenants in this house.

### Real Owner

The real owner of this property is really a one man show. He manages a 5 star hotel by the seaside on his own; there are no children allowed in this hotel. He has wanted to sell his property for the last two years. All the local real estate agents are aware

of his property. There are many people who would like to buy the property, however the landlord is a very peculiar person. Prior to us, another prospective buyer sat with the landlord at the notary's office and wanted to buy this property; as there was one particular paragraph which was not to the landlords liking, he simply stood and left the offices and walked home, his only comment was, that the property was not for sale.

So amongst people in the business, on the market this property was called "the object which no one can really buy". However, it was one of the best prices you can pay for a good location in Hamburg. The only option to close a deal was to physically take the notary responsible for the house, and together go and speak with the owner and intuitively discuss with the owner terms of sale in order to have a chance of getting the contract signed with the notary.

## **Current Situation**

### **Handover**

The handover was on the 01.12.2008. The documents of the property were very few. We can say that we only received the contracts of the tenants and the insurance policies, it is not so much. Nonetheless we have known the owner from earlier, and it was clear for us that we would not receive more information from him. We needed to investigate everything for ourselves to find out about the house and the tenants. We had bought a little treasure hunt, but without much risk, as our caretaker had checked this object carefully one month previously for another bidder and knew a lot of things and we surveyed the object with technical experts many times and with our own product knowledge.

### **Measures since the handover**

We quickly installed a very good caretaker service and made new contracts for technical maintenance. We started to take control this property perfectly.

## **Wanted Situation**

### **Property**

The property ought to stand in good condition and we will expand the living space. The property must evolve from the ugly duckling to the beautiful swan.

## **Tenants**

The tenant structure must be changed from antisocial to normal nice people. A mix of older and younger people in this house would be ideal, i.e. students, employed people and senior citizens. With this structure we can get the desired Turnover of 20%/year.

## **Rents**

We want higher rents in this property. This area is perfect for raising the rent per square meter without any major objections.

## **How to change the tenant structure**

### **First step: Immediately**

1. Appoint a very good caretaker. We need to know very quickly which of the tenants are the critical ones and what we need to repair in the house directly.
2. Check if the original inhabitants are still living in the apartment. If they are not the signing tenant in the apartment, we will terminate the contract due to sub-letting.
3. Check the lease payments. If someone has not paid the rent, we will terminate the contract without notice.
4. Check all apartments, if the tenants made the necessary aesthetic repairs. We need to have a detailed list over the problems we have in the apartments of all tenants.

### **Second step**

We now know most of the problems around this property and we will terminate the contracts of some tenants. So now we will have free apartments to let. Firstly we needed to perform cosmetic repairs to these properties, in order to be able to raise the rents and to be able to attract the right type of new tenants. To do list:

1. Paint the floors
2. New entrance door of the property
3. New letterboxes and bell-signboards
4. Redevelop the available apartments including new windows
5. Cultivate the garden

### **Third step**

The third step is for the expansion of the living space. We will produce new living space to advance the rental income and to generate a higher market value for this property. Normally this does not incur high costs; moreover, you receive a very high yield by doing these things:

1. Install balconies on all apartments
2. Build new apartments in the attic
3. Look for new parking space on the land

## **Measures for a higher fluctuation**

### **Tenants**

To improve the tenant structure we must be very careful about what is permissible without breaking any laws, or having our reputation blemished. We want to be the best real estate company, not the real estate company with heavy handed methods.

Some things you can do:

1. Make an offer to all tenants to change to a vacant apartment at the higher rent, moreover, receiving a very good standard in the apartment. Normally a few tenants will change their apartments.
2. Do not change the windows for all the apartments. Perform this only for the refurbished apartments.
3. If another tenant would also like to have new windows too, or only wants to live in their own apartment, then we can make them an offer of improving their standard, however, they must pay a higher rent afterwards.
4. Inspect frequently the apartments where the tenants do not make the aesthetic repairs. Send them requests in writing every month and inspect them thoroughly.
5. When looking in all apartments, constantly pay attention for the signs of animals/pets. Normally tenants have signed contracts (disclaimer) stating animals/pets are not permitted. If there are signs of animals/pets, then request them to remove the animals out of the apartment, normally these tenants will look for an alternative apartment.

## **Why should we put so much work and effort on such property?**

1. This property is in a very good location in Hamburg. You only have 2 stations on the underground to the central station. There is a supermarket closely located in the next street; altogether the object is a calm area with a good infrastructure. We have the best chance of finding nice new tenants in this area, if we change the tenant structure in this property.
2. The price was 1.450.000€ The multiplier is under 12.5 of the rental income/year. Another property has been sold, 250 meters away from this object, at a multiplier of 17. The property was in a little bit better condition, but

not in such a calm and quiet neighbourhood, plus it already had high rents. No chance to get higher rents due to fluctuation.

3. After changing, the new rents in this property will be around 10.50-11 €/square meter. The rents without making any changes we estimate to be about 9 €/square meter. Therefore, we will be able to increase by changing the tenant structure up to 11. We will begin at the first new signings at 9.50€/square meter. This is a rent increase of around 20 % from the actual average rent. If we get 11€/square meter we increases the actual average by about 40%.

These are three very good reasons for putting as much effort as possible on this property and to take this chance on the market in Hamburg. We hope to improve this property after two years to an Akelius property standard. What we have learned is that we need a very high ambitious aim, to make the best results.