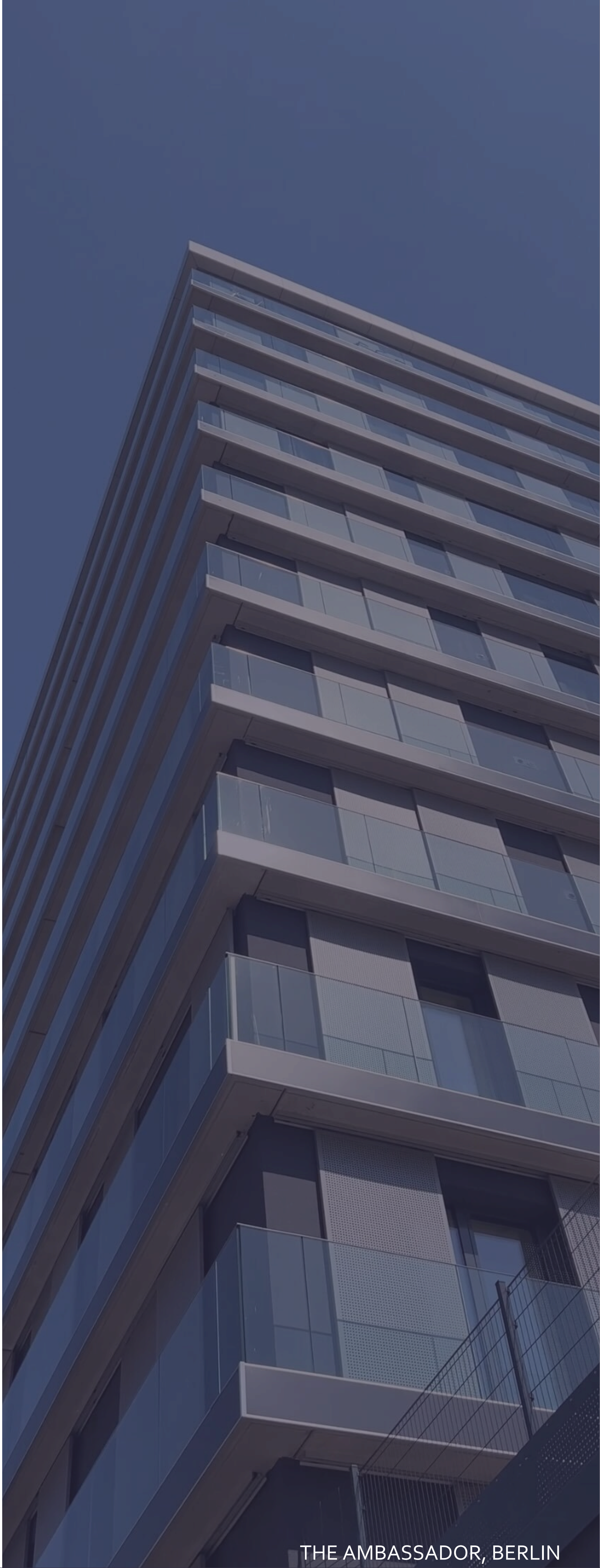
Navigating Rental Agreements and Costs in Germany:

A Guide for Investors

Thank you for choosing Complete to help make the letting and management process of your German property easier.

To help you understand the next stages of your purchase journey we have put together the below information to try and ensure understanding of future correspondence and hopefully make your journey as smooth as possible.

Whether you are a new investor landlord or have rental properties in other countries it is important you read this document to understand the intricacies of the German property market.



The Acceptance and Handover Process

Below you will find general information with the related terms and definitions. As the final payment happens between these two steps, mixing these 2 terms can cause confusion.

01 Acceptance (Abnahme)

The acceptance of the unit/apartment takes place when the developer declares the unit is ready for occupancy and before paying the related invoice. During this appointment, the developer and a representative from Complete check the state of the apartment together. Any defects in the unit will (and must) be listed in the inspection report (Protokoll der Abnahme). The apartment is accepted when no or only minor defects are found. The acceptance of the common areas often happens later, but the procedure is similar.

02 Handover (Übergabe)

This takes place after

a) the acceptance has succeeded (see above);

b) the related purchase price instalment has been paid.

During this appointment, keys are handed over, defects on the inspection report are double checked and a handover report (Übergabeprotokoll) is signed with meter readings, keys numbers/specifications and any remaining minor defects to be eliminated.

Types of Rental Agreements

1. Unlimited Contract:

Overview: The most common rental agreement in Germany, with no fixed end date.

Investor Considerations:

For IP Global clients, a scaled rent is typically agreed upon, with a 2-3% annual increase on the base rent for an initial period, usually five or ten years.

Termination Notice:

Tenants are generally required to provide three months' notice to terminate the contract. Landlords, on the other hand, must have a legally valid reason to terminate the agreement. These reasons include:

- Personal or family use of the property.
- Demolition of the building.
- A declaration by authorities that the building is unsafe.

2. Fixed-term Contract:

Not standard and not recommended

Overview: Contracts with a specified end date, commonly used for furnished apartments or temporary rentals.

Investor Considerations:

These contracts offer flexibility in adjusting rents but may lead to more frequent tenant turnover. In Germany, tenant protection laws are strict, and landlords cannot process operating cost settlements for fixed-term contracts. If an annual settlement shows the tenant owes money to the landlord, they are not liable to pay under a fixed-term contract.

Strict Legal Justifications Required:

Fixed-term contracts are only valid if the landlord has a legally accepted reason, such as:

- Planning to use the property for personal or family use.
- Conducting major renovations that would make the property uninhabitable during the tenancy.

FRIEDRICH HAUS, LEIPZIG

Key Elements Explained

Cold Rent (Kaltmiete)

This is the base rent, negotiated between the landlord and tenant, reflecting the property's size, location, and condition. It forms the foundation of the rental agreement and excludes utilities and other shared expenses.

Operating Costs (Nebenkosten)

These are additional charges paid by tenants, covering expenses such as heating, water, waste disposal, building insurance, and maintenance of common areas. Some of these costs can be passed on to tenants, while others remain the landlord's responsibility.

Warm Rent (Warmmiete)

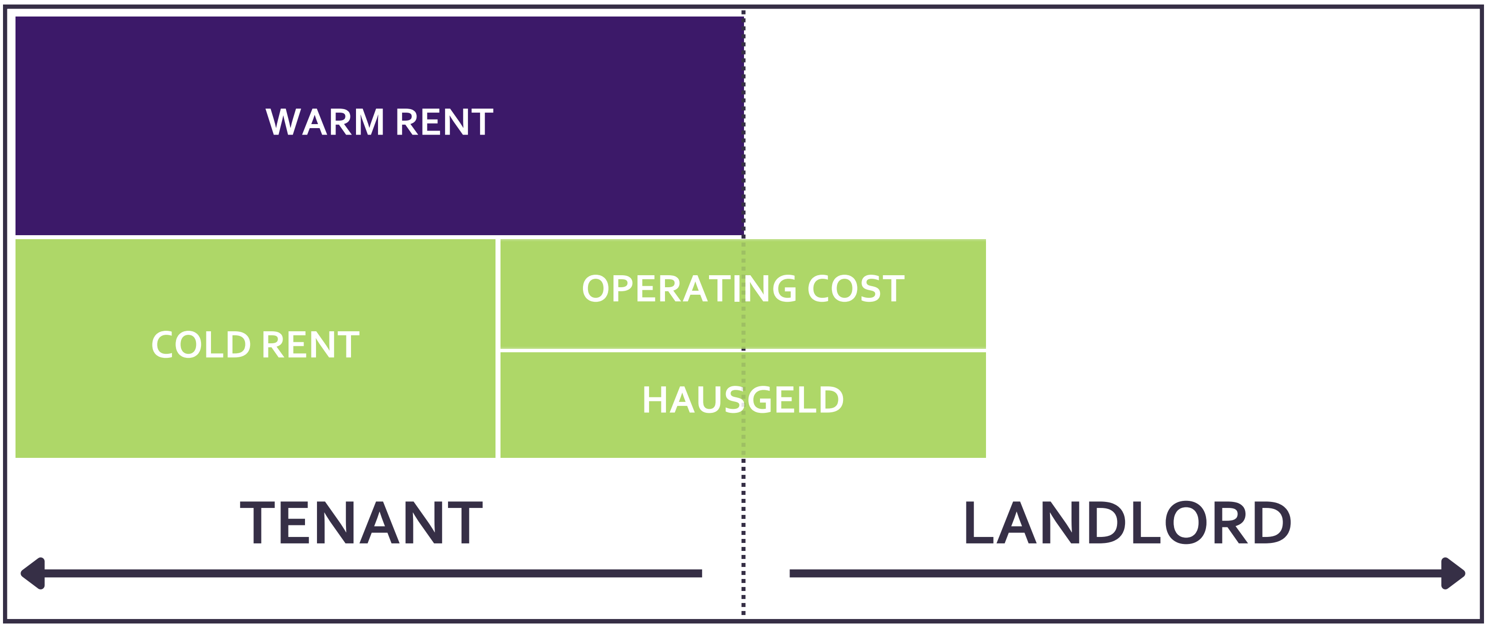
This represents the total rent paid by tenants, calculated as the sum of Cold Rent and passable Operating Costs. It provides clarity on the overall rental cost and helps tenants understand what their rent covers. It’s important to note that Complete’s management fee is charged on the full Warm Rent.

Warm Rent = Cold Rent + Operating Costs

Hausgeld

Applicable to properties in shared buildings, this monthly fee covers the costs of maintaining communal areas and services. While tenants do not pay this directly, a significant portion may be allocated to the Operating Costs in the tenant's rent.

Please see the below diagram for a visual representation of the key elements:



1. Cold Rent or Basic Rent (Kaltmiete)

- This is the base rent for the property, which covers the cost of using the living space itself but does not include utilities or other shared costs.
- The Cold Rent is typically negotiated between landlord and tenant and reflects the location, size, and condition of the property. Known across other countries as 'market' rent.


EDEN WEST, BERLIN

2. Operating or Service Charges (Nebenkosten)

Operating or Service Charges are added to the Cold Rent to form the Warm Rent. These typically include the following:

Heating Costs (Heizkosten):
This is one of the most significant components of Nebenkosten and includes the costs for heating the apartment and providing hot water.

Water Costs (Wasserkosten):
Costs related to the consumption of cold and hot water, as well as water heating (if not covered under heating costs).

Waste Disposal & Sewage Costs (Müllabfuhr und Abwasser):
Fees for garbage collection and wastewater treatment.

Building Insurance (Gebäudeversicherung):
The cost of insuring the building against risks like fire, storm damage, etc., which is included in the tenant's service charges.

Cleaning of Common Areas (Hausreinigung):
Costs for cleaning and maintaining shared spaces like stairwells or lobbies.

Caretaker Costs (Hausmeisterkosten):
Fees for services provided by a caretaker or property manager responsible for building maintenance.

It is important to note that Nebenkosten may cover a variety of services and utilities, but some are typically excluded from Warmmiete, such as:

- **Electricity:** Usually, tenants sign their own contracts with electricity providers and pay directly.
- **Internet/TV/Telephone:** These are arranged and paid for by the tenant separately from the rent.

3. Hausgeld (For Property Owners)

For property owners in shared buildings (e.g., condominiums), Hausgeld is a monthly fee that covers the costs of maintaining the building's shared areas and services. While tenants don't directly pay Hausgeld, parts of it may be included in their Operating Cost (Nebenkosten) element of the total warm rent.

Hausgeld typically consists of two categories:

1. Operating and Service Charges (Umlagefähige Kosten)

These are the costs that the landlord can pass on to the tenant as part of the Nebenkosten.

2. Non-Operating Costs (Nicht Umlagefähige Kosten)

These costs are the responsibility of the landlord and cannot be passed on to the tenant. They include:

- Contributions to the Reserve Fund (Instandhaltungsrücklage): A fund set aside for major repairs or renovations.
- Long-term Structural Repairs: Such as significant renovations to the building.

How Hausgeld is Calculated:

The Wirtschaftsplan (yearly budget) presented by the condominium manager outlines the Hausgeld and clearly distinguishes which costs are Umlagefähige Kosten (which can be passed on to tenants) and which are Nicht Umlagefähige Kosten (borne solely by the landlord). Typically, for new builds, about 70-80% of Hausgeld consists of Umlagefähige Kosten, while 20-30% are Nicht Umlagefähige Kosten, though this can vary based on the building's specifics.

As an example in a case where a landlord pays €100 per month in Hausgeld then the tenant's operating costs added to the warm rent would be around €80 per month.

Hausgeld Settlement (Hausgeldabrechnung):

At the end of each year, a settlement bill (Hausgeldabrechnung) compares the prepayments made by the landlord towards Hausgeld against the actual costs incurred. Any difference is either claimed or refunded to the landlord. Similarly, landlords can settle with tenants regarding any overpayment or underpayment of Nebenkosten.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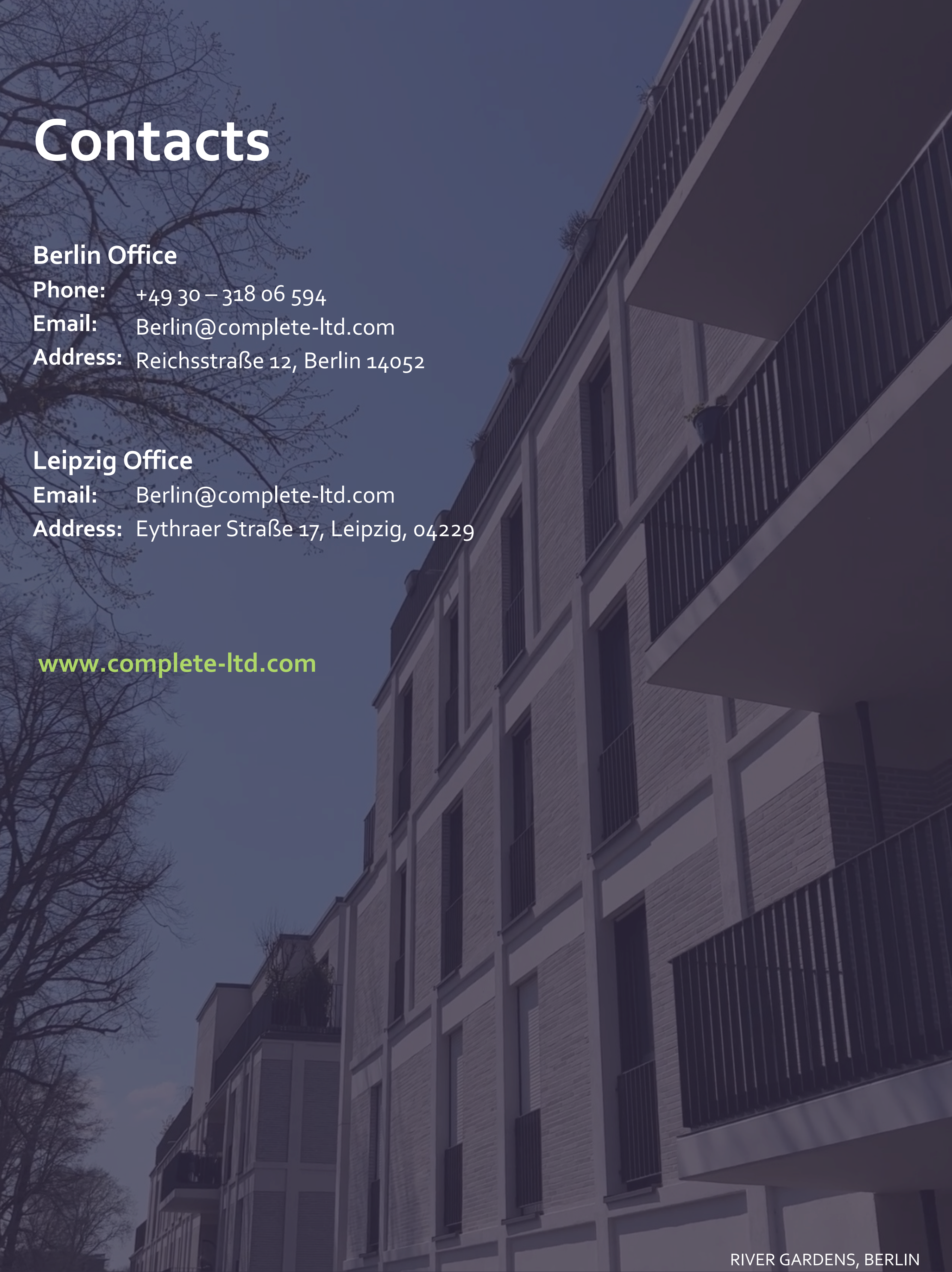

RIVER GARDENS, BERLIN