

Refurbishment of apartments - the Berlin way

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Introduction

Berlin is the largest site of Akelius Germany. Currently we have 4,008 residential units in Berlin. The average fluctuation for apartments in Berlin is 10%. So we have a turnover of approximately 400 tenants per year. Our experience has shown, it is necessary to completely refurbish 30% of the apartments. That means that we have to completely refurbish 120 apartments every year. A complete refurbishment of an apartment requires a significant coordination of efforts and binds much work schedule. A very important point concerning the refurbishment of an apartment is the vacancy period. The average price for the new lease agreements is 6.50€ and an average apartment size of 60sqm; for every vacant week Akelius loses rent equivalent to 100€. That means, if we do not work effectively and all of the 120 apartments are vacant only one week too long, we risk losing 12,000€ a year in Berlin alone. This simple example indicates, that it is also necessary to optimize the internal operating schedule for refurbishments.

Refurbishment costs in Berlin

Every year Akelius invests a lot of money to reach the Akelius standard. A large item is the refurbishment of apartments. However, it is difficult to determine an average sum for this item. For example, in 2008 the most expensive refurbishment of an apartment cost 35,000€ in Berlin.



Example: Berlin, Kastanienallee 94 – living room before refurbishment



Example: Berlin, Kastanienallee 94 – living room after refurbishment

Furthermore, there are also lots of apartments in which Akelius does not have to invest anything, and these apartments could be rented out immediately.

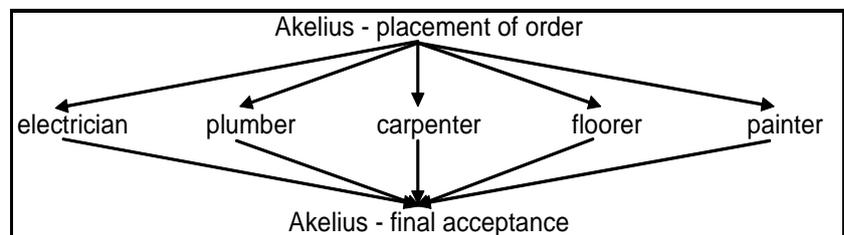
However, creating the forecasts and the budget stable, it is important to know the average cost of the refurbishment of apartments. Therefore, we decided to create an Excel table with all the newly leased apartments to document what we have done, and monitor how much it had cost. We also measured the apartments which did not require an investment. In this Excel file there were examples of the standing data of the apartment, the cost for refurbishment, the previous and the new rent level. With the help of this file we have a survey over how much the average costs for a refurbishment is exactly. For the Berlin properties it is about 4,500€ From the beginning of the fiscal year 2008/2009 we differentiate between refurbishment under and exceeding 5,000€ The average for the apartments under 5,000€ is about 680€ For the apartments which cost more than 5,000€ the average is 12,670€ On the basis of our experiences and the ratio of fluctuated apartments found in this Excel table, it is possible to make more accurate forecasts about the development of the costs in future.



Example: Berlin, Kastanienallee 94 – corridor before/after refurbishment

Old procedure

Some of the first apartments were refurbished via the placing of individual orders, “a one off basis”. This type of procurement demands a lot of effort concerning internal coordination. This starts with the selection of the firms, the comparison of bids and ends with the construction supervision. For a complete refurbishment of an apartment, normally five different types of tradesmen are required. The selection of the firms and the comparison of bids requires a lot of time; but much more time is needed for the construction supervision and the construction coordination. The construction supervisor is responsible for coordinating the different firms and the process flow. Those are premises necessary for the project to run well and without any delays. In the procedure of placing individual orders, the refurbishment of an apartment takes between five and six weeks.

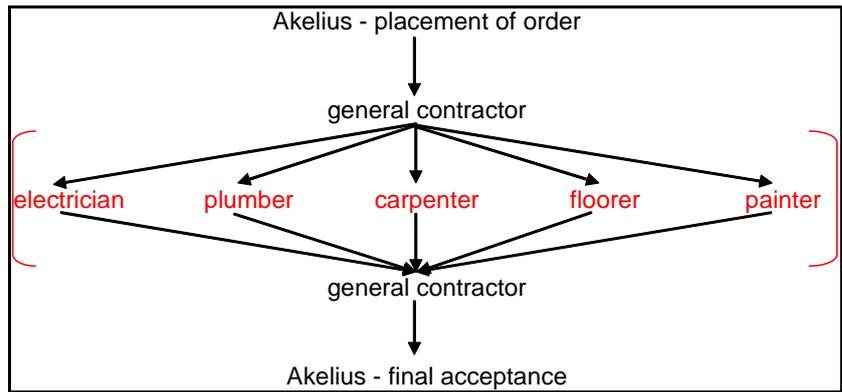


Scheme of individual placing of orders

As we already recognized in the example above, the construction period and the quality of the work are important things. As a matter of course, the quality of the work has to be controlled; but the quality of the work depends only on the chosen firms. The only thing we can do for optimization is the selection of the best firms, that is why this review deals only with the optimization of the internal sequences.

New Procedure

As already mentioned, the coordination of the work is an important point for a quick and smooth procedure. About ten apartments can be completely refurbished at the same time, and in another ten apartments smaller refurbishments are carried out. This enormous coordination effort cannot be settled along the way from the asset manager or the project manager. That is why the Berlin office decided to work partly together with some general contractors. These general contractors assume the whole coordination effort. For Akelius, the advantage is that there is only one contact person. Furthermore, we agree that the work has to be finished after four weeks.



Scheme of placing an order to a general contractor

After the decision that a complete refurbishment was limited to a period of four weeks, the next step was to create a good communication flow between Akelius and the responsible general contractor. The general contractor has to know exactly what our expectations are concerning the refurbishment of an apartment; that is why we created a recording journal.

After the former tenant had surrendered the apartment, the asset manager visited it and recorded the actual condition and decided upon the required measures to be taken. After a short period of time, we determined that this new method did not bring about the expected efficiency gains that we had supposed.

The registration of the apartment with the help of the 20 sided journal and the subsequent transmission of data into our IT-system took too much time. This is the reason why we had to revise our journal once again. The registration of the data should be easier and transmission into the IT-system should not be necessary any longer. To achieve this, it was necessary to do the registration digitally. That means our Excel table had to be adapted in this way, allowing us to do the registration with the help of a laptop computer in simple way. It is really cumbersome to pace around in an apartment with a 15 inch laptop, that is why we needed a small light one. Furthermore, it was necessary to have a touch screen to guarantee single handed control. Using this alternative, it is possible to make the registration very quickly, and we get the data in an electronic format straight away. This electronic registration makes it possible to transmit the registration journal simply to one of the general contractors. After receiving the journal, the general contractor can start immediately with the refurbishment without losing any time. Because of this interlocking of the different working steps, we were able to further reduce the time for the refurbishment. By changing over to the electronic method of registration we gained another advantage:

old rent:	5,20 €	total amount:	19.863,35 €
new rent:	8,00 €	yield:	8,46%
property:	7046		
address:	Droysenstr. 7		
region:	east		
city:	Berlin		
living space in sqm:	50		
number of rooms:	2		
location:	2. floor left		
year of construction:	1907		
date of inspection:	2008-11-03		
floor plan existing:	yes		
cylinder lock change:	yes		
basement:	yes		
cosmetic repair article:	no		
tenant responsibilities:	yes		
start of construction:	2008-11-03		
completion date:	2008-12-12		
apartment space	sqm		
sqm living space	50		
sqm floor	50		
sqm blanket	50		
sqm wall	200		
m filet	25		
apartment door		per unit	unit price
bell is in function	yes		--
verifying bell	no		18,90
new bell	no		47,25
revise apartment door	no		84,21
basement		cubic meter	unit price
			total price

Example: Headings of registration journal

The registration journal was revised in this way, that the asset manager can see the actual construction price and the yield on the measures carried out; that makes it possible to arrange the refurbishment from an economic point of view.

Future development

If you do not go forward, then you go backward, as the saying goes. That is why we are already considering what we can do to continue the optimization of this procedure. One idea is to adjust the registration journal so that it would be possible to run it on a handheld computer. It would be more flexible; moreover, a handheld is much cheaper than a laptop computer. Another idea is to send the order for the refurbishment material automatically; this could shorten the refurbishment period again, and would save a lot of money. There are lots of ideas for optimizing the process of refurbishment of apartments again and again.