

Useful information

For property owners in Berlin



Hello!

Nice to meet you. My name is Gidi, a long-time Berlin resident. I am mostly regarded as a real estate professional and expert, yet I have set only a modest goal for myself: to give my clients the peace of mind they need, with close attention and full transparency.

My business partner, Mr. Nils Ellerkamp, and I founded our company Trust-AGN Holding in 2015 after serving several years as the heads of the technical department and asset management departments (respectively) of a big real estate company in Berlin. Today we provide property management, investor support, sales, financing and financial advisory services in the field of real estate in Berlin, and in Germany in general.

Every private investor who contacts us receives maximum attention. We know that beyond the ongoing technical support of the property, there is a basic need of the investor to pay close attention to his investment. I monitor the market regularly and know how to put myself in my clients' shoes.

My company and team in Trust-AGN has extensive experience in the field, including:

- Assisting in the sale or purchase of a real estate in Berlin.
- Ongoing management of dozens of furnished/unfurnished apartments in Berlin.
- Advising and assisting with real estate investments in Germany.

I hope that this brochure and the ten questions answered here, will provide you some useful information about investing in a city that simply has everything - Berlin.

If you still have any questions or doubts, I will be happy to answer them by email: info@trust-agn.com or by phone: +49-(0)1523-3682956.

Enjoy reading,

Gidi



What is the Rent Mirror (“Mietspiegel”) and does the owner have to follow it?

The Rent Mirror is a rent index calculated based on the average existing rents on each individual street. The index, which is updated every two years, includes base rents and various criteria that increase or decrease rents. For example, a high standard of plumbing or central heating in the apartment will increase the rent.

The Rent Limitation Act limits rents to up to 10% above the respective price index for the apartment, taking into account its criteria. It should be noted that in the case of old leases where the rent is below the index, an increase in rent is only permitted in a moderate and staggered manner.

Tenant protection - advantage or disadvantage?

In Berlin many tenants are considered protected, and many investors are hesitant to buy an apartment with a protected tenant. I point out to investors that tenant protection might be an opportunity. I will first explain the nature of the tenant’s protection and then see how one can turn it into an advantage.

Traditionally, Berlin leases are signed for an indefinite period of time. In such contracts, the tenants can stay in the apartment as long as they wish, and can terminate the contract with three months’ notice. The landlord, on the other hand, can only terminate such a contract for a “good cause.” Such a cause include, for example, the tenant’s failure to comply with the terms of the contract, the owner’s or his family’s wish to use the apartment for their own living purposes, or the need for modernization (not renovation, but massive repair or maintenance work, the failure of which would significantly affect the value or safety of the apartment).

Furthermore, in the case of self-occupancy by the owner additional protection takes effect: the provision stipulates that the cancellation notice period ranges from 3 months (if the tenant has lived in the apartment for up to five years) to 9 months (if the tenant has lived in the apartment for more than 8 years). But here another important point comes into play: if the current tenant moved into the apartment before the building was subdivided into separate apartment units in the land register, the tenant can stay in the apartment for at least ten years from the first sale after the subdivision. That might be a

common scenario, as typically old buildings were registered as a single block in the land registrar and were only subdivided in recent years. For example, if in 2015 John bought an apartment that was subdivided in 2014 with a veteran tenant, the tenant can insist on his right to stay in the apartment until 2025.

It should also be noted that in cases where the tenant has a sensitive social situation, for example, a tenant in need of care or a very old one, the right of self-use may be questioned and refused by the court.

The amount of rent cannot be changed at the discretion of the owner, but is generally anchored in German law, which allows and regulates an increase in the existing rent only in moderate steps.

So how do I turn it into an opportunity?

Due to the high demand for accommodation, Berliners looking for an apartment for their own use are willing to pay a higher price for vacant apartments and, as the latter are scarce, also for apartments with “unprotected” tenants, so the market value of such apartments is high and continues to increase with population’s growth. The demand for apartments with a protected tenant is lower and therefore their price is much lower: the difference can reach about 2,000 euros per square meter more if it would have been available.

Investors with patience can take the opportunity to buy apartments with a protected tenant at a low price and sell them in the future when the tenant moves out or the tenant protection expires, with potentially significant profits.

My tenant is paying low rent, should I sell the apartment?

Rent levels in Berlin have risen significantly in recent years. However, leases signed 10-15 years ago or longer protect the tenant from both rent increases and termination of the lease. As I described in my answer to the previous question, the market value of a vacant apartment is significantly higher than its value with a protected tenant due to the high demand for apartments in Berlin. This means that if there is a reasonable prospect that the tenants will vacate the apartment in the foreseeable future, it is definitely advisable to wait until the tenants move out before selling the apartment. As mentioned earlier, the market value of the apartment increases when the tenant leaves, and this can be a good selling point. Alternatively, once the apartment is vacant, it can be furnished and rented out for medium periods of time (two months to a year), which, in addition to providing higher rental income, ensures that the apartment remains available in case the owner

wants to sell it in the future. Trust-AGN manages today a significant number of such furnished apartments, yielding a 96% occupancy rate.

Here's a tip from me: in some cases, I would recommend owners to sell the property even if it is rented, and convert it to a higher-yielding property or a property with higher improvement potential. Why?

If you bought a rented apartment a few years ago, when Berlin was at the peak of its upward price correction, you probably paid a low price for it and its value has increased today. On the other hand, as long as the apartment is contractually protected and the rental value is fixed, the market value of the apartment is likely to continue to rise only moderately over the next few years, if at all. In other words, your money simply stagnates and does not increase in value over time. As with any investment, you should ignore the past performance of the property and focus on where the money will perform better from now on. In these cases, I recommend to my clients to sell the property and buy a high-yield apartment whose value is expected to increase faster. With the demand in Berlin continuing to rise, it is really not difficult to find such properties.

How can my long-term investment be optimized?

Of course, I recommend maintaining a reasonable and basic level of maintenance on the property to avoid significant and expensive repairs in the long run.

When an apartment becomes vacant, either naturally or due to a mutually agreeable arrangement with the tenant, I usually recommend switching to the furnished-, mid-term rental model. This model has a number of clear advantages:

1. High cumulative rental income
2. Protection from protected tenants. This is the safest way to ensure that once you want to sell the apartment, you can sell it as vacant and at its maximum value.

The target audience for these apartments are workers coming for training, transportation executives, students, and families relocating.

Today we in TRUST-AGN maintain and manage several dozen furnished and equipped apartments in all parts of the city, with high occupancy rates. Even during the Corona period, when no new tenants came to town, we found that existing tenants did not move out, and most apartments remained rented and continued to generate revenue.

What are the costs of maintaining the apartments?

The ongoing costs of the property are the responsibility of the owner towards the building's owners community, yet most of which are actually paid by the tenant as part of the rent payments, with the remainder paid directly by the owner.

The costs that are due on the tenant are the costs of regular maintenance such as heating, cleaning of the building, maintenance of public areas, and property taxes. The average of these costs is 3 to 3.5 euros per square meter a month.

The costs incurred by the owner are mainly the building maintenance fund (a fund accumulated for services, massive repairs or improvements in the building) and the payment to the building committee. Here the average is about 1.5-2 euros per square meter per month.

The price of a complete renovation of an apartment is on average 500-800 euros per meter, not including VAT

How does the purchase/sale process work and do I have to travel to Berlin for it?

From the moment you have selected the apartment for purchase, or when we found a buyer to your apartment, the procedure is quite straightforward.

We deliver the transaction's details to a German notary, who prepares a draft of a purchase contract. Both parties, the seller and the buyer, are given a period of about two to three weeks in which they can make requests and ask questions about the contract. During this time, the buyer might, with our assistance, obtain a financing offer from a German bank.

The purchase contract is first signed in Berlin with the mediation of the German notary. Of course you can come to Berlin to be present at the signing, but you are not obliged to do so. The contract can be authorized by you at the German Embassy in your country or at a local notary (in the latter case an apostille stamp is required). The contract confirmation with your original signature must be then sent by post to the German notary. Once the German notary received the original signature from both parties the transaction get into force. It typically takes 6-8 weeks from the signing until the buyer is instructed to pay the purchase sum and the ownership change takes place. The notary overlooks the legal process and instructs the parties accordingly.

After the purchase we are at your disposal in all matters of property management, renting and maintenance.

What is the difference in the perception of the local Berlin tenant and a foreign investor?

Since this is a city with a strong rental culture and rental contracts that protect tenants from contract terminations or unexpected rent increases, one can certainly get the impression that tenants in Berlin feel comfortable and secure in their apartments and therefore tend to keep and invest in the property. In my eyes, that's a positive thing.

In addition, tenants have learned to educate themselves and are aware of their legal rights.

There is of course some inherent conflict-of-interest between the tenant and the landlord, especially in terms of the rent price, but there is also a significant common interest in everything related to the maintenance of the property and the basic cooperation between the tenant and the owner.

Those who purchase an apartment should keep in mind that it is their property, but it is also the tenant's home. I support and encourage a respectful relationship between the two parties, which certainly works in the landlord's favor in the long run. To my delight, I have found that the vast majority of investors – and I already served several hundred of them - understand and accept this as a matter of course.

This relationship includes, on the one hand, regular and proper maintenance of the apartment on the part of the owner, and on the other hand, it works in favor of the owner in maintaining the property and paying the full and regular rent on the tenant's side (the tenant has a legal right to reduce the rent if there are defects in the apartment).

The best example of this is when it comes to selling the property. In this case, I make sure to have a conversation with the tenants, inform them about the expected sale and ask about their plans. In a considerable percentage of cases, I have been able to reach a mutually acceptable agreement to vacate the apartment in exchange for payment of compensation to the tenants. Such an agreement, which can significantly increase the proceeds of the sale, is only possible if the tenants feel secure and respected to start with.

What have been the most important changes in Berlin's Real Estate market over the past two years?

With the repeal of the Rent Cap Act in April 2021, the market returned to the price levels that were common before the law was applied in 2020. At the same time, new construction remains one of the most important steps in easing the housing demand. In 2019, as in previous years, more than 20,000 new housing units were approved. The number of completions has been steadily increasing since 2010, reaching a new high of 18,999 completed apartments in 2019.

There are few economies that have overcome the Corona crisis as well as Germany. Even though the price trend has slowed slightly, Berlin has maintained its strengths. The repeal of the locally-initiated Rent Cap Act seems to have proven to many investors that regulation in Germany is ultimately built on a stable set of rules. Paradoxically, it seems that the regulatory measures in the rental market had a positive impact on further development, as there has been a reversal of the trend among Berliners and they have changed from a tenant's to a buyer's market. There is also a clear tendency for residents to migrate from the center of Berlin to more distant districts, such as Pankow, Marzahn, Reinickendorf.

Undoubtedly, the year 2020 will be particularly remembered as the first year since 2004 in which immigration to Berlin became negative. The main reason for this is the slowdown in immigration from abroad due to the corona epidemic. Another reason for the apparent decline is the authorities' efforts to "clean up" the data of residents who left the city months or years ago but did not report it – an action that gained momentum last year.

Price trends in the first quarter of 2021:

Existing Buildings:

Median asking price: **€5,100 / m²** (up 6.8% from the corresponding period last year).

Median asking rent: **€11.7 / m²** (+ 3.5%).

New buildings:

Median asking price: **7,100 € / m²** (+ 9%).

Median asking rent: **18.45 € / m²** (+ 7.3%)

The price increase is particularly noticeable in luxury apartments, as the city attracts more high-level and educated workers from the information, high-tech and start-up sectors.

Is there employment growth in Berlin?

Between 2014 and 2018, there was an 11.3 percent increase in employment, with 198,500 people added in the service industries alone. This data does not yet take into account a number of major projects that are expected to significantly accelerate the region's momentum in the medium and long term. In the medium term (2021 - 2022), for example, many new jobs will be created in connection with the new BER international airport. The Siemens Group has also announced extensive investments in a new district - "Siemensstadt 2.0" in Spandau. In Grünheide, east of the city limits, Tesla is building a 'Gigafactory' for the production of electric vehicles with more than 10,000 employees, to name just a few examples that show that Berlin is definitely set for further growth.

Since 2020 was an exceptional year worldwide, it is worth taking a look at the development and trends up to the first quarter of 2020. According to preliminary calculations by the Berlin-Brandenburg Statistics Office, economic growth in the German capital has also been well above the national average of 0.4 percent in recent years. With a comparatively low unemployment rate of 7.8 percent, the number of people in work rose significantly in 2019: 2,066,000 Berliners were employed - 49,600 more than in the previous year.

I hope you find this information useful.

If you have any further questions or concerns, I am available

by email: info@trust-agn.com

or by phone:

+49 (0) 152 - 33 68 29 56

+49 (0) 30 - 69 53 67 01

Yours, Gidi

©2021, Trust-Agn Holding GmbH

This booklet is provided for information and education purposes.

The investor is encouraged to apply her/his own research before investing.