

**Guest Comment: Igor Christian Bugarski, CEO, NORATIS AG**

## **Creating attractive living space by upgrading existing dwellings**

The Corona crisis will, without doubt, also leave its mark on the housing market. Apart from external factors which includes disease and job loss, many tenants increasingly had and still have to contend with their current rental situation. During the lockdown dwelling defects, outdated furnishings, and house technology, or living in a problematic neighbourhood, became more apparent. However, moving to a new building is typically not an option because of higher rents. It seems obvious that affordable housing is a highly coveted commodity, more especially in times of crisis – including economic ones. Nonetheless, politicians and the business community continue to rely almost exclusively on new construction, although it has long been clear it cannot meet existing requirements.

### **Focusing on new buildings alone is not enough**

Of the more than 42 million residential units in Germany, around 60% were built between the end of World War I and 1986. Many of these dwellings have, over time, come of age both aesthetically and technically, because all too often only the most urgent repairs were carried out. Systematic apartment upgrades did not take place. Consequently, housing that tenants previously liked, has become more and more worn down, entire housing complexes are increasingly unattractive and can no longer be let out, even at low rents. Nonetheless, public debate focuses above all on new buildings. Politicians and the business community pride themselves with ambitious projects, putting a best foot forward during ground-breaking ceremonies. New buildings have certainly experienced an uptrend during past years, but with 293,000 apartments completed, it far from satisfies the need for around 400,000 dwellings. Moreover, construction costs have risen significantly over the years, which is partly due to the more stringent requirements in terms of energy efficiency and tighter regulations. Consequently, even in secondary locations where land is still more affordable, new leases for less than 10 euros per square metre net monthly rent (without heating etc) remain unattractive to investors. But for many tenants, namely families with children, or old-age pensioners, these rental prices are hardly affordable.

### **Need for upgrading with a sense of proportion**

In order to close the gap, it is necessary to work on the existing real estate portfolio. This does not mean luxury refurbishments, but rather a careful upgrading of residential units where feasible:

- By applying energy efficiency measures wherever it makes sense; and
- By renovating the apartments to ‘up’ the feelgood factor; and
- By upgrading the exterior of properties and surroundings.

The goal of this moderate refurbishment is to offer attractive housing while at the same time ensuring affordability. No high-end renovations are needed but rather a balanced price/performance ratio which combines sound quality with affordable rents. And which takes into account, more particularly, the interests of existing and future tenants. Following this train of thought, Noratis AG has over the past years, upgraded many properties throughout Germany. Out of consideration to existing tenants, only unoccupied apartments are, as a general rule, comprehensively refurbished, and incidental costs may even go down to some degree because of the technical and energy efficiency measures incorporated. With gross rents remaining largely constant, this creates scope for higher net rents. The interests of all stakeholders are taken into account with the Noratis approach to intelligent asset management. This triangle consists of:

- 1) higher rental income from the property for the owner, by reducing vacancy rates, amongst other things; and
- 2) higher residential quality combined with affordable apartments for tenants; and
- 3) attractive properties for real estate investors.

### **Political incentives are lacking**

To date, there has been a lack of supporting measures to create additional incentives for a corresponding multi-stakeholder approach to existing portfolio housing. The additional option of up to 5% per annum depreciation which exists during the first years following the acquisition of a new apartment are, unfortunately, completely missing in upgraded existing apartments. A bundle of incentives made up of grants, favourable loans, and tax breaks would contribute greatly in generating affordable and attractive housing from an existing portfolio and would do so rapidly. In times when politicians are right to strive to mitigate the economic consequences of the Corona pandemic, more especially for the lower and medium income brackets, such programmes should be part of the toolbox, and be maintained on a long-term basis. Because portfolio development equals crisis support and economic stimulus at the same time.

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