

Berlin Property – Cost of Property Management and the Best Way to control it

International property investors as well as German property investors are permanently facing the issue of getting value for money from their property management. Which is the right fee level that does not absorb high proportions of the rental income but enables the property manager to provide the right service level required? How should the fee be calculated? What is the going market rate? What is included and what is extra? This article will give an overview of the rates an investor has to be prepared for and some existing fee models.

Every property investment needs a property management that is right for the property, right for the investor and right for the budget available. The requirements regarding qualification and quality are not discussed in this article and will be addressed in an upcoming publication. I will provide some examples fee payment models and then provide a fee span for the going rate for each model and an evaluation from the investor's viewpoint.

Fixed rate model

In the fixed rate model the property management fee is based on the number of units no matter whether rented or not. There is no relation to performance of the property manager or even the performance of the property. In other words you still pay the full fee, even if half the tenants move out. A variation on the theme is a slightly reduced fee for vacant units. Quite often this model does not differentiate between residential property units and commercial property like retail property or office property. It is only used when the commercial property is a relatively small share of the total investment.

The going rate in Berlin is somewhere between 14.00 € and 20.00 € per unit per month plus VAT (!) which is currently at 19%. The reduction for vacant units would be somewhere between 2.00 € and 4.00 € if it is offered.

The service provided by the property managers with this type of fee model seems to correlate with a quite basic service level. It is a preferred model used by small one man band or so called kitchen table managements working in a semi-professional manner.

Percentage model

At the first glance this seems straight forward and fair but it depends very much on the parameter the percentage is applied to. Let me show you some variations on the fee model:

- gross contract rent including heating and ancillary cost – Soll-Bruttowarmmiete;
- gross contract rent cold (excluding heating) – Soll-Bruttokaltmiete;
- gross actual rent including heating and ancillary cost – Ist-Bruttowarmmiete;
- gross actual rent cold (excluding heating) – Ist-Bruttokaltmiete;
- net contract rent – Soll-Nettomiete;
- net actual rent – Ist-Nettomiete.

Again there will be VAT at the current rate of 19% added to the fee. There are many more iterations possible but these are the most common ones.

So if you are discussing property management fees with other investors and someone boasts that he is only paying 3.5% management fee what does that tell you? Right! It tells you almost nothing, only that they are using a percentage model. Ask them which model they are using and you will find that most of them will not even know they could have had options.

Only the last option mentioned above, a fee based on “**net actual rent**” really ties the fee a property manager receives to the income he helps to raise. It is also the only model providing an incentive to not only sign nice rental contracts but to make sure the money is coming in every month. There are constellations like a renovation period when this fee-model would not be fair and another approach could be required that should be limited to the time of the exception.

Taking the just said into account it is a complex task to provide a guideline on going rates. There are guideline tables available but most are influenced by property managers associations. Also the size of a property or the fact that there is a portfolio with a single owner and one type of reporting will influence the fee calculation.

For a single apartment building with 20 to 40 apartments you should be able to get a decent management with simple reporting and bookkeeping for a rate of 4.5 to 5.5 % of the net actual rent. It will be some negotiation but is achievable. If you need balance sheet bookkeeping because you have a legal entity like a GmbH as owner it will be more to the upper end of the fee span.

A mix of fixed rate model for the residential units of a property and percentage model for the commercial part are quite widely spread in Berlin since many of the inner city apartment blocks will have some retail units on the ground floor and some other commercial units on the first floor while especially side wings and rear buildings will be predominantly residential.

What is included in the agreed fee?

A healthy balance between what is included in the fee and what is included in the contract but for an extra fee and how is that fee calculated is key for cost control. If you want too much included you pay for it every month even when you are not using it. If you have too many extra services you are not in control of your cost and have to spend time signing off for extra delivery often not being in full possession of information needed for said sign off.

An example for useful extras: The writing of a rental contract should be included in the fee. The actual renting commission should be paid extra which also leaves you the option to use an external rental agent but still have the property manager responsible for the content of the rental contract. Similar regulation could apply to repairs once they exceed a certain amount.

I recommend agreeing a fee structure for extra services likely to be needed at some point during the contract during the competitive phase before the management contract is signed. You are likely to get better deals than asking for extras after signing.

Fee related Performance Measurement

I always integrate output orientated service descriptions or Service Level Agreements (SLA) and performance measurement tools like Key Performance Indicators (KPI) in the contracts I negotiate for

clients. This way it can ensure that the property manager knows what is expected from him and also knows exactly what happens (to his fee) should he not perform as agreed.

Other services provided by the property manager

It is popular amongst property managers to have their own or be in partnership with all kinds of facility service providers like cleaners, landscaping, plumbers etc.. Without clear regulations on the letting of contracts a very compatible property management fee could easily be over compensated through these extra services.

Kick backs from suppliers, insurances etc.

It is not a general practice but not uncommon either that discounts, tip provisions etc. are paid out separately. It has to be made clear to the property manager that it would be seen as a conflict of interest if the property manager would not pass these benefits on to the property.

Overview of results

Berlin Property – Cost of Property Management and the best way to control it, has provided examples to illustrate the diversity of factors that influence the cost of property management and at the same time the quality of service. There is the *fee model*, fixed rate or percentage, no less important the *contract specifications* and last but not least *other services* provided by or under commercial interest of the property manager.

Especially foreign private investors will find it useful to have a local representation and an extra pair of eyes on their investment and the performance of its management. For single apartment buildings or small portfolio a full Property Asset Management will not be affordable. In this case I recommend

- a consultancy during the search and contracting of a property manager;
- inspection every 3 to 6 months at the beginning going down to once or twice a year;

This allows the investor to focus on his investment plans and other activities while he knows that his property is well managed and a watchful pair of eyes is looking after his interest.

For a check up on the content of property management contracts and related cost please contact the author.

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