

Property Development

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Summary

- Each property is unique.
- Make a Business Plan for your property. You can follow up your plans.
- Think in alternatives. You always have a choice. Calculate the yields.
- Talk face to face with tenants. You will reach better results.
- Be patient – sometimes things need time to change.

Introduction

The property was bought at a compulsory auction in May 2007.

The property has 28 apartments and 14 parking spaces and it was built in 1980. The average apartment size is 93 square meters; the house has seven entire floors, two staircases, and two elevators. Each apartment has a balcony.

It is situated in a B – Location in Berlin-Mitte, in an urban quarter with mainly old buildings. The river Spree can be reached within three minutes by walking. Public transportation possibilities are very good. Both the shops for daily needs and infrastructure facilities can be reached within one km. A very big green area called “Tiergarten” is only 300 meters walking distance.

Until the auction, there was a public subsidies loan on the property, this means rents were and are still limited. The rent control runs until the end of 2010; afterwards, the market rent can be charged.

The purchasing price was 2.45 million Euros, which corresponds to 939 Euro per square meter. The initial yield was 3.06 percent. The transaction costs amount to 222.000 Euro.

The situation by closing

When we took over the property it was managed by an administrative receiver who only did the absolute minimum necessary, because of financial restrictions; it was managed very poorly. Both technical problems and problems regarding the tenants were ignored. This included the letting, rents receivable, running maintenance, visual cosmetic issues and requests from the tenants.

No caretaker was retained; all common areas were in a bad shape. Garbage, bulky waste, and graffiti were everywhere. The electric bell system did not work, and doors were not locked. The facade was crowded with satellite dishes. Vandalism was a big problem.

Tenant structure was, and still is made up of fourteen different nationalities.

Operational costs were on average 3.70 Euro per square meter. In general we calculate with an average of 2.50 Euro.

In June 2007, six apartments stood vacant. The average rent was 4.29 Euro per square meter. In our application for a decision from the board, the market rent was determined at 6.48 Euro per square meter. The former property manager closed three leases between 4.10 to 4.65 Euros per square meter during the first quarter of 2007.

The current situation

The situation today is a result of following the business plan we made when we took over the property. We have considered our alternatives, leave the house like it is, make a project out of it or sell it. The highest yield is expected by making a project out of it.

The first step in the project was to inform the tenants of our plans, and which partners would help us.

Maintenance

Today the property is in a very good shape. Cosmetic and technical measures have been carried out. The façade and staircases have been refurbished. The garden is well kept. New cellars offer space for bikes and baby carriages. A new and modern cable TV station provides numerous television programs. On the façade, satellite dishes are no longer seen. The

electric bell system works, and doors can be locked. Graffiti was removed immediately.

Vacant apartments were refurbished and have a very good standard. New solvent and equitable tenants will be attracted. No planned maintenance needs to be done within the next ten years.

Soft Factors

Today, a caretaker stays six hours a day in the property. He helps the tenants with solving little problems, and watches that vandalism is minimized. Tenants have noticed that there is somebody who cares. Requests of the tenants are taken seriously and answered immediately, as well as from the property manager as from the caretaker.

We reduced the rents receivable by fifty percent, due to the fact that we got in contact with each tenant who had not paid their rent. We made appointments in their flats to find unique solutions for each tenant, with some agreeing to a payment by installments, others were made to understand that they could not afford the apartment and that moving out would be the best solution for everybody.

All in all we developed a better understanding of their personal situations, and we could mostly offer our help in satisfying both parties. In addition, it was a good opportunity to present Akelius and the way we think and what we plan. Furthermore we tried to get in contact with the social services department to organize financial help for tenants; some of the tenants were grateful that we talked directly with them, others did not accept our help and in these cases we took them to court.

Rents/ Vacancy

Today we have four apartments vacant. The average rent increased from 4.29 to 4.94 Euro per square meter.

Due to our restriction in rents, and the fact that the market rent is above the restricted rent, we sought after solutions. In cooperation with our lawyers we found a legal way of reaching the market rent. Today, we offer new tenants two lease contracts, we sign one lease contract for the apartment, and tenants pay a rent which is equal to the restricted rent. Additionally, tenants pay a fee for a usage right for the fitted kitchen; both amounts together, the rent and the fee, are equal to the market rent.

Rental arrears, where we did not find a solution, the tenants have been sued. Unfortunately, this method takes a lot of time in Berlin because courts are overloaded.

The wanted situation

Satisfied tenants

However, there are still some tenants who feel disturbed by a minority of tenants. We will visit these tenants and find out if we can help them in any way. We will try to convince them about the way we think people should live together in a house. Changing these habits might be a long process, but with patience we are sure to reach a satisfied tenant structure.

Now that the house is in a good shape, we plan a tenant festival in the garden during next spring to build up a community and to make it more familiar. People will get the possibility of getting to know each other, and hopefully to get a better understanding of each other.

Full payments in time

The way we started, with a strong collection of rent every month, needs to be continued. Personal contact with tenants who do not pay their rent is more effective than a simple letter, especially when we have a multicultural tenant structure and we know that some of them have problems reading foreign languages. Based on our experience, we will continue finding individual solutions for tenants in personal meetings.

Further, we will intensify the contact with the social services department for tenants who receive financial support from the government. Our goal is to receive rents directly from the social services department.

Tenants who have outstanding rent, and who are not willing to cooperate or to accept our help, will be sued. We try to convince these tenants to move out; we think about ways of speeding up this process, i.e. by offering help to find another flat.

All apartments are rented at market rent

Since we have the house in a good shape and we have a caretaker who keeps the house clean daily, we can now show the house for the type of tenants we would like to have.

Since we started to market our apartments, we have received a good response. Sometimes it is difficult to convince people to sign lease contracts when they notice the multicultural tenant structure; however, with each new tenant who fulfils our expectations we will find it easier in the future. By July 2009, we will have rented out all vacant apartments.

Today there is not much potential in rent increase for current tenants, this is due to the rent control which runs out at the end of 2010. Nevertheless, we will realize this potential.