

**HOUSING TRANSFORMATION IN THE NEW STATES OF  
GERMANY:  
THE CONFLUENCE OF DISTINCT HOUSING SYSTEMS IN A FORMERLY DIVIDED  
COUNTRY**

by  
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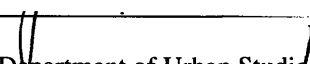
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## ABSTRACT

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After more than four decades of separation today's Germany is faced with the enormous task of reunification which has proven to be more complicated than initially thought. One of the sharpest contrasts between the former two Germanies is housing and housing-related policy.

This thesis explores some aspects of German housing with an emphasis from 1945 onward. It focuses on the distinct characteristics of the housing systems in both parts in order to elaborate on the most important problems: the **issue of public (social) housing** (ways of approaching this particular category), the **rent system**, and the **manner of supporting housing** (consumer vs. production subsidies).

After 1945, the divided Germany approached housing issues differently due to the distinct socio-economic structures. The postwar period was chiefly characterized by stock reconstruction and augmentation accomplished at different points in time in both parts. Governmental involvement occurred in very distinct ways (structure of involvement and financial support patterns). During the 1980s West German governmental intervention steadily declined, leaving the resolution of housing issues to market forces whereas in East Germany governmental engagement was reinforced.

The introduction of a social market economy in East Germany does not necessarily embody a reconciling process between the remnants of an abandoned system and the introduction of a new one. Rather, it is a process demanding the renunciation of socio-economic values inherent in a socialistic society. The coalescence of two different socio-economic systems requires strategies which need to be designed with clarity and a strong sense of responsibility (allocation of resources, avoidance of a lengthy bureaucratic decision-making process, personal mandate of individuals involved); otherwise it will be unacceptably prolonged. There are two general ways of reconciling different housing systems:

- (1) Retaining the current status quo of the systems;
- (2) Transforming the systems; for which three approaches are possible:
  - (A) Adaptation;
  - (B) Asymmetrical convergence;
  - (C) Symmetrical (mutual) convergence.

The path East Germany has taken to date is one of adaptation due to the economic differentials between East and West. **Asymmetrical convergence** might be a future alternative, once East Germany's economic recovery has taken ground. The experience of past East German social development could be helpful in the quest for solutions of a societal evolution in the *whole* of Germany.

The German transformation process is unique in a number of aspects (e.g. one country—two systems); an internal system divergence has to be overcome. However, conclusions can be drawn which could be useful to other countries undergoing similar socio-economic transformation. Some identifiable aspects are derived from the East German transformation process. For instance, methods such as shock therapy, sudden disruption and abandonment of current programs are unlikely to surmount accumulated problems. Staging the process is decisive. A **transition phase** needs to precede the **transformation phase**. Scheduling and timing become important aspects of the overall process.

Housing solutions are clearly influenced by the political structure of a system. The complexity and persistence of housing problems suggest once again that **governmental intervention** is required to balance the different forces involved in housing. The current housing market is often perceived as a dichotomy between public and private housing. However, in a market economy, both housing sectors deserve equal treatment. A **blended housing market** ought to be the ultimate objective of housing transformation in the whole of Germany. Small-scale, informal programs may best suit the necessities of turning parts of East Germany's large share of publicly held housing into private housing.

The relevance of the topic is characterized by its inherent uniqueness. No precedent of this kind is known in recent history.

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CHAPTER I

# Introduction

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The author of this thesis has a long-standing interest in housing and housing-related issues. Housing in East Germany was regarded as one of the main focuses of official East German<sup>1</sup> social policy prior to 1989. Moreover, housing was utilized in order to prove the superiority of the socialist system. By virtue of this mechanistic approach to housing, East German housing stock steadily decreased in quality. Aware of this issue, the author became immersed in social housing issues with the intent to change existing housing approaches. However, rising economic constraints of the late 1980s doomed this venture to failure.

Beginning in 1990, the societal turn-over in East Germany gave new hope. The complexity of both the task and challenge of doing something better has being enormous since two basically different social systems need to find a common "language." To a certain extent, Germany of these days can be described as a societal melting pot in which the confluence of two different systems occurs under one big heterogeneous umbrella.

Housing involves a number of philosophical questions:

- (1) Will there be a further upward trend of *physical quality* of housing over time? If yes, what are the characteristics?
- (2) Will there be a chance that the *housing gap*<sup>2</sup> is going to disappear at one time in the future?
- (3) How do we evaluate *social progress* in housing? Did we advance during the past?

These issues pervade housing in general. Comprehensive answers to these questions are not possible within the framework of this thesis. However, this thesis tries to contribute some insights to these issues.

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<sup>1</sup>The terms East Germany and West Germany are going to be applied throughout this thesis as a means of distinguishing both formerly separated parts of Germany. These terms do not imply any political depreciation of one or the other part of Germany. However, they are required to stress the still existing particularities between the two parts of Germany. In addition, the author does emphatically point out that the regained unity of the current Germany is vigorously recognized as status quo and respected.

The official denotation of East Germany prior to 1990 was German Democratic Republic (G.D.R.), while the official name of West Germany was Federal Republic of Germany (F.R.G.). As of October 3, 1990—the re-unification date—the latter is used for the whole of Germany.

<sup>2</sup>Refer to definitions.



## 1. Thesis Structure

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This thesis deals with a number of complex issues of current housing. The content is structured as follows:

First, essential current housing problems are treated that provide the framework for the more detailed transformation issues. Second, German social housing development and the current situation are laid out to establish the relations between past, present, and the necessities for the future. The next chapter deals with basic transition and transformation issues. The conceptual approaches are derived and the German specifics are tied into them. This is followed by some generalizations which show that these problems carry universal character to a certain extent. However, the nation-specific particularities need to receive equal attention.

An attempt is made to draw some conclusions. Those affect transition and transformation of a housing system previously operating under socialist conditions and currently merging into a market-driven system. Concurrently, some conclusions are drawn with respect to modern housing in general.

## 2. Border-Transgressing Context

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Germany may not be seen separated from the current European development. The East German housing transformation is unique to a certain extent, but carries more general characteristics as well. Therefore, the horizon of the topic is border-transgressing.

One of the unexpected phenomena of the most recent societal development in Europe is the outright break-down of several middle and all eastern European countries, formerly ruled by "socialist" governments. Due to this turnover, societal development problems accumulated over the very last years. They are characterized by enormous dynamics and may be described through key words such as instability, uncertainty, and partial absence of clearly formulated political aims and outstanding leading personalities. The pending primary issue therefore is: How to design a *sensible transformation strategy* for those troubled countries. Based on the German experience, a possible answer could be a transformation strategy which consists of two phases: (1) The **transition** and (2) the **transformation** period.

The societal problems pervade each aspect of these affected countries. Consequently, housing as one of the essentials of human life is inextricably bound up with this transformation process.

### 3. Proposition for a Housing System

---

The main focus of this thesis is placed on the investigation of the current problems and proposals for appropriate structures toward a housing system.<sup>3</sup> Therefore, I introduce the term **blended housing market**. A blended housing market reflects the concept of equal meaning for both the public and private housing sectors. As usually suggested, public and private housing seem to contradict each other. However, this thesis argues that the public and private housing sector should be regarded as a pair, conditioning and depending on each other. Both sectors contain advantages and disadvantages. Understanding, regarding and properly utilizing these different aspects is important in order to become able to make meaningful and pertinent decisions.

Housing inventory is one of the most valuable assets which society possesses. Thus, decent housing is a prerequisite for designing a sound reproduction process for society in general. Well-being, social equity, and the fostering of creativity are inevitably associated with well-developed housing stock. Therefore, categorizing and treating housing solely as a commodity does not seem appropriate. On the other hand, ignoring the market requirements may run the risk of momentous ill-developments. The dichotomy between market characteristics and social necessities is permanent in housing and needs always to be regarded.

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<sup>3</sup>Refer to definitions.

Housing adheres to a number of peculiarities. The consideration of those factors is important to understand the complexity of housing:

- The sluggishness to brisk stock changes;
- The heterogeneity of stock;
- The external and internal stock flow;
- The specific behavior under free market conditions;<sup>4</sup>
- The cultural component.

#### 4. German Specifics and Their International Validity

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This thesis further focuses on one particular aspect of the overall transformation process—transformation problems inherent to housing stock in former East Germany. Important as well, East Germany's housing problems cannot be detached from the development of the whole of Germany.

Albeit, a substantial part of this thesis focuses on the problems in the East of Germany, housing ultimately needs integral consideration. East Germany's housing development involves two aspects:

- (1) The transition and transformation toward a *distinct* socio-economic system necessarily entail changes in the East German housing system.
- (2) There was and is substantial change in the West German housing system toward increasing support of private housing development. This was triggered by global and local changes in society over the past decade. The decrease of social housing in West Germany contributed a good deal to the current housing shortage in West Germany. For instance, the new construction rate per 1,000 capita amounted to 3.4 units, the smallest rate in Europe.<sup>5</sup>

*The ultimate target of restructuring East Germany's housing system actually has not been formulated yet.* Rather, it needs to be defined with consideration for the *whole* of Germany. Two processes are running concurrently: the process of changes in the *whole of Germany*, and embedded in this process, the ongoing transformation in the East of Germany.

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<sup>4</sup>Grigsby, G.W. 1963. *Housing Markets and Public Policy*. Philadelphia: University of Pennsylvania Press.

<sup>5</sup>*Deutschland Nachrichten (German News)*, November 19, 1993, p.5.

The term **confluence** may best describe the core of the problem suggesting that changes on both sides of Germany are inevitable. The thesis will elaborate on some of the characteristics. The margin of confluence can be defined from unilateral adaptation via mutual convergence to retention. Finally it remains to be seen what this development will merge into.

Gradually, as a result of hotly debated issues, the insight is ripening that westernized approaches to *this* transformation process will not succeed, nor are the people of the affected New States<sup>6</sup> in Germany capable of solving the problems solely by themselves. Consensus, fair mutual recognition, and a common "language" are needed now more than ever before. The barriers in the mind of people have to be removed. Strategies ought to be developed that recognize personal interests and societal necessities equally. Therefore, a great deal of flexibility in decision-making will be required in order to handle existing assets properly and allocate financial resources responsibly.

As to housing in current Germany, two decisively different approaches—housing under market conditions in the West and formerly centralized housing delivery in the East—clash, owing to the fact of the swift reunification after the collapse of the former East German political system. The problems to be solved are:

- (1) No precedent in recent history exists where experience and knowledge of handling the transition and transformation from a centralized (political and economic) system to a free market economy in one country could have been accumulated. That is, *each step in this direction is novel and needs to be explored and elaborated*. Bad decisions, and aberrations are apparently inherent features of this development.
- (2) The ongoing transformation of the former East German states proceed under the auspices of, what was and partially still is for East German citizens, an unfamiliar socio-economic system. *This can be characterized best as a **hybrid state**, where the old, familiar social status quo is fading and the new one is not yet deployed fully*. Clearly, this also fashions the distinction between former East Germany and other European countries under transitional conditions. While in Germany antipodes have to be attuned to each other under one big umbrella, the other countries are nationally self-contained, sovereign political units with more margin to form and play out their own unique conditions.

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<sup>6</sup>New States of Germany: This is a term commonly used to paraphrase the existing differences between East and West Germany.

Regardless of the German specifics, there are some overriding aspects worth mentioning here. The intention of this work is to derive a number of conclusions for the transformation of centralized to market-driven economies.

Struyk and Telgarsky point to adverse side effects which may be expected:

Indeed there is the danger that pursuing a "big bang" solution could impose tremendous costs on those segments of society—people on fixed incomes or reliant on the state support—which are least able to cope with large price rises.<sup>7</sup>

This anticipated "big bang" occurred in East Germany. The shock therapy dragged down the whole former state-based construction sector in 1991.<sup>8</sup> The units output shrunk to some 60,000 in 1990 from 83,000 in 1989.

The special German "case" comprises the substantial advantage that everything that needs to be done, has to be done at a brisk pace, hopefully triggering a swift economic upswing and providing the impetus for far-reaching development.

It is assumed that the performance of the housing sector will be one of the benchmarks against which the success of the transformation process of Middle and Eastern European countries is going to be measured.<sup>9</sup>

The latest economic estimates speak of an encouraging recovery of East Germany's construction sector in 1993 and is referred to as the locomotive of the East German upswing. In 1992, 15,000 units were constructed. For 1993, about 25,000 units are expected to be completed.<sup>10</sup> There are no numbers on restoration available.

It almost took two years before the construction sector revived, developing the new structures as a blend of small, private firms and larger construction corporations. The shock therapy has, however, some economic advantages as well; it exposes old structures relentlessly to the new economic conditions, thus accelerating the evolution of the new economic environment. However, it may be brought to the attention that the shock therapy is not the remedy of all current evil.

We further need to mention here a part of the very specific German case, where concurrently substantial financial means started flowing relatively early within this overall re-developmental process of

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<sup>7</sup>Telgarsky, J.P. and Struyk, R.J. 1990. *Toward a Market-Oriented Housing Sector in Eastern Europe*. Washington, D.C.: The Urban Institute. p.7.

<sup>8</sup>Exact figures for 1991 were not available at the time this thesis was written.

<sup>9</sup>Telgarsky, J.P. and Struyk, R.J. 1990. *Toward a Market-Oriented Housing Sector in Eastern Europe*. Washington, D.C.: The Urban Institute. p.3.

<sup>10</sup>*Deutschland Nachrichten (German News)*, November 19, 1993, p.5.

society and continue to flow. By virtue of this financial capacity, East Germany was able to speed up a number of transformation processes.

No other Eastern European country is capable of warranting such gigantic financial resources and intra-country transfers. Recognizing these facts, a piecemeal and cautious approach *may provide better results in those other countries*. The strategies to be applied mainly depend upon the country-specific economic and social conditions, and may thus vary widely.

The key issue of those economies lies therefore even more in the creation of a *well-functioning overall housing policy*. The yardstick thereby should be of how well these economies cope with the goal of providing decent housing for the most troubled segments of the population. These segments can easily assume one third of the overall population size.<sup>11</sup> Further, it is tacitly presupposed that middle and upper income groups by and large have the resources at their disposal required for decent housing. However, a society cannot afford the exclusion of possibly one third of its population from having access to decent housing.

This thought does not only hold for countries under socio-economic transformation, but also for well-established market economies. The only difference is that the problems in countries under transition are unearthed more dramatically.

Housing and practical policy are inextricably interwoven. One of the main implications lies in the fact that under the current social uncertainties a clear understanding of the actual developmental processes within society is difficult to achieve. Pugh writes:

But political issues tend to be in a state of flux, with problems and objectives ill-defined, disagreed, and changing. Thus, at the critical preparatory stage, the political process is somewhat confusingly engaged in looking for consensus about acceptable definitions of problems and objectives—a stage at which the political risks of precision would be unbearable. Thus, having regard to the nature of political policy-making, the notion that social scientists can simply solve problems put to them by politicians, *at times when the issues themselves are in a state of flux*, is a myth. The mythical characteristics recede with the passing of time as issues are clarified in the *historical* process, and as knowledge accumulates.<sup>12</sup>

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<sup>11</sup>In 1991, 27% of the East German households were eligible for housing allowances.

<sup>12</sup>Pugh, C. 1980. *Housing in Capitalist Societies*. Westmead, Farnborough, Hampshire: Gower Publishing Company. p.135.

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CHAPTER II

## General Problems of Current Housing in Market Economies

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## CHAPTER II      General Problems of Current Housing in Market Economies

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This chapter provides the general framework for the specific issues considered in this thesis. It summarizes the most essential components of a housing system.<sup>13</sup> Particular emphasis is placed on current housing problems under market conditions which are especially relevant for countries under transition and transformation.

Consequently, we deal with the regularities of the market, i.e. *supply* and *demand*. The market treatise is followed by a discussion of past and current housing policy patterns. Housing policy is regarded as the *supplementing and framing element* and can essentially contribute to the success or failure of a housing system.

Further, the author regards housing policy as a means to shape and channel market patterns.

Housing *opportunities* are market driven. There are numerous people within society who are at a disadvantage due to market forces. These individuals do not have sufficient access to decent housing. Therefore, the main issue is of how to help those people disadvantaged by market dynamics.

### 1. Particularities of Housing

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Housing is distinct from other goods acquired for a living and contains a number of characteristics that sets it apart from other commodities. These are:

(1) Housing is an artificial environment:

Housing is an essential part of the artificial (or built) environment, i.e. it is man-made (figure 1). The immediate act of generating built environment happens in this way:

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<sup>13</sup>Refer to definitions.



## CHAPTER II    General Problems of Current Housing in Market Economies

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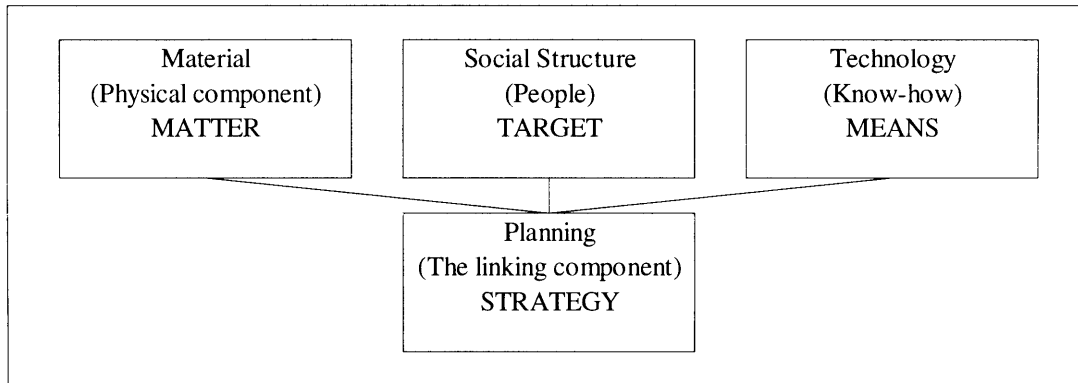


Figure 1. Elements of generating artificial environment

(2) Spatial relationships:

Housing basically occurs in three dimensions. The human being is an *active* component of this spatial organism since it lives in it.

We may distinguish between internal and external spatial relationships.

(a) Internal spatial relationships:

They comprise the layout of a dwelling, the arrangement dwellings to each other, their occupancy, etc.

(b) External spatial relationships:

They describe a spatial hierarchy or stratification from private via common toward public space which has an impact on neighborhood formation, etc.

(3) Location:

The location determines and represents social bindings, status, house value, and demand.

(4) Social structure of households:

The life cycle and its change over time impact housing.

(5) Cultural component:

The urban and architectural parameters are difficult to categorize. They are oftentimes referred to the cultural quality of settlements. It is hard to make them explicit in physical terms. In addition, they contain a so-called free-rider element, i.e. high-quality settlements are enjoyed by people and may also provide well-being and amenities for non-residents.

(6) Cost factor:

Housing is one of the most expensive commodities which a household acquires. Therefore, housing is a very critical element in household budget planning. A commonly recognized rule exists that the expenditures for housing should not exceed 25 to 30% of the overall household budget size. This

## CHAPTER II      General Problems of Current Housing in Market Economies

threshold value is of particular interest for low-income households. The diagram (figure 2) depicts the critical points of a life-cycle in dependency on income:

- There are definite periods in a life-cycle of an individual where particular budget proneness exists. These are the early years of family formation and the period after retirement. That means young households and elderly need to deserve particular consideration and support since they are the first, adversely affected by budget constraints.
- The diagram further suggests that low-income groups may never be able to provide sufficient financial means for housing over the whole life span.

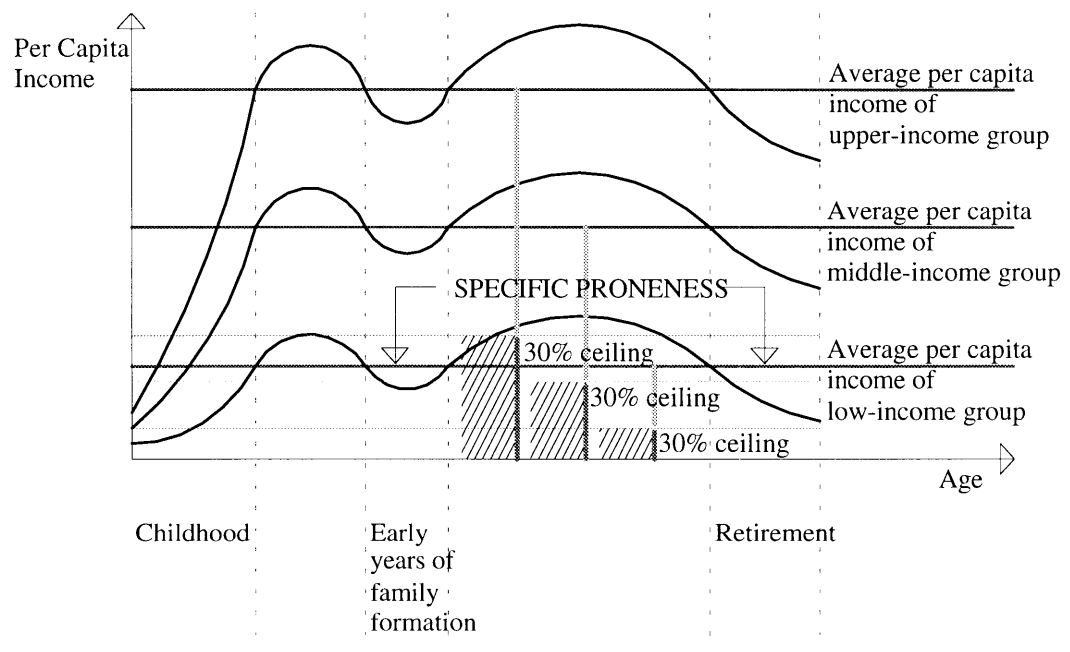


Figure 2. Life-cycle and per capita income<sup>14</sup>

The articulation and development of these characteristics is hard to measure and implement. Current housing tends to be rationalized and therefore stripped of those elements which contribute to a particular social quality.

There exists a dichotomy between the market regulative and the social requirements of housing. Therefore, housing is far more complex and not reducible to simplified market mechanisms.

<sup>14</sup>Pugh, C. 1980. *Housing in Capitalist Societies*. Westmead, Farnborough, Hampshire: Gower Publishing Company. p.82.

## CHAPTER II    General Problems of Current Housing in Market Economies

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### 2. Supply

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Supply of housing has essentially to do with stock issues and their dynamics. Those dynamics are the *production* and the *stock flow* pattern. One of the main particularities of stock is that changes occur relatively slowly over time.

#### 2.1. Housing Production

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Housing *production* comprises new construction, restoration, and upkeep. This paragraph deals with the generics of housing production.

In order to maintain a sound housing stock, a complete stock turnover should aim at a 35 to 40 years cycle. That is, each housing unit ought to be either replaced by a new one or renewed itself what would be the equivalent to replacement. The relationship between replacement and renewal will be explored later.

A turnover cycle of 35 to 40 years requires an annual turnover rate of 2.8 to 2.5% of the entire stock. This should also be the basis against which the annual stock *reproduction* requirement is measured. Population size and social patterns of society drive the requirement for the stock *size*. The social patterns are thereby expressed by the ratio persons per housing unit which is commonly denoted as occupancy rate.<sup>15</sup> Generally, a lower actual occupancy rate requires a higher annual stock throughput. An example shall highlight the problem. Let us assume a constant population size and a different stock size:

Population size:	80,000,000		
Annual stock throughput:	2.5%		
Stock #1:	30,000,000 units	⇒	occupancy rate: 2.67 persons/unit
Stock #2:	35,000,000 units	⇒	occupancy rate: 2.29 persons/unit

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<sup>15</sup>The actual size of the occupancy rate lags the theoretical size. The gap between actual and theoretical size reflects the qualitative problems of housing stock. Normally the actual size is greater than the theoretical size. A wider gap therefore is an indicator of serious housing shortage. The determination of the theoretical size depends on demographic characteristics and cultural traditions. Its determination is the object of socio-economic studies. For Germany, a size of 2.30 persons/household seems appropriate at present.  
In addition, the occupancy rate changes over time.

## CHAPTER II     General Problems of Current Housing in Market Economies

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An annual stock throughput of 2.5% would require the production of 750,000 units in case #1, and 875,000 in case #2. That entails, the better the current housing provision with the goal of maintaining a sound housing stock, the higher the annual production has to be.

The ratio *Housing units produced per 1,000 capita* is oftentimes used to evaluate the productivity and effectiveness of a housing system. However, this is incorrect since population *change*, current stock *capacity*, and *actual* occupancy rate are intertwined. For instance, assuming a unit-output of 750,000 for one particular year would yield a ratio of 9.38 units/1,000 capita for both cases. In principle, according to the numbers we would have the perfect solution for case #1, if we were just concerned with a sound stock reproduction. However, having the goal of a maximal housing provision, case #2 might be the better scenario for this particular year since the *overall* stock provision is much higher than in case #1. Over the long-run, however, the annual production deficiency of 125,000 units would decrease the physical stock quality.<sup>16</sup> In addition, the ratio units-output per 1,000 capita very often only refers to *new* construction, thus misleading as well since we need to consider the annual overall production.

The picture becomes even more complicated if the population size changes as well. Ultimately, only a comprehensive and permanent re-evaluation of housing stock dynamics leads to safe projections for stock development.

Summarizing these relationships, the supply goal needs to be defined as a function of population size, including its *prospective* changes, the *theoretical* occupancy rate (demand), and the current stock *age*. We need to deal with these issues later when both parts of Germany are investigated.

### 2.2.    Housing Stock Flow

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The key issues of housing stock flow (figure 3) can be phrased as follows:

Housing stock is not a static but rather a dynamic entity. Housing stock implies changes over time expressed by the term *flow*. We may distinguish between:

- (I) External flow:
  - (a) Inflow     ⇒ New construction/Upgrading or conversion.
  - (b) Outflow    ⇒ Demolition/Upgrading or conversion.

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<sup>16</sup>This pattern is currently observable in West Germany.

## CHAPTER II    General Problems of Current Housing in Market Economies

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(c) Back flow  $\Rightarrow$  Upgrading or conversion (renovation, restoration, rehabilitation<sup>17</sup>).

(II) Internal flow:

- (a) Upward flow.
- (b) Downward flow.

*External flow* in this context relates to the physical flux of housing, i.e. physical stock parameters change. Production as described above is the means of changing housing stock.

The *inflow* describes additions to the stock, realized by new construction, upgrading, or conversion. It is a quantity generator.

The *outflow* comprises the demolition portion and the share assigned to upgrading or conversion. The outflow diminishes stock quantity.

The *back flow* encompasses upgrading or conversion, which can be renovation, restoration, or rehabilitation. The back flow is basically branched away from the outflow and merges back into the inflow. Back flow is external flow as it describes the temporary removal of housing units from stock.

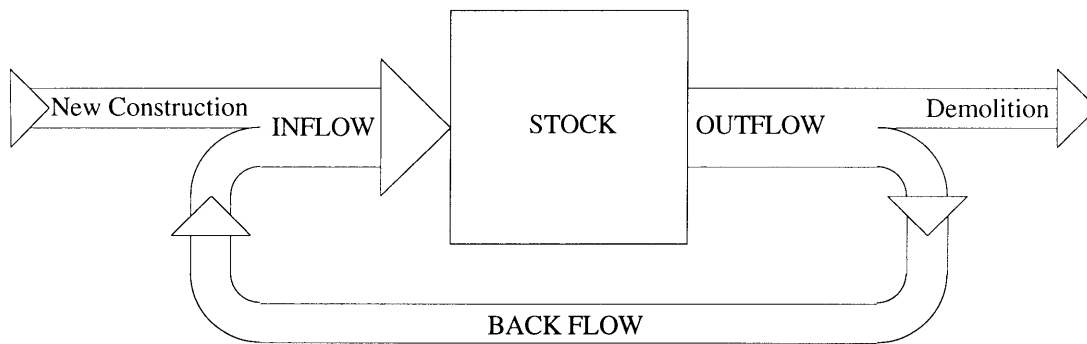


Figure 3. External flow patterns of housing stock

The clarification of general stock flow patterns explicitly reveals crucial and essential points of housing stock which are:

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<sup>17</sup>Rehabilitation also comprises restoration improvements of the social and spatial quality of neighborhoods.

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(a) If housing stock expansion is the objective, it can only be realized by new construction *and* a ratio of

$$\frac{\text{new construction}}{\text{demolition}} > 1.$$

We will return to this later when the German specifics are considered.

(b) The stock age mainly depends on the throughput of back flow and the inflow of new construction. A low back flow rate puts substantial strains on the inflow size, when stock is to be kept in balance. Otherwise, stock aging is inevitable. Thus, the stock age behavior depends on and can be regulated through proper dimensioning of the back flow size. Well-designed proportions between back flow and new construction are the basis for sound housing stock.

(c) The back flow size also carries a cultural component in itself. Two very extreme scenarios are considered in order to elucidate the relationships of this particular flow pattern.

Assuming there is a zero back flow, then stock flow happens as a linear, one-directional flow. This pattern enforces a permanent turnover of housing stock presupposing that the oldest units are being removed. Ultimately, after a finite period of time, the stock consists of a definite time span, say 50 years, which moves along with time (figure 4).

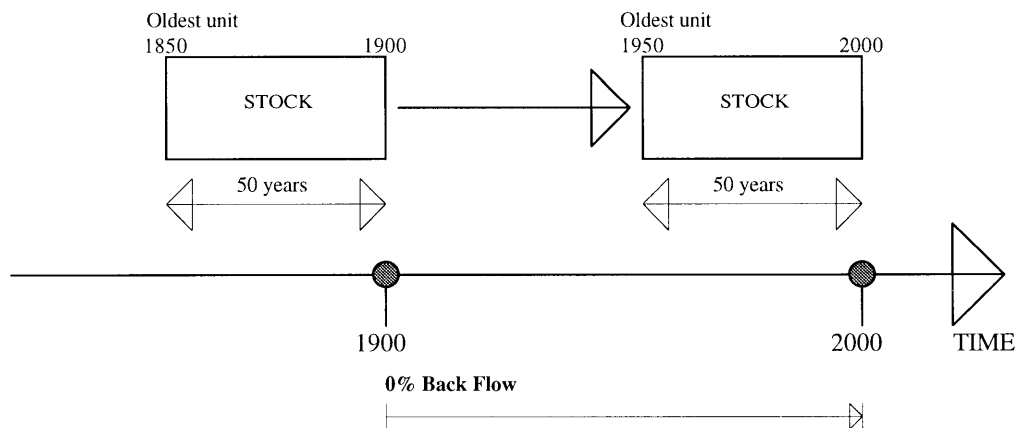


Figure 4. Cultural impact of flow patterns—The extreme case of no back flow (Scenario #1)

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The antipode is where the back flow equals 100% of the outflow and the new construction share of the inflow is equal to zero. Thus, a situation is established where a *cut-out* of history is carried through history (figure 5).

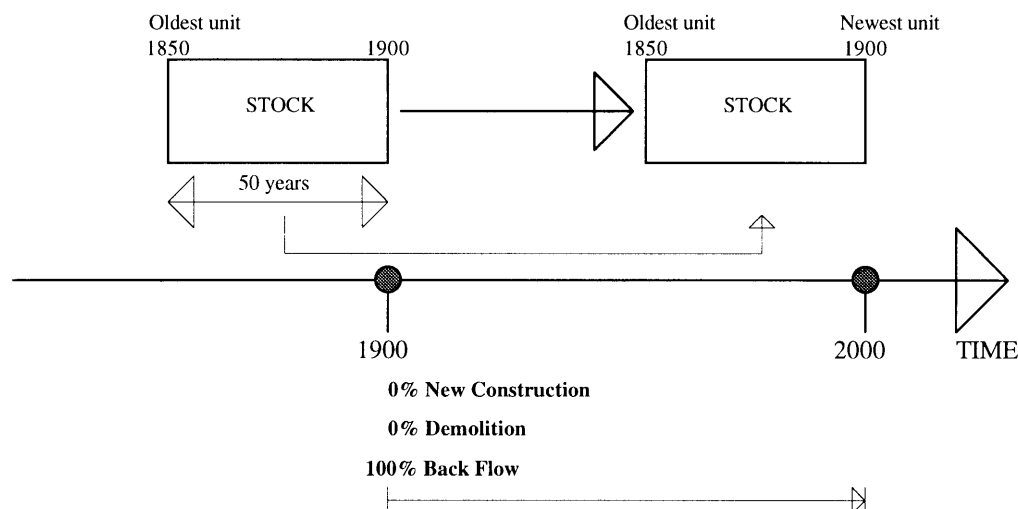


Figure 5. Cultural impact of flow patterns—The extreme case of no new construction and no demolition (Scenario #2)

Maintaining a well-tuned balance between inflow, outflow, and back flow ensures cultural continuity of housing stock. It also creates a diversity in housing stock, thus widening the opportunities for different life styles.

There is the tendency that with increasing stock saturation<sup>18</sup> the new construction rate tends to decrease. Regarding the flow patterns then becomes even more significant.

*Internal flow* describes stock-related flow patterns *within* stock (figure 6). The basic distinction compared to the external flow is that *no* physical changes (production) occur. The emphasis is on shifting tenure and ownership patterns (title relationship). The natural process of decreasing physical housing quality is not implied by internal flow.

*Upward flow* is characterized by changes in ownership which is mainly accompanied by a shift between the basic sectors of housing from public to private housing.

<sup>18</sup>Stock saturation occurs when the actual and theoretical occupancy rate approach each other.

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The *downward flow* is characterized by a tenure change, reflecting a shift from owner-occupied toward renter-occupied. The downward flow is often accompanied by degrading housing quality in terms of status.

Filtration<sup>19</sup> stands in close relationship to internal stock flow. Filtration commonly refers to downward flow. The author extends the term filtration to downward *and* upward flow since it provides thus a more comprehensive understanding of internal flow patterns. Filtration may lead to a change in ownership or tenure. The prevailing tendency of upward flow is a change in ownership. It happens as an exchange of housing from public to private. It is therefore sector-transgressing. Housing units are removed from public stock, i.e. they are sold off. This mainly affects high-quality social housing, thus depleting the social housing sector of its better inventory. Ultimately, it leads to a quality decrease of public stock.

By contrast, downward flow passes on housing to lower-income groups, i.e. housing is given up by middle and higher income groups, but very often remains in possession of the current owners. That is, tenure changes from owner-occupied to renter-occupied. It can be accompanied by quality decrease (purposeful run-down effect). Quality decrease is connoted by status decrease, meaning a household may give up higher quality because of budget constraints. Downward flow mainly occurs within the private sector.

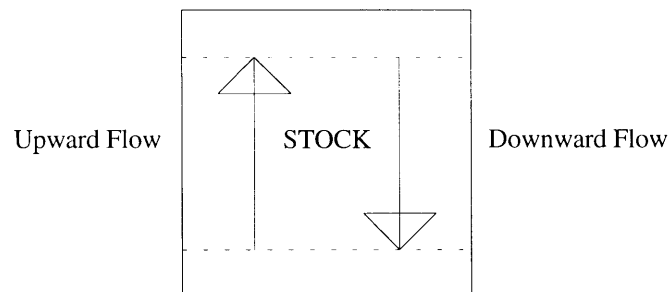


Figure 6. Internal flow patterns of housing stock

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<sup>19</sup>Filtration is a long-term process (one to two decades). Filtration means that under economic prosperity middle and higher income groups acquire higher-quality housing, thus freeing up housing inventory for lower income groups. Filtration is commonly assumed a downward flow of housing. However, it will be argued that filtration is a bi-directional process, depleting public housing stock as well.



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Summarizing the flow patterns, these aspects are prevailing:

External stock flow:

- (1) The external flow carries *active* characteristics.
- (2) The external stock flow is mainly bound to the physical parameters of housing such as stock age and construction quality.
- (3) Stock augmentation is only attainable through the proper design of the external flow.
- (4) External flow has a substantial impact on the historical continuity of housing stock through which the cultural association of housing is expressed.

Internal stock flow:

The internal stock flow has no impact on the physical parameters of housing. Internal flow mainly refers to socio-economic characteristics of housing. It further conveys *passive* characteristics, that is, the physical features of the stock portion at question remain, while socio-economic parameter (title relationship and sector allocation—private or public) may change.

### 3. Demand

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Housing demand is a vulnerable to drastic shifts in housing policy, elusive, and ever-changing. Housing demand depends upon demographic and urban patterns. These patterns can be regional and global. The most significant categories, determining demand are:

Demographic categories:

- (1) The income development of households;
- (2) The household size;
- (3) Social structure of households (nucleus vs. extended family);
- (4) Household formation rate;
- (5) Mobility of households (derived from societal changes as to shifting industries, employment opportunities, etc.);
- (6) Population change (internal size) and immigration (external size which is increasingly gaining importance in the northern hemisphere);

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(7) Housing traditions (preferences of certain styles, ownership, and tenure);

Urban categories:

- (1) Urban vs. suburban and regional patterns;
- (2) Location.

### 3.1.      Demographic-Related Demand Categories

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(1) The income development of households:

Income development mainly depends upon the economic capacity of society. It is a crucial and sensitive issue to low-income households. Little income flexibility or tight household budgets may artificially suppress housing demand or have population groups aim at housing, originally not meant for them. Unusual budget constraints therefore distort demand patterns. These effects can currently be observed in Eastern European countries. The occupancy rate and floor space are the physical expression of this problem (figure 9). Housing shortage affects low-income groups disproportionately.

(2) The household size:

The household size has an impact on the make-up of housing stock. It determines and influences the need for specific dwelling sizes. In industrialized countries we observe an ongoing tendency toward smaller households. Due to a growing number of singles and aging population, the demand for smaller units increased over time. The general impact on stock is that a greater number of smaller units (in terms of the number of rooms) needs to be provided.

(3) Social structure of households (nucleus vs. extended family):

The internal structure of households impacts housing demand. The industrialization of society broke up the traditional patterns of extended families, i.e. structures where more than one generation lived under one roof or in very close vicinity. Modern society experienced an extended phase of disintegration of multi-generation households. The dominant pattern of current family structure is the one-generation

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household. (Persons under the age of 18 are included in this pattern.) However, to a certain extent, increasing loneliness, social estrangement, socio-economic hardship, etc. are leading back to extended family structures. The revival of these structures is based on different spatial patterns compared to the traditional forms of living together. Generations seek spatial vicinity, but not necessarily the immediate spatial neighborhood. Privacy is desired to a degree which still ensures the chance of frequent communication. In addition to those long-standing forms, new structures of a living-together are emerging (non-related partnerships, one-sexual partnerships, etc.). We may assume that these changes are oftentimes neglected, since these behavioral patterns are marginalized by mainstream society and therefore hard to accommodate.

As desirable as it is, spatial vicinity depends not only on budget opportunities but also on the availability of living space in a particular area.

The changes in social bindings of people have a substantial impact on housing stock aiming at needs for a higher degree of physical flexibility and a broader variety of opportunities.

#### (4) Household formation rate:

The household formation rate influences demand, too.

The number of single households is unequivocally rising.<sup>20</sup> This seems to contradict the assumption that there is a certain development back to extended family structures. However, personal independence and stable bindings to relatives can occur in *relative* vicinity, and do not necessarily have to happen under one common roof.

Household formation has further to do with marriage and divorce. In Germany the marriage age has increased over the past years, now beyond 30 years in both parts of Germany, still slightly higher in West Germany. There was a striking difference in marriage age between East and West Germany prior to 1990 due to different support concepts for family formation by society. Thus, in East Germany, family formation at an early point in time was fostered by financial support.<sup>21</sup> In addition, the birth of a child was financially supported as well.<sup>22</sup> After the abrogation of these support patterns, the birth rate in East Germany dropped dramatically to less than 50% of the rate prior to 1989. The changes in household formation need to be attributed primarily to this financial support concept; however, other secondary causes may lie in fears about and unfamiliarity with the other socio-economic system.

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<sup>20</sup>*Deutschland Nachrichten (German News)*, November 19, 1993, p.5.

<sup>21</sup>The financial support amounted to M5,000 prior to 1986, then M7,000 at no interest rate. Only the principal had to be paid back in small monthly installments. Every couple was eligible for this support when both partners were of an age of 26 or younger.

<sup>22</sup>Each birth of a child was financially supported by M1,000. This amount did not have to be redeemed. If a family had more than three children, the marriage credit did not have to be repaid at all.

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The divorce rate in Germany has uninterruptedly risen for years. In West Germany the rate doubled between 1968 and 1993 (1968  $\approx$  17%, 1993  $\approx$  35%).<sup>23</sup> The same tendency and magnitude hold for East Germany despite the favorable conditions for family formation before 1989.

The impact on housing is again that a wider spectrum of opportunities is required.

(5) Mobility of households (derived from societal changes as to shifting industries, employment opportunities, etc.):

Mobility of households becomes an increasingly important issue of modern society. Germany momentarily undergoes a substantial restructuring process in industry.<sup>24</sup> This affects East and West Germany equally. The impact of restructuring hits East Germans harder than West Germans since they have in addition to cope with the impacts of system transformation.<sup>25</sup> The retrenchment of employees necessitates a degree of social mobility, currently not in place due to insufficient housing stock.

Moreover, German society is based on traditions which praise the adherence at a location for a longer period of time. Moving was always an incision in the life of a German family.

(6) Population change (internal size) and immigration (external size which is gaining importance in the northern hemisphere):

Population change impacts housing. The change in size may be due to internal and external causes. *Internal* change is triggered by birth and mortality rate shifts. The patterns in Germany are similar to the ones in other industrialized countries. The population is slightly aging; the birth rate fell slightly, meaning altogether that the size of population is somewhat stable and predictable; though, tending toward a decrease. More important, the make-up across age groups is shifting. The percentage of elderly people is increasing. The impact of both World Wars is still visible, but decreasing in significance.

*External* changes caused by immigration have by far the most significant impact on current German population patterns. This problem will be dealt with separately since it reflects *the* impact on *quantitative* demand on German housing stock.

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<sup>23</sup> *Deutschland Nachrichten (German News)*, December 3, 1993, p.7.

<sup>24</sup> *Deutschland Nachrichten (German News)*, October 22, 1993, p.1.

<sup>25</sup> The current unemployment rate (October 1993) amounts to 15% in the East, whereas the rate is equal to 7% in the West of Germany.

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(7) Housing traditions (preferences of styles, ownership, and tenure):

Housing traditions within society are mirrored in demand patterns as well. For instance, the ratio between private, owner-occupied and public or private, non-owner occupied housing differs from country to country. Even the ratio between private, owner-occupied and private, renter-occupied housing is noticeably distinct across countries. The chart (figure 7) indicates the huge differences in home ownership which exist between selected industrialized nations. Germany shows a relatively small percentage of owner-occupied housing. This indicates that social housing and rented, private housing have a greater significance in Germany than in other countries.

To a certain degree this feature fashions the linkage between demographic and urban patterns since it contains both categories.

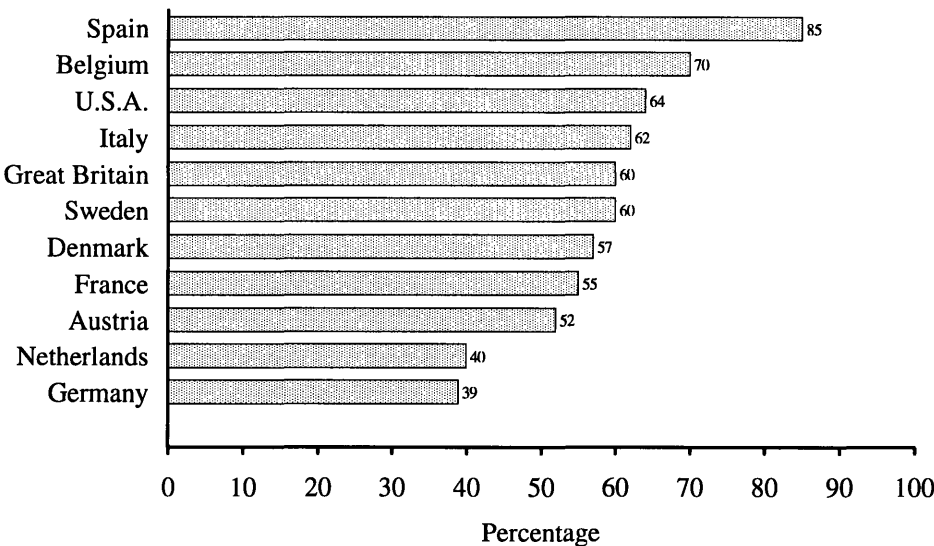


Figure 7. Percentage of Households Living in Their Own Home  
Source: *Die Welt (The World)*, November 10, 1993.

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### 3.2.    Urban-Related Demand Categories

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(1) Urban vs. suburban and regional patterns:

Urban vs. suburban and regional preferences of people have an impact on housing demand. The patterns of urban vs. suburban preferences are somewhat blurred. However, one tendency may be pointed out. There is a clear shift back toward living within the city. This push triggered in particular a worsening reputation of suburban life. Younger people look again for amenities close to their houses, which they can more intensively enjoy in central locations.

The unproportionally large share of suburbia in the East is leading to the disintegration of population. This particular phenomenon is overlaid by socio-economic and social concerns.

The consideration of the confluence of different socio-economic systems implies that demand distinctions may exist. This is indeed true, since the relationships between people are always closely related to socio-economic patterns. For instance, the relatively small income differential in a socialist system tended to a higher degree of social integration across population. Also, because of economic constraints, a certain kind of an informal help mechanism was established, tying different social groups together. These structures are waning now though continue to have an impact on demand. There are two tendencies:

- (A) A number of people wish to retain this kind of living-together in mixed neighborhoods. The impact is that there is a clear demand for a wider range of different needs in a neighborhood, triggered by ongoing, increasing divergence of income.
- (B) A number of people wish to break the links of the past for various reasons, either they feel uncomfortable with the environment they have lived in or they want themselves visually separated from their former places. Most of the latter belong to higher income groups who want to experience the feeling of new wealth. These people tend to separate themselves from the average population and therefore reinforce social disintegration.

Two countervailing tendencies can be perceived between a formerly socialist and a market system: There is an increasing search for re-integration in established market-driven societies because of partially ill-functioning social bindings, whereas in societies under transformation a somewhat reversed tendency is noticeable.

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Regional<sup>26</sup> preferences had a substantial impact on German housing demand. *The* most peculiar population migration of recent Middle European history occurred within the current boundaries of Germany. Between 1949<sup>27</sup> and 1989, 2.4m East Germans (17.6% of the 1949 East German population) migrated to the West. The situation between 1945 and 1949 is hard to evaluate due to the aftermath of W.W. II. Thus, during these four years the East German population increased by 1m, mainly ascribable to refugee immigration from adjacent countries. It can further be assumed that a good deal of them stayed in East Germany just on a transient basis, migrating farther to the West. That is, the actual number of people, who migrated from East to West Germany might be even greater than those 2.4m.

For 1990 another drain of 0.5m (3.0% of the 1989 East German population) can be assumed due to two facts: First, the anxiety that the reunification would not take place, and second, the chance of finding a better job made well-trained people move to West Germany.

We can characterize the population movement before 1990/1991 as a refugee migration. Now migration is returning to a more normal level, since people from West Germany also move to the East as they see better opportunities there. However, there is still an above-average size of young people moving westward because of limited resources for finding a position as an apprentice. It is anticipated that the East German population is going to further decrease from about 16m to about 15m (6%) until the first decade of the next century.<sup>28</sup> That means, intra-German migration will continue until the year 2000.

The overall impact on housing is a price increase for regions, ranking high on the wish list of people, since there is simply not enough housing available in those regions. In addition, this puts particular strains on budget planning of these communities and may also lead to social tensions. In these cases, short-term and unconventional solution are in high demand; however, just sparsely available.

### (2) Location:

One of the patterns distinct from pre-1990 times is that housing location<sup>29</sup> becomes more important than physical housing conditions in East Germany. This is due to the fact that, if a household manages to move into a preferred neighborhood, physical upgrading is not the issue anymore. It can be assumed that these households are able to raise the money to pay for construction improvement.

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<sup>26</sup>Regional in this case is defined for an area, now comprising East *and* West Germany. If taken painstakingly, one needed to distinguish between emigration, immigration, and migration since there were two separate states on German soil between 1949 and 1990. In order to make the point here, the consideration above is done without this political distinction, as it does not change the essentials of this thought.

<sup>27</sup>Both German States (countries) were founded in 1949. In 1989/1990 the East German State crumbled.

<sup>28</sup>*Saechsische Zeitung (Saxon Daily News)*, July 22, 1993, p.1.

<sup>29</sup>Clay, Ph. L. and Hollister, R. M. ed. 1983. *Neighborhood Policy and Planning*. Lexington, Mass.: Lexington Books. p.31.

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Another intra-city pattern of East Germany is gentrification and supplantation, visible particularly in bigger cities where preferred neighborhoods already existed prior to 1945. People currently living in these neighborhoods feel partially supplanted by the affluent either returning from the West or richer East Germans. The dichotomy between blue and white collar people becomes increasingly tangible. Re-mixing population will become a very complicated task as the U.S. experience shows:

The problems of population mix are exacerbated in neighborhoods with a substantial amount of multi-family housing, public housing, or areas in which there is subsidized multi-family housing or its prospect.<sup>30</sup>

The overriding result of this development is a very active real estate market, driving home prices up to a level which can be best described by overheating.

### 4. Housing Policy

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The housing market aspects *supply* and *demand* were previously considered in order to draw some meaningful conclusions for policy patterns.

Housing policy is a means to influence and shape developmental directions of the housing market. The effective and appropriate design of this means is essential. Housing policy ought to be seen as a holistic instrument serving the entire society; however, the design of housing policy is especially sensitive to low-income groups of society. Higher income groups are less susceptible to erroneous decisions since they do not have these pressing budget constraints.

Housing policy in industrialized countries is based on long traditions. Also, substantial changes occurred over time. Thus we need to revisit what kind of policy was applied over the past, what were the reasons for changes, and how did they impact the target groups.

There is a clear shift in emphasis of governmental involvement in housing over time. Historically, the focuses within the social housing sector can roughly be delineated by the following phases (The dates particularly refer to Germany and may differ in other countries.):

- (1) Establishing a stock of low-income housing (prior to 1910);
- (2) Slum clearance (1910 to 1970);

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<sup>30</sup>Clay, Ph. L. 1978. *Neighborhood Revitalization: Issues, Trends, and Strategies*. Cambridge, Mass.: M.I.T. p.126.



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- (3) Maintenance of the stock established (1970 to 1980);
- (4) Subsidy issue and sell-off of social housing stock (1980 onward);

Maintenance can also be found in other phases. Important here is the dominance of one feature at a particular time.

We will skip the first three phases since their consideration lies beyond the scope of this work. However, considering the most current development (subsidies and the increasing push toward privatization) in housing policy is very relevant since it will unearth some of the crucial points to be regarded in future housing policy patterns.

### 4.1.      Characteristics of Governmental Involvement in Housing in Market-Driven Economies During the 1980s

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The main issues of most recent housing policy center around *subsidies* and *privatization*. Subsidies reflect a broader realm of housing policy (affecting larger stock amounts), whereas privatization hinges on ownership change from the public to the private housing sector.

- (1) Subsidy issues and provision patterns:

During the course of the 1980s, there was a general shift in housing supporting patterns from production to consumption subsidies.<sup>31</sup> This developmental phenomenon can be attributed to the saturation<sup>32</sup> process in housing provision. This trend is observable in several advanced industrialized countries. The indicators are the actual occupancy rate, the size of living space (floor area), and the number of new construction units per 1,000 capita. If the change of both the actual occupancy rate and the size of living space levels off and becomes stabilized over time and simultaneously the number of new construction units decreases steadily, then a saturation in housing stock is evident.

In addition, the average size of a multifamily dwelling unit received a certain stabilization level in these countries. The level on which stabilization takes place differs from country to country due to cultural and social traditions and mores. Moreover, economic reasons contribute to the saturation process. The rise of production expenditure may be accountable as well as a further increase in

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<sup>31</sup>Vliet, W.v. ed. 1987. *Housing Markets and Policies under Fiscal Austerity*. New York, Westport, London: Greenwood Press. p.111.

<sup>32</sup>Saturation in this context means, that under the societal conditions given, the demand for housing could be defrayed. It does not mean that there was necessarily sufficient housing available. The difference between the *actual* and *theoretical* occupancy rate is always an indicator that there is not enough housing available even though a high vacancy may exist.

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quality in housing. Due to these facts housing has become more expensive. Inflationary tendencies and partially complicated and "sophisticated" code requirements triggered home price increases in the 1980s, previously unknown.

Substandard housing demand was satisfied, meaning that there was saturation in demand according to the affordability for such units. This has changed over the last years since higher-quality housing became less affordable.

### (2) Sell-off of publicly held housing:

Changing global economic conditions necessitated the restructuring of governmental policies as to housing. One of the prevailing means was the reduction of governmental spending on housing. Lowering the burdens of budget constraints was to be achieved by selling off public housing. This process is observable in G.B., Canada, Australia, and partially in West Germany and occurred mainly in the 1980s.

Over the past decades, private home ownership was promoted by a number of governments in industrialized countries. The extent to which this development was crowned by success differs. (For instance, in G.B. the share of owner-occupied housing changed from 10 to 60% between 1914 and 1983, whereas the privately rented stock declined from 90 to 10% at the same time.<sup>33</sup> In West Germany the share of owner-occupied housing increased from 34.4%<sup>34</sup> in 1978 to 39.1%<sup>35</sup> in 1987.)

The crux is not to speak in favor of one or the other side, rather to decide what is the most workable solution for a particular country, region, or community:

What is more important are the *criteria* upon which such bodies make their decisions—what are the accumulation strategies of privately owned firms? What are the origins of particular state policies and who had a hand in forming them? What are they aiming to achieve? How precise are their objectives? Are the overall effects of support programs progressive or regressive?<sup>36</sup>

The key issue is not to sell per se, but to identify what works best under what particular conditions.

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<sup>33</sup>Vliet, W.v. ed. 1987. *Housing Markets and Policies under Fiscal Austerity*. New York, Westport, London: Greenwood Press. p.129.

<sup>34</sup>Statistisches Bundesamt der Bundesrepublik Deutschland. 1952—1990. *Statistisches Jahrbuch 1952— 1990 fuer die Bundesrepublik Deutschland (Statistical Yearbook 1952— 1990 for the Federal Republic of Germany)*. Stuttgart und Mainz: Verlag W. Kohlhammer. Edition of 1980.

<sup>35</sup>Statistisches Bundesamt der Bundesrepublik Deutschland. 1991—1992. *Statistisches Jahrbuch 1991— 1992 fuer das vereinte Deutschland (Statistical Yearbook 1991— 1992 for the United Germany)*. Wiesbaden: Metzler-Poeschel. Edition of 1992.

<sup>36</sup>Vliet, W.v. ed. 1987. *Housing Markets and Policies under Fiscal Austerity*. New York, Westport, London: Greenwood Press. p.124—125.

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Germany and other industrialized countries face again a substantial shortage in housing. Therefore, the central issue is why the policy of the last decade did not provide the results desired.

The developmental tendencies of the 1980s need to be re-examined in the light of changing societal conditions which we are facing these days.

The current issues are:

(1) Consumption subsidies vs. production subsidies:<sup>37</sup>

The shift away from production subsidies (add units to the stock) toward consumption subsidies (keep units in the stock) is justifiable if housing stock reaches a level of quantitative and a certain qualitative saturation. Since Germany encounters housing shortage again, a shift back to production subsidies seems a more appropriate way to overcome shortage. Stock augmentation needs to be stimulated by policy encouraging both private and public housing construction.

The design of this process and the proportion of social housing fall into the realm of governmental policy. There is nobody else who will take on and fulfill this task.

(2) The sell-off of social housing:

Sell-off of social housing has a negative impact on social housing stock quantity and quality. Since social housing by and large serves lower-income groups, the sell-off diminishes the opportunities of the population segments most at risk.

### 4.2.      Subsidization of Housing

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Two issues are to be considered, first, subsidy types, and second, the impact and purposefulness of subsidies.

The issue of housing subsidies is an enduring controversy. In market economies the struggle is chiefly about the effectiveness and usefulness of subsidies. Counteracting social forces awarded subsidies a negative image across large parts of society.

Proponents argue that subsidies in housing are central to ensure a certain degree of justice within society. However, reality has proven that a good deal of subsidy means do not reach the target groups. That let subsidies indeed appear controversial.

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<sup>37</sup>The terms are explained in more detail below. Refer also to definitions.

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In particular, the phenomenon that renter groups do not get the quality in housing they pay for, complicates the issue. The lower the quality of housing, the worse the cost/benefit ratio of housing. There are clearly too few laws in place which warrant an *equal cost/benefit ratio of housing for all income groups*.

Opponents argue that the market mechanism is unbeatable when it comes to the effectiveness issue. The pure consideration of this economic fact makes subsidies questionable. However, the success of a society is not always measurable in plain effectiveness numbers.

The argument here is, that social progress needs a holistic approach to the extent that economy and social values should fashion an entirety. Ignoring one or the other aspect may lead to societal distortions. The author argues for the synergy of market and policy as opposed to controversy.

### (1) Subsidy types:

Subsidies can be typified as consumer (subject) and production (object) subsidies. As to the subcategories, please refer to the definitions.

*Consumer subsidies* are commonly used to relieve rent burdens through financial support of consumers (renters). Consumer subsidies do not change any quantity or quality of housing stock. They can therefore be termed as *passive*; or we could also say they support the *demand* side. Consequently consumer subsidies increase demand.

Production subsidies are given to housing suppliers to encourage investment in housing. Production subsidies do change quantity and possibly quality of housing stock. They are therefore *active* and work on the *supply* side. If stock augmentation is the dominant goal, this is the type to be preferred.

If there is no harmonization between consumer and production subsidies over the long-run, the demand-supply pattern becomes distorted. There are finite periods in time where one type or the other may receive priority; however, seen over the long-run, a balanced system of subsidies is the optimal solution. This also reveals why the housing policy of the 1980s failed in the *whole* of Germany.

Another fact is of significance. The synergy of consumer and production subsidies makes the supply *and* demand curve shift outward, meaning that supply and demand increase simultaneously. The concomitant has an inflationary effect in housing. This effect is the higher, the greater the share of

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consumer subsidies is. Both West and East<sup>38</sup> Germany are extremely useful paradigms for the failure of ill-implemented subsidy policy over the past decade.

(2) Impact and purposefulness of subsidies:

The disadvantage of subsidized housing is that it provides housing service at below market prices. The main implication lies in the fact of artificially creating a shortage in housing. Conspicuously, the demand for subsidized housing is higher since it attracts a larger group of individuals across all income brackets, including those that by definition do not fall into the category of the needy.

The case of consumer subsidies shall show the problems hinging on this particular type of housing allowances.<sup>39</sup> Housing allowances make the consumer (renter) shift to a higher indifference curve. The diagram (figure 8) clearly shows that the shift to another (higher) curve widens the margin for both rent *and* other goods. The crucial issues are:

- (1) Defining the margins appropriately.
- (2) Defining the minimums required for housing (rent) and other goods (food, clothing, health care).
- (3) Not allowing that there will be negative margins caused by a shift to a lower indifference curve.
- (4) That housing allowances can be taken off when the positive margins considered being sufficient.  
(Sufficient cannot be defined since it depends upon what a society is willing and able to give to specific groups of individuals.)

The diagram shows that the line A1B1 defines the absolute minimum of a household budget. Therefore, the ideal solution would be, having the minimum budget line cutting point B1 and allocating consumer subsidies to households upon the other end of the budget line coincides with point A1. This seems to be very plausible. However, since the definition of what constitutes the minimum is hard to generalize across households, its practical implementation is complicated. If falling-below line A1B1 is permanent, we face a welfare problem—a different support category which is not considered in this work.

Usually we have to deal with cases where a household budget has a certain margin as depicted in the diagram. The main realization is, the farther outward the indifference curve shifts, i.e. the greater the subsidies, the less effective subsidies become. There is no and there possibly will not be any control mechanism that ensures rent-consumer subsidies not being used for other goods.

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<sup>38</sup>One word of caution needs to be inserted here. The author refers to subsidies under the aspect of a market-driven society. As East Germany's economy prior to 1989 was centralized, the subsidy mechanisms operated somewhat differently. However, the primary characteristics of subsidies are applicable across distinct socio-economic systems.

<sup>39</sup>The terms housing allowances and housing subsidies are used interchangeably by some authors. The author suggests that subsidy is the more correct term since allowances have the connotation of cash payment.

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In addition, the diagram unequivocally proves that subject subsidies do have an impact on household spending apart from just housing. It is fair to assume that the greater the margins, the less the efficiency of this subsidy type will be, if there is a free choice for consumers (renters), that is the consumer has the real chance to choose between alternatives.

This scheme suggests and elucidates that control mechanisms are hard to imagine and implement; consumer subsidies may just work successfully if there is no or only little margin because of restricted choice.

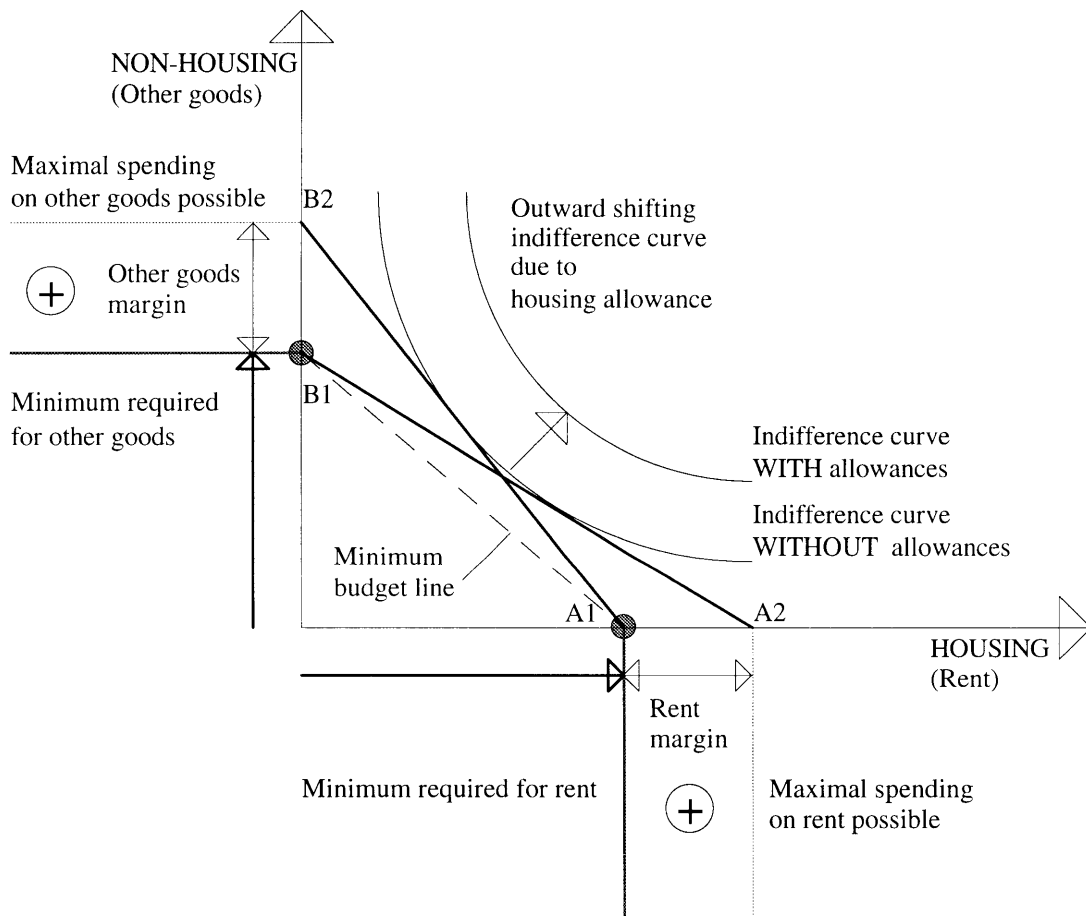


Figure 8. Impact of housing allowances on household spending

We can further infer: The higher the quality of overall housing provision, the less successful consumer subsidies fulfill their initial goal.

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... there seems to be some evidence that most households with high rent-income ratios do not have lower nonhousing spending than similar households with lower rent-income ratios. It seems plausible to conclude that households tend to deal with rent-income ratios by overspending and dissaving, rather than by cutting back on nonhousing spending.<sup>40</sup>

Housing subsidies, such as rents and utility charges that do not reflect the full cost of housing and services, up-front capital subsidies, and below-market interest rates, contribute to inflationary pressure when they are not well-designed or targeted to low-income households. Such subsidies not only add significantly to the government budget deficit, but also generate excess cash balances for households who receive the subsidies and do not face the full cost of housing.<sup>41</sup>

In countries undergoing a transformation from centralized planning to market-driven structures, the subsidy issue has still another layer very often neglected in current approaches to transformation.

Thus, a main problem of former centralized planning systems is the revaluation and reexamination of the *term subsidy*. Once thought of as the panacea to all problems of injustice, a substantial part of financial means was allocated different purposes *throughout* the economic system as subsidies, and consequently considered a *second income*. The meaning of the term subsidy, formerly affecting each single citizen of these countries is now changing to a meaning, *only selectively* supporting parts of the population. The perception and notion of subsidies increasingly stand in contrast to their previous purpose, thus gaining a negative meaning across those groups not depending on subsidies.

Along the transformation process toward a market-driven system, the structure of subsidies needs to change from across-the-board subsidies toward targeted subsidies.<sup>42</sup> The main objective should be an improved effectiveness of subsidies, excluding a great deal of free-riding, i.e. the target groups ought to be clearly defined and re-examined periodically.

In addition, a sound stock development is a prerequisite for the capability of society to ensure decent housing for all its individuals.

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<sup>40</sup>Vliet, W.v. ed. 1987. *Housing Markets and Policies under Fiscal Austerity*. New York, Westport, London: Greenwood Press. p.186.

<sup>41</sup>Telgarsky, J.P. and Struyk, R.J. 1990. *Toward a Market— Oriented Housing Sector in Eastern Europe*. Washington, D.C.: The Urban Institute. p.8.

<sup>42</sup>Telgarsky, J.P. and Struyk, R.J. 1990. *Toward a Market— Oriented Housing Sector in Eastern Europe*. Washington, D.C.: The Urban Institute. p.238.

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### 4.3.    Pros and Cons of Privatizing Social Housing

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Privatization of social housing is a global and complex issue. It is not just bound to German development in recent years, initiated by the re-unification of this country. Rather, because of changing economic patterns in industrialized countries, this issue became in particular urgent. Mainly during the early 1980s, substantial efforts were made to accelerate privatization for instance in G.B. and Canada. (Under a public housing sales program, 1m units could be sold in the U.K. since 1979, that is one fifth of its present social housing stock.<sup>43</sup>) With the drastic societal changes in Middle and Eastern Europe, this issue gained an entirely new dimension.

The pros and cons of privatizing housing can be summarized as follows:

Pros:

- (1) Housing is one of the largest expenditure categories for local governments and consequently is often a sensitive local political issue.<sup>44</sup>
- (2) Ongoing deterioration of public housing stock induces increasing maintenance costs.
- (3) The large number of social housing units is not longer manageable by local authorities. (For instance, in 1989 about 59%<sup>45</sup> of the whole stock in former East Germany was publicly or cooperatively held.)
- (4) In East Germany centralized subsidies were abrogated and rents raised. There were two governmentally controlled rent increases over the past two years. Despite the increases, the new rents do not meet fully the maintenance costs of authorities in charge of social housing which increasingly face budget constraints.

Cons:

- (1) "Creaming" has occurred: the best units have been sold to households in the best economic position.<sup>46</sup> Thus the cardinal issue is: Who is going to benefit most from subsidies that were originally thought of a common asset of a socialist society?
- (2) The remaining housing stock is increasingly of substandard level and serves the socially disadvantaged, leading to social and economic segregation. The physical particularities of mass

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<sup>43</sup>Katsura, H.M. and Struyk, R.J. 1985. *Selling Eastern Europe's Social Housing Stock: Proceed with Caution*. Washington, D.C.: The Urban Institute. p.19.

<sup>44</sup>Katsura, H.M. and Struyk, R.J. 1985. *Selling Eastern Europe's Social Housing Stock: Proceed with Caution*. Washington, D.C.: The Urban Institute. p.21.

<sup>45</sup>Statistisches Amt der DDR. 1990. *Statistisches Jahrbuch '90 der Deutschen Demokratischen Republik (Statistical Yearbook '90 of the German Democratic Republic)*. Berlin: Rudolf Haufe Verlag.

<sup>46</sup>Katsura, H.M. and Struyk, R.J. 1985. *Selling Eastern Europe's Social Housing Stock: Proceed with Caution*. Washington, D.C.: The Urban Institute. p.26.



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housing construction need to be considered very carefully. East German social housing stock built prior to 1990 is not attuned to code requirements for condominiums.

- (3) Sales normally occur at discount rates. Although, social housing stock represents substantial assets, a good deal of this stock is not salable because of undesired locations, inferior image, and missing supplementing social and recreational amenities and facilities. In other Eastern European countries bad physical conditions further contribute to discounting, which is only partially a problem in East Germany.

A country should not lose sight of the fact that when it offers a discount on what will probably be one of the most expensive assets that the household will ever buy. Each percent of a discount represents a lot of money—money that can be used by society for other more pressing needs.<sup>47</sup>

A number of conclusions can be drawn:

- (1) A social safety net needs to be established which cushions the impact of privatizing social housing. This net has to be tailored to the socially needy. The careful design of this net is crucial as to its efficacy. The implication is that the establishment of a *welfare* net entails enormous indirect or hidden subsidies, not aiming at the physical improvement of housing stock, but rather dampening social hardship, and thus maintaining a status quo of housing, rather than improving housing.
- (2) Providing incentives in taking out loans should be a primary goal for new financial concepts. This can only be a long-term task, since in socialist countries the overwhelming part of the population was not able to accumulate those financial means necessary to acquire property. Specific programs should be established. This is both a national and international task if we include the Eastern European countries.
- (3) There is a clear need for changing the management of public authorities. The overwhelming portion still consists of big authorities, employing a large number of staff and operating rather inefficient. This behemoth kind of management is apparently incapable of coping with current and future managerial requirements. Dismissing labor is an intricate issue. Only strategies which create substitute jobs for those individuals have prospect of success.

Katsura and Struyk summarize the goals of privatization in this way:

One of the more difficult tasks facing any country considering the sale of state-owned housing is defining its goals. Part of the problem is that privatization per se is not a goal to be achieved;

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<sup>47</sup>Katsura, H.M. and Struyk, R.J. 1985. *Selling Eastern Europe's Social Housing Stock: Proceed with Caution*. Washington, D.C.: The Urban Institute. p.29.

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instead, it is a means to achieve the broader goals of equity and efficiency in housing markets. Losing sight of these broader goals can lead to the development of unproductive policies.<sup>48</sup>

### 4.4.      Reasons for Establishing Housing Policy

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What are the most urgent reasons for establishing a housing policy? The most significant aspects are:

(1) Distribution:

The ideal attainment for housing is an *even distribution of housing in relation to the needs* of population. However, reality looks different. *Uneven* distribution of housing is common to all market-driven economies.

Modern market society is not benevolent to all its members. The 1980s brought about the term of a two-third society,<sup>49</sup> meaning that one third of the population is permanently or at best temporarily deprived of some basic needs (shelter, food, clothing, health care).

The ambitious goal of socialist society to overcome unevenness in housing distribution has failed, bequeathing a relatively low-standard housing stock in physical and social respect. Quantitative and qualitative shortage of housing are prevailing in most of the former socialist countries.

Housing stock of former centralized economies is characterized by severe stock deficiencies as the data suggests (figure 9). In particular the crowdedness (high actual occupancy rate) in *synergy* with a low floor space size indicates the problematic situation of housing stock in former socialist countries. It also shows the relative advantage of former East Germany in housing provision compared to other socialist countries.

The heritage of these problems slows down the transformation process and puts additional strains on establishing a smoothly operating housing policy in these countries.

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<sup>48</sup>Katsura, H.M. and Struyk, R.J. 1985. *Selling Eastern Europe's Social Housing Stock: Proceed with Caution*. Washington, D.C.: The Urban Institute. p.30.

<sup>49</sup>This term was coined by the West German politician Lothar Spaeth in the early 1980s (so-called Spaeth concept).

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Figure 9. Occupancy rate and floor space of some former socialist countries and Germany<sup>50</sup>

Country	1980		1985		1988	
	Persons per housing unit	Floor space per capita [m <sup>2</sup> ]	Persons per housing unit	Floor space per capita [m <sup>2</sup> ]	Persons per housing unit	Floor space per capita [m <sup>2</sup> ]
Bulgaria	3.1	18.9	2.8	22.9	2.7	25.3
Czechoslovakia	2.9	26.3	2.7	29.3	2.7	30.9
Hungary	2.8	23.6	2.8	28.5	2.7	31.9
Poland	3.6	17.6	3.5	19.9	3.5	21.1
Yugoslavia	3.5	20.1	3.4	21.3	3.4	21.9
East Germany	2.6	24.3	2.4	26.2	2.4	27.0
West Germany	2.4	32.9	2.3	35.6	2.3	36.3

(2) Physical shortage of housing:

There is a latent physical shortage of housing in industrialized countries. Physical shortage describes the fact that numerous people do not have appropriate access to decent housing. (Decent housing is oftentimes equated with standards and code requirements of a particular country. However, decent housing comprises social aspects as well.) Thus, physical shortage stands in close relationship to social shortage of housing. By virtue of their nature both terms are interrelated and have to be treated as a pair.

(3) Social shortage of housing:

Social shortage of housing refers to the inappropriateness of housing as to social integration, neighborhood quality, well-being, and safety. It is by far much more difficult to evaluate social qualities. Physical categories are not the right means of setting the benchmarks for social qualities. (Social quality of housing implies location, spatial quality, convenient access to infrastructure, etc.)

<sup>50</sup>Data sources: For Bulgaria, Czechoslovakia, Hungary, Poland, and Yugoslavia:

Telgarsky, J.P. and Struyk, R.J. 1990. *Toward a Market— Oriented Housing Sector in Eastern Europe*. Washington, D.C.: The Urban Institute. p.44—47.

For East Germany:

Staatliche Zentralverwaltung fuer Statistik. 1955—1989. *Statistisches Jahrbuch 1955— 1989 der Deutschen Demokratischen Republik (Statistical Yearbook 1955— 1989 of the German Democratic Republic)*. Berlin: Staatsverlag der Deutschen Demokratischen Republik.

For West Germany:

Statistisches Bundesamt der Bundesrepublik Deutschland. 1952—1990. *Statistisches Jahrbuch 1952— 1990 fuer die Bundesrepublik Deutschland (Statistical Yearbook 1952— 1990 for the Federal Republic of Germany)*. Stuttgart and Mainz: Verlag W. Kohlhammer.

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(4) Non-existence of self-regulating mechanism:

The assumption for an ideally operating free market economy is the self-regulating mechanism between supply and demand. Housing, however, does not behave according to and fully follow this pattern because of its inherent particularities. The *filtration theory* stated that market dynamics would initiate a downward flow of decent housing, thus enabling moderate and low-income groups to have access to pertinent housing quality. If this principle worked, (A) a permanent oversupply<sup>51</sup> of housing would be required, reached by a faster growth of housing construction in comparison to demographic changes. (B) It also presupposes uninterrupted economic growth. In reality, both these factors are only present periodically since market economies cycle. Cycling accumulates sluggishness in production. Thus, housing tends to fall short in supply. Because of the sluggishness of changes in the housing market, we need to infer that in housing mechanisms operate which deviate from the ideal assumptions of a market economy.

### 4.5.      What Necessitates Changes in Housing Policy?

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A number of necessary changes in housing policy can be derived from the problems discussed above. A complete list is not compile-able, but some tasks are primary :

- (1) The prime goal of housing policy should be placed on *minimizing the polarization of population* caused by segregation. The ideal is an even distribution of housing. This also includes harmonizing rents (cost/benefit ratio as discussed above). Facing reality the ideal might not be reachable in the foreseeable future; however, confining and reducing segregation ought to receive priority in governmental housing affairs.

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<sup>51</sup>Oversupply means that continuously more housing is produced than required. It is different from the vacancy rate which assures locational mobility across the population. A high vacancy rate can still exist, although there is *no* oversupply of housing. In other words, affordability *and* housing production determine the vacancy rate. For instance, in the U.S. the vacancy rate amounts to about 4 to 5% of overall stock.

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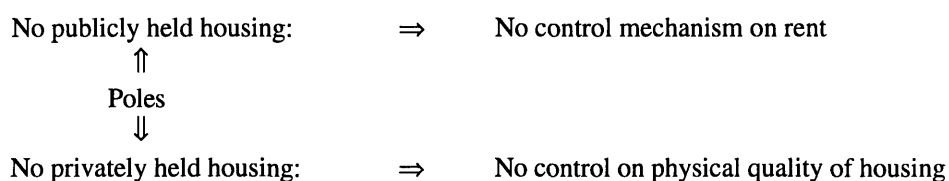
- (2) The uneven distribution and selective shortages of both public and private housing necessitates exploring new forms of residential arrangements.<sup>52</sup> Fostering initiatives, self-help concepts, and the like was hardly a preponderant goal of housing policy to date.

Unevenness is particularly true for suburban structures built over the past three decades where habitability is still a major concern of people. Since the main share of social housing stock in East Germany is in these areas, political emphasis should be placed on the vitalization of these structures. The neglect of those urban structures is one of the biggest mistakes of current housing policy.

Non-profit organizations or groups, small in scale (even on the grass-roots level) should receive more attention than before. New ideas grow out of unconventional approaches to problem-solving. In addition, the avoidance of huge overheads can bring housing costs down to a level, again affordable for larger segments of population.

- (3) The relationship between the private and public housing sector should be defined on a supplementing basis. The details will be discussed later. There are poles in housing which should clearly be avoided.

The scenario below shall elucidate that a harmonized structure between both sectors may provide the most optimal results in housing:



Therefore, the question is: who serves whom? The diagram (figure 10) re-examines the internals of stock flow in some more detail as to housing production, sell-off, and policy.

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<sup>52</sup>Vliet, W.v. ed. 1987. *Housing Markets and Policies under Fiscal Austerity*. New York, Westport, London: Greenwood Press. p.157.

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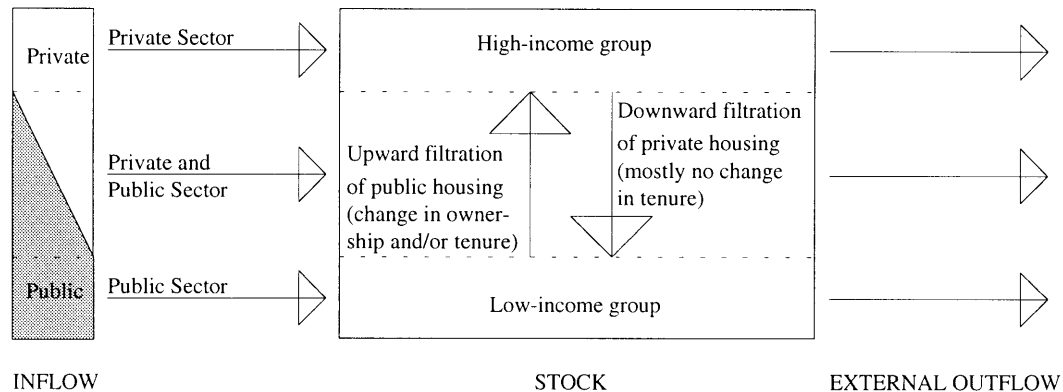


Figure 10. Contributors to housing

(A) The process of selling-off cannot endure over an extended period of time. Therefore, changing realities in supply and demand need to find their counterpart in renewed housing policy:

- (a) A total sell-off of social housing would entail the drying-out of this type of housing. However, since past development in Germany and other countries has shown that the public sector is the main contributor to housing at *moderate* prices this sector has to be retained.
- (b) The public sector takes on the role of a stimulator at the bottom portion of overall housing stock. The internal stock flow elucidates this fact.

(B) The careful steering of changes tenure and ownership is significant for warranting sufficient access to housing across population. To repeat this, there are two flow directions: an *upward* filtration occurs, regarding social housing stock and mainly affecting a *change in ownership*. Concurrently, private housing stock tends to be filtered downward due to the natural wearing-out process. Hereby in most of the cases, there is *no change in ownership*, but a change in tenure from owner-occupied to renter-occupied.

- (a) Even if an excess of housing supply is guaranteed (fluidity of housing stock), demand and supply do not fully follow pure market economy patterns. The only application of market laws may be misleading. Rather, a housing policy is required to help shape and operate the patterns.
- (b) The properties of flow are determined by demand factors:
  - Demographic patterns (household structure, race, ethnicity) and socio-economic capacity (income profile of social strata);
  - Urban patterns (location, regional preferences, urban vs. suburban).

Both are interrelated. The borderlines and margins are fluid.

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(C) Recent housing policy has shown that within public stock a process of gradual infiltration of quality loss occurs. Better-quality social housing stock tends to be sold-off. A balance between inflow and both external and internal outflow ought to be established. Therefore the external outflow is the less critical component since mainly determined by physical parameters.

The crux is the internal outflow, succumbing chiefly to non-physical parameters. Here the responsibility of the authorities in charge begins (regulative accountability).

(D) The determination of factors which are regulative cannot be seen as a single act in time. Rather, the regulative factors should be grasped as ever-changing, varying in size and emphasis. They need constantly to be adapted to the shifts in societal trends.

(5) One aspect of the correlation between public and private housing has been given little attention so far. In East Germany a goal should be a mix of public and private housing in *one* neighborhood. East German social housing is concentrated in large suburban areas. These areas begin to disintegrate because of their isolated planning concepts. Therefore, a blend of private and public structures on a competitive basis should be an objective for prospective planning.

(6) Tenants mobility is a serious issue in the whole of Germany. If development in the northern hemisphere continues at the present rate, Germany will face a huge pent-up demand. Service industry and society require a high degree of flexibility. Housing policies ought to ensure a sufficient vacancy rate of housing. The exact size for Germany still needs to be explored.

(7) Re-examining production and consumer subsidies are on the agenda again. The main goal should be the confinement of subsidies to a moderate level as they have an inflationary effect on the economy. The follow-up issue is the efficient design of subsidies. As pointed out above, the concrete way of subsidization depends upon the state of housing stock. Germany desperately needs production stimuli.

Pairing subsidies might be an appropriate means of the next years. The diagram (figure 11) shows that housing allowances have a negative impact on housing provision and rents, i.e. the demand for supported housing increases, thus widening the gap between supply and demand, and

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rents are driven up as well. We should be aware of the fact that supply constraints, in turn, do impede the effectiveness of housing allowances. We also need to recognize that non-profit housing aiming at the bottom of the income ladder does not necessarily represent a function of market demand and price.<sup>53</sup>

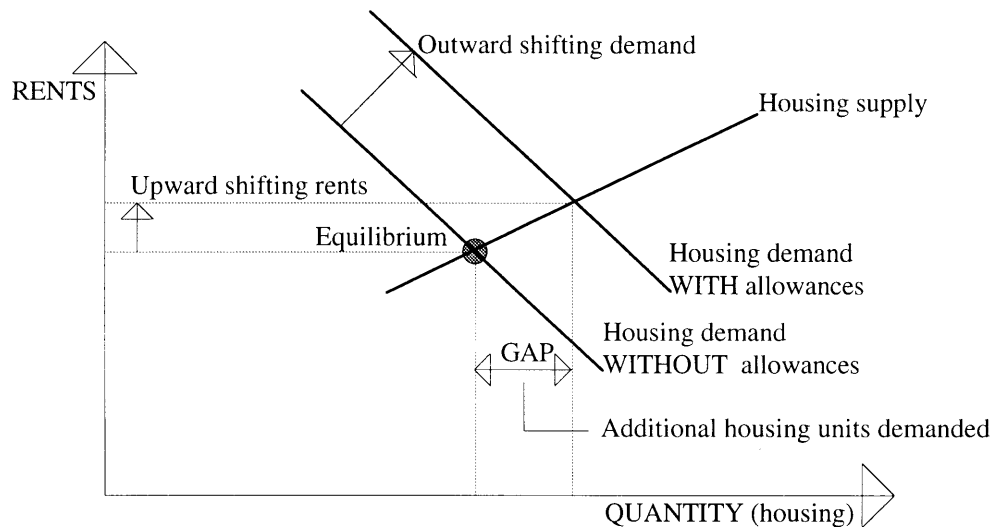


Figure 11. The impact of housing allowances on housing provision

(8) Housing allowances have their impact on the elasticity of supply and demand. There are two types of elasticity<sup>54</sup> in housing:

- Income elasticity of demand:  $\frac{\text{Percentage increase in the expenditure on housing}}{\text{Percentage increase in income}} \approx 0.7 \text{ to } 1.0$
- Price elasticity of demand:  $\frac{\text{Percentage increase in the demand for housing}}{\text{Percentage decrease in the price of housing}} \approx 1.0$

The demand-increasing consequence of allowances is a function of the price and income elasticities of demand for accommodation. Little is known about the elasticity of supply of accommodation. Some implications of housing allowances on supply can be summarized as follows. Housing allowances will have more influence on supply,

- (1) The higher the mobility of tenants, implying faster forward shifts in demand;

<sup>53</sup>Vliet, W.v. ed. 1987. *Housing Markets and Policies under Fiscal Austerity*. New York, Westport, London: Greenwood Press. p.174.

<sup>54</sup>Pugh, C. 1980. *Housing in Capitalist Societies*. Westmead, Farnborough, Hampshire: Gower Publishing Company. p.138—139.



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- (2) The higher the average vacancy rate in the stock in the short run, and the higher the elasticity of supply in the long run, implying reductions in transfers to housing owners;
- (3) The more differentiated the quality structure of newly constructed housing, especially in the lower quality brackets, implying a higher elasticity of supply in these quality brackets;
- (4) The more efficient the administration of the housing allowance scheme, including its adjustment to changing income and rent levels.<sup>55</sup>

Generalizing modern housing policy, we can phrase the issues as follows:

- (1) How to improve the management of low-income rental housing?
- (2) How to finance the costs of housing services?<sup>56</sup>

Therefore the necessity consists in designing a comprehensive housing policy at the national, regional, and local level.<sup>57</sup> The author adds the grass-roots level as the emerging spring of informal housing policy. These levels condition each other and are accountable for an effective housing policy.

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<sup>55</sup>Vliet, W.v. ed. 1987. *Housing Markets and Policies under Fiscal Austerity*. New York, Westport, London: Greenwood Press. p.171—173.

<sup>56</sup>Pugh, C. 1980. *Housing in Capitalist Societies*. Westmead, Farnborough, Hampshire: Gower Publishing Company. p.129.

<sup>57</sup>Pugh, C. 1980. *Housing in Capitalist Societies*. Westmead, Farnborough, Hampshire: Gower Publishing Company. p.114.

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CHAPTER III

## Social Housing in Germany

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The next paragraphs introduce the historical background of German low-income<sup>58</sup> housing. Placing emphasis on a detailed description of historical events would go beyond the scope of this chapter. However, re-examining historical aspects is helpful in drawing some meaningful conclusions for future development. From the vantage point of current understanding, the development of low-income and social housing in Germany follows a logical chain of events.

We will move on to describe the current situation of housing in Germany. While the previous chapter described the more general aspects, this one will explore a number of specific facets in more detail. The intention is to elaborate on the common problems as well as on the distinctions between East and West Germany. The current German social housing system is analyzed. This sets out the framework for the subsequent chapters where some propositions are made with regard to the future of German social housing. Yet this chapter cannot just be confined to mere analysis since past, present, and future are intertwined. Therefore, where appropriate, possible solutions are already indicated.

### 1. Historical Aspects of Relevance for the Topic

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Germany has a long tradition and experience in low-income housing accumulated through social struggle, confrontations, setbacks, and successfully implemented strategies. A chronology is used in order to set the context for current problems. Further, it shall be found that a historical survey provides interesting insights and analogies, useful to grasp the present and future housing development in Germany.

The starting point for this chronology is 1800. Thus the objective is to focus on some of the most essential developmental facets of this time span. Albeit a lot is written on this topic, little is done in drawing some conclusions from it for the future:

- (1) Stages of the German housing development;
- (2) Generalization of prevailing tendencies in Germany's social development.

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<sup>58</sup>The term low-income housing is especially used for the period prior to 1945 since it describes best the main goal of this type of housing, namely providing decent accommodation for low-income people who were not able to afford their own home. After 1945 low-income housing encompasses a wider spectrum in terms of serving different groups of people.

Low-income housing in Germany consists of four distinct phases. Phasing housing development appears to be an appropriate means to elucidate and highlight the essentials of this complex matter. Utilizing this method may help stratify the importance of tendencies, facts, and events.

Pugh distinguishes between three periods in housing development:

- (1) The first is a period of concern motivated by the needs and problems of industrial development and such things as public health problems stemming from poor housing conditions.
- (2) The second is a period of concern with social need in housing. This is typically associated with ad hoc policies which leave private housing to the market, and direct social housing (not always effectively) at social need.
- (3) The third period breaks down the dualism. Relationships between social housing and private housing become more competitive, the boundaries between government and private involvement become less clear-cut, the shape and character of government activities begin to change, and sometimes new institutions are created to fill gaps in housing finance, organisation and research.<sup>59</sup>

The author precedes Pugh's first period with still another one. Since, in order to deal with a problem one must have a problem, i.e., in order to deal with public health in housing, the health problem needs to be created previously. Therefore the following phases are suggested:

- |  |               |
|--|---------------|
| (I) The creation and accumulation of a new type of housing stock (quantitative phase): | 1800-1890;    |
| (II) The development of qualitative characteristics of this stock (qualitative phase): | 1890-1918;    |
| (III) The quest for social concepts:   | 1918-1945;    |
| (IV) The dualism and interplay between social and private housing development:         | 1945 to date. |

The focus is on the first two phases since they fashion the foundation for all subsequent development. The time between 1918 and 1945 is only delineated.

### 1.1. Abstract of Social Housing Development in Germany Prior to 1945

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The next two paragraphs provide a condensed overview of some specific facets having a substantial impact on German housing development. The evolution of the power structure reflects a unique feature of German history.

The springs of German social housing are delineated in order to provide the context for the object we deal with here.

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<sup>59</sup>Pugh, C. 1980. *Housing in Capitalist Societies*. Westmead, Farnborough, Hampshire: Gower Publishing Company. p.1—2.

## 1.1.1. Interplay Between Centralized and Autonomous Power Structures in Germany

In order to fully understand past housing development in Germany, the interplay between centralized and autonomous<sup>60</sup> power structures is to be briefly touched upon. The timeline from 1800 onward (figure 12) depicts the *general tendency* of this process which had an enormous impact on urban development and housing.

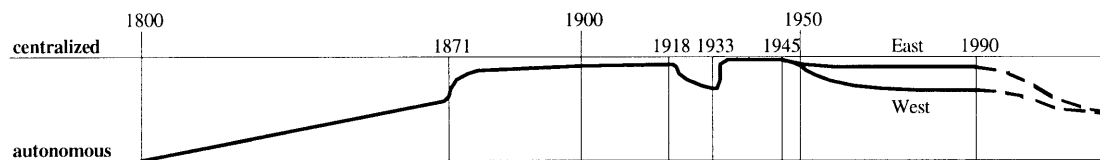


Figure 12. Changing power structure of German urban settlements

Prior to 1800 Corporative system.<sup>61</sup>

- The towns were independent, autonomous units.

1800 to 1870 Gradual *dissolution* of the corporative system.

- With respect to urbanization this period bore transitional character. Around 1800, the new epoch of cities began. The historical development of urban structures took on *transitional character*. The social power of the transitional towns was waning. Concurrently the urban fabric—the modern or industrialized city—emerged.
- In addition, the modern (industrialized) cities lost their freedom to the state.<sup>62</sup>

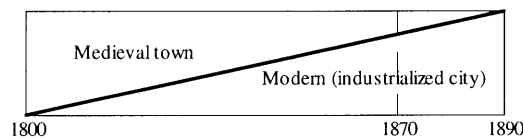


Figure 13. The transitional towns

<sup>60</sup>Autonomous means a self-contained, independent power and administrative structure, prevailing in medieval towns which was enforced by Germany's particularism. Particularism is a specific phenomenon of German history.

<sup>61</sup>Corporative system relates to the socio-economic make-up of medieval society.

<sup>62</sup>Rausch, W. ed. 1983. *Die Staedte Mitteleuropas im 19. Jahrhundert (The Middle-European Cities of the 19<sup>th</sup> Century)*. Linz/Donau: Rudolf Tauner G.m.b.H. p.3.

The process was not linear, as the diagram (figure 13) suggests. However, in order to elaborate the main tendency the linear simplification may be allowed.

- 1871 German Empire (Monarchy).
- 1871 to 1918 Establishment of the German *Monarchy* (*centralization* of power).
- The centralization of power increased. Prussia played the role of a vanguard in establishing centralized power structures.
  - The industrial city as the archetype of modern settlement was fully fledged.
- 1918 to 1933 Tendency toward a *decentralization* of power.
- For the first time in German history a system of federal and local power evolved (Weimar Republic).
  - The social component of urbanization became a centerpiece of concern.
- 1933 to 1945 Return to *centralization* (Hitler regime).
- A *centralized, capitalistic planned economy* was set up, in addition to a centralized political power.
  - The main emphasis of 'urbanization' was placed on *decentralization* of urban structures, ultimately fostering rural development.
- .....
- 1945 - 1989 Split of Germany.
- The dichotomy between two societal systems within one historically common culture determined the development.
- West Germany: Re-emergence and further development of the federal and local power structure.
- East Germany: Setup of a centralized socialistic planned economy in conjunction with a centralized political power.
- .....
- 1990 onward Reunification of Germany.
- The quest for the confluence of two different societal systems.

*The undulating development of the German society is reflected in its urbanization and housing process, and provides the framework for all aspects associated with the urban fabric.*

The evolution of low-income housing appears to be predominantly a socio-economic issue rather than an architectural one. (Interestingly, no 'famous' architects substantially contributed to low-income housing in its early days.) As the immersion in German housing history has revealed, the incentives and encouragement always came about by legislation or substantial political restructuring.

Housing as a problem for the low-income brackets is a concomitant of market-based economies. Capitalist society has accomplished the split between living and working on a large scale. To what extent this split will endure remains to be seen.

That housing would be a problem was only slowly recognized in the last century. This has to do with the fact that a human being, tied into the status quo of a developmental phase, is rarely capable of comprehending the complexity of society and its impact on prospective development. Over the last century, the lines of development were ambiguous in a number of points based on the fact that the new socio-economic system still was in its infancy; thus problem recognition was a painful process. (We may have a lot of ideas for the future; we may have 'comprehensive' and logical concepts, but if the ideas or concepts are the right ones nobody can tell.)

### 1.1.2. The Four Major Categories of Low-income Housing in Germany's History

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The inception of German low-income housing dates back to the 16<sup>th</sup> century. The first documentary evidence is provided with a contract closed between Jakob Fugger and the city of Augsburg (1519). The so-called Fuggerei (figure 14) served as a shelter for needy citizens of Augsburg, craftsmen, day laborer, and others who did not want to beg.<sup>63</sup> At that time, the Fuggerei may have represented a certainly progressive undertaking since it broke with the irrational image of the medieval towns characterized by narrow and crooked alleys. The Fuggerei was laid out as rational system of right-angled streets thus ensuring better cross-ventilation and more convenient waste disposal. In social terms it consequently aimed at the provision of decent living conditions for low-income people.

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<sup>63</sup>Lieb, N. 1952. *Die Fugger und die Kunst (The Fuggers and the Art)*. Munich.



Figure 14. The first known social housing project on German soil—  
The Fuggerei in Augsburg, 1519<sup>64</sup>

The first phase of low-income housing development comprises the time span between 1800 and 1890. It is the time when the problems were created and consequently, low-income housing came into being as a result of a new socio-economic system.

What are the overriding ideas and recognition regarding housing derived from and inseparably associated with this dense development?

(A) In economic terms, the prevailing notion at this time was *laissez faire*. One important phenomenon of that period consisted in the fact that the state was too weak to encroach upon and influence housing development. The balkanized political landscape in Germany further aggravated the formation of socially concerned forces prior to 1871. *The state as an instrumentarium to act on behalf of low-income brackets did simply not exist.* The first and parts of the second half of the 19<sup>th</sup> century were imprinted by a strenuous search for appropriate power structures. The new socio-economic system had not yet become fully established. In addition, a tendency of testing and pushing the limits of what people could stand was observable.

As to socio-political and urban measures we may characterize this period as an *enrichment phase* reaching its saturation between 1890 and 1900.

<sup>64</sup>Peltz-Dreckmann, U. 1978. *Nationalsozialistischer Siedlungsbau (National-Socialist Settlement Construction)*. Munich: Minerva Publikation. p.477.



- (1) Besides the prevailing concept of economic liberalism (*laissez faire*), the government(s) was/were initially not able to influence the social development substantially. In the early days of this process, the political forces contented themselves with mere administrative tasks mediating feebly between the driving societal forces and the populace. The situation gradually changed by virtue of increasing social problems, the rising awareness of concerned individuals and a growing discontent of the affected people. The magnitude of unsettled problems (particularly during the 1870s) became reflected in a *worsening physical environment*. The political forces, initially very benign to the economic mighty increasingly shifted their attention to overall developmental issues by taking on the role of an actor as opposed to a reactor.
- (2) Collaterally, three out of four basic elements of German low-income housing—company-owned housing, public benefit building societies, and self-help co-operatives—came about during this period. That company-owned housing occurred first, seems to be logical since the coal and steel industry then was the driving force of industrialization needing sizable labor. This point carries us to the next characteristic.
- (3) The increase of urban population prior to 1870 happened by drawing peasants from regions in close vicinity to the emerging industrial centers (Ruhr District and Berlin). By 1870 the population depletion of nearby rural areas reached its crucial point. After 1870, additional labor had to be recruited from distant regions. Industry had still another but nevertheless very important side effect. It impacted the global German population composition as labor force was increasingly attracted from regions beyond the river of Elbe and even farther eastward. That marked the *historical point* at which Germany began augmenting its population size through the immigration of people by virtue of its socio-economic prosperity. This will become a very *decisive element of modern German history* politically never clearly resolved in the ensuing years.

Housing in big cities became even worse thus increasing the pressure in seeking for solutions.

- (B) Hence, no wonder that the first visible answers for new settlement structures emerged in the industrialized centers which were the *Ruhr District* and *Berlin* (Prussia). The power formation took place there, and first results occurred there.
- (C) Prior to 1870...1880 the main share of investment flowed into industrialization. Only little wherewithal were left for housing the poor. The big enterprises invested in housing just as much as they needed to bind their best skilled work force and avoid social unrest. (However, the 1848 Revolution still had its positive aftermath insofar that it reminded the entrepreneurs to keep the

investment in housing at least at a modest level.) On the other hand, the government was not powerful enough to put itself into the position of an investor. In addition, the statutory framework for doing this was not yet in place or became developed until 1890. (Consequently, governmental involvement could not happen at a larger scale before 1890.)

Further, low-income people were not yet able to spare larger amounts of money for housing. The accumulation of wherewithal across low-income groups—even on a moderate scale—was still in its infant stage. That gradually changed with economic prosperity after 1870. (The statutory regulations were established in 1889.)

The dearth of financial means is a multi-faceted issue. Besides the pure economic relationship between employer and employee, the developmental stage of the urban fabric contributes to income situation as well. In the early phases, time and distance unfavorably impacted the wage rate available to workers. Insufficient transportation meant long hours of traffic; insufficient housing close to the working place imposed excessive transportation costs on the workers. Thus, the inertia of the development of urban infrastructure accounted for a good deal of the workers' burden. As the urban development progressed, the transportation became less burdensome (unfolding of the railroad network). Consequently, people were better able to redistribute income according to their needs, that is, saving more money for housing.

(D) The physical appearance of housing merges in a type discussion, but in a more strategic sense. The cardinal hinge was: What should be taken as the basis for the new kind of housing emerging? There was no precedent which could be drawn upon since the social group of low-income people without a homestead was novel to society.

The first company-owned housing projects were based on the barrack type<sup>65</sup> which in turn goes back to French paragons. Between 1769 and 1786, Frederick the Great (King of Prussia) induced the construction of barrack-type-based housing for civil purposes in order to mitigate the housing misery in Berlin. The accommodation of a larger numbers of people at one spot was chiefly left to the military until that time. In the civil sector no adequate housing forms were at disposal. In a way, taking over this type from military was self-suggesting.

There is still another interesting, however, contentious analogy for using the paragon of military housing patterns: Germany's military and large-scale industry were hierarchically similarly structured. Both embodied a system of sovereign (Fuehrer) and allegiance (vassals) based on the principle of stringent discipline, dependency, and humility. In those days, the industry was more or

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<sup>65</sup>Peltz-Dreckmann, U. 1978. *Nationalsozialistischer Siedlungsbau (National-Socialist Settlement Construction)*. Munich: Minerva Publikation. p.21.

less forced to adapt this power principle in order to establish itself since the German Authoritarian State was analogously organized. In addition, for legitimation purposes, the industry was somewhat dependent on this hierarchical system. Hence, one may incline to the assumption that the industry utilized the same, rather well-functioning principles for its first housing projects, almost even more rigorously there. The projects implemented contained a striking element of uniformity and were rigidly aligned. However, the argument needs to be more profound: Then, the people were used to live in small-scale houses for centuries. Thus the contradiction between a small-scale, familiar housing types and large, multiple dwellings was prescribed. That also means, the quest for an appropriate reflection of a new housing form was burdened from the very onset. We also need to recall the facts, that investment in this emerging housing category was purposely minimized and did not experience a high societal recognition at that time.

Another main thought condensed in the intention to engender an image reminding the inhabitants of their ancestral rural places. The underlying idea was that the settlements should provide a strong imaginary linkage to the medieval rural structure of historical German towns and villages.<sup>66</sup>

The human being exists in two constructs—his *social* and *physical* environment. As this new social fabric was being restructured—large segments of the population were uprooted—the other component—the physical environment—at least called for a certain continuity. The people needed a hold—a *familiar* "new" physical environment. Hence, there were strong endeavors to retain at least some familiar architectural elements within the realm of this new housing type. Thus, the down-scaled semi-detached or quad housing types were frequently applied.

The integration of medieval, vernacular architectural archetypes is observable in all three categories of low-income housing. Company-owned housing construction played a kind of a vanguard role in relation to the type issue. An explicitly avant-garde approach to architecture was not present at that time.

Subsequent development gradually deviated from this traditional type of housing caused by economic pressure which called for additional simplicity, maximization of land utilization, minimization of construction expenditures per dwelling, etc. By the end of the century the medium-rise tenement became prevalent in all three categories of low-income housing.

At the end of the century, the necessity to provide the remembrance of an image of bygone times did not exist anymore. The old image of the corporative system had lost its meaning in the mind of the people and was supplanted by the image of the industrialized city.

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<sup>66</sup>Peltz-Dreckmann, U. 1978. *Nationalsozialistischer Siedlungsbau (National-Socialist Settlement Construction)*. Munich: Minerva Publikation. p.26.

Concurrently, the new social ties were already well established. Consequently, social and physical environment coincided again, but on a new level. This, however, does not mean that the overall values of the societal fabric became better *or* worse; it only means that the new values were *distinct* from those at the beginning of the 19<sup>th</sup> century. Hence, at the end of the century the crucial issue was: What might be appropriate ways to wage the accumulated problems of social and urban development?

The first basic categories of low-income housing were brought about in Germany during the last century. Albeit clear demarcations cannot always be drawn—the margins are fluid—three basic categories are recognizable. Some essential elements of one category may occur in the other two.

We can distinguish between:

(1) *Company-owned housing:*

Company-owned housing is the *first* category of low-income housing in Germany developed under *laissez faire* conditions. This housing pattern evolved as an *expedient investment* in the interest of a company. It did not lead to the creation of private property for those people inhabiting the houses.<sup>67</sup> Company-owned housing was a capital investment. Originally aiming at low-income groups, other groups were later also provided with this kind of housing.

This particular form of housing mainly worked in the self-interest of the company, i.e. helped stabilize the work force and attracted skilled labor as well. In addition, it was a means of controlling and supervising workers. (By using the pretext of security, supervisors lived in these houses were very often appointed to inspect dwellings on a regular basis.)

In 1865 Alfred Krupp wrote to the management of his company:

"It is not the small wages which make the workers discontent, but it is the little pleasure they get from their money, the high rents and the expensive cost of board. I believe that a great deal has to be sacrificed. Nobody has an idea of the misery which occurs and the prejudice we will receive by others if we do not provide our people with a safe shelter."<sup>68</sup>

Besides the company's self-interest, the workers received a good deal of benefits unusual at that time. They were provided with decent accommodation, regained a social safety (i.e., the right

<sup>67</sup>Kastorff-Viehmann, R. 1980. *Wohnung, Wohnhaus und Siedlung fuer Arbeiter-Bevoelkerung im Ruhrgebiet von der Mitte des 19. Jahrhunderts bis zum Beginn des 1. Weltkrieges (Dwelling, House, and Settlement for Working Class People in the Ruhr District Between the Middle of the 19<sup>th</sup> century and the Outset of World War I)*. Aachen: Technische Hochschule Aachen. p.171.

<sup>68</sup>Peltz-Dreckmann, U. 1978. *Nationalsozialistischer Siedlungsbau (National-Socialist Settlement Construction)*. Munich: Minerva Publikation. p.25.

to stay in the home as long as they were affiliated with the company) which they might have lost before. Also, they were provided with an *image* of peacefulness and familiarity. In addition, this settlement form anticipated some elements of a garden city which should come into being decades later.

*Summary:*

Company-owned housing is a kind of privileged housing for low-income people and does not aim at social reform aspirations. This housing category does not imply home ownership. The living space is provided by others not living in these houses (in this case the company). It is a safe capital investment.

(2) *Public benefit building societies:*

Building societies are a variation of the self-help principle. They aspire to the creation of *home ownership* as opposed to company-owned housing.

Building societies were initially established for a finite period of time (terminating building societies). However, it turned out that the organization on a permanent base was more appropriate to fulfill long-term goals.<sup>69</sup> The organizational construct is perhaps described best by the contemporary term non-profit organization. Over the course of the second half of the last century, building societies evolved in a broad variety (figure 15).

The building societies are based on the ideas of philanthropy (and its specific occurrence—phalanstery). At its very onset, building societies were charitable foundations called into being by socially concerned and affluent individuals who donated and pooled private monies for the construction of small settlements targeting at diverse social groups (needy, disabled, retired craftsmen, etc.).

*Summary:*

Public benefit building societies provided housing for low-income groups. They did not imply any contractual obligations for the people affected.

In this case as well, the provision of living space happened by others.

The building societies were initially established on a terminating base, later on, increasingly turned into permanent organizations.

Profit gain in its original sense was not involved.

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<sup>69</sup>Pugh, C. 1980. *Housing in Capitalist Societies*. Westmead, Farnborough, Hampshire: Gower Publishing Company. p.26.

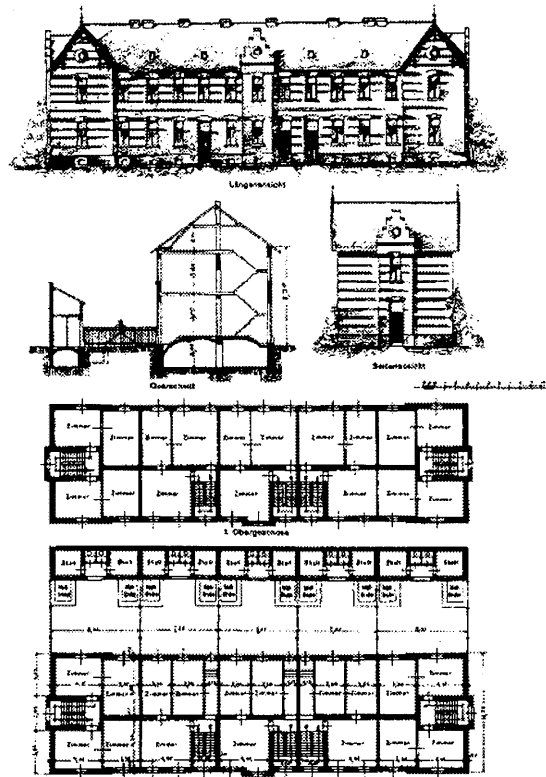


Figure 15. Settlement of a public benefit building society in Cologne-Wilhelmsruh, 1888<sup>70</sup>

(3) *(Self-help) co-operatives:*

Co-operatives also fall into the category of self-help.

The people affected establish their own organizational structure toward settling their housing problem. Thus, the co-operatives work only in interest of the affected people.

The tenure may vary in its particular form (ownership-in-common or co-ownership)<sup>71</sup>, primary goals, and frame conditions. (Co-ownership means sharing rights and entitlement in the equity of property.)

Co-operatives are particularly sensitive as to their economic stability since they do not involve profit gain (little financial reserves).

Co-operatives aspire to the creation of home *ownership* as well.

<sup>70</sup>Novy, K. ed. 1896. *Wohnreform in Koeln (Housing Reform in Cologne)*. Cologne: Bachem Verlag. p.15.

<sup>71</sup>Pugh, C. 1980. *Housing in Capitalist Societies*. Westmead, Farnborough, Hampshire: Gower Publishing Company. p.xiii.

*Summary:*

Self-help co-operatives clearly aim at social reforms. They are not just a cosmetic operation since the people affected take the solution of the housing problem in their own hands.

By no means, co-operatives aspire to profit gains.

Co-operatives also create home ownership.

The second phase of low-income housing comprises the time from 1890 to 1918. The main ideas and results with regard to urbanism and low-income housing are:

- (A) The changing characteristic of production from quantitative to qualitative aspects indicates the inauguration of a new developmental phase. This fact finds its physical reflection in the urban development. The *industrialized city is in place*. In addition to these physical changes, the terminology of what urban settlement meant was changing: The meaning of the term 'medieval town' was largely superseded by the terms: 'city' and 'village', thus clearly incorporating the reason for change—the new production principles.
- (B) The political forces had gained a certain level of stability. Prior to 1890, the very important shift consummated from scattered, decentralized, sporadically acting political forces to centralized power structures. This diminished the autonomous status of the old medieval urban structures, led to a regrouping of administrative responsibilities within the new or arising urban fabrics. The centralized government in conjunction with the local authorities became increasingly able to take on an active role in steering and influencing urban and housing development. We can refer to it as the first stage of *active* governmental housing policy. A shift in concern occurred from mere steering functions in order to confine adverse impacts of the then development toward a higher degree of social involvement.
- (C) The statutory framework created the prerequisites for the fourth category of low-income housing: *communal housing*. Since the municipalities were enabled to acquire land by law, they could actively become involved in housing. Thus, they consequently participated as investors and suppliers of housing. The town councils stimulated private-enterprise housing supplies by leasing parts of their land to building societies at below market-rental rates and by lending money on easy terms to

building societies.<sup>72</sup> Further, the municipalities were able to get control over development in contentious areas. (Land speculation was an evil at that time driving up prices. Land became artificially scarce.)

(D) Governmental intervention at that time can be characterized as an interplay between local authorities and centralized government. The active part (initiating of construction) was left to the locals. We may ascertain: It was a two-way street flowing bottom-up and top-down. The statutory flow occurred in the top-down direction while the implementation was left to the municipalities. The physical results were gained in a bottom-up form.

(E) In a broader context, the second phase is characterized by a *further accumulation and completion of the instrumentarium necessary to provide low-income housing*.

The emergence of the fourth category is proof of an improved strength of the legislative forces.

(F) The conceptual groundwork, i.e. the *accumulation of ideas and thoughts as well as the first attempts of implementing them* (garden cities) are the other chief characteristics of the second phase. In the course of the first two decades of this century, the main share of groundwork was accomplished. It was also a period of a more internalized work, the more spectacular results regarding social housing were gained in the 1920s.

(G) The architectural expression of the new built structures was chiefly based on historical styles. The gothic style was attributed a particular meaning, expressing the then status quo of the constitution of the mind (Teutonism). At that time, Gothic was assumed to be a pure German style. This was later refuted.

The particularities of the image can be described best by eclecticism and the specifically German denotation—Founder-Years architecture.

An architectural breakthrough could not be reached in this phase.

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<sup>72</sup>Wendt, P.F. 1963. *Housing Policy— The Search for Solutions*. Berkeley, Los Angeles: University of California Press. p.113.



The fourth category of German low-income housing is *communal housing* (figure 16) which can be portrayed as follows:

Communal housing is carried out under the auspices of governmental authorities. Its first vestiges can be found at the turn of the century. It arose out of the necessity to counteract the ongoing deterioration process of urban settlements. Governmental authorities had increasingly to deal with public health problems, land speculation, and chronic housing shortage.



Figure 16. Communal housing in Cologne, 1902<sup>73</sup>

The communities acted as investors and suppliers. By virtue of the fact that the communities owned land, they were able to initiate construction by providing favorable conditions for building societies. The authorities were typically not involved in project implementations, rather they commissioned construction firms or building societies.

<sup>73</sup>Novy, K. ed. 1896. *Wohnreform in Koeln (Housing Reform in Cologne)*. Cologne: Bachem Verlag. p.19.

Communal housing does not lead to home ownership. This category of housing is provided by others, i.e., the client himself does not live in these houses. This changed later since incumbents were also provided with housing.

Communal housing is carried out on a non-profit basis.

*Summary:*

Communal housing originally aimed at low-income groups. It served as a means to alleviate the miserable housing conditions of the poor. This category of housing does not establish home ownership, nor does it work on a profit basis. To a certain extent, it incorporates social changes.

*General Summary:*

The emergence of low-income housing in Germany was a long-term process that transpired in the last century and the early decades of this century. Four major categories of German low-income housing were found:

- |   |          |      |
|---|----------|------|
| (1) Company-owned housing (Werkwohnungsbau)                           | Ratingen | 1820 |
| (2) Public benefit building societies (Gemeinnützige Baugesellschaft) | Berlin   | 1848 |
| First provisionally established;                                      |          |      |
| Later permanently established.  |          |      |
| (3) Co-operative housing (Baugenossenschaften)                        | Hamburg  | 1862 |
| (4) Communal housing (Städtischer Wohnungsbau)                        |          | 1900 |

The chart (figure 17) is meant to summarize the main phases of German low-income housing prior to 1918. The cut-off line is drawn at around 1918 since until then the four major categories of low-income housing were in place.

Figure 17. Summary of the development in low-income housing in Germany between 1800 and 1918

Period	Focus	Results		
		<i>Social</i>	<i>Urban</i>	<i>Low-income housing</i>
1800	⇒ Accumulation of <i>quantity</i>	Subsistence society		
		<ul style="list-style-type: none"> <li>• Statutory groundwork done by government(s)</li> <li>• The change in meaning of the terms <i>town - city</i></li> </ul>	<p>1820 (1) Company-owned housing</p> <p>1848 (2) Public benefit building societies</p> <p>1862 (3) Self-help co-operatives</p>	
		Townsppeople (new bour- geoisie and working class)	Industrialized city	
1890	⇒ Improvement of <i>quality</i>	Maturity of the new socio-economic system		
		<ul style="list-style-type: none"> <li>• Direct governmental involvement on the local level</li> </ul>	<p>1891 Rural : Urban = 50 : 50</p> <p>1900 (4) Communal housing</p>	
1918	⇒	Drastic changes of the social and urban value system accomplished		
		<ul style="list-style-type: none"> <li>• Complete instrumentarium of low-income housing in place</li> <li>• Accumulation of ideas/thoughts for a social breakthrough</li> </ul>		

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## 1.2. Abstract of Social Housing Development in Germany after 1945

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The time after 1945 ushers in one of the most incisive changes in German history—the split of the country in two separate entities. Although Germany was coined by particularism over centuries, meaning that a cohesive state structure did only exist for 84 years, the social characteristics were always consistent in German history. This changed dramatically after W.W. II. Two different societal systems were established within the boundaries of one culture.

The first results of the reunification process clearly revealed the far-reaching impacts of the past four decades of separation. The different design of both societies can also be traced back in housing. The next paragraphs provide some insights on the similarities—which indeed existed—and the differences in housing-related issues.

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### 1.2.1. Similarities

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Notwithstanding the socio-economic divergence beginning at the end of W.W. II, the foremost task of both parts of Germany was overcoming the *acute physical housing shortage*—a result the war. Therefore, *the diminution of the quantitative housing gap was the predominant effort of the early postwar period.*

Due to the fast economic re-consolidation fostered by the Marshall Plan and non-disruptive changes of the political superstructure, the quantitative saturation<sup>74</sup> of housing stock in West Germany was managed within 20 years. The data suggest that the most urgent housing problems of West Germany had

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<sup>74</sup>The sole evaluation of saturation curves implies two perils:

- Time:  
It is assumed that saturation may be obtainable. However, a certain time always lapses between assumption and actual result. That is, over this period social changes in the household and family structure occur, collaterally generating different realities at the point the aim is reached compared to the starting point. The author calls this: the *process dynamics of housing stock*. The progression of changing living *patterns* has been excluded thereby.
- External social structure (cross-country comparison):  
Saturation of living space is a very subtle issue. For example, quantitative saturation of living space could be attained on a level where the housing unit size averages, say, 250sqft., whereas another one is reached at a median level of 400sqft. In this case a comparison might be perfectly admissible if it affects *different* countries (for instance, a comparison between the U.S. and Germany. [Stahl, K. and Struyk, R.J. 1985. *U.S. and West German Housing Markets*. Berlin, Heidelberg, New York, Tokyo: Springer-Verlag. p.7.]  
However, in the case considered here, the situation is different since it only regards one country (one culture) which was temporarily artificially divided.

been alleviated by the mid-1960s. Parity between the number of households and housing units—a first token of a quantitative market saturation—was reached in 1975.<sup>75</sup>

By contrast, in East Germany quantitative saturation did not occur until ten years later, at about 1985.

Summary:

The postwar period in both parts of Germany could be characterized as a period of quantitative augmentation of housing inventory; whereby saturation was obtained at different times.

### 1.2.2. East Germany

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The political structure substantially influences the developmental pace of a country/society. As a consequence of the political experiment in East Germany after 1945, when the system was changed from capitalistic to socialistic, the existing housing policies were completely reoriented. The newly designed aim was to abolish the fact that housing had also been utilized as a commodity to gain surplus. The new goal was: Every citizen should be able to receive her/his desired dwelling. This initial, ideal goal was modified over the following years as it became apparent that this ambitious idea was not realizable.

Retrospectively, there are two main reasons which account for the failure of the idea and system, respectively:

- The idea of providing everybody equally with that amount of living space as desired, was born out of the ideal assumptions for a just society. However, the actuality proved that an ideal societal system might never come to existence. Reviewing the past, the evolution of an all-embracing just system seems too premature.
- The concomitant circumstances to the birth of the political structure in East Germany were conceivably unfavorable. To a certain extent, the establishment of the political power structures was an artificial process. Later on, political arrogance and misunderstandings spoiled well-meant ideas. The system petrified, leaving little margin for creativity and inventiveness. The political bureaucracy took over the decision-making process in all spheres, thus aggravating necessary adaptations to new

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<sup>75</sup>Stahl, K. and Struyk, R.J. 1985. *U.S. and West German Housing Markets*. Berlin, Heidelberg, New York, Tokyo: Springer-Verlag. p.118.

requirements. Ideological claim and material reality increasingly diverged. (To mention just one problem, the retrogression of labor productivity was a problem that could never be solved.)

### 1.2.3. Housing Construction Program of East Germany

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One of the most significant aspects of recent East German history which had an enormous impact on housing is its Housing Construction Program.

At the end of the 1960s East Germany still struggled to overcome its physical housing shortage. While in West Germany this problem was on the verge of a decent solution, East Germany was far away from a similar status (refer also to the paragraph on current stock issues). West Germany's social housing program<sup>76</sup> had mostly fulfilled its purpose, thus the emphasis for further improvement shifted away from quantitative increase, whereas in East Germany an ambitious program was enacted to surmount physical housing shortage and provide decent housing for every citizen. The initial goal reads as follows:

*The Housing Construction Program is meant to solve the housing issue in East Germany for the very first time in history at all and forever. Every citizen/family will receive her/his/their desired home.*

The program was designed to last for a period of twenty years from its enactment in 1971. All further building activities were subordinated to this ultimate goal. An all-encompassing evaluation cannot be given here because of the complexity of the program's issues. However, some general thoughts are to be laid out since this program penetrated each and every part of both the social relationships of people and the entire process of creating the built environment.

In order to catch up with historical omissions, caused mainly by ideologically determined wishful thinking, the entire building sector had to be newly enlivened. Clearly, during the very first years of implementation, that program brought about some rather remarkable results (notable progress in providing people with housing, spurring the construction industry). However, the second stage was

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<sup>76</sup>The Federal Government seized first steps to overcome the pressing postwar housing shortage by enacting a social housing program. The First Housing Act was established in 1950, the Second Housing Act in 1956.

characterized by incomprehensible rigidity, adhering to predetermined results, no courage to gear newly arising demands to new aims. Hindsight was preponderant instead of exposing insight.

A program aimed at quantitative improvements works more or less fine as long as the quantitative saturation level is not yet obtained. (The operating mechanism could be explicitly perceived at the social housing program of West Germany in the 1950s. However, because of misunderstandings, shortsightedness and opposite ideological alignment, no lessons were drawn by East German policy makers from the West German program.) At the end of the 1970s it became apparent that a radical shift in the main focus would be necessary to cope with novel housing demands in East Germany. Until then, historical intricacy structures were chiefly kept untouched as a consequence of the narrowly defined focus of the program.<sup>77</sup> One tendency of the then-current development in housing stock cropped up at a startling pace: The increment of new construction was mainly compensated by abandonment and decay of old structures. Around 1985 both external stock inflow and outflow paralyzed each other, even though the attention shifted to revitalization, but far too late. The omissions of the past ushered in a period of counter-productivity. This fact can clearly be ascribed to the incapability of the bureaucratic structure.

The magnitude of this dilemma becomes obvious if one analyzes the absolute increment of housing stock during the life of the Housing Construction Program. While the average accretion ratio (absolute increment of stock per year/new construction) between 1971 and 1981 amounted to approximately 50% of new construction, it dramatically slowed down to about 1% in 1989<sup>78</sup> (The absolute increment was 600 dwellings!), meaning, that the decay of *older* stock drastically increased. Two causes accounted for this fact:

- The actual restoration share (10%) did not increase over the previous years. Rather, it stagnated and even fell to about 8% despite a lot of lip service by the government to obtain a break-through in the restoration sector.
- After 35 to 40 years of neglect in restoration, that portion of housing stock which was mainly associated with the historical fabric of urban settlements, had physically been exhausted. Due to the short supply of construction materials, completely mismanaged labor force, and sluggish state-owned construction companies, the problems further magnified.

However, in order to gain an equilibrium of housing stock, an annual turnover of at least 2.5 to 2.8%<sup>79</sup> is required. Moreover, within an established housing stock a decent part of this

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<sup>77</sup>A questionable architectural approach paired with economic prosperity destroyed numerous, still well-functioning, urban infrastructures in West Germany during the first years of the postwar period. This loss weighs heavily. However, it could partially be offset again by the enormous economic strength of the 1980s.

<sup>78</sup>Statistisches Amt der DDR. 1990. *Statistisches Jahrbuch '90 der Deutschen Demokratischen Republik (Statistical Yearbook '90 of the German Democratic Republic)*. Berlin: Rudolf Haufe Verlag.

<sup>79</sup>Assumed is a turnover cycle of about 35—40 years of the entire stock. One may settle this size higher (50 to 60 years), but it presupposes the application of long-lasting materials accordingly.

turnover should be generated by restoration (30 to 50%) to avoid losing substantial cultural value represented by housing.

The prefabricated panel construction system was predominant in past East German housing. This construction method was constrained in two ways:

- (1) The technology of this prefab system was largely obsolete. However, its application had been forced by political decisions. Thus, this system fashioned the most appropriate form of commensuration between technology and centralized management (politically based interventions) under the societal circumstances given.
- (2) A number of quantitative parameters imposed upon the construction system did not necessarily coincide with the actual capacity of the system. Two *numbers* were of great importance:
  - The *average size* of a housing unit as the basis for economic evaluation was prescribed by 58 m<sup>2</sup> (628sqft.), derived from a distribution key of dwellings ranging from a one to a five room unit<sup>80</sup> according to the social structure. The applied construction method originated from a *closed system*.<sup>81</sup> Therefore, meeting those predetermined parameters always led to unsatisfying results. To match those parameters, an *open system*<sup>82</sup> would have been required.
  - The production was geared to quantitative outputs. The *number* of units produced was *the* decisive criterion upon which construction companies were measured. This principle implied the tendency of producing increasingly smaller units, finally evolving into results which did not meet the actual needs at all. The ultimate objective to be very effective was in fact reverted, as smaller dwellings are more expensive when relating the construction expenditures to an area unit (normalization criterion).

As a result of this mismatch, an ever-increasing amount of dwellings, *at no time meeting the social needs*, was constructed during the 1980s. This heritage weighs heavily because amending this faulty development is expensive and lengthy. The full extent of this dilemma becomes obvious these days where social flexibility, and novel requirements influence developmental speed.

Another detriment of this construction type is associated with urban and spatial issues. As pointed out in a number of investigations, conducted by concerned professionals prior to 1989, forcing this rigid

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<sup>80</sup>Refer to definitions.

<sup>81</sup>A closed system refers to inflexible geometrical and technological principles.

<sup>82</sup>An open system is based on adjustable geometrical and technological parameters. Only the main parameters are determined such as geometrical nodes, connections, etc.



panel system into the historical fabrics of urban settlements did not comply with the actual necessities. Instead of healing the wounds of omitted restoration of the years prior to 1980, the application of this technology in fact accelerated decay.

Due to the exigency of the problems in historical housing stock, today time is *the* most important factor in order to halt further decay of valuable urban structures. Rapid progress towards workable planning concepts and novel forms of production are urgently requested.

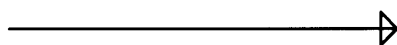
In retrospect, the overall result of this program is as follows:

- The program effected partial progress in the housing sector during the early years of its implementation.
- It did not accomplish the shift needed for improving the social quality and physical betterment such as sanitation, heating, etc.
- Its inflexible strategy meant that the arising needs for urban revitalization were not met.

The East German development can be summarized like this:

*After 1945* East Germany treaded a **new way** of societal, urban, and housing development **without having any experience**, breaking the new ground. *After 1990* and forty-five years of desperate struggle in trying to design the new system, the **reversal of the "new way"** is put on the agenda and, again, **no experience** is present.

1945



1990

- New way.
- No experience.

- Reversal of the "new" way.
- No experience.

#### 1.2.4. West Germany

By contrast, the evolution process in West Germany could be best characterized as follows:

The German 'economic miracle' was achieved under a system explicitly designed to 'set people free', which had been violently attacked by advocates of a more planned economy, who had

forecast economic and social disaster. Faced with German achievements, the advocates of 'indicative planning' in the 1960s were in something of a dilemma.<sup>83</sup>

The outcome was a new inter-nationalism in international relations and a revival of liberalism in economic and social affairs. The Nazi experience made people conscious of the defects of a completely planned and centralised economic system. There was therefore considerable appeal in the market system, because of the way in which it decentralises decision-making.<sup>84</sup>

Once the quantitative increase of housing stock in West Germany had been addressed (figure 18), attention could be turned to qualitative improvements.

The West German government intervened in housing in different ways:

- In 1950, a social housing program was enacted which heavily subsidized private housing producers.<sup>85</sup>
- Furthermore, a system of rent control by the government was designed to curb unbridled rent boosts.



Figure 18. Suburban housing construction in West Germany, City of Bremen, Neue Vahr, 1962<sup>86</sup>

As the program expanded, subsidies covering portions of mortgage amortization and operating expenses augmented its front-end producer subsidies. Thus the decade after the war was characterized by massive government intervention in the housing market through producer subsidies. A complementary policy—also put in place after the war—was rent control, which was designed to mitigate upward pressure on rents in housing units in the private unsubsidized housing stock.<sup>87</sup>

<sup>83</sup>Hallett, G. 1973. *The Social Economy of West Germany*. New York: St. Martin's Press. p. ix.

<sup>84</sup>Hallett, G. 1973. *The Social Economy of West Germany*. New York: St. Martin's Press. p. 16.

<sup>85</sup>Stahl, K. and Struyk, R.J. 1985. *U.S. and West German Housing Markets*. Berlin, Heidelberg, New York, Tokyo: Springer-Verlag. p.117.

<sup>86</sup>Gibbins, O. 1988. *Grossiedlungen. Bestandspflege und Weiterentwicklung (Large Settlements, Maintenance, and Further Development)*. Munich: Verlag Georg D. W. Callway. p.15.

<sup>87</sup>Stahl, K. and Struyk, R.J. 1985. *U.S. and West German Housing Markets*. Berlin, Heidelberg, New York, Tokyo: Springer-Verlag. p.117.

This means essentially that the *government acted as accelerator, mediator, and supervisor, while keeping itself away from direct physical involvement in housing*. To make this explicitly clear, it never took over ownership responsibilities of housing or exerted its power to deal with construction as seen in East Germany, but it *directly* subsidized housing. Subsidization was delivered in the form of production subsidies.

Beginning in the mid-1960s, a gradual shift is to be observed, increasingly directing the focus of the West German government to refined methods of support for housing. The dual system of consumer and production subsidies became established.

In 1960, social housing contributed approximately 48%<sup>88</sup> of new starts to the expansion of housing stock. By 1974 this figure had declined to about 16.3 %<sup>89</sup> (First Way of assistance). The government's attention had wandered to consumer subsidies, that is, *indirect* subsidies:

One of the most important of these changes was the institution of a system of consumer subsidies (Wohngeld) in the form of rent and mortgage subsidies that were intended to ease the burden of housing expenditures for designated households and to facilitate moderation and decontrol of rent controls. The present system of consumer subsidies originated in 1963 with the enactment of the Wohngeld Act, which established a general entitlement subsidy program, applicable to households living in both subsidized (Social Housing) and unsubsidized housing. The Wohngeld Act established the size of allowance in relation to household parameters (income and household size), housing parameters (rent and various quality measures), and market parameters (community size).<sup>90</sup>

Since the midseventies when parity was achieved between households and housing units, Social Housing has been questioned on grounds of both equity and efficiency, with some suggesting a greater role for the general system of indirect subsidies provided for private housing in West Germany and others a comparatively greater role for housing allowances. In particular, the Social Housing program has been criticized on the following grounds:

1. Over time the income of many renters already in Social Housing (about 20 percent of the total) has risen above the current maximum income limits for new entrants. Because there exists no legal basis for changing the status of these tenants or modifying their subsidies, it is argued that subsidies are inequitably allocated within the Social Housing program.

2. Subsidy costs for newly built social housing units have increased dramatically over time. At the same time, however, net (after subsidy ) rents have begun to approach (or in some cases may have even exceeded) rent levels of new unsubsidized private units. This raises questions about the comparative efficiency of housing produced by the subsidized and unsubsidized sectors.<sup>91</sup>

<sup>88</sup>Statistisches Bundesamt der Bundesrepublik Deutschland. 1952—1990. *Statistisches Jahrbuch 1952— 1990 fuer die Bundesrepublik Deutschland (Statistical Yearbook 1952— 1990 for the Federal Republic of Germany)*. Stuttgart und Mainz: Verlag W. Kohlhammer.

<sup>89</sup>Statistisches Bundesamt der Bundesrepublik Deutschland. 1952—1990. *Statistisches Jahrbuch 1952— 1990 fuer die Bundesrepublik Deutschland (Statistical Yearbook 1952— 1990 for the Federal Republic of Germany)*. Stuttgart und Mainz: Verlag W. Kohlhammer.

<sup>90</sup>Stahl, K. and Struyk, R.J. 1985. *U.S. and West German Housing Markets*. Berlin, Heidelberg, New York, Tokyo: Springer-Verlag. p.118.

<sup>91</sup>Stahl, K. and Struyk, R.J. 1985. *U.S. and West German Housing Markets*. Berlin, Heidelberg, New York, Tokyo: Springer-Verlag. p.118—119.

Over the past two decades a number of changes have been evolving, mainly reflected by these directions:

- Building and loan associations:

A system of building and loan associations (Bausparkassen) accounts for granting loans to potential home buyers or private home builders. It is a widespread popular system providing loans basically meant for home construction, restoration, renovation, or purchase. The prospective owner pledges himself to monthly deposit a fixed amount of money. After reaching the 40% floor of the planned investment sum, the entire amount is available to her/him to commence construction or purchase a home. The interest rate is partly subsidized and kept on a low level (about 4%).

- Changing trends in urban development:

A rising awareness concerning the urbanization of precious land shifted the focus to the historical cores of metropolitan areas. Restoration and preservation of entire city areas were paired with supplementary new construction on a small scale (figure 19). Private developers have been obliged chiefly by state laws to devote a certain percentage of their investment to social housing. The implementation of these regulations is supervised and enforced by municipalities and communities.

- Subsidizing new social trends on a small scale:

Here the emphasis particularly lays in fostering social experiments, testing new opportunities and/or kinds of living-together. This part may be considered as an offshoot reflecting only small-scale projects which are usually scattered throughout the country.

- Intervening with code lifting:

The government uses this instrument to wield pressure on both the construction industry and home owners to attain progress in burning issues such as energy consumption and resource utilization (materials, etc.). As incentives, it grants tax exemptions or relief to spur building activity. For instance, physical improvements such as building insulation, can result in tax exemptions for the property owner.

- New technologies:

A sophisticated system to support the introduction of new technologies has been set up. Financial incentives (construction allowances, tax exemptions or abatements) helped in the introduction and application of solar-energy and photovoltaic systems, novel construction materials, and self-sustaining systems (ecologically oriented construction methods) on a small-scale basis.

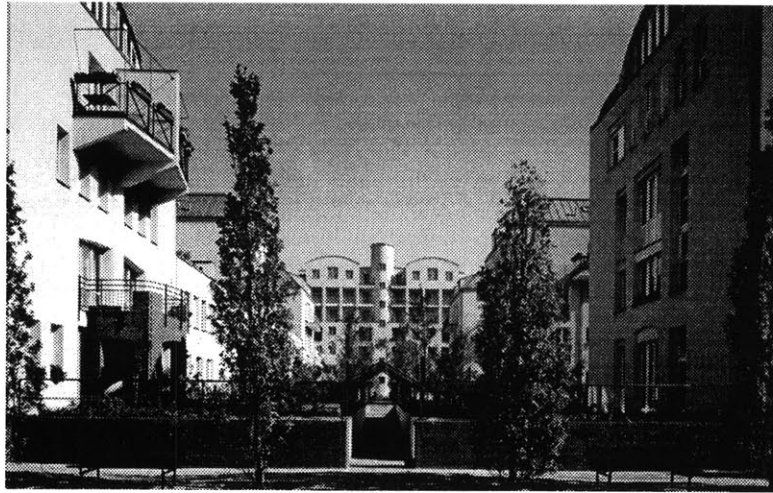


Figure 19. Individualized social housing construction in West Germany, City of Berlin, Tiergarten, end-1980s<sup>92</sup>

#### 1.2.5. Summary

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Housing shortage is a permanent problem intimately associated with the emergence of modern production structures which caused the split between living and working. The degree of alleviating housing shortage depends on the role governmental and local authorities are willing to play. German history has proven, that in times of societal hardship (depressions, postwar periods) substantial governmental intervention is an appropriate means to mitigate the housing problem, set housing construction in motion, and incite private housing.

Summarizing the postwar epoch, the evolution in the western part of Germany was much more of a seamless transition, unfolding from the debris of a completely failed political system, while in the eastern part the historical continuity was harshly interrupted, introducing and erecting an unprecedented state structure. Considering the two Germanies' divergent economic evolution, two countervailing tendencies are visible:

Putting in money and coupling this with the still existing strong labor market potential, ushered in a period of rapid prosperity in West Germany, whereas in East Germany industrial potential was drawn out.

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<sup>92</sup>Exhibition catalogue. *Berlino l'Internationale Bauausstellung e l'Architettura del XX secolo*. 1988. Roma, Italy: Palazzo della Civiltà. p.225.

Uncertainties, bad decisions, and so forth, made precious labor to outmigrate to the west, deepening the retardation effect to economic growth.

In the next two paragraphs some prevailing and unique characteristics of German housing development are explored in order to provide some useful insights for future concepts.

### 1.3. Parallels in German History Impacting Housing

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Some parallels are found in German history which may be helpful when considering prospective housing development in Germany. There are three components outstanding of more recent German history which are extremely important for designing contemporary housing policy:

(1) Ongoing population increase:

Despite the fact that Germany suffered substantially from two world wars, each time the population increased after its defeat. In addition, the global phenomenon of population migration from the southern and eastern hemisphere hits Germany in particular due to its economic capability and its well established social network. One may assume that this process will prospectively endure for a longer time span.

In order to confine the influx of immigrants, Germany enacted a law in 1993 which tightens the conditions for receiving asylum. This may limit the stream of immigrants in the short-run, but seems a rather inappropriate means of solving problems in the long run. Therefore, Germany (and all other countries of the E.C.) needs to find appropriate contemporary solutions for immigration.

Because of a stressful status quo to date, Germany was never able to deal with the impact of population increase in a comprehensive manner.

The tables below indicate the dimension of the problem at different points in times which has an enormous impact on housing.

## German Realm: 1914 to 1934

1914	1918	1924	1934	
62.2m <sup>93</sup>	61.2m	62.7m	66.4m	
100%	98%	101%	107%	⇒ 7% increase over 20 years.

## West Germany: 1939 to 1959

1939	1946	1949	1959	
43.0m <sup>94</sup>	46.2m	49.2m	54.9m	
100%	107%	114%	128%	⇒ 28% increase over 20 years.

## Germany: 1990 to 2010

1990	2000	2010		
79.4m <sup>95</sup>	83.0m <sup>96</sup>	84.0 to 86.0m <sup>97</sup>		
100%	105%	106 to 108%		⇒ 6 to 8% increase over 20 years.

## (2) Delay period after political changes (sluggishness of adaptation):

There are clear indications that after drastic political incisions, Germany needed about three to four years until the new socio-economic structure became stabilized. This is important as to the structuring of transition and transformation phases. One can expect that a certain time has to lapse before the new forces could establish themselves. Upswings in Germany were mostly accompanied by remarkable political decisions. Tendencies of catching-up in East Germany are univocally visible now. A growth of the G.D.P. of 5% for 1993 and 6.5% for 1994 is expected.<sup>98</sup>

1918	German Realm defeated.	
1922	Germany's industry recovers.	⇒ Four years of social struggle.
1945	Germany defeated.	
1948	Marshall Plan.	⇒ Three years of moderate development.

<sup>93</sup>The numbers for 1914 and 1918 are estimates by the author, i.e. they are both reduced by 5.6m. The actual numbers are 67.8m for 1914 and 66.8m for 1918, respectively. Due to the outcome of W.W.I the German Realm had to cede parts of its previous area. Exact numbers which consider those changes were not available.

<sup>94</sup>The figure for 1939 is the result of census data and refers to the area of West Germany after 1945.

<sup>95</sup>As discussed, the current German demographic patterns suggest that no sharp shifts in demographic behavior of the German population should be expected. However, the influx of immigrants will continue. In 1992, about 0.5m foreign people entered Germany. During the first half of 1993, about 0.224m [*Saechsische Zeitung (Saxon Daily News)*, July 6, 1993, p.2.] were seeking asylum in Germany. This trend will endure despite the new asylum law, although a sort-term suppression of immigration could be obtained.

<sup>96</sup>According to a survey conducted by the Federal Ministry of Area Studies and Area Planning, the German population size is expected to increase to about 83m in the year 2000. [*Saechsische Zeitung (Saxon Daily News)*, June 28, 1993, p.2.]

<sup>97</sup>According to a survey conducted by the German Institute for Economic Research, Germany may expect a population size between 84 and 86m people. [*Saechsische Zeitung (Saxon Daily News)*, July 28, 1993, p.1.]

<sup>98</sup>*Deutschland Nachrichten (German News)*, September 10, 1993, p.4.

1989	East Germany crumbles.	
1990	Reunification.	
1993	Solidarity Pact. <sup>99</sup>	⇒ Three years of struggling.

(3) Heavy governmental involvement after consolidation of the new political forces:

The housing policy patterns of Germany after 1918 and West Germany after 1948 show that governmental decision-making had an enormous impact on setting the context for the future development. After both world wars a number of laws were enacted to control rent and incite housing construction.

Surveying the historical policy patterns reveals that governmental involvement first increased and then after 5 to 10 years declined. This tendency was counterbalanced by increasing private involvement in housing affairs. The conclusion is that the developmental process started rolling after the corresponding framework was provided.

The Solidarity Pact (Solidarpakt) of March 1993 can be seen as such a cornerstone in the right direction. It ensures substantial financial aid for East German housing construction. It also regulates that the accumulated debts of public building societies from the time prior to the monetary union (in July 1990) are taken over by the Federal Government (Bund).

After W.W. I:

1922	Rent Act (Reichsmietengesetz).
1923	Tenant-Protection Bill (Mieterschutzgesetz).
1923	Housing Shortage Law <sup>100</sup> (Reichswohnungsmangelgesetz).

After W.W. II (in West Germany):

1950	First Housing Act.
1956	First Housing Act. <sup>101</sup>

To summarize:

The synergy of a number of political and historical characteristics sets the context for developmental progress in housing. The results of these events need to be born in mind when successful conditions for housing shall be established.

<sup>99</sup>*Deutschland Nachrichten (German News)*, March. 19, 1993, p.1.

<sup>100</sup>Wendt, P.F. 1963. *Housing Policy— The Search for Solutions*. Berkeley, Los Angeles: University of California Press. p.115.

<sup>101</sup>Wendt, P.F. 1963. *Housing Policy— The Search for Solutions*. Berkeley, Los Angeles: University of California Press. p.123—124.



#### 1.4. Oscillation Pattern in German Social Housing

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As afore-elaborated, it was always the public sector which speeded up housing (construction) in Germany after a period of socio-economic standstill. If one compares the intensity of social housing with the political socio-economic situation along the lines of recent German history, at least three distinct periods can be determined:

(1) 1871 Germany's first unification:

The time after 1871 was characterized by the consolidation of the new political forces and entailed a gradual establishment of the thoughts and requirements which led to first noticeable results in social housing in Germany. The period before 1871 was coined by unfettered market growth which merged into horrendous conditions for the poor. After 1871, rising social awareness accompanied with the creation of new administrative structures led to a first firm establishment of social housing as an alternative to the then solely existing private sector. The main merit of this phase is the conceptual preparation for further development which then occurred between 1890 and 1910.

(2) 1918 Germany's first post-war period:

Emerging political structures aimed at launching housing construction, which was brought to a near standstill during the war. It was not the private sector that made this process happen, rather public and non-profit authorities. Despite economic downswing during the late-1920, social housing reached a new quality in Germany at the same time. The late-1920s and early-1930s can certainly be regarded as the highlights of social housing in Germany. The charts (figure 20 and 21) show the impact of the Great Depression on Germany's housing production. They also provide the proof that non-profit authorities (building societies) contributed most to overall housing production.

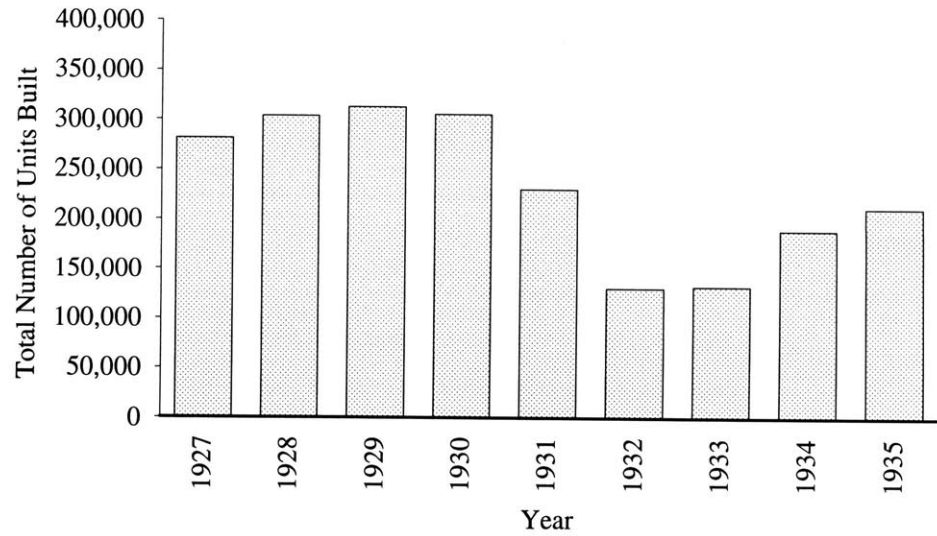


Figure 20. Total number of housing units built in Germany between 1927 and 1935<sup>102</sup>

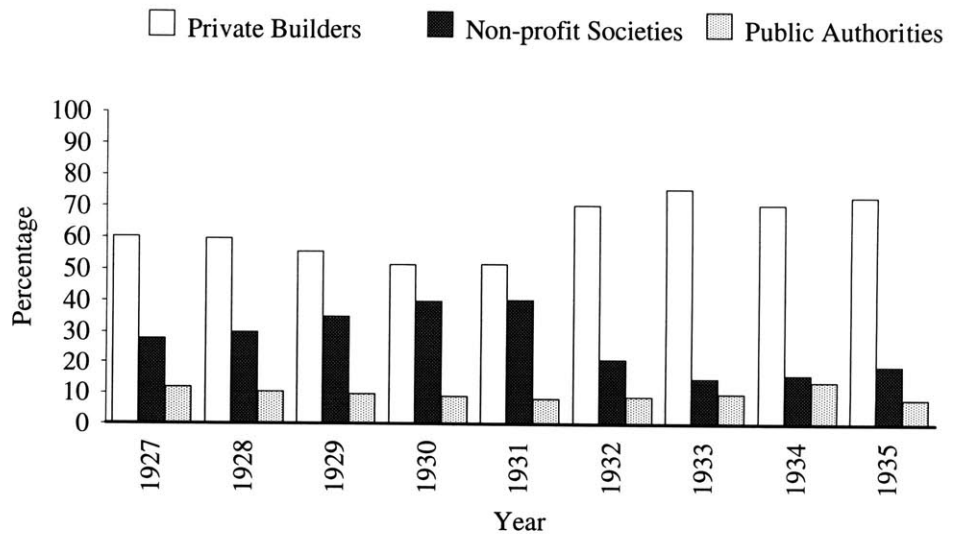


Figure 21. Percentage of housing units built by the private and public sector between 1927 and 1935.

<sup>102</sup>Data source: Wendt, P.F. 1963. *Housing Policy— The Search for Solutions*. Berkeley, Los Angeles: University of California Press. p.117.

## (3) 1945 Germany's second post-war period:

The oscillation pattern repeated after 1945. For the time being, there was little activity in housing until the reformed political forces were able to influence housing development. In particular, beginning with the early 1950s, heavy governmental involvement in West Germany expedited housing construction. Once again, after the development was well established, the government increasingly receded from this process. The chart (figure 22) indicates the role of the government in providing a favorable framework for housing development.

The situation in the East was different because the political construct was based on unprecedented conditions.

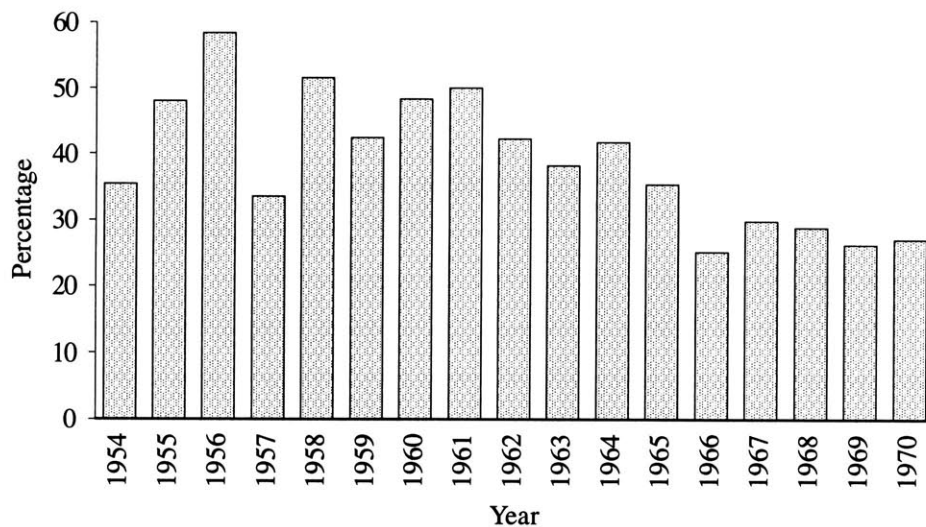


Figure 22. Percentage of social housing during the postwar period in West Germany

One can conclude that the public sector serves as the impetus of housing after a period of social hardship or recession. There is further the global pattern of an oscillation process, i.e. the public realm takes on the responsibility of paving the path for housing development. It becomes very actively involved in housing. The share of public involvement decreases, after the overall housing development takes ground through an increasing share of private housing provision. That means the provision share of

housing oscillates over time. The public sector overtakes the (very often) unthankful and complicated role of a motor, backs off from housing after development becomes materialized until the next complicated societal phase approaches. This pattern certainly has to do with self-regulating phenomena in society, meaning when a crucial threshold is reached, the common interests of people become dominant against private interests.

It may be legitimate to infer that this oscillation pattern seems to be the scheme of current German housing policy. The indicators (problems in housing provision, recession) are similar, the private market is momentarily not strong enough to warrant the upswing in housing development, required to solve current problems and ensure sufficient prospective progress. Thus we may conclude that we are on the verge of entering the fourth phase of this historical wave.

Previously we spoke about encouraging factors in the (East) German building sector. Based on the deduction for stock throughput, stock change, and actual occupancy rate, we still cannot speak of a dramatic trend change. In 1992, four hundred thousand units were built in the whole of Germany,<sup>103</sup> but, grounded on the latest demographic figures available, about 860,000 to 900,000<sup>104</sup> units would be required.

Further, the German Renter Association demanded the construction of about 200,000<sup>105</sup> social housing units annually. That would mean a 20 to 25% contribution by either the public or the private sector to the overall housing production, a reasonable number.

By contrast, in 1989 the production of mere 61,000<sup>106</sup> social housing units was furthered by the First and Second Way of assistance in West Germany (including both private and public sector). Related to the 1992 figures, a maximum of 100,000 social housing units might have been produced. Summarizing the numbers, there is still a huge pent-up demand for housing in general. Both the non-assisted and the assisted housing production need to be increased by at least 100% for the whole country. That is the actual dilemma. An impetus is badly needed.

<sup>103</sup> *Saechsische Zeitung (Saxon Daily News)*, June 5/6, 1993, p.4.

<sup>104</sup> Population as of 1990 = 79.4m and theoretical occupancy rate = 2.30 persons/unit ⇒ Stock size required: 34.5m units  
Actual stock size: 33.8m units

Annual throughput rate: 2.5% ⇒ 34.5m \* 2.5% = 862,500 units.

<sup>105</sup> *Saechsische Zeitung (Saxon Daily News)*, August 26, 1993, p.2.

<sup>106</sup> No later numbers were available. The overall housing production of 1989 amounted to about 250,000 units. Since there was no substantial change in support patterns, we may, based on a proportionate calculation, assume a maximum of about 90,000 to 100,000 social housing units for 1992.

## 2. Current Main Problems

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Due to Germany's recent history, its housing problems need to be distinguished between problems common to both the East and West and those unique to East and West; differences which arose from the distinct development over the past four decades. First, the emphasis is placed on the general, common issues in order to focus later on the specific facets of both parts of Germany.

### 2.1. Common Problems

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East and West Germany have some housing problems in common. Stahl and Struyk<sup>107</sup> already pointed out these problems in 1975, but they are still preponderant. In a nutshell, the general issues of housing in Germany are:

(1) Insufficient elasticity of supply:

Caused by an overall lack of housing units, a permanent shortage in supply exists. If we measure this problem against market laws, the elasticity of supply is insufficient. As a consequence, housing prices are constantly climbing, thus not always reflecting a 'natural' relationship between supply and demand. Relaxing this constraint, may help confine the running-away of housing prices.

(2) Insufficient tenant mobility:

The supply constraints have, in turn, an impact on tenant mobility. Since German society is currently on the verge of a socio-economic restructuring process, called forth by internal and international changes, this higher degree of flexibility would be desirable.

In addition, the German population tends to be less flexible if, for instance, compared with the U.S. population. Here the cultural component comes into play.

(3) Insufficient efficiency in administration:

The whole apparatus of administering housing needs to be streamlined. There is a lot of free-wheeling with regard to efficiency. There are cases where work was done twice, or means provided did not reach the right target, and so forth. A famous example is surely the "Neue Heimat" (New Homestead) break-down of the 1980s.

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<sup>107</sup>Vliet, W.v. ed. 1987. *Housing Markets and Policies under Fiscal Austerity*. New York, Westport, London: Greenwood Press. p.173.

The big housing agencies very often degrade themselves to a level where they only distribute financial means instead of becoming actively involved in the *improvement* of housing.

### 2.1.1. Overriding Economic Impacts on Housing in Current Germany

A number of current global and local trends in the economy work against lower and middle income households who want to invest in housing. They have also an impact on the design of housing policy. Thus, the German governments on the federal and state level try to cut expenses even further mainly because of these facts:

Impact of global economic changes (external) on the Germany's housing market:

- Export dependency of Germany's economy.
- International recession(s).
- Unrest in the monetary system of the E.C.
- Scarcity of money and increasing costs of money (high interest rates).

Impact of domestic economic changes (internal) on the housing market:

- The correlation between unemployment and home sales. There exists a relationship between unemployment and the number of homes sold. The diagrams (figure 23) elucidate this relationship. (Data are an abstraction of a pattern found in the state of Massachusetts, U.S. in recent years.)

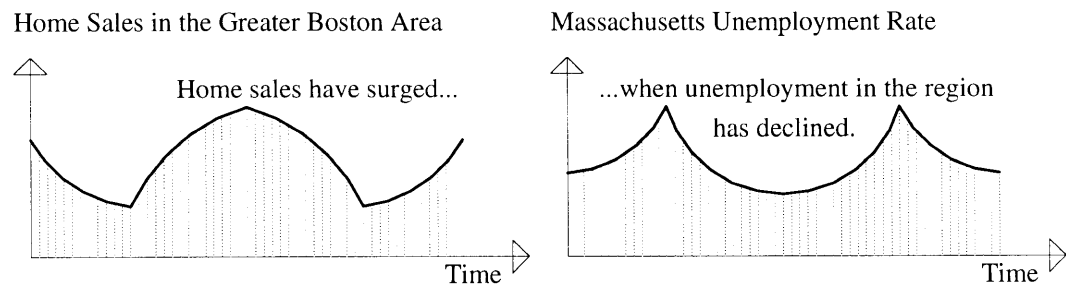


Figure 23. Home sales and unemployment rate  
Source: *The Boston Globe*, September 12, 1993, p.A17.

- Changing social patterns: An unsafe future makes people hesitate to take loans or mortgages which has an even greater impact on the sluggishness of home sales.
- A high interest rate policy piles up the debts of the Government that, in turn, leads to cutbacks in programs and discontinuity.<sup>108</sup>

### 2.1.2. Current Situation in the German Housing Market

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Germany's housing stock currently comprises about 33.86m units (1990). The latest estimates speak of a shortage of 3m housing units (8.8% referred to the actual inventory of housing units).<sup>109</sup> Despite this alarming figure, Germany holds a leading position in housing provision and quality standards, if compared with other developed countries.

The shortage in the western part emanates from a decline in housing construction over the last decade and a concurrent population growth, whereas in the eastern part the dreadful neglect of revitalization and restoration over three decades is accountable for this dilemma. In physical terms, the number of housing units is sufficient, however. To what extent this part of the stock can be brought up to current standards remains to be seen.

Further, there is a substantial difference between the size of living space available per capita in the West (36.7m<sup>2</sup> = 395sqft.) and East (28.1m<sup>2</sup> = 302sqft.).<sup>110</sup>

The current output of about 400,000 units<sup>111</sup> does not suffice to cover current and future demand. Just to cover an annual population growth of about 500,000 persons, 200,000 units would be required at the minimum, assuming an occupancy rate of 2.50 persons/household for immigrants.

Two hundred thousand units are not enough to outweigh the annual loss since renovated units are included in this overall figure.

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<sup>108</sup>Vliet, W.v. ed. 1987. *Housing Markets and Policies under Fiscal Austerity*. New York, Westport, London: Greenwood Press. p.52.

<sup>109</sup>Own recalculations have shown that for whatever reason, some numbers might be exaggerated. Based on a theoretical occupancy rate of 2.30 persons/unit and the actual population size of 1990 (79.4m), 34.52m would be the required housing stock, leaving a deficit of about 700,000 unit.

<sup>110</sup>Statistisches Bundesamt der Bundesrepublik Deutschland. 1991—1992. *Statistisches Jahrbuch 1991— 1992 fuer das vereinte Deutschland (Statistical Yearbook 1991— 1992 for the United Germany)*. Wiesbaden: Metzler-Poeschel. Edition of 1992.

<sup>111</sup>*Saechsische Zeitung (Saxon Daily News)*, August 28/29, 1993, p.2.

### 2.1.3. Key Issues in Germany's Housing Stock—Stock Flow and Production

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The key issues of German housing stock are the stock flow patterns and the production deficit of housing. There are indices that the main issues of Germany's housing stock differ between East and West.

The emphasis of West Germany's housing stock is to be placed on stock *expansion*, while in East Germany the main issue lies in the internal *restructuring* of the stock. That is, along the lines of changing policy patterns, the (1) quality and the (2) re-allocation issue become increasingly significant.

One point has to be discussed in some detail. There is still the persistent belief that East Germany's housing stock needs to be largely expanded. However, this superficial approach cannot be accepted without pointing out that the manner of handling qualitative upgrading will determine the structural patterns of East Germany's stock restructuring. There is an enormous pent-up demand for upkeep, restoration, and rehabilitation. The second question is: What happens with the suburban structures built during the 1970s and 1980s? Under the assumption that the dilapidated historical building stock is re-developable and prefabricated constructions are upgradable, then an above-average stock augmentation would not be required. (These constructions are indeed upgradable since the technology is in place. However, the notion of having a prefabricated system for qualitative housing is fraught with bias.) The demographic patterns for East Germany (slight population decrease) support this suggestion.

Furthermore, imprudent policy on the basis of ideological condemnation of almost everything that was done in the East under socialist conditions, aggravate a sensitive and suitable implementation of appropriate strategies in handling the touchy issue of suburban structures. We still carry the patterns and ballast of an obsolete way of thinking and judging past development. Here a rigorous shift in the mind of every individual and professional is required. If we want to pursue a way of economic prudence the approach to this problem needs to be reconsidered. Cautious vitalization concepts could improve the quality of suburban life.

If we are not able to find appropriate strategies free of any bias, we will have to deal with stock augmentation in East Germany on an extended base as well which otherwise would not be necessary. It is not to say that there is no stock augmentation required in the East, however, setting suitable frame conditions may confine the main thrust to fewer directions and focus money and human efforts. By virtue of this phenomenon, changing managerial approaches are badly needed.



We can summarize the developmental focus of housing stock in West and East Germany:

West Germany:

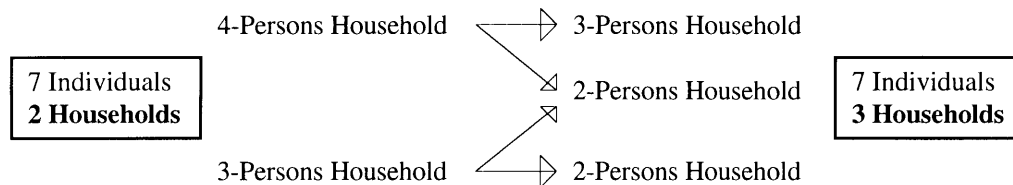
The emphasis is to be placed on external inflow and internal flow issues.

East Germany:

The emphasis is to be placed on external outflow and internal flow issues.

Thus the common issue of German housing stock is the internal flow. The main distinction of housing stock between East and West Germany lies in external flow patterns.

It is very often assumed that people enter the stock (entrants or new starters, home buyers, etc.). In fact, this notion is misleading since people are already in the stock. We should better say: they leave the stock temporarily in order to re-enter the stock under possibly changed socio-economic patterns, for instance:



The only case where people enter the stock is, when we consider immigrants as an external size that changes the population size. Germany has seriously to deal with this issue. As shown above we can expect population increase over an extended period of time.

Besides social necessities which make people move within the housing stock or shift from one category to another, the question remains: What makes households change tenure? The reasons are multifarious and depend mainly upon cultural and social factors within society.

Recent investigations on these issues very clearly prove that the choices at disposal for first time buyers and low-income groups are likely to be more limited than for others. If tenure change is a marked goal in housing policy, then frame conditions need to be set up which make the aspiration of lower income groups for decent and modest-priced property realistic. If these conditions are not in place, the polarization of population (segregation) is inevitable.

The affordability ceiling for home purchases depends upon income and home price. This issue is expressed through the quotient price/income. It widely varies from country to country<sup>112</sup> and from social class to social class. (However, a rule of thumb and experience say: It should not be greater than approximately 5:1. If it exceeds this quotient, the willingness to buy decreases, and the uncertainty of being able to pay off debts increases.)

A simple calculation may elucidate the problems in Germany:

	East Germany	West Germany
Average income per year (1992)	2,800 * 12 = DM33,600	4,000 * 12 = DM48,000
Threshold home price/income = 1:5	DM168,000	DM240,000
Modest-priced housing (available only partially)		DM200,000 <sup>113</sup>
Actual ratio	6.0 : 1	4.2 : 1
Prevailing price		DM400,000
Actual ratio	11.9 : 1	8.3 : 1

Exact numbers for home sales are not procurable because of two reasons:

- There is a steep differential between regions.
- The home price fixation in the East is still overheated.

Using recent advertisement and sporadic data available, moderate homes may be tagged with DM200,000. However, the most sales fall in the range between DM350,000 and DM450,000.

<sup>112</sup>Struyk and Telgarsky found a price/income ratio for the U.S. of 3 to 1, for Eastern European countries of 15-20 to 1, and for West Germany of 8 to 1. This corroborates the calculations met above. [Katsura, H.M. and Struyk, R.J. 1985. *Selling Eastern Europe's Social Housing Stock: Proceed with Caution*. Washington, D.C.: The Urban Institute. p.224.]

<sup>113</sup>The average construction costs for a new dwelling in the social housing market are currently estimated with DM250,000. [*Saechsische Zeitung (Saxon Daily News)*, June 22, 1993, p.8.] The income figures are estimates of the author.

Housing prices will climb faster than income over the years. Thus, household burdens will increase.<sup>114</sup>

For instance, the number of recipients of housing allowances (*Wohngeld*) is rising. The overall number amounts to about 4m households, 6.1% in the West and 27% in the East. Concurrently the governmental budget for *consumer* subsidies is increasing.

1993 housing allowances per household: DM122 per household in East Germany;  
DM158 per household in West Germany.<sup>115</sup>

In addition, the increase from 1993 to 1994 is projected with DM30 billions rising from DM100 billions to DM130 billions.

Conclusions:

- (1) The threshold to enter the market for a home buyer is almost out of reach for the *average* household in the East *and* West of Germany as the example above suggests. Since income tends to be lower in areas where houses may go for DM200,000 we can assume with relative safety that the price/income quotient is approximately between 8 and 11, depending on which side of Germany the family lives.
- (2) However, the problem broached is far more complex. Two additional phenomena need to be taken into consideration:
  - (a) Property creation is almost out of reach for the average household. If we are particularly interested in the segments *below* the average, then the situation is almost hopeless. Assuming a minimal income of about 50% of the average, the quotient soars to 16 to 22. Hence, ways need to be found which suggest either changing this ratio or pointing out alternatives to accommodate people.
  - (b) Above-average segments of population tend to buy more expensive houses. However, since the income curve tends to have a steeper slope than the curve of house prices, the quotient may slightly decrease, thus improving the prospectives for home acquisition for well-established people. Houses can be expected to be sold in a range between DM400,000 and DM1,000,000 with a peak between DM400,000 and DM700,000. Again, we maneuver along the threshold of the price/income ratio within this income bracket.
- (3) In particular first home buyers, young families and elderly constitute the average and below-average-income group of people. *In searching for solutions, these groups deserve primary attention when aiming at housing stock transformation.* Financing schemes are to be established to help those

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<sup>114</sup>Pugh, C. 1980. *Housing in Capitalist Societies*. Westmead, Farnborough, Hampshire: Gower Publishing Company. p.133.

<sup>115</sup>*Deutschland Nachrichten (German News)*, November 26, 1993, p.5.

receive support by society (extended repayment periods, low down-payment for principals, low entry level for interest rates, etc.).<sup>116</sup>

These specifically tailored programs work clearly on the consumption side and do not necessarily incite the augmentation (West) or upgrading (East) of housing stock which are the main problems of Germany's current housing situation.

A principal financial implication is that the further expansion of home-ownership involves the need to finance higher advance/income ratios.<sup>117</sup>

That means, if the goal is the creation of ownership, then individuals need to be drawn into the market who otherwise may not consider buying property because of their limited budgets. These are mainly lower-income groups who have the need for a proportionate higher mortgage (advance).

The next important facet of German housing stock is associated with production output. The causes for the deficiencies in the East are the result of long-term mistakes, decades-long mismanagement and inefficient production principles; in West Germany the neglect of the social housing sector contributed chiefly to a deficit in units output. A calculation shows where the problems have their roots.

The idea was to relate occupancy rate, stock size, and housing production to each other. The theoretical stock throughput was throughout the calculation assumed to be 2.5% (40 years turnover cycle). These formulas were applied:

$$\text{Actual housing production per 1,000 capita} = \frac{\text{Actual annual housing production size}}{\text{Actual population size} * 1,000}$$

$$\text{Theoretical housing production per 1,000 capita} = \frac{\text{Actual stock size} * 0.025}{\text{Actual population size} * 1,000}$$

The formula for the theoretical production size has been simplified because of lack of data for the theoretical occupancy rate over the past decades. The adjusted formula should read like this:

$$\text{Theoretical housing production per 1,000 capita} = \frac{\text{Theoretical stock size} * 0.025}{\text{Actual population size} * 1,000}$$

$$\text{where the theoretical stock size} = \frac{\text{Actual population size} + \text{expected population change}}{\text{Theoretical occupancy rate}}$$

<sup>116</sup>A myriad of programs are in place; however, these are tailored to the needs of West Germans. The simple application of these programs does not help solve the problem of not having sufficiently quick access to financing home purchases.

<sup>117</sup>Vliet, W.v. ed. 1987. *Housing Markets and Policies under Fiscal Austerity*. New York, Westport, London: Greenwood Press. p.141.

The charts (figures 24, 25, 26, and 27) on the housing production per 1,000 capita show clearly different historical development. While in West Germany the production peaked in the postwar period until the early-1970s, *simultaneously addressing* stock augmentation, in East Germany production slowly and undulatingly increased, but *never met* the requirements of stock augmentation. The impacts are: West Germany's housing stock is physically sound, whereas East Germany's housing stock is overaged. Thus, in West Germany the production expansion urgently needs to be accelerated; in East Germany stock has to be rejuvenated which can be accomplished either through radical replacement or restoration. The physical effect would be the same; however, the overall consideration emphatically suggests the restoration direction. In what respect this can be practically implemented depends upon the manner in which production will be incited.

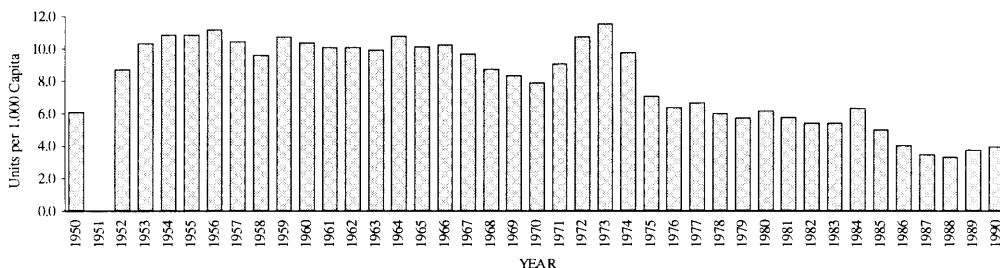


Figure 24. Annual housing production per 1,000 capita of West Germany

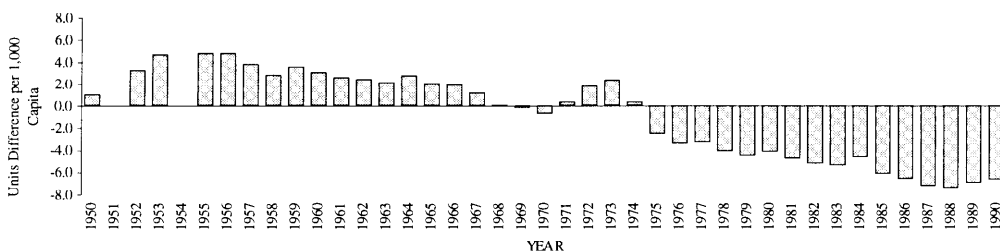


Figure 25. Comparison between actual and theoretical housing production quota of West Germany

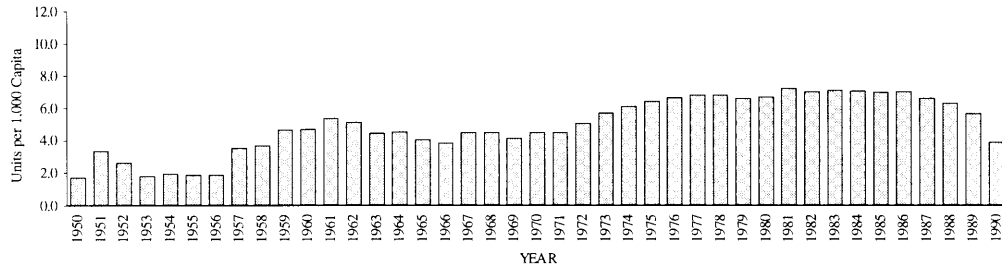


Figure 26. Annual housing production per 1,000 capita of East Germany

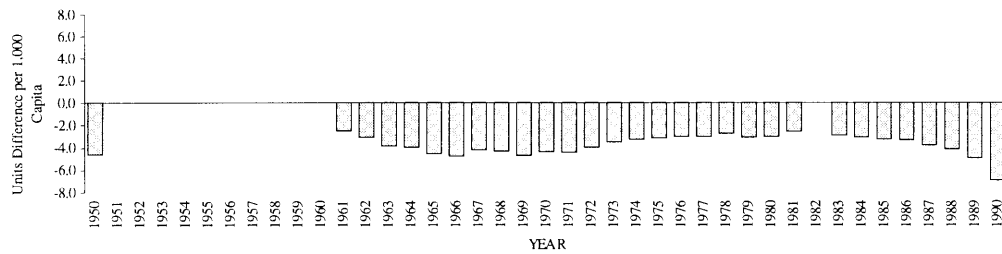


Figure 27. Comparison between actual and theoretical housing production quota of East Germany<sup>118</sup>

## 2.2. Specific Problems

The following sections deal with the specific issues of current housing in both parts of Germany. Emphasis is placed on the problems in East Germany. Subsequently four particular aspects will be considered in some greater detail, these are: the privatization issue, the rent system, the diminution of publicly held housing stock, and urban spatial problems.

<sup>118</sup>Missing bars are due to lack of data.

### 2.2.1. Main Issues of Social Housing in West Germany

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The problems of West German social housing will be touched upon only briefly. Some facts need to be provided in order to enable the reader to form an overall picture of the current situation. Two major problems are apparent:

(1) Neglect of continuous support of the social housing sector:

The development of the 1980s was detrimental to social housing in West Germany. In particular, social prosperity made leading political forces believe that the private sector would be able to accommodate the housing needs of the population. Diminishing the share of social housing was a dominant aim of official policy. However, the cyclic character of the market and the neglect of the persistency of cultural traditions (little tenant mobility) accumulated housing shortage.

(2) Increasing pressure on the housing market caused by immigration:

The impact of the unanticipated societal changes within Germany and globally, led to an increased influx of immigrants. This was caused by a relatively generous immigration policy, in particular tailored to East Germans (This is one aspect of the German political specifics.), and the well-established social network. Therefore, and in recognizing the global changes, the influx of immigrants can be expected to continue despite imposing statutory enforcement on the number of foreign people annually accepted. The accommodation of those people rests basically on the local governments.

The immigration issue is very subtle for Germany. Other nations look at the way Germany treats foreign people with great suspicion and for well-known reasons. Integrating those individuals in German society becomes a major issue, while relatively little experience exists with regard to social integration concepts. Although a quota regulation steers the distribution of foreign people in accord with the economic capability of the states (Laender), this system is simply to alleviate adaptation difficulties and to provide basic shelter, but does not solve the problem at its root, which would be a changed overall policy with respect to immigrants.

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### 2.2.2. Main Issues of Social Housing in East Germany

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There are four issues to be considered—the social, economic, physical, and managerial aspect of housing. The main emphasis is to be placed on the redesign of the social housing sector (diminution of state-owned housing stock and housing allowances) and the restructuring of the social value system.

(1) Social aspect:

- Buying out housing units tends to favor white collar and managerial type workers thus widening the gap between poor and rich.<sup>119</sup> Models need to be structured which provide equal opportunities across population. Most often white collar workers have the better financial means than blue collar workers have.
- There is an ongoing erosion of formerly socio-economic 'stability.' The social value system of East Germany was based on principles appreciating a higher degree of mutual support which were deeply ingrained in society. In economic terms these values were not always very effective; however, they made the people believe that their social environment was safe and stable.
- The societal shift toward a market system necessitates a redefinition of the urban question: In a socialist system the urban question means tension between state developmental strategy and social needs, whereas in capitalist society the political meaning of the urban question is reduced to tensions between private sector profitability and social needs.<sup>120</sup>

This ingrained perception of what the urban question meant needs to be changed in the mind of people. Rethinking basic principles is not a straightforward process, rather it involves the painful realization that life pattern changes come about very slowly and are accompanied by aberrations.

(2) Economic aspect:

- The perception of housing as an asset has been changing. The acquisition of housing is increasingly regarded as a means of gaining economic safety and social status.
- Social housing stock was a substantial asset of East Germany's financial system.<sup>121</sup>  
Over decades a substantial share of financial means flowed into housing stock. In addition, the accumulation of social housing was facilitated by subsidies on a vast scale. Subsidies were

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<sup>119</sup>Katsura, H.M. and Struyk, R.J. 1985. *Selling Eastern Europe's Social Housing Stock: Proceed with Caution*. Washington, D.C.: The Urban Institute. p.14.

<sup>120</sup>Vliet, W.v. ed. 1987. *Housing Markets and Policies under Fiscal Austerity*. New York, Westport, London: Greenwood Press. p.191—192.

<sup>121</sup>Katsura, H.M. and Struyk, R.J. 1985. *Selling Eastern Europe's Social Housing Stock: Proceed with Caution*. Washington, D.C.: The Urban Institute. p.2.



generally considered a second part of the family income. Apparently, the means to build housing had to come from somewhere (redistribution of financial means on a country-wide basis).

The current dilemma lies in the fact that the value system has shifted. (The perception of what constitutes values has changed to a pure economic manner of consideration owing to the principles of a market system.)

- The successor authorities of the former cooperatives, agencies, and municipalities are forced to disentangle complicated centralized structures, and also need to rid themselves of an essential portion of their housing stocks to become self-efficient. There is not much margin, since this development is chiefly dictated by market mechanisms.
- The people of former East Germany were not able to accumulate sufficient financial resources in order to buy themselves into the type of housing stock which is to be sold now.

This altogether causes an antagonism with one player at each end:

People *unable to buy*. ⇔ Authorities in charge of social housing *unable to sell*.

Also, the market balance between supply and demand has not been established yet. Because of still existing distortions inherited by the former system, housing in East Germany does not necessarily obey pure market patterns. In addition to the *social component* inherent in housing, economic particularities occur, not necessarily found in industry:

- (a) The filtering process.
  - (b) Housing is subject to both depreciation and appreciation, and is therefore not always a diminution of value (e.g. old housing stock can have a higher market value than new construction).
  - (c) Housing is treated as an investment.
  - (d) Speculative production of housing as a new trend.
- No capital formation period preceded the economic turnover in East Germany. It seems to be very unrealistic to advocate for a grace period in mere economic terms (which was initially thought of), since such period operates in a kind of void.
  - Selling units of the social housing stock always starts with the highest quality units, leaving substandard units in public stock. Thus the authorities in charge of this stock incur additional problems:
    - (a) Lacking accountability of renters leads to higher maintenance costs.
    - (b) The drain of high-quality social housing artificially reinforces the notion that social housing is associated with inferior quality. It further reflects serious economic problems

since the sell-out goes hand in hand with financial losses for the public authorities in charge. The sell-off is a dilemma organized by the government. The so-called trustee agency has by and large the sole right to sell former state-owned properties. Thus, it is also accountable for the sell-off of state-owned housing. The authorities that are in charge of maintenance and administration have little say in what happens with particular buildings. Their rights, and consequently their financial revenues from selling are very limited.

- (c) Although the quantitative reduction of state-owned housing stock is undoubtedly an objective of East German housing policy, the specific decisions cannot be made on a broader scale, rather they need to be made on an individual basis.

(3) Physical aspect:

- Physical upgrading of publicly held stock becomes increasingly complicated since the budgets are limited (cost of borrowing money). However, most of the units at disposal need to be upgraded or otherwise sold at discount prices.

(4) Managerial aspect:

- Social housing stock in East Germany may currently contribute to about 55% of overall housing inventory. This portion is simply not manageable under the current economic conditions. Exact percentages of the make-up of public and private housing are not the aim of this work. In addition, it is doubtful if there are such numbers at all.

### 2.2.3. Main Impediments of Privatizing Social Housing in East Germany

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When comparing the private share of housing between East and West Germany, we discern almost no difference. In 1989, the share of private home ownership amounted to about 39%<sup>122</sup> in the West while in the East the percentage was about 41%.<sup>123</sup> Then the question is: What is wrong? Why to sell at all? The crux in East Germany is that the other 59% share is administered by public authorities, non-profit

<sup>122</sup>Statistisches Bundesamt der Bundesrepublik Deutschland. 1991—1992. *Statistisches Jahrbuch 1991— 1992 fuer das vereinte Deutschland (Statistical Yearbook 1991— 1992 for the United Germany)*. Wiesbaden: Metzler-Poeschel. Edition of 1992.

<sup>123</sup>Statistisches Amt der DDR. 1990. *Statistisches Jahrbuch '90 der Deutschen Demokratischen Republik (Statistical Yearbook '90 of the German Democratic Republic)*. Berlin: Rudolf Haufe Verlag.

agencies, or communities, while in West Germany substantial parts of the 61% share are privately rented housing. Therefore, diminishing the high rate of non-privately rented housing in the East is on the agenda. However, there are several main impediments to privatizing housing in East Germany which are:<sup>124</sup>

(1) Unsolved property rights:

Unsolved property rights are the main impediment of turning public into private property. The problems reached almost a non-manageable magnitude by institutions in charge of dealing with this issue. There are reclaims for properties, either dating back far further than just four decades or multiple reclaims for a single property were brought forward.

The property issue affects large social housing authorities and private home owners. Both are confronted with reclaims for property they currently administer or regard as their own.

The title issue is one of the most controversially debated problems, stirring up a great many fears among East Germany's population. It is the aftermath of the distinct political systems of the past. With the enactment of Land Reform in East Germany in 1945, a substantial percentage of the then-current land ownership was changed by law. The land titles were transferred into state-owned property. This affected mainly *large* properties. Later, these large properties were predominantly passed on to public authorities and oftentimes subdivided. During subsequent years, and up to 1989, extensive construction was erected on those properties.

In particular beginning with the early 1970s, state-owned land was subdivided and leased to *private* home builders for a 99 years term. Most of these leaseholds affected private 'owners' who are troubled now, particularly because the design of the reunification treaty is biased against them.<sup>125</sup>

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<sup>124</sup>Katsura and Struyk refer to the Chinese reform experiments which seem to be universal to a certain degree and propose the following categories. [Katsura, H.M. and Struyk, R.J. 1985. *Selling Eastern Europe's Social Housing Stock: Proceed with Caution*. Washington, D.C.: The Urban Institute. p.5 and following.]:

- (1) The price of renting relative to the price of owning;
- (2) Lending terms;
- (3) Property rights;
- (4) Savings-portfolio decisions.

The author extends these categories by a fifth and sixth one that include the physical conditions of housing and investment considerations.

<sup>125</sup>The reunification treaty is supposed to regulate property issues and has established that the return of property receives priority against financial compensation. Considering this issue soberly from the standpoint of the former owners, this manner of problem solving appears logical. On the other hand, it stirs up property claims that have been unsolved for centuries (multiple claims for a single lot), facilitates underhanded practices of dubious brokers, etc. Moreover, a good deal of those former owners have already been compensated for their lands in the former F.R.G.

In addition, a moral question has to be raised: Innocent people, who invested their money and considerable energy to create their "own" home are becoming disenchanted and beginning to feel cheated. It is a very subtle problem, swallowing enormous tax revenues and labor force. The issue has no clear answer no matter which side this problem is approached from return or compensation.

Also, in pure economic terms, this regulation inhibits or at least retards potential investors from putting money in the new states what is badly needed to stimulate development.

Another quirk is that properties which were given up by East Germans who left the East before 1989 for various reasons, were taken over by communities in the form of a trustee administration (trustee-ship). This administration type is described best with the term hybrid ownership, meaning that no unequivocal titleship is declared.

The reunification treaty handles these subtle issues in a very lax manner, ignoring the past efforts of concerned East Germans who maintained properties under complicated material circumstances. As a consequence of this reckless consideration, numerous people are disadvantaged. In many cases this treaty is tantamount to a repeated dispossession, but this time affecting mostly low and middle-income brackets.

(2) The price of renting relative to the price of owning housing:

Of the problems which came up later during the reunification process and are becoming increasingly important now, is the relationship between financial expenditures for rented and purchased housing. As indicated above, there is actually no difference in price of private housing between East and West Germany. But, despite two rent increases there still exists a difference in rent levels between both parts of Germany, that is, the rents in the East are about 70% of a comparable unit in the West what corresponds to the current income differential. Although the wages and salaries are lower in the East, numerous people persistently believe that the state will carry the burdens of social hardship, meaning that initiatives of investing privately in housing still need to be stimulated.

The main problem is: In order to acquire property, the households need to develop the financial capacity to do so. This capacity is not yet in place. Only a limited number of households are capable of purchasing housing. The accumulation of financial means can be expected to endure for another several years.

It is turning out now that the economic development of households and industry does play a very significant role in this process. The short-sighted approach in depriving the East of essential industry for purely competitive reasons will pay off badly in the near future. A political rethinking is starting now, which could have happened at least three years earlier.

Yet another peculiar situation exists. People, currently living in housing blocks pay moderate rents for a moderate product value or are eligible for allowances which makes the purchase of this good less attractive. (Consumers are rational.) The central issue is: Why invest in a good which I already possess in a certain way or which I will unlikely lose.

## (3) The costs of money (lending terms, interest rates, etc.):

Wherewithal became extremely expensive in Germany over the past few years. The policy of protecting the German Mark has, besides its positive effect in forcing industry to drastic changes, also negative impacts with regard to the financial burdens, an average household accrues when planning investments for private property. The policy of high interest rates hits in particular low-income brackets when considering housing purchase. The consequence is that either public housing needs to be maintained on an extensive basis in order to prevent so-called new poverty or lending money should be more heavily subsidized.

## (4) Savings-portfolio decisions:

This category refers to the financial capacity and margin of households. Due to societal changes, financial preferences have changed. Under socialist conditions financial means were differently employed. They oftentimes served to acquire scarce consumer goods whereas the creation of property was not *the* central issue of large parts of the population. In addition, there was no urgency to put financial resources for social emergencies such as unemployment, the extensive treatment of health problems, etc. aside. Furthermore, the median income of households was settled on a level, not allowing the accumulation of material wealth.

Under market conditions the material value system and consequently priorities have changed. Acquiring properties is increasingly seen as a means of ensuring personal, social safety, stabilization, and independence. However, in order to acquire private property, a minimum of financial resources is required. There exists a number of paths in Germany to do so. The most common one is certainly via a savings agreement with a building and loan association (Bausparvertrag).<sup>126</sup> The loan is usually given when the saver accumulated 40% of the total investment needed to build or purchase a home. This kind of financing is bound to low interest rates (4 to 5%). Assuming the currently prevailing market price of about DM400,000, this would mean the accumulation of about DM160,000. The average savings in East Germany might be settled in a range between DM5,000 to DM15,000. This simple example proves that even under very favorable conditions several years are required until sufficient financial resources are accumulated.

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<sup>126</sup>Other financing methods are: (1) *Reconstruction credits* in particular established to facilitate and spur investment in East Germany. This concept has its precedent in the 1950s in West Germany and was successfully applied there.  
(2) *E.R.P. (European Recovery Program) credits*, supplied by the European Community to support the development in economically weak regions.  
(3) *Favorable depreciation rates* when taken out a loan for property formation tailored to the income situation of a household.

There are other financial models where ca. 20 to 30% of the planned total investment should be available as personal capital. Favorable conditions are applicable if the investor stays under an investment ceiling. The crux is that the ceiling is currently settled at DM330,000 which is too low for building a moderate home in many regions. Staying below this ceiling enables the investor to write off 6% of the whole sum over the first four years, and 5% over the second four years. In addition, a number of measures exist which consider the particular income of a household and its social situation (number of children). This is also referred to the First and Second Way of Assistance. Under the First Way, assistance is provided for households with limited income, whereas under the Second Way income limits do not exist; however, the financial support is smaller.

The ultimate alternative is to take out a loan at prevailing market rates; however, almost out of reach for the average household.

Also, in order to take out a loan, the person has to prove that she/he will be able to pay off the rates according to the terms agreed upon. This proof of eligibility is accompanied by a tedious procedure. Banks also suspicious of East Germans since they know about their financial handicap.

Moreover, East German households still aim at a different shopping basket, albeit this difference between East and West increasingly blurs. However, the evaluation of a personality according to certain status symbols still exists in Germany, meaning a number of goods need to be in place before one is accepted by well-established people in a specific social group. This is an oftentimes hurting recognition, forcing people to invest in goods not necessary in the first place.

As already pointed out before, Germany has a relatively low percentage of private home ownership compared to other countries. This phenomenon is mainly due to the high standards of the social welfare net and cultural traditions. Thereby, social safety certainly contributes most to this fact. The benefits of this net are positively perceived in both parts of Germany. Based on this very fact, no immediate and forcing necessity exists to aspire after private home ownership. This does not contradict the previous points since investment in property does not necessarily mean also living in this property.

One the other hand, a countervailing tendency in the social welfare system of Germany becomes evident. Current political aspirations aim at the dismantling of this welfare net for various reasons (governmental budget constraints and spending). This compounds the social stabilization of low-income households in East Germany, forcing them to focus more on the daily problems of life instead of long-term household planning.

All these points indicate the complexity and intertwinement of numerous aspects, impacting the decision-making process of households as to investments.

- (5) The physical conditions of housing (standards, code requirements of construction, construction types, maintenance expense):

The existence of ca. 50% prefabricated housing inventory in East Germany aggravates the sell-off. Even if badly desired by numerous public authorities and communities, the difficulties lie in the fact that this type of housing was originally built under different presuppositions which were based on building codes for social housing. In addition, code differences existed between East and West Germany. A number of requirements with regard to sound insulation, outer wall insulation, heating systems, circulation space, etc. were settled on a higher level in West Germany. Further, the layout and other physical design components (number of stories, stratification of space from private via common to public) were not devised to fulfill the demands of private home owners. There is a difference between condominiums which indeed aim at these particular requirements from the very outset, whereas housing blocks were conceived for accommodating large numbers of individuals. In a way these things seem to be trivial; however, they largely determine *pace* and *price* for selling units of this kind. With regard to the impact of physical conditions there were a lot of naive assumptions about buying patterns in 1989/90 which failed terribly.

Moreover, blocks or condominiums—regardless of their specific names—are dense building structures and are persistently connoted by the term massification. Therefore, it is hard to convince people to invest considerable amounts of money in a good in which they do not see the immediate benefits.

*Selling social housing units in East Germany without previous substantial physical reconfiguration and social improvement will not work.*

- (6) Investment (internal rate of return):

Since the investment in housing requires considerable financial means (with highest probability the largest investment a household will ever make), the question to invest needs careful consideration.

The internal rate of return is perhaps the most decisive factor in judging the effectiveness of an investment. Investing in housing entails the consideration of terms such as: the current value of the

property, maintenance costs and revenues to be expected, the prospective value of the property (location, convenient access to infrastructure, regional relationships, etc.) play an important role. Considering these economic categories, the realities are not very encouraging in the East. We need to come to grips with the fact that a substantial part of East German public (and private) housing needs major physical *and* social upgrading before being marketable. This indicates a kind of a vicious circle. Public authorities and communities suffering from budget constraints and short of investment money need to put substantial amounts of financial means in these properties beforehand. Again, the disentanglement of this problem demands long-term approaches and the setting of priorities.

Summary:

Listed are some of the aspects which impede or influence privatization from the buyer's perspective (consumer). These aspects are essential since we need to ask first the question: What are the problems of the prospective buyer since she/he is finally the target to whom the product is ultimately sold. By focusing on the selling issue, these are the conclusions:

- (1) Selling-off public housing stock will be a long-term process. Short-term approaches will lead to economic warping on both sides the buyer's and the seller's.
- (2) Housing inventory needs to be put in a status, satisfying current and future demands with regard to construction improvement, layout reconfiguration, and social upgrading (de-massification).
- (3) Loan policy patterns need to be devised which enable the prospective buyer to take out loans under reasonable and attractive terms, and stimulate the willingness of the buyer to accrue a certain financial risk as well.

#### 2.2.4. Issues Within the Rent System of East Germany

A low-rent system in East Germany was one of the cornerstones of the past society which plunged this system into deeper and deeper trouble, since the amount of subsidies necessary to uphold low rents grew steadily over the years. Until 1989, rents of 1.50 to 1.60 East German Mark<sup>127</sup> (\$0.90 to 0.95, exchange rate of 12/1/1993) per 1 m<sup>2</sup> (10.8sqft.) for a newly constructed dwelling fully equipped with

<sup>127</sup>With the monetary union as of July 1, 1990, the Mark of the G.D.R. was converted in a ratio of 1:1. Saving accounts exceeding a ceiling of M5,000 were converted 2:1 (Mark of the G.D.R. to German Mark).



bath/WC, central heating, running cold and hot water, garbage disposal, etc. (including all utilities except electricity) were typical. For an apartment in an old building (only partially furnished with amenities/utilities), the rents were even lower, around 1.00 East German Mark (\$0.60) per 1 m<sup>2</sup> (10.8sqft.). These low rents were maintained until October 1991, as the first rent increase in East Germany was enacted. A second one followed up as of January 1993. To compare the numbers, rents for *assisted*<sup>128</sup> housing in West Germany were about DM7.00 to DM10.00 in 1989, depending upon the location (600 to 700% higher).

In East Germany, a typical household (two earners) spent approximately 4 to 5% of the gross income *on housing*; a single-headed household spent between 5 and 10% depending on the number of children. Thus, rents were never a crucial issue of private household budgets in East Germany. However, this concept caused a lot of distortions:

- An increasing lack of money for maintenance, upkeep or/and upgrading.
- Tendencies of minimizing the standard/level of amenities.
- Ever-growing depreciation of the good housing across large segments of the population.
- Decreasing responsibility with regard to the value of housing.
- The reinforced praise of the quality of a newly constructed dwelling led to a steadily widening gap between supply and demand. The equilibrium between affordability and demand was out of balance.
- Misunderstanding the endeavors of planners and architects in their struggle for decent design, meaning that concepts for proposed changes were suspiciously considered and rejected by the ruling administration.

The positive effects can be summarized as follows:

- Housing was affordable for everyone.
- There was little social segregation across the population. Official policy was designed in a way, warranting in particular young households the preferred access to housing within the framework of the system. To make this point clear, to a certain extent social segregation did exist in East Germany; however, if measured with the yardstick of a market system, these discrepancies were generally minor. (We also need to ascertain that the degree of social segregation differed from country to country in the East Bloc.)
- Most of the people did not consider housing as an object of speculation and profit.

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<sup>128</sup>Households who were not eligible for allowances (Wohngeld) paid even more (up to DM22.00 per 1m<sup>2</sup>).

The diagrams below show the relations between income and rent in both parts of Germany before the reunification. They further indicate that the most striking differences were in the internal structure of a household income, the income differential between lowest and highest income groups, and the differences in absolute money terms. A word of caution may be allowed here: Different income structures should always be seen in relationship to other components which contribute to and support household incomes. They are bound to the specifics of society. The diagrams (figure 28) shall elucidate the magnitude of the task for socio-economic of confluence in Germany.

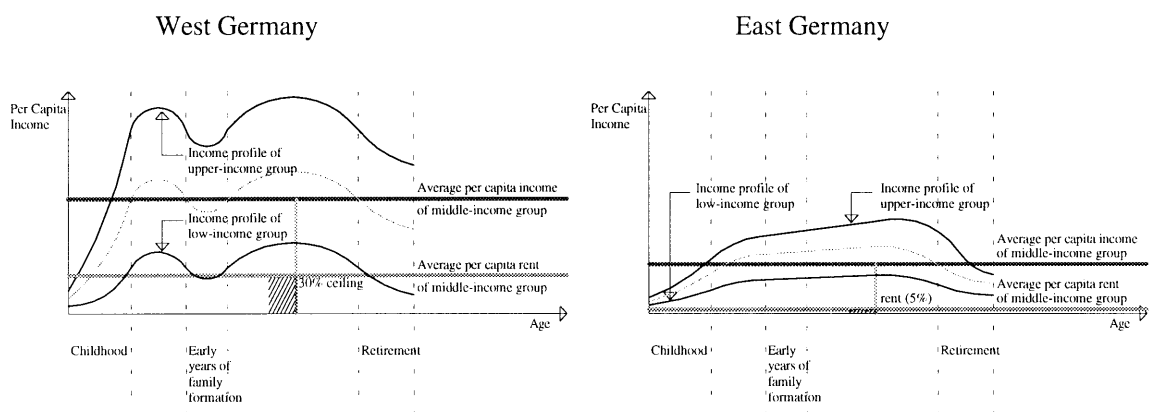


Figure 28. Different household income profiles showing the proportions between rent and income prior to 1990

With the reunification, the well-preserved concept of subsidized rents became obsolete. From the very outset of the reunification process, it was clear that the redesign of rents would be inevitable.

A staged approach seemed to be most appropriate for diminishing the gap between East and West. In October 1991 the first step in this direction was undertaken by raising the median rent level by about 500 to 800%. This was a tremendous shock to considerable parts of the East German population. All of a sudden, some 27% (First estimates even spoke of 80%.) of all East German citizens were eligible for housing allowances, whereas just 6%<sup>129</sup> West German citizens could claim allowances. This means in absolute numbers for 1990:

Old States (West Germany): 1.64m households out of 63.3m people;

New States (East Germany): 1.85m households out of 16.1m people.<sup>130 131</sup>

<sup>129</sup>See Social Structure, Housing and Income situation of the recipients of a housing allowance.

<sup>130</sup>The household size is assumed to amount to 2.35 for both parts of Germany.

<sup>131</sup>*Deutschland Nachrichten (German News)*, November 26, 1993, p.5.

It immediately raises the next question of how to cope with these new burdens. At that time, it was just a re-distribution of financial means. The situation has not changed a lot since. In other words, nothing is solved as long as the economy does not speed up, thus decreasing the unemployment rate for East Germany (12% in the spring of 1992, in the fall of 1993 at 15% compared to about 7% in West Germany) and assuring the people the chance to improve their standard of living and finally their financial situation.

The confluence of the rent systems in both parts of Germany is a crucial problem implying the following considerations:

- Reducing the gap between both rent systems is overriding since it is one of the prerequisites for equal living standards. The determination of the rent levels may vary due to regional differences.
- The rents in East Germany had and still have to be raised since they do not yet fully cover the minimal costs for maintenance and standing expenditures. A stepped program was applied in order to design the measure of increase agreeably. Although desirable from the economic standpoint of the supplier, a further rent increase from the consumer's view is currently not acceptable since it just reshuffles financial support having little effect on real physical improvements.
- The equalization of the rent system implies a disadvantage as well. It furthers migration from East to West Germany, because, if the rents are the same in both parts of Germany and the wages/salaries are simultaneously higher in West Germany, then the clearly better material living conditions exist in the West. However, provided the rent system is not fully balanced yet, i.e. rents and wages/salaries are proportionally different between East and West (say rents and wages are about 70% of their counterparts in the West), then the chance that people are not migrating to West Germany is greater. This is a very subtle social aspect and may just work in this way if the differential between the facets at question is within a certain margin. For instance, if the aspect of paying less for rent, but receiving a lower salary is not worth a comparison to the aspect of paying more for rent and receiving a higher salary, then the decision is made in favor of the higher salary. (This refers to the economic term of a relative advantage.)

The trend to move from the East to the West or—at least—to be mobile, is still high among juveniles especially caused by unequal levels of earning possibilities and fewer chances for finding a job. However, even *this* segment of the population is challenged to accelerate the development in East Germany. A non-balanced rent system which is not in accord with other social criteria makes people choose the maximum benefits from either side.

- The *pace* of rent increase is a function of time and social bearability. Both are diametrical. On the one hand, raising rents may spur the construction sector, on the other hand, it increases the household burdens, causing additional allowance expenditures for the New States.

The formerly distinctive societal structure of what was East Germany aggravates the transformation. The rent system was evenly set for the whole of East Germany, *independent of any* market considerations (location, overall economic performance, etc.). The people have grown up and lived under this social framework; they are, in a way, still accustomed to the old principles. By contrast, in a social market system the general determination of or crosscut rents run counter to the basics of this system. The principle of having permanent differences has not fully been understood yet. The *handling* of it is novel for the administrations and the affected people as well.

Summary:

The process of becoming aware of necessary changes is both lengthy and painful. Moreover, grasping the principles of this process is more important than any pure economic transformation. The process design requires insight and mutual understanding of all sides involved. It is a process for which no valid recipe exists.

*The adaptation of the rent levels is only realizable through a staged plan, that has to be in accordance with the income development of the population. The duration of adaptation may last several years and is a function of economic progress.*

### 2.2.5. Issues of Diminishing Publicly Held Housing Stock in East Germany

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Another complex of unsettled problems is associated with the enormous social housing stock held by public authorities. It also stands in close relationship to rents and property issues. As said previously, while the West German government was never involved in the *immediate* construction process and ownership issues, the former East German administration was an active player in both respects. Through the centralized planning system, the government, availing itself of all its subordinated ruling authorities (on the regional, district, and communal level) was basically *the main investor, and the directly*

*subordinated authorities were the main owner.* Albeit, the share of private home builders was constantly growing from about 3% in 1971 to about 10% in 1975, later, however, stagnating between 11 and 13%,<sup>132</sup> it never played a dominant role in East Germany.

Every former capital on the regional level and most of the towns on the district level host widespread suburbs. In the 1970s and 1980s the design principles for suburban structures were superimposed on the cores of the cities and towns, ignoring historically grown urban fabrics.

Wielding centralized power, the state-owned share of housing stock steadily grew from 38% in 1971 to 59% in 1989.<sup>133</sup> (Oftentimes overseen, there was always a considerable share of private property in East Germany.) The diminution of private housing stock during the 1970/1980s was chiefly caused by the preponderance of the state-owned construction sector contributing 87 to 90% to the annual housing production, and the fact that the political system did not vigorously foster private development. Moreover, private homeowners saw themselves forced to abandon property because of:

- Supply difficulties concerning building materials;
- The low rent system which never enabled them to cover maintenance and standing expenditures, not to speak of upgrading.

During the reunification phase (1989/90), a thinking dominated within East German authorities that the subsidized state-owned housing stock should basically be retained in its existing bulk. This was grounded on inexperience in handling this issue. Reconsidering the problem thoroughly, two factors become obvious:

- The municipal authorities do not have the staff required to manage stock sizes of this magnitude.
- The forces inherent in a housing system which operate under market principles would be underutilized. Retaining the existing social housing stock is therefore simply counterproductive.

By contrast, in West Germany the amount of social housing contributing to overall housing stock steadily declined. The data show a constant portion of social housing for new starters of 11% (19%)<sup>134</sup>

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<sup>132</sup>Statistisches Amt der DDR. 1990. *Statistisches Jahrbuch '90 der Deutschen Demokratischen Republik (Statistical Yearbook '90 of the German Democratic Republic)*. Berlin: Rudolf Haufe Verlag.

<sup>133</sup>Statistisches Amt der DDR. 1990. *Statistisches Jahrbuch '90 der Deutschen Demokratischen Republik (Statistical Yearbook '90 of the German Democratic Republic)*. Berlin: Rudolf Haufe Verlag.

<sup>134</sup>There are two ways of assisting social housing—the First and Second Way of Assistance. The Second Way of Assistance comprises support for all income brackets (in parentheses), whereas with the First Way of Assistance only lower income brackets (income ceiling) are eligible for support. The current income ceiling amounts to DM21,600 (\$12,700) for a single-earner household and DM31,800 (\$18,700) for a double-earner household. The First Way is also termed as the traditional way of social housing. In recent housing policy the support patterns have been extended to larger parts of society.

for 1987 and 1988.<sup>135</sup> In 1989, in East Germany, the scenario was the reverse. Social housing contributed 89% to annual housing production; the remaining 11% built by private home builders were favorably credited by the government. The consideration of the supported housing sector reveals these main discrepancies:

- A segment of 39% of private home owner *who live in their properties* (owner-occupied) is reported for West Germany. The other 61% are rental housing, incorporating the share of the social housing. The overall size of privately held housing, however, should be greater than those 39%. In addition, a certain percentage of those 61% may also fall into the category of communal housing. No explicit data for this fraction was available. It is hard to exactly draw the lines between the different categories of housing in Germany.
- A portion of 41% of private housing ownership exists in East Germany, however, no data is available of how many households of this percentage occupy their property. Fifty-nine percent of the existing stock (1990) belonged to either cooperatives (18%) or was state-owned (41%). The state-owned property depicts the main focus of concern and future re-evaluation of ownership.
- A *decline of housing allowances* from about 9.8% in 1965 to 5.7% in 1978, related to the overall number of households, is reported for the former F.R.G.<sup>136</sup> This tendency proceeded also in the 1980s.

Since housing allowances and the act of creating social housing refer to different subsidy types,<sup>137</sup> the comparison between East and West Germany is problematical:

- (1) The kind of housing allowances commonly applied in West Germany in order to support production and consumer did not exist in this form in the East. Rather, a general rent subsidy was guaranteed by centrally depressing the rents to an artificially low level.
- (2) Social housing was the dominant principle of creating housing in East Germany. Private initiative was basically confined to individual housing construction, but assisted by favorable credit conditions.

The transformation of state-owned property into private property is closely related to the physical conditions of buildings. Since most of the affected dwellings are located in walkups (medium-story housing blocks, 5—6 stories) or high-rises (10—11, 17 stories), the separation of units is a big issue.

<sup>135</sup>Statistisches Bundesamt der Bundesrepublik Deutschland. 1991—1992. *Statistisches Jahrbuch 1991— 1992 fuer das vereinte Deutschland (Statistical Yearbook 1991— 1992 for the United Germany)*. Wiesbaden: Metzler-Poeschel. Edition of 1991.

<sup>136</sup>See Social Structure, Housing and Income situation of the recipients of a housing allowance.

<sup>137</sup>Housing allowances: Standing rent assistance (consumer subsidies).

Social Housing: Affects the immediate act of constructing houses fostered by public monies (production subsidies).

Initial thoughts of a simple selling-off to the inhabitants did not work as juristic issues (land reclaims), quality problems, or plain organizational questions of how to transfer those units to condominiums could not be solved. Thus, difficulties are accumulating. The first signs of a startling trend are becoming obvious in that suburbs mainly made up of housing blocks which are prone to social dilapidation and population segregation. These areas might also be objects of new poverty. Up to now, no clear concept of handling this issue exists.

The dismantling of the organizational structures commonly prevailing in the past could be an inevitable step to create an improved, more responsive management. It seems to be appropriate to organize this step by step since extreme changes are mostly not accepted by people.

The heritage of the past weighs heavily, since almost all levels of administrations, public institutions, (a myriad of private citizens) are entangled in property issues, distracting them from their proper task. In addition, numerous potential investors are detained from investing in the new states. This problem might only be resolved by concerted endeavors of all political forces. The most important lesson is:

Before thinking of any 'technical' implementations, an unequivocal strategy has to be elaborated—these are clear-cut concepts dealing with the transformation of property. This step has been missed due to the superficially and rashly hammered-out reunification treaty. The past few years have proven that amending these flaws is time-consuming. There are serious endeavors to tackle the property issue differently now. Consideration is under way to give compensation priority as opposed to the return of property.

Summarizing, an overview of support patterns of social housing and stock looks as follows:

Former East Germany (in 1989):

- 100% of *housing allowances* granted by a central subsidy system;
- 100% of *social housing* (including private home builders);
- Excessively large amount of *communal property* (state-owned and cooperatives) of 59%.

Former West Germany (in 1989):

- 6% of households received allowances;
- 13.6% (19%—Second Way of Assistance) of all housing production;
- 1.5% of communal housing.<sup>138</sup>

<sup>138</sup>Statistisches Bundesamt der Bundesrepublik Deutschland. 1991—1992. *Statistisches Jahrbuch 1991— 1992 fuer das vereinte Deutschland (Statistical Yearbook 1991— 1992 for the United Germany)*. Wiesbaden: Metzler-Poeschel. Edition of 1991.

### 2.2.6. Cultural and Spatial Deficiencies of Suburban Housing in East Germany

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The massification of housing in East Germany is mirrored in the spatial patterns of its settlements. Until the early-1970s the historically grown urban structures were still intact; however, the launch of the Housing Construction Program in 1971 contributed heavily to an impoverishment of urban structures in the East. What predominantly happened prior to 1970 in West Germany, set in at around 1970 in East Germany. If one compares both parts of Germany, one could speak of a staggered process of ill-development in Germany. The mistakes of the West were repeated in the East 10 to 15 years later.

What were the impacts of this development on urbanism and housing?

Since the whole construction sector was aligned to prefabrication, the results were disastrous. Two losses can be observed:

- (1) The loss of cultural quality of settlements;
- (2) The loss of spatial quality.

Loss of cultural quality:

Referring back to stock characteristics, the reckless treatment of the established archetypes of German settlements (network and hierarchy of villages, towns, cities, and open landscape) was dominant. Well-functioning urban principles were largely ignored (mixed uses, relationships between living, working, and recreation). The effect on housing stock was the *neglect* of historical inventory *in conjunction* with the extinction of physical structures *and* the destruction of historical, urban-spatial patterns. Thus, both the historical and the newly built stock began to live their separate lives, increasingly diverging in urban and architectural terms (figure 29). The continuity of the historical process was harshly disrupted. The cultural equilibrium of German urbanism became shattered; one archetype became carried through history (refer to diagrams above).



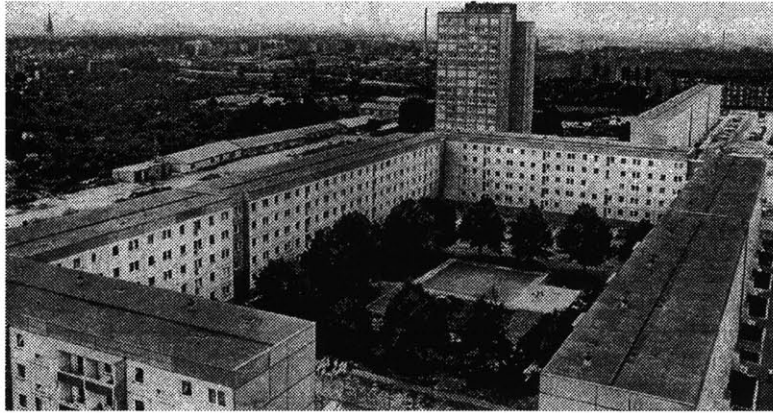


Figure 29. Social housing construction in East Germany, City of Leipzig, Leipzig-Schoenefeld, 1978<sup>139</sup>

A concomitant of this physical decay was the political disregard of endeavors of concerned individuals to stop this process. In retrospect, it is not true that society was not aware of this decay. However, the powerlessness of progressive people led to a petrification of society.

Notwithstanding this general tendency, a number of qualitative solutions were created, mainly on small-scale levels, proving that under better societal conditions decent solutions with prefabrication systems are possible (figure 30). We very often blame technology, i.e. the abstract outcome of the deeds of human beings for faults which are our own. This is the lesson we need to learn here—a lesson which needs to be learnt by both East and West Germans.

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<sup>139</sup>Gross, A.G. and Wellner, H. D. 1978. "Zur staedtebaulichen Konzeption des Wohnkomplexes Leipzig-Schoenefeld." (On the Urban Conception of the Housing Complex of Leipzig-Schoenefeld.) *Architektur der DDR* 27: 26—31. p.30.



Figure 30. Prefabricated housing construction in historical city cores of East Germany, City of Rostock, Northern Downtown, 1984<sup>140</sup>

#### Loss of spatial quality:

Spatial quality is determined by the interplay of built elements and open space. The configuration of these elements to each other forms the urban fabric. Urban structures fashion a tripartite system, comprising:

- Private space;
- Semi-public or common space;
- Public space.

Only the correlation of these three components leads to satisfying urban solutions. By analyzing the suburban structures in East Germany, it turns out that the lack of *semi-public* space is *the* crucial factor. Estrangement has to do with non-satisfying and incomplete spatial structures. The absence of semi-public space can be sensed intuitively by citizenry in East German suburban structures built after 1970. These fabrics lack a clearly visible spatial stratification and hierarchy. Thus these settlements cannot be comprehended emotionally by the people. The human being needs to interact with the spatial environment at all occasions. In addition, the mass housing projects of the 1970/1980s lack the opportunities for socialization and comprehensiveness.

<sup>140</sup>Kaufmann, E. 1984. "Gedanken zum innerstaedtischen Bauen in der noerdlichen Altstadt." (Thoughts on Intracity Building in Northern Old Downtown.) *Architektur der DDR* 33: 647—53. p.651.

It is a peculiar construct, but machine-like administrative structures create and find their counterparts in machine-like spatial patterns, stripped of the necessary elements for well-being. Therefore, suburbia in East Germany do not need *revitalization*—they need *vitalization*, meaning the lacking spatial elements have to be established in order to accommodate the requirements for a versatile life (spatial subdivisions, supplementation of recreational facilities, building back of blocks if required, etc.).

By listening to the people when the immediate physical living quality is at the debate, it turns out that people have a very articulated opinion about a good or bad built environment.

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CHAPTER IV

## Ways of Reconciling Distinct Housing Systems

This chapter offers insights and suggestions for the housing problems laid out previously. Complete and all-encompassing answers cannot be the goal as housing development is permanent in flux. The author argues for long-term concepts as to some essential developmental cornerstones in housing (for instance, respecting the necessity of having social housing), and more flexibility in pursuing the specific ways to accomplish commonly recognized goals. Applying customized strategies for general goals is central in order to reach the best results.

With regard to conjoining different housing systems, a conceptual framework is developed. Four generic strategies are put forth in order to stake out the scope for designing transition and transformation phases for housing systems.

Germany needs to reconcile two formerly distinct housing systems. The main issue consists in designing the most appropriate way and determining the target region in order to reach this goal.

## 1. Conceptual Framework of Changes

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Next the conceptual basis for reconciling two different objects is laid out. Grounded on this investigation, possible ways will be explored in some more detail.

The thesis mainly deals with *changes* in (social) housing. *Changes* imply two important factors:

- (I) The *time frame*, i.e. the period within which changes are to happen. If possible, a subdivision of the time scale should be established.
- (II) The *matter itself*, i.e. the qualitative and/or quantitative parameters<sup>141</sup> which describe changes.

Related to these factors, the following definitions are suggested:

*Time:* The process of changes in housing should be subdivided in a transition and transformation period. Phasing the change of housing systems is a means to structure this complicated process accordingly.

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<sup>141</sup>As to the object *housing* instead of parameters the term categories is going to be applied.

- Transition period: Transition comprises the time span between the point in time where first signs of a necessity to change something become apparent until the point where the new forces that drive changes will become established. Transition may tend to be shorter in comparison to transformation. Transition tends to be accompanied by some unrest and uncertainty within society.
- Transformation period: Transformation is the phase within which most of the substantial changes occur. Transformation therefore should be a period of single-minded and focused work. It ought to be characterized by stability, meaning the prime goals are determined and well formulated. Creative and productive work should be dominant.

Where lies East Germany's housing restructuring with regard to the time frame?

The author suggests that East Germany has just entered the transformation period (figure 31) with respect to housing restructuring. (Dealing with other aspects of the societal transformation process may provide different results.)

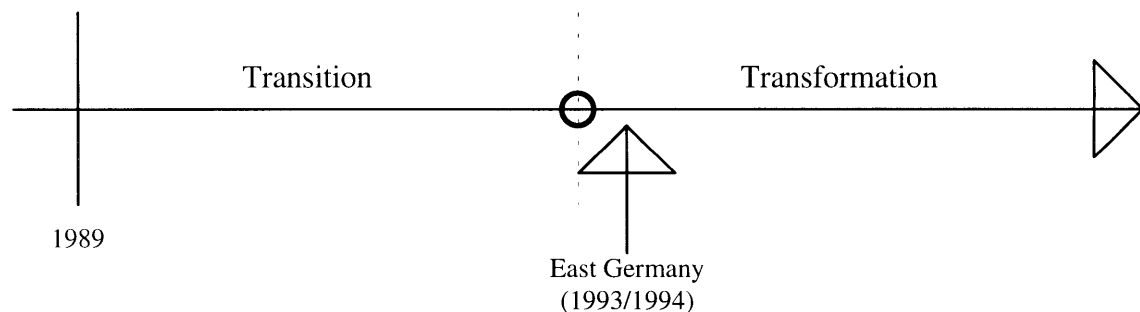


Figure 31. Phasing East Germany's housing transformation process

The characteristics of the transitional phase in East Germany were:

- Economic downswing and instability (dismantling of large parts of the East German industry);
- Reformation of political forces which are driving the new development;
- Substantial East German population migration toward West Germany;
- Decay of the former social value system;
- Dramatic regress in East German social housing production.

The next basic entity is the matter itself—the object of change which is (social) housing. In order to classify and substantiate the subject matter, these categories are proposed for further consideration:

- Matter:*
- (I) Social value system/objectives.
    - (1) Social concept;
    - (2) Subsidies;
    - (3) Urban development.
  - (II) Market categories.
    - (1) Rent system;
    - (2) Loan policy;
    - (3) Property issue;
    - (4) Privatization of public housing (stock flow patterns).
  - (III) Technical categories.
    - (1) Technology;
    - (2) Code requirements.

The *range of change* can be determined between zero and a maximal deviation from the existing status quo. The *degree of change* determines the target point within the range of change.

Thereby, the degree of change (steepness or deviation from the existing status) is determined by qualitative and quantitative parameters whose make-up may vary from case to case. These parameters express the pace upon which changes happen. In the diagram (figure 32) the degree of changes is represented by an angle. This angle embodies the impact of the qualitative and quantitative parameters of changes. That is, the more profound and articulated the parameters, the steeper the slope (or the greater the angle).

Two implications need to be discussed: Time and the impact of the qualitative and quantitative parameters. Both correlate; however, the parameters are primary. The point in time when the final results will be achieved depends upon the parameters. Parameters are the difference between the existing status quo of an object and the goals of changes for this object. Assuming, there are no or only minor differences, then the object will not change its characteristics regardless of the amount of time lapsed (infinity). Thus, it does not mean that one only needs to state the different parameters and then waits a certain amount of time until the object has changed. Nothing happens just by waiting. Rather, once the process of changes is initiated, there has to be a continual impetus for the implementation of the goals. If this does not occur, then the system stays at the current level or may even fall back onto its initial stage. The diagram is to illustrate the problem:

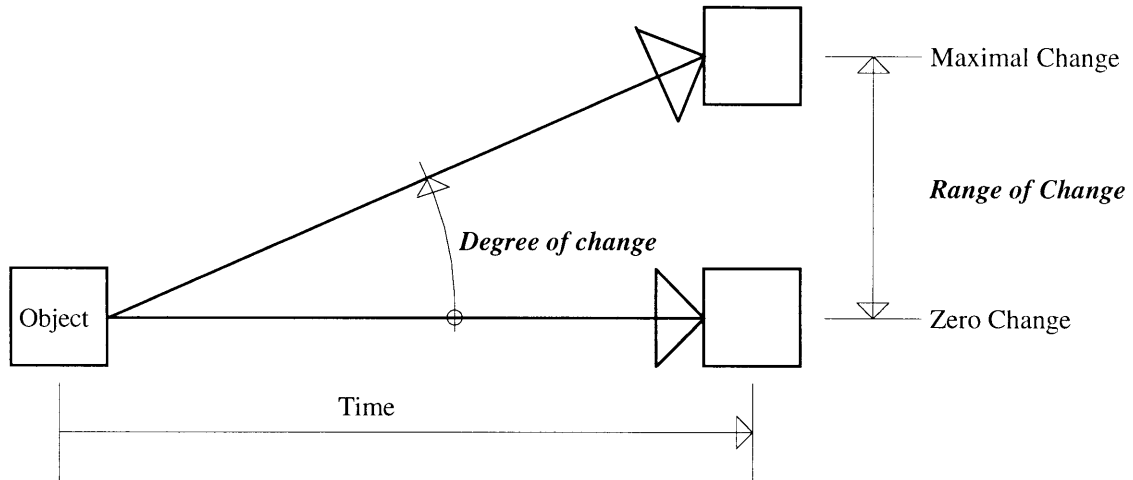


Figure 32. Relationship between the degree of change and its corresponding target point

## 2. Options for Changes

In the following, the construct above is used to discuss a number of variations for changes. Basically, two generic strategies for changes are possible:

- (1) Retaining the existing status quo;
- (2) Changing the existing status quo.

The model becomes more differentiated when the number of objects involved increases (figure 33). This holds for Germany.

In addition, the German case contains specifics which can be derived from the general concept delineated above. German social housing has *two* objects in question which are eligible for changes. Under the assumption that *confluence* is the declared goal, meaning that the direction of changes is predetermined toward a *unified* object, then we can apply the model from above:



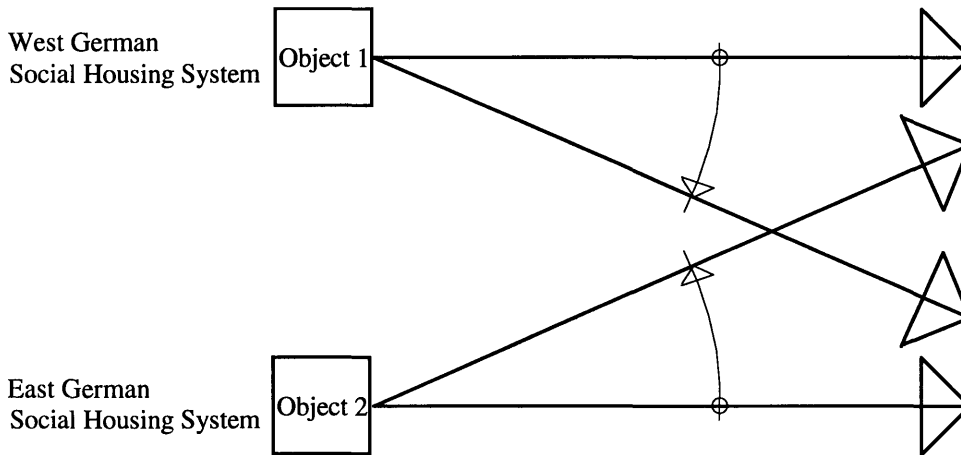


Figure 33. Generic model for two changing objects

In the following text we want to investigate the variations for the case of *two* objects. Derived from the theoretical construct above, *four* basic options are possible:

- (1) Retaining object 1 and 2;
- (2) Retaining object 1 and changing object 2;
- (3) Changing object 1 and retaining object 2;
- (4) Changing object 1 and 2.

(1) Retaining object 1 and 2:

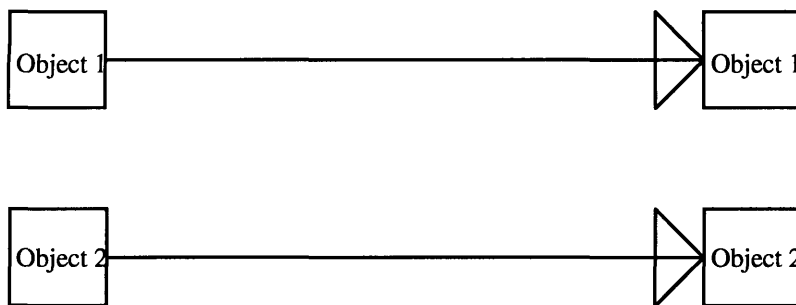


Figure 34.

This option implies that the existing status quo of both objects is maintained. It further means, that confluence will not occur. Ultimately, two separate objects are continuing to exist independently (figure 34). It does not mean that within either object changes cannot happen. They may occur but do not lead to a confluence.

The outcome of this option are two objects which maintain their initial main characteristics. Mergence does not occur.

(2) Retaining object 1 and changing object 2:

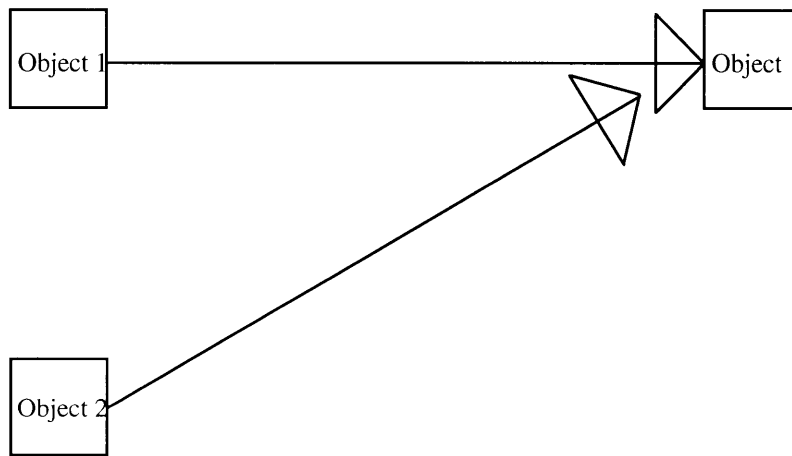


Figure 35.

This option leads to an actual mergence where object 1 is retained and object 2 adopts the characteristics of object 1 (figure 35). That means, the qualitative and quantitative parameters have to be established in a manner which guarantee the motion of object 2 toward object 1. Over the passage of time the differences between the counterparts of corresponding parameters of object 1 and 2 diminish, caused by only changes of the parameters of object 2. The parameters of object 2 need to be redefined sequentially. The result of this development is one object which still carries its original main characteristics. Object 2 merged into this one.

(3) Changing object 1 and retaining object 2:

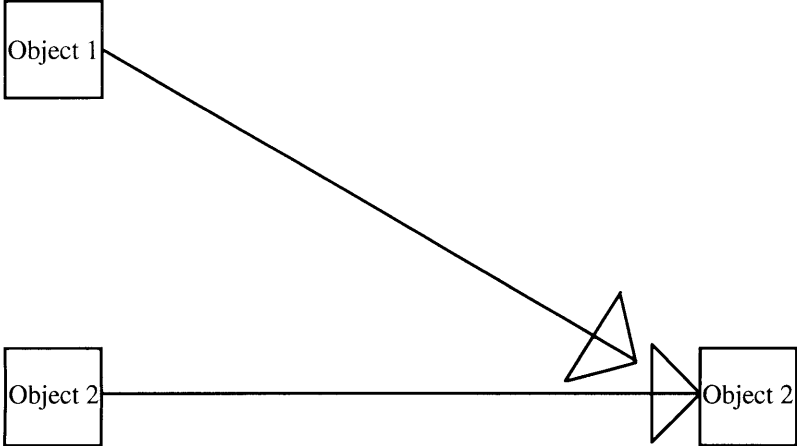


Figure 36.

This option basically corresponds to option 2 (figure 36). The only difference is that the parameters of object 2 are maintained while those of object 1 change.

(4) Changing object 1 and 2:

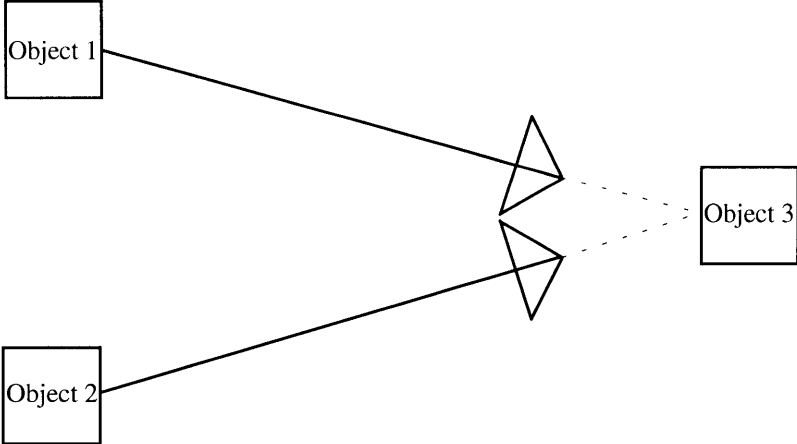


Figure 37.

The result of this option is a merge, too. However, neither of the original objects 1 and 2 will completely be reflected in the merge (figure 37). Hence the outcome of the merge is a

*qualitatively new* object, incorporating characteristics of both source objects. Both original objects cease to exist in their initial form.

Another term needs to be introduced here—*skewness*. It refers to option 4. Skewness describes the ratio between the slope of *both* changing directions. If the absolute value of the ratio of both changes (slopes) equals 111, then we have a *symmetrical* change. If the slopes deviate from each other in size, then the ratio is unequal to 111, and we can speak of an *asymmetrical* change.

The deviance can be in either direction. The exact location where the intersection of both changes occurs depends upon the ratio of both slopes. The diagrams (figure 38) depict the phenomenon.

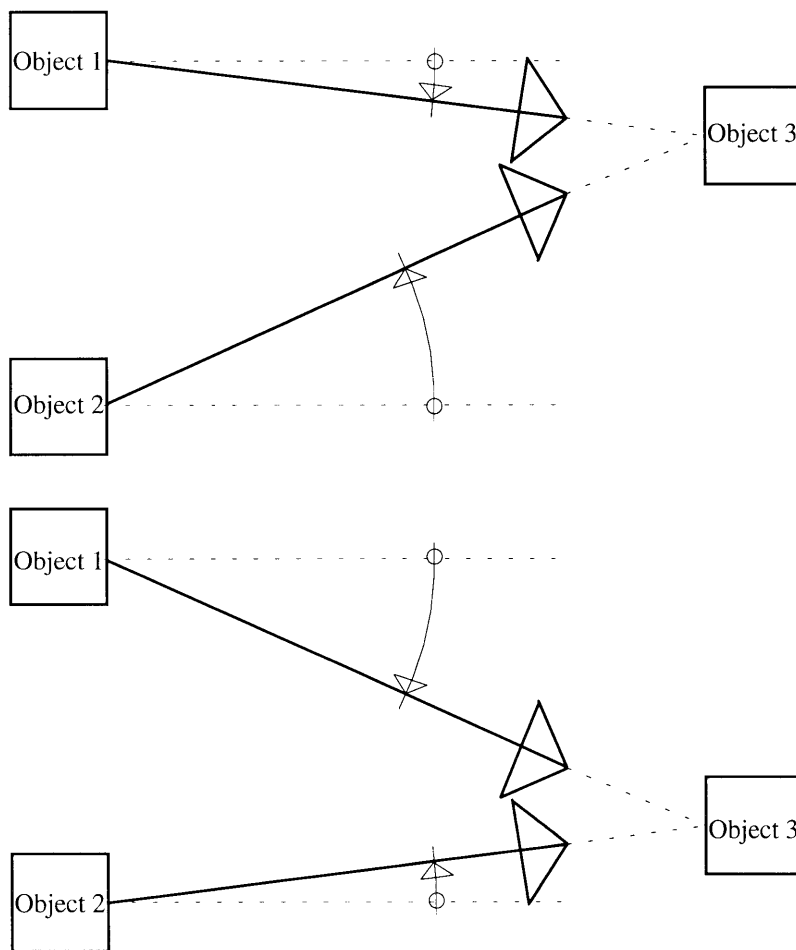


Figure 38.

A last aspect needs some consideration. Assuming that the size of the gap (or difference) between both objects is given, then the point where both directions will intersect in options 2 to 4 is contingent on the size of the slopes.

In other words, the steeper the slopes, the earlier the intersection of both changing directions will occur (figure 39). That further implies that the point in time when the intersection happens depends upon the steepness of *either* slope (if the value of one slope is equal to zero) or both slopes. The concrete impact is that the mержence occurs the earlier, the more drastic the quantitative and qualitative parameters of each object were changed toward the common goal.

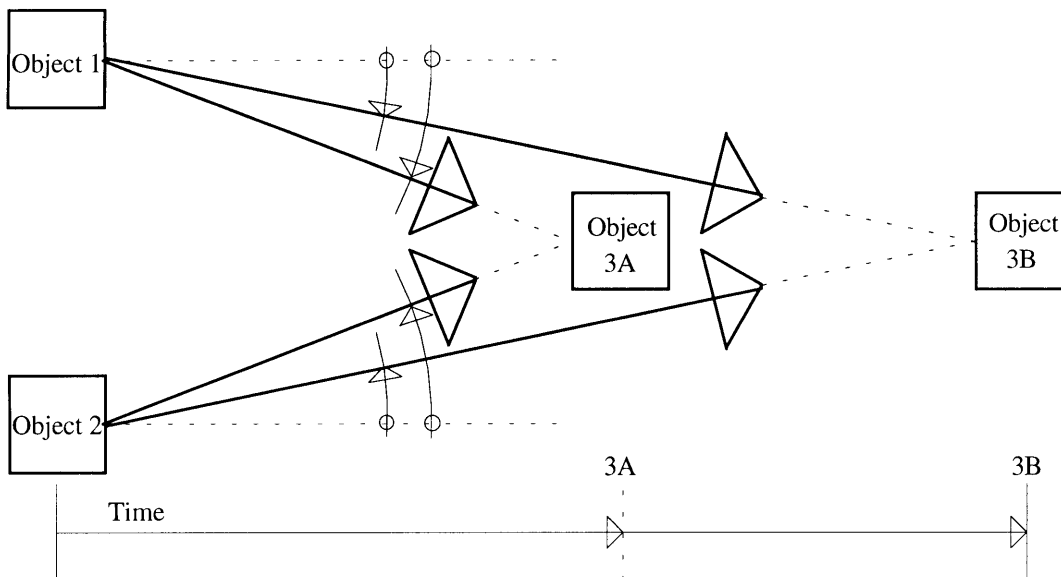


Figure 39.

This conceptual framework is provided to stake out the theoretical margin for changes and to indicate the differences and particularities if we need to deal with more than one object.

One can further infer that, if a fast intersection is the major concern, the slope size must be increased. Consequently, drastic changes of the parameters of *one* object are required to obtain an early intersection, or *both* objects should change simultaneously, thus alleviating the strains imposed on one object and also providing the mержence at the same point in time. Surely, a symmetrical mержence might be the preferred option if minimizing the strains is a declared goal and yet a fast mержence is to happen. In reality, this case might be only seldom relevant. Therefore, if a fast mержence and an asymmetrical principle is

avored, constraints and problems within the object which accrues the main burdens of changes can be expected.

### 3. Options for the Confluence of the Housing Systems in Germany

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Two basic strategies exist for the prospective design of the housing systems in Germany:

- (1) Retaining the existing housing system(s);
- (2) Transforming the existing housing system(s).

The different strategies are discussed below by applying the conceptual framework elaborated above.

#### 3.1. Retaining the Status Quo of the Present Housing Systems

---

Retaining the existing status quo of the East<sup>142</sup> German housing system is not appropriate. Maintaining two different housing systems within *one* country cannot work. The differences between both housing systems need to be equalized. The main categories of relevance for both housing systems—the housing system in the West and the system in the East—are listed above.

The conditions for the coexistence of two systems do not exist in Germany. For instance, the maintenance of two different rent systems would retard the confluence of living quality of both parts of Germany. The rent system of the East was the product of a housing policy that could not prove its viability. The social network and support system in former East Germany centered around very low rents for all people. This system did not sufficiently consider the actual costs for construction, maintenance, upkeep, and upgrading. Further, rents cannot be regarded as an isolated or separate subject. Rather, they correlate with other components of the overall social net of society (structure of income, general subsidy patterns, tax structure, etc.).

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<sup>142</sup>The *East* German housing system is considered in this case since the *East* German society is the one which has changed and is changing, respectively. Retaining the East German system and adapting the West German system to the Eastern system is therefore irrelevant. The option is mentioned here in order to be comprehensive.

The artificial implantation of *one or few* components of one social system into another one is not a tenable concept since a market system operates under presuppositions distinctive from a socialist system. Ultimately, a *hybrid* social system would require two different administrations, thus substantially increasing governmental budgets and spending.

During the early days of East Germany's transformation, the idea was born to retain several social values of the old system (common property of some production facilities, child care system, parts of the school and higher education system). The experience and reality of the bygone three years have shown that idealistic assumptions in actuality do not have the slightest prospect of success since they are deprived of any realistic fundament. It does not mean that the contention for betterment in a system is hopeless. However, a piecemeal approach has much better chances for success than non-substantiated ideas based on vague assumptions.

The lessons of the German case are:

The particularities of the societal construct required the renunciation of idealistic concepts for very practical and feasibility reasons. It does not necessarily mean that the way pursued was the optimal solution. The East German transition period was characterized by pragmatic, relatively short-sighted decision-making. In hindsight it is legitimate to say that the synergy of the driving forces of the transition process was insufficiently established. Political quarrel and introverted party thinking stood in the way of better results. The German lessons also support the thesis that transition involves ill-decision-making and aberrations.

Maintaining certain components of the housing system at question for a limited period of time, and subsequent cautious changes may work better in some Easter European countries. The sudden and unbridled exposure to market principles can lead to societal turmoil as currently observable in Russia when the most essential elements of a market-driven economy (competition) are not yet in place. Housing under free market conditions is a bipartite system: The demand is permanent; if the supply side does not work at all, the whole mechanism is prone to collapse. Before rent control and allocation of housing is largely given out of public hands, at least a minimum of market mechanisms should work.

### 3.2. Lessons From the Transition Period

---

Given the fact, that both German housing systems were indeed different, and assuming that maintaining the difference in the long run will not work, the design of reconciling the systems becomes the central issue.

*Phasing* the change process is crucial. As suggested above, East Germany has concluded the transition phase. Indicators of this progress are: The developmental process stabilized; the economic downswing stopped (A positive G.D.P. growth of 5 to 6% is projected for 1993); the instruments of the new political system are in place and begin to operate actively.

With respect to urban development and housing, the main features of transition were:

- (1) The established rent structure of the former system had to stay in place for a limited span before the first stage of rent adaptation could occur (two years). A transitional or grace period for rent adaptation should be the basis for rent increase measures. Rent increase *had to* happen since it is the only way to regain the balance between expenditures for running cost/maintenance and revenues. Otherwise the authorities in charge of public housing stock are not able to fulfill the minimum requirements (improvement of maintenance and service delivery, initiation of upkeep).

In addition, rent increase provides incentives for the private sector to invest in housing. This is essential in order to establish competition in the housing market.

- (2) The transition was accompanied by a myriad of planning activity. Comparing first results with the countless plans proposed, the question of efficiency needs to be raised. It seemed that the proportions between the amount of monies spent for planning and construction or restoration were warped in favor of planning. A more moderate approach to basic planning work might have brought about the same results. Important is the outline of cornerstones for prospective changes, the more detailed work can be done at any other time later in this process.
- (3) The basic incentive for a functioning financial market need to be introduced during the transition phase. This is a banking system which serves *both* fledging small construction firms (supply side) and consumers (demand side) by granting loans and mortgages. Interest rates and low down payments need to be supported by governmental measures.



- (4) The real estate market is a very crucial element and lived a somewhat proper life in East Germany. The real estate prices were totally overheated for an extended period, thus aggravating investment.
- (5) The production output of housing went through a classical downswing phase. It came to an almost standstill. The 'blackout' of construction for a limited time is *inevitable* since the old, state-owned firms failed and competitors were not in place yet. Therefore, the main objective is to confine this 'blackout' to an absolute minimum. Unconventional, non-bureaucratic support of small firms is central to incite competition.
- (6) An extended change in publicly held housing stock during the transition phase cannot be expected as the abandonment of support mechanisms would indeed be disastrous for large segments of the population since this housing segment fashions the main share of housing stock in all former socialist countries.

### 3.3. Transforming the Present Housing Systems

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In the following we will mainly deal with *transformation* patterns. The term skewness has been introduced above in order to get a handle on the issue: What degree of asymmetry is appropriate for the confluence of both social housing systems? Some aspects of maintaining both systems in the way they operated previously were already discussed. This idea can be abandoned for Germany. The question therefore is: Which way of transformation is the most desirable one? We may distinguish three types of transformation:

- (1) Adaptation;
- (2) Asymmetrical convergence;
- (3) Symmetrical convergence.

The next paragraphs discuss some essential aspects of each type.

### 3.3.1. Adaptation

---

The widespread belief exists that the East German housing system needs completely to be adapted to the West German system. The author argues that this approach is faulty as *both* systems contain crucial components needing improvement.

The diagrams farther down as to the current tendencies indicate that East Germany's housing system pursues the way of adaptation. Currently, there are no signs that drastic changes within the West German housing system might occur, although the diagrams for alternatives may provide some evidence for such a way.

Why adaptation, if there are apparently justified assumptions for a different way?

There are two essential points which influence the development and determine its direction:

- (1) The economic strength of either side;
- (2) The driving political forces.

What is the particular German situation? Comparing economic power, the side which sets the benchmarks is the West German economy. The East German contribution to the overall German G.D.P. will amount to about 8% in 1993.<sup>143</sup> Estimates as to the productivity indicate a ratio of about 1.0 to 0.5 between West and East Germany. The East German population share is about 20% of the whole of Germany. Referring the G.D.P. to capita, thus every East German produces 40% of her/his counterpart in the West. These numbers speak a clear language.

The upper and middle level positions within the federal and local governments, municipalities, and public authorities are largely occupied by individuals coming from West Germany. In general, this situation was not to be criticized since there was naturally a lack of experience with a market system across East Germans. However, the lack of experience with the political system to be changed compounded a fruitful synergy of East and West Germans. This problem clearly led to tremendous misunderstandings, mis-interpretations of decisions, and so forth. Mutual recognition can only be accomplished by fair and equal chances for every German—if the work and the result are the same, then the benefits have to be the same as well. Growing East German productivity may have an overall impact on the properties and direction of the confluence process, thus opening up the chances for substantial changes on *both* sides.

The liaison of economic and political forces drives the developmental process. The recognition of this fact is basic to understand what happens.

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<sup>143</sup>*Deutschland Nachrichten (German News)*, September 17, 1993, p.4.

### 3.3.2. Asymmetrical Convergence

---

The asymmetrical convergence describes the confluence process with a ratio of both changes unequal to 1:1 (refer to conceptual framework). That is, one system changes more than the other one does. The asymmetrical convergence is the proposed alternative to the current way. The degree of changes of the East German housing system is steeper, meaning that this system has to undergo substantial shifts in all categories applicable, while the degree of changes in the West German housing system ought to be less steep.

Why would this principle be more appropriate?

As laid out under the current situation in Germany's (social) housing system, both systems lack qualities for a more comprehensive coverage of decent housing. Of most important relevance for both systems are:

- (1) The social concepts (immigration, social integration);
- (2) The subsidy issue (proportions between consumer and production subsidies);
- (3) The rent system (affordability of rental housing for low and middle income groups);
- (4) The issue of supporting private home acquisition.

### 3.3.3. Symmetrical Convergence

---

Symmetrical convergence means that both systems equally contribute to the confluence process. As the diagrams suggest, this strategy is not relevant for East Germany under the circumstances given. The distortions and detriments of the East German housing system weigh more heavily than those of its western counterpart.

Symmetrical convergence requires similar economic capacities of both systems which are supposed to conjoin. They also presuppose that the problems in both systems are equally deep. This is not given in Germany.

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 4. Current Tendencies vs. Alternatives in Both Housing Systems
 

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With the diagrams below the *transformation* process shall be highlighted. The diagrams are meant to help understand qualitative tendencies of an overall process.

The setup may be congenial with a matrix and intriguing to be fed with numbers. However, the author dispenses with such an approach since weighing the categories drawn upon is a very subjective matter, hence questionable. Rather, the diagrams should support the arguments and point out the differences between *actual, current* tendencies and *proposed* alternatives.

The juxtaposition of these diagrams provides some meaningful information as to prospective developmental patterns. It should also help uncover the persisting ignorance of current German social work, inappropriate to prepare society for future needs.

The diagrams try to put things in relationship to each other. They also reflect the authors belief that structuring the social value system is prior to all other characteristics of society since those determine the path a society plans to pursue.

An exact time frame is not provided. However, it can be expected that the confluence of the systems will be consummated within one or two generations (20 to 40 years) as opposed to the originally suggested time span of 5 to 8 years. The point in time when the confluence of both systems may occur will vary from category to category. That implies that the diagrams are not normalized with respect to time. For instance, the social confluence might happen later, whereas the confluence of the technical categories can happen earlier. Therefore, a *direct* overlay of the diagrams is not possible. However, a general pattern at the end summarizes the overall tendencies.

One may further notice that under the column headed "Current Tendencies" the West German housing system is assumed to be linear and may therefore suggest that no changes happen at all. That would indeed be a wrong conclusion. *Linear* means here that shifts only occur within a certain margin, the *main* direction is linear and non-curved. The diagram (figure 40) depicts this pattern:

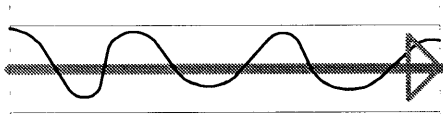


Figure 40. Ripple effect (Undulation)

The driving dynamics of the confluence process are counteracting social forces. The sum of these driving forces determines the degree of skewness (shape of the curves), i.e. the direction which society moves toward. Therefore it can be derived that recognizing the shape of the power structures of the dominating forces is important in designing and attuning the strategies for developmental directions.

(I) SOCIAL VALUE SYSTEM/OBJECTIVES

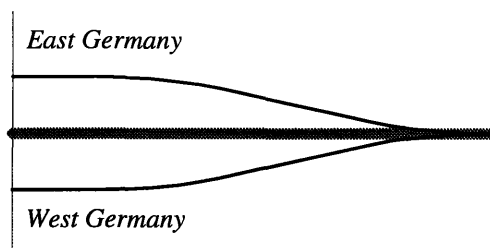
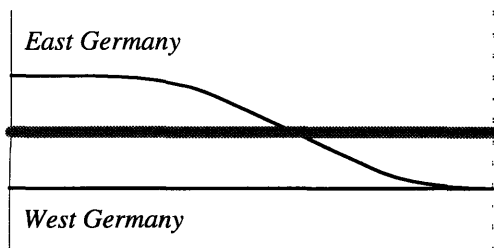
*Current Tendencies*

*Additional Changes and Alternatives*

(1) *Social concept*

- Social disintegration of the East German society as a whole as a result of lacking social strategies for housing.

- Rigorous concepts to retain social integration;
- Social integration of immigrants needs to be addressed in East Germany as society extends its economic capacity.



- No profound models for social integration of immigrants;
- Retention of social segregation between Germans and immigrants.

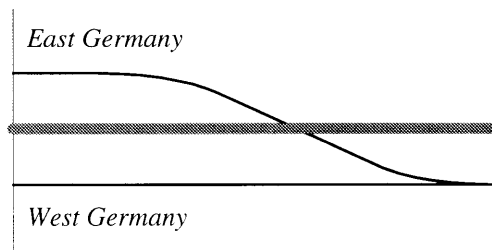
- Fostering of social flexibility;
- Social integration of immigrants.

*Current Tendencies*

*Additional Changes and Alternatives*

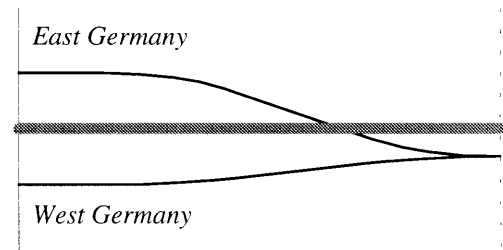
(2) *Subsidies*

- Adaptation to the West German system.



- No major changes of the current system.

- Production subsidies to foster modernization of historical housing stock and vitalization of suburbia;
- Consumer subsidies to warrant affordability of low and middle income housing;
- Improved concepts to incite and meet contemporary needs (new types of household formation).



- Production subsidies to support housing stock expansion;
- Consumer subsidies to warrant affordability of low-income housing;
- Improved concepts to incite and meet contemporary needs (new types of household formation).

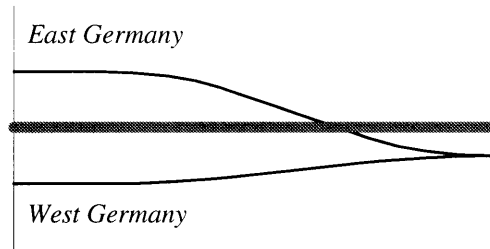
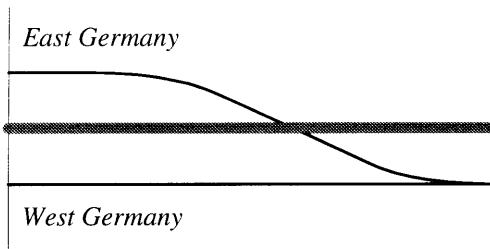
*Current Tendencies*

*Additional Changes and Alternatives*

(3) *Urban development*

- Dearth of strategies for suburban redevelopment leads to spatial segregation of population;
- Destruction of existing historical and cultural values and structures as a consequence of badly advocated authorities.

- Increasing emphasis on upgrading suburban structures;
- Rigorous support as to the retention of the historical city cores and settlement layouts;
- Containment of the proliferation of industrial and commercial parks.



- Devaluation of residential areas by commercial activities.

- Stronger emphasis on the synergy of public and private urban development.

(II) MARKET CATEGORIES

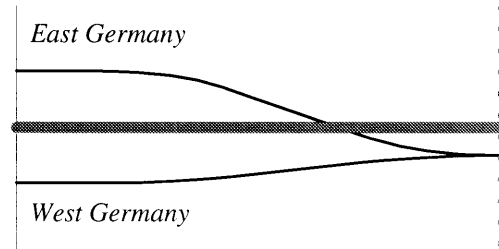
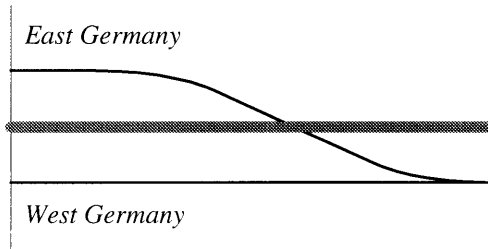
*Current Tendencies*

*Additional Changes and Alternatives*

(1) *Rent system (Acquisition of rented housing)*

- Rents are going to be raised to West German levels (affordability endangered);
- Rent/benefit ratio is in no relationship to the actual service quality.

- Rent control mechanisms similar to West Germany's development after 1945;
- Further rent increase only in accordance with rising incomes.



- Modest influence on rent quota regulations by public authorities (affordability).

- Social housing as means to keep rents for low-income groups on a moderate level;
- More drastic constraints on regional rent quota.



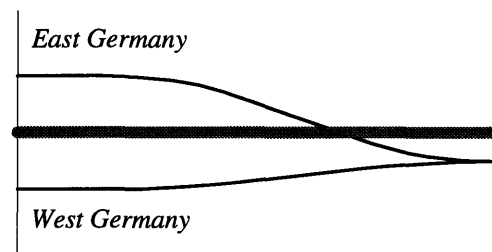
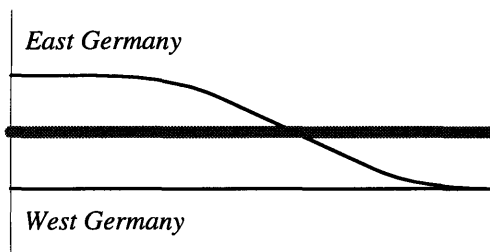
*Current Tendencies*

*Additional Changes and Alternatives*

(2) *Loan policy (acquisition of property)*

- Adaptation of the loan and financial models of West Germany which are not in concord with the financial capacity of the average East German household.

- Stronger subsidization of low interest rate loans;
- Reduction of savings rate in order to receive loans from thrift institutions (alternative investment models);
- Stronger focus on models for environmentally friendly building policy.



- Increasing costs of money (interest rates).

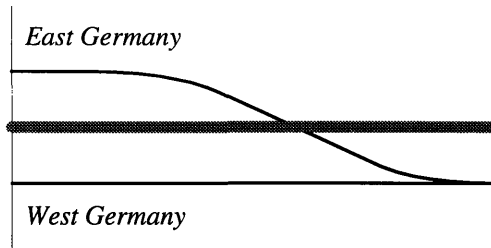
- Stronger focus on financial models for environmentally friendly building policy;
- Increase of ceiling for assisted private investment.

*Current Tendencies*

*Additional Changes and Alternatives*

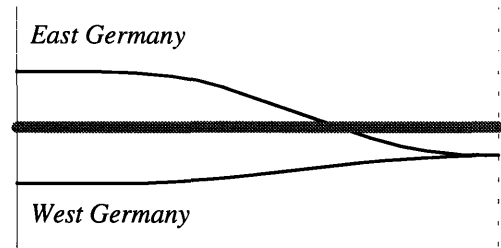
(3) *Property issue*

- People who are disadvantaged because of past property policy in East Germany do not receive the protectiveness required.



- Reunification treaty gives return of property priority

- Incentives for acquisition of property in suburban settlements (small cooperatives);
- Better protection for those who invested in good faith before 1990.



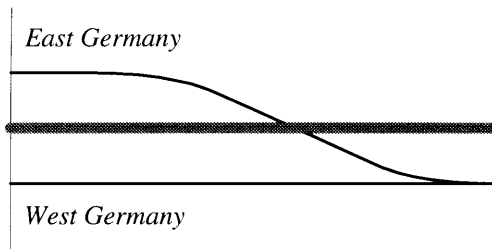
- Reimbursement or compensation for lost property in the East.

*Current Tendencies*

*Additional Changes and Alternatives*

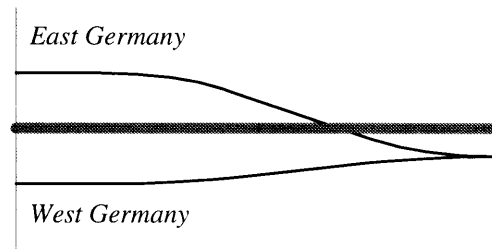
(4) *Privatization of public housing (stock flow)*

- Sell-off of higher quality public housing without sufficient compensation through new construction.



- Insufficient concepts for creating public housing stock.

- More comprehensive sell-off strategies for public housing (alternatives might be small cooperatives);
- Incentives for acquiring private property through supporting private initiatives for upgrading (bound financial support).



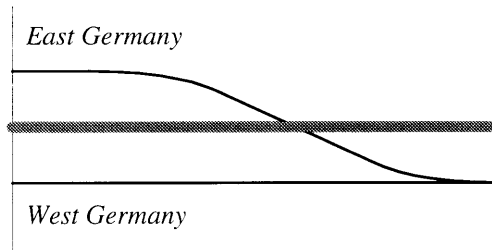
- Increase of share of public housing in order to achieve stock augmentation.

(III) TECHNICAL CATEGORIES

*Current Tendencies*

(1) *Technology*

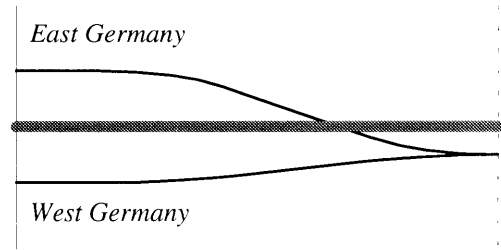
- Abrogation of obsolete building technology;
- Transition to small-scale production patterns;
- Energy preservation.



- Self-sustaining systems, energy preservation.

*Additional Changes and Alternatives*

- Experimental constructions based on new social ideas (mobility);
- Self-sustaining systems.



- Experimental constructions based on new social ideas (mobility).

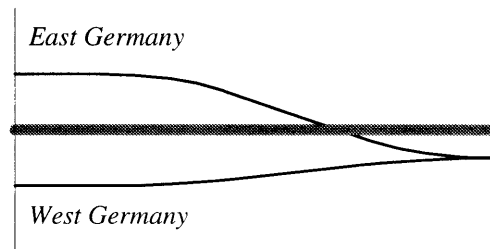
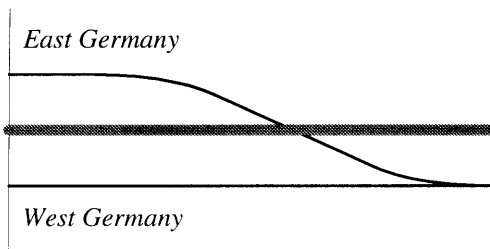
*Current Tendencies*

*Additional Changes and Alternatives*

(2) *Code requirements*

- Adaptation of code regulations for urban development and construction requirements.

- Higher degree of flexibility as to urban code requirements;
- Meticulous regulations for less important construction material applications need to be streamlined.



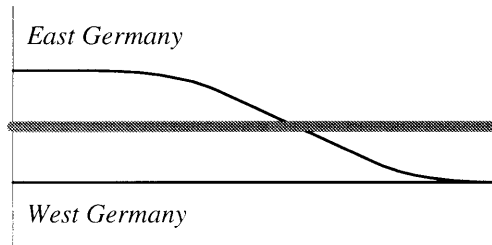
- Increase of standards at the expense of affordability.

- Streamlining of complicated and redundant paragraphs with regard to building codes (some paragraphs only consider market demands, F.A.R. is recklessly utilized).

An overall summary can be diagrammed as follows:

*Current Tendencies*

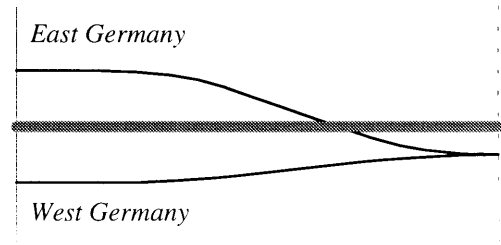
- Adaptation.
  - Rent system;
  - Restoration of historical housing stock in city cores;



- No substantial change.

*Additional Changes and Alternatives*

- Numerous changes:
  - Rent system;
  - Affordability of housing;
  - Broader palette of housing opportunities;
  - Vitalization of suburbia;
  - Restoration of historical housing stock in city cores;
  - Social integration immigrants.



- A number of changes:
  - Affordability of housing;
  - Incentives for social housing;
  - Social integration of immigrants.

### 5. East Germany's Way

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The way to conjoin the German housing systems should be asymmetrical convergence. In this process, *the human being ought to be the pivot of all considerations*. Working single-mindedly towards appropriate transformation strategies is the primary task of current housing policy on the small and large scale, respectively. The issues to be addressed are these:

(1) Retain rents at an affordable level:

The redesign of the rent system is probably the main key to transformation in the East German housing system. The introduction of the new rent system in 1991 revealed fears and anxieties across the East German population as a result of inexperienced community workers or misinterpretations of laws and ordinances. Mainly the middle age and young generation, that is, those people who only knew the bygone political system, need to deserve ongoing attention.

Currently the determination of rent increases is mainly measured against the cost/benefit ratio. For publicly assisted housing, the consideration of the lowest income brackets should be part of decision-making. Retaining the *25 to 30% rent ceiling* in relation to income for those groups is important as to social justice. This entails support concepts which are targeted at specific needs as opposed to across the board approaches.

(2) Streamline the property issue:

The second outstanding legislative key to transformation is the approach to the property issue. The property issue stands in close relationship to investment and housing provision. If Germany stays involved in small-minded property discussions, no creative work and tangible results will be achieved.

(3) Proportionate subsidies:

Maintaining the affordability of rents in publicly assisted housing is essential. That means, a considerable stock share (possibly 20 to 30%) should be aided by consumer subsidies (allowances) over an extended period. This will mainly encumber budgets on the regional and local level. However, the maintenance of this support pattern should have an overall favorable impact on the social balance in the long run.

Production subsidies in East Germany need to be targeted at *modernization* of historical housing stock and *vitalization* of suburbia. Stock augmentation is not the main emphasis as current data and demographic forecasts suggest.

(4) Fair mutual recognition:

Considering the first stages of transformation from a certain distance, the shift of a societal system is similar to a complete cut-through of all fibers of the social network that previously existed. New confidence builds up only gradually. Of decisive importance are well-functioning, newly organized community networks. The questionable behavior of numerous ambitious politicians promising swift adjustment to the social efficiency of West Germany, was based on the lack of knowledge and misled broad segments of the East German population, resulting in a loss of confidence. Germany of these days is still bipartite in the mind of people. The *regain of confidence* in the political decision-making process is therefore central.

(5) Support the locals:

Local authorities accomplished the task of preparing and elaborating developmental strategies for their communities (zoning ordinances and master plans, elaboration of developmental directions). These authorities have to function autonomously to a much higher degree than ever before. There is still a lack of experienced professionals and activists who know *both* sides of Germany sufficiently. *Very competent, and devoted professionals* of great integrity are needed for numerous positions in municipalities and public authorities. Over the past years this was neglected, because many things happened in a so-called self-run bureaucracy. The imposition of unfamiliar policy patterns without the proper integration of people contributed to a further rise of mistrust.

Local authorities will carry on the main burden of implementing transformation in public housing. Their support is central for success.

In addition, the support of *grassroots* in Germany poses a dilemma. The initiators and activists of the East German departure were those people. However, they do not receive the deserved recognition. But they are the ones who could be able to propel the development of modern housing concepts. Supporting them would be beneficial for society as a whole.

(6) Define the needy:

Because of a increasing population segregation, particular attention should be devoted to marginal groups, fragile, disabled, and senior citizens. The suburban structures are in particular prone to segregation. Segregation particularly affects those marginal groups.



We also need to deal with the fact that Germany is becoming a multi-cultural country, perhaps much like the U.S. This demographic development has not been addressed yet by current German policy. The mingling of different ethnic groups will definitely have an enormous impact on German urban development, including housing.

(7) Impede stock drain-out:

The filtering-out of higher quality housing in public stock needs to be confined to a minimum. Depletion of public housing will lead to social hardship. Concepts which concurrently guarantee the *refill* of public stock with qualitative housing are required. They are essential to maintain a sound housing stock.

(8) Foster competition:

Competition is to be gained by a *blended market* in housing. Private and public housing production are the basis for successful long term housing. The scheme should be that the public sector creates housing on an affordable level, thus also pushing prices down in the private sector.

A whole set of medium-sized or small scale (but not short-sighted) policy guidelines needs to be designed, addressing different issues in different communities. A stable core of far-reaching decisions (rent increase in accord with income growth, safeguarding low-income rental stock) should carefully be devised, thus setting the benchmarks for sustainable future concepts.

## 6. Program Design

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Program design is a crucial issue, too. The purposeful design of programs chiefly contributes to the success or failure of transition and transformation. The elaboration of the right strategies is an ongoing, non-static process. It involves the frequent re-examination of objectives in the light of results. Good housing systems are therefore those which cope with ongoing social changes. Stability and continuity are cores of effective programs.

### 6.1. Generics of Program Design

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A central issue is scalability of programs. German housing policy in the East and West has proven that large-scale programs only work in stimulating *quantitative* stock augmentation.<sup>144</sup> As soon as housing stock reaches a quantitative saturation, a program shift away from large-scale types is inevitable. The failure of the East German Housing Program is an excellent proof. Large-scale programs in general entail the commitment of governments to become involved in housing affairs on an extended basis. If and only if quantitative stock deficiencies need to be surmounted, heavy governmental involvement is a justifiable necessity. This is indeed the case in most of the Eastern European countries, meaning that the governments should try to become more actively involved in housing.

*Qualitative* improvement cannot be accomplished by large scale-program types. The reason is that in this case we have to deal with existing housing stock. Rehabilitation and upgrading varies literally from unit to unit. That is, a cross-sectional approach is less appropriate to obtain qualitative progress in housing. Small-scale, individually tailored programs are a legitimate means to tackle those issues. The consequence for administrations is that these programs need to be settled on the local level (local governments and communal administrations). Those authorities are closer to the people. The establishment of well-working relationships between both partners is essential for success. It further implies the necessity of strengthening the power scope of local authorities. This has a trenchant significance for prospective housing policy patterns. The so-called informal way of doing things has still a somewhat bad connotation, namely incompleteness and inferior quality. Re-contemplating informal approaches as a legitimate alternative seems very much required these days.

### 6.2. Proposition for Program Types

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Considering the overall German housing landscape, a number of the deficiencies stressed above, could be addressed by a hierarchical and yet open system of programs, more vigorously pursued by public endeavors. Two main strategies for program types should be considered which lead to quantitative and qualitative improvement of housing. A general classification is outlined in the following:

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<sup>144</sup>The First and Second Housing Act, 1950 and 1956, respectively in the F.R.G. and the Housing Construction Program of the G.D.R.(1971 to 1990).

(1) Quantitative coverage of *basic* needs:

## Target groups:

- These programs aim at low-income groups which are mainly immigrating individuals (according to current and prospective tendencies of the social reconfiguration process in Eastern Europe, North African and Asian countries) and domestic needy.

## Assumptions:

- It is assumed that those people do not have the required financial resources to purchase their own home, but do have a vested right for a decent life.
- It is further assumed that the private sector is not willing and capable of providing the additional housing stock required. An inquiry into (German) housing history and market mechanisms suggests as much.

## Objectives for housing stock:

- Private and public stock *augmentation* and the *replenishment* of public stock is the major goal. Housing production should be implemented as a variety of small-scale projects, integrated into the overall urban fabric by supplementation or replacement.

## Policy patterns:

- The affordability of housing for lower-income groups dominates these program types. This entails substantial subsidization which should operate primarily on the production side.

## Logistics:

- The public sector plays the role of a motor. There is nobody else who will devote himself to this task.
- The programs may vary in comprehensiveness and duration due to the requirements of regions.
- Hierarchical responsibility should begin on the state level. Federal involvement may occur as to the allocation of federal financial means and quota regulations. The determination and physical implementation is to be left to the states (Laender) and regions.

## (2) Qualitative-oriented programs which work at the cutting edge of our socio-economic understanding of society:

## Target groups:

- These programs address the needs for qualitative improved housing, particularly desired by middle-income groups and professionals.

## Assumption:

- The programs are conceived of pilot projects to explore potential ways and directions of future development in housing.
- It is assumed that these programs require additional financial expenditures because of their experimental character.

## Objectives for housing stock:

- The enrichment of housing stock through the provision of a broader variety of opportunities for living (shared housing, small, voluntary cooperatives, etc.) would enhance the spectrum on the market.

## Policy patterns:

- Breaking the sluggishness and rigidity of large administrations is a major goal. Turning the attention to creative and initiative-rich people is central here. These programs should also fill a current vacuum with regard to risk-taking future projects. Housing policy needs to conquer new turf.

## Logistics:

- The developmental directions should be defined on the federal level. However, no physical involvement should be settled on this level.
- The creation of incentives for the private sector may be a promising strategy since leading edge problem-solving requires a substantial measure of individual ingenuity.

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After several years of continuing changes, some first conclusions and propositions with regard to the future of housing transformation in (East) Germany and other countries can be drawn. Although the German development was largely determined by its particular bipartite state structure, disregarding the German results would deprive us of a worthwhile spring of experience.

### 1. Correlation Between Economic Development and Housing Opportunities

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Changes in housing require patience and clear-cut concepts. Because of the permanence of the *housing problem*,<sup>145</sup> decisions tend to be made on a short-term and pragmatic basis. This is justifiable as long as it leads to sufficient improvements in housing stock.

Long-term approaches generally work better as to continuity and smoothness of development. However, the disadvantage is that very often a substantial amount of time elapses before first results are tangible. Also, long-term programs exhibit a tendency of comprehensiveness and complexity. Once they become an instrument of bureaucracy, most of the positive effects are paralyzed. The Housing Program of the G.D.R. is an outstanding paradigm of the inappropriateness of large-scale programs managed by a *centralized* government. A generally better way is the determination of the frame conditions for major goals by the government. The *direct* encroachment of the government on the specifics of a development is questionable. The implementation of objectives should be obtained by a variety of *small-scale programs* which could be thought of as an array of different measures, each having a specific objective. This approach corresponds better with the multifariousness of the forces which drive the free-market.

The East German transition period was characterized by a proliferation of zoning and master plan activities which, on the one hand, were borne by communal concerns so as to paraphrase the future and developmental opportunities of them. On the other hand, there was overshooting, meaning that numerous communities simply overestimated their economic potential, thereby devising unrealistic plans.

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<sup>145</sup>Edit Elmer Wood describes the housing problems as follows:

The housing problem is the problem of enabling the great mass of people who want to live in decent surroundings and bring up their children under proper conditions to have such opportunities. It is also to a very large extent, the problem of preventing other people who do not care for decent conditions or are unable to achieve them from maintaining conditions, which are a menace to their neighbors, to the community and to civilization. [Wood, E. E. 1919. *The Housing of Unskilled Wage Earners*. New York: Macmillan.]

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Particularly in 1990/1991 financial means flowed into this kind of planning, having had a minimal effect on tangible progress. The traditional approach of pumping large amounts of money into planning organizations did not provide the results desired.<sup>146</sup> Setting just the cornerstones could be an answer.

Based on economic prosperity of the late 1980s, there was a lot of optimism grounded on West Germany's economic potential that the East German transition and transformation process would be accomplished within several years (5, 10 at most) and could almost be done on the fly.

Despite the economic strength of Germany, this goal has not been accomplished. There is indeed a relationship between economic strength and developmental opportunities. However, this advantage cannot be utilized properly when clear social objectives are lacking. The careful incorporation of societal changes in programs has an enormous impact on their effectiveness. Neglecting this relationship leads to higher costs in the long run. This is a lesson we can learn from the East German case.

East Germany also takes on an avantgarde role in paving the way for other European countries under similar conditions. A number of conclusions are legitimate:

Under the economic circumstances Eastern European countries face, economic austerity will be dominant. This entails that limited opportunities may prolong the transformation process of those countries. Careful weighing the steps which need to be carried out first is essential. It also follows that a piecemeal and cautious approach is more appropriate in tackling difficulties as opposed to those driven by current constraints. Diminishing housing shortage and privatizing housing require long-range thinking in terms of financing *and* social changes. The proper structuring of the financial aspect plays an important role. It is not only a matter of economic wealth, rather it is a matter of social prudence. The current Russian development is the best proof of this thesis. It is simply intolerable depriving the people of all essentials of the previous system regardless of their usefulness, without having any reasonably well-functioning surrogate in place.

The chance of acquiring private housing is aggravated by an unfavorable ratio of income/home price in Eastern European countries even more than it is in East Germany. The set-up of a well-functioning banking system and general infrastructure are prerequisites for an effective housing market. Struyk and Telgarsky see these directions:

- (1) Privatization of the state rental stock by protecting the poorest. This entails well-designed and *targeted* housing allowances programs.

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<sup>146</sup>Robert L. Woodson states:

We need to rethink the traditional approach to service delivery—of giving large sums of money to professional service institutions. Countless studies have documented that, in times of crises, people turn first to friends, relatives, neighborhood churches and organizations—in sum, indigenous resources. It is generally only when all else fails that people go to professional service providers and outside agents for help. [Lipsitz, M. ed. 1986. *Revitalizing our Cities— New Approaches to Solving Urban Problems*. Washington: The Fund for an American Renaissance and The National Center for Neighborhood Enterprise. p.xx.]

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(2) The housing finance system will have to be able to provide financing at market rates to facilitate the purchase of units.

(3) The management of properties must be changed.<sup>147</sup>

Again, these ideas are well intended; however, the prerequisite for a housing market are *people* who are able to buy homes or properties. If they are not there or the number is negligibly small, the whole system does not work. Concepts should be established on a rather informal basis, supporting small-scale projects and augment housing stock.

It seems to be somehow a vicious circle, but the only way out is economic upswing, only reachable by long-term concepts.

### 2. Applicability of the German Case for Other Countries Under Transformation

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The German 'case' reveals a number of results also of interest for other countries under transformation:

(A) Design of a transition *and* transformation phase:

Changes in housing require phasing the process. The distinction between a transition and a transformation period may help clarify the position a country is in at a given moment in time. Transition precedes transformation.

The **transition** period is characterized by societal break-ups and ambiguities which accompany turnovers. During this phase an inventory of existing stock should be carried out. Making an inventory of the conditions of existing stock helps determine the most urgent problems and is prerequisite for all subsequent measures. The German experience shows that this ground work can be done within two to three years.

The transition period also revealed that excessive planning work is inefficient. In particular, smaller settlements tend to overstate their potential since the natural desire of doing everything at once and thoroughly exists. Ultimately this approach is accompanied with too high expenditures for

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<sup>147</sup>Telgarsky, J.P. and Struyk, R.J. 1990. *Toward a Market— Oriented Housing Sector in Eastern Europe*. Washington, D.C.: The Urban Institute. p.238—239.



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this kind of planning work. Therefore, smaller towns and villages need careful professional advice on both developmental opportunities *and* the feasibility of plans and programs.

Especially Eastern European countries with tight budget lines may need a somewhat streamlined preparation work. Streamlined preparation does not mean carelessness, rather it means a thoughtful stratification of priorities. Large authorities often exhibit the tendency of providing huge concepts based on questionable and formal assumptions. Also, professional planning agencies coming in from market-driven societies tend to charge high prices for their activities. Thus, a lot of money is oftentimes consumed before anything practical happens at all.

There was a lot of enthusiasm in East Germany and benevolent observation in West Germany during the first months of transition. Many concerned people believed that this point in time would be a great opportunity in attacking or solving all the accumulated problems of the past. This belief turned out being rather naive. The persistence of intricate problems made people lose interest in tackling them. Therefore, the explanation that things in housing need time is very essential to maintain the trust, interest, and initiative of people.

Another dominant goal should be keeping the transition period as short as possible in order to confine societal aberrations. Very important too, in the course of the transition period, is that the preparations for all long-term activities should be met:

- Formation of the political structure;
- The introduction of a banking system, capable of operating under transitional *and* market conditions (Traditional financing concepts do not work in these countries. The ratio of income/home sale price is the most dominant factor upon which credit conditions should be determined.);
- Preparatory work for a well-functioning infrastructure and communication system;
- Acquainting the people with the advantages and disadvantages of the market system;
- Identifying the needy and—most important—the percentage (at least the magnitude) of those who will have to rely on public social support (allowances). This decisively determines the scope of the task *and* the margin for socio-economic options a government may have or may not have. That is, the comparison between reality and ideal goals provides the framework for decision-making and feasibility.

The **transformation** phase should usher in a period of long-term work. The disentanglement of complicated administrative structures might be the dominant goal of the next years. The sluggishness of large authorities clearly impedes the progress in the public sector. In East Germany, by and large,

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one bureaucratic apparatus just took turns with another one. If transformation of administrations in housing could be accompanied with streamlining of stewardship, the productivity of the whole public housing sector should increase substantially.

The re-examination of subsidies is a prime issue of governmental policy. The reduction of cross-cut subsidies is essential in order to reduce budget expenses. The second aspect is the re-channeling of subsidy flows. There are three facets of prior significance:

- (1) The *proportions* between consumer and production subsidies need careful reconsideration. In most of the cases, only the lowest income brackets may realistically become supported. This is due in particular to the small budgets of governments which can serve only a very limited number of individuals.
- (2) *Consumer* subsidies need to be targeted at a explicitly defined population segment. The determination of who is included and who not, is regionally dependent. It can be inferred that, despite channeling consumer subsidies in housing, this subsidy form also contributes to the subsidization of other commodities.<sup>148</sup> In addition, a precise and clear singling-out of the real needy is almost impossible. Thus, consumer subsidies may not always be effective despite well-meant intentions.
- (3) *Production* subsidies ought to receive higher priority again, since the preponderant goal of current medium-term housing policy (next ten years) is stock augmentation or/and restoration in Eastern European countries. This requires market strategies working for both the private and the public sector equally well. The emphasis of the public sector should shift toward small-scale projects, manageable in administrative and social terms. Rehabilitation ought to support in particular social integration or at least prevent disintegration. Segregation as currently seen in East Germany and Eastern European countries will have an adverse social impact on the future of society. Problems risen from this trend are hard to reverse and will be laid at our feet in 10 or 20 years.

(B) The length of the phases may vary from country to country, from region to region:

There will be no unique pattern as to the time span required for accomplishing the major goals. It can already be seen in East Germany that even regional differences determine the duration of a particular process. The five New States in East Germany have distinct economic capacities which impact housing development with regard to needs, supply and demand patterns. In addition, cultural

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<sup>148</sup>Vliet, W.v. ed. 1987. *Housing Markets and Policies under Fiscal Austerity*. New York, Westport, London: Greenwood Press. p.184—185.

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differences indeed influence housing. For instance, social bindings have an impact on the mobility of people. They also vary regionally in East Germany (north-south difference).

(C) The range of changes is between retention and adaptation:

The task is the change toward a market-driven economy away from a socialist system. The previous chapter showed that the theoretical range of changes has its antipodes in retaining and adapting. Retaining seems to be a rather theoretical concept as it ultimately implies the maintenance of the previous status quo (centralized planned economy). It could be an alternative insofar that the ownership structure of essential parts of public housing stock needs to be maintained over a longer period since this share predominantly consists of prefab housing blocks which are hard to sell. In addition, publicly held housing stock constitutes the majority of all housing in Eastern European countries.

The *most probable* range of change should be assumed between *adaptation and asymmetrical convergence*. The pure take-over of the traditional model of western-style market concepts falls short in providing sufficient opportunities for reversing centralized structures. It further contains the peril that countries may fall back into phases of early capitalism. Thus, certain tendencies of Manchester-type capitalism were visible in East Germany in 1990/1991 due to lacking competition and dismantling-style policy patterns of the administrations and large West German companies. This phenomenon is now decreasing since political forces begin to balance themselves and actual competition takes ground. However, tendencies of early capitalism are indeed recognizable in Eastern European countries due to the lack of historical experience in handling advanced capitalistic structures, thus leading to deformations and distortions of market principles.

*Asymmetrical convergence* could be the way where the optimum or the best compromise is gained. The rationale behind this thesis is, that repeating the traditional establishment of the existing market economies is questionable since those came about under different socio-economic circumstances (gradually arising from progress in capitalist society). Rather, we need to deal with issues where a centralized, socialist system of society shifts toward a market system—a way never explored before. We cannot forget the fact that in most of these countries a public housing stock of 50 percent or even more exists. Changes in this sector are not just done by goodwill or commitment to market principles. They need ingenuity and ideas, feasible and realistic. The margin for these ideas is country-specific.

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### (D) The particularities of Germany:

There are particularities inherent in each country. Thus, the main distinctions between East Germany and other changing countries are these:

In Germany:

- (1) The conflict is country-*internal*. Two different housing systems need to be converged in *one* country. Therefore the basis of comparing two systems is internal.
- (2) The changes in East Germany are supported by intra-country financial transfers. (West) Germany's economic strength gives the East German transformation process a wider margin, which other countries do not have.
- (3) East Germany's social history prior to 1945 is based on the experience of a well-articulated capitalist society. Industrial potential, labor force, experience in dealing with the social problems of such a system, and the corresponding built environment of that time are still to be found in this part of Germany—a basis upon which is built on now.

In other countries:

- (1) The conflict is country-*external*, i.e. the transforming country needs to compare itself with an established market-driven country. In other words, the different systems do not touch each other directly. Rather, an element of self-containment exists whereas in East Germany we have the permanent, unvarnished exposure and clash of previously different approaches in trying to solve housing problems. There is no escape in timing and putting-off accumulated problems in Germany because of this permanent exposure. These are very important dynamics, driving a developmental process.
- (2) The financial support of Eastern European countries is a central issue. The World Bank, the I.M.F.,<sup>149</sup> and other financial institutions are not able to comprehensively assist those countries. The East German experience shows that financial resources are required which by far exceed the capacity of these institutions.<sup>150</sup>

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<sup>149</sup>I.M.F.= International Monetary Fund.

<sup>150</sup>The East German transformation process is estimated to cost about DM1,000 billions until the year 2000. By contrast, East Germany's population size is about one tenth of Russia's population. This elucidates the magnitude of the resources required.

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### 3. Private Market vs. Governmental Intervention

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History has proven that the private market is unable to solve housing problems comprehensively. (All-encompassing solution may not exist at all regardless which way one pursues.) This argument is further supported by the more recent development in industrialized countries such as Canada, and the U.K. where the ongoing privatization of housing stock led to the re-emergence of problems in the 1990s which were assumed to be settled previously. It also became evident that the return to a revised housing policy which assists public housing on an extended scale is complicated.

Germany's public housing development is a good proof of the thesis that there is a correlation between recession and public housing supply. The undulating pattern of German social housing indicates that the peak of public housing supply was always reached after a recession or a period of social standstill.

Therefore, the insufficient supply capacity of the private housing market leads to the compelling assumption that this market sector needs a *permanent* supplement—the public housing sector. Both submarkets should be conceived as a dovetailed entity. This model implies two facets: first, both market segments deserve equal treatment regardless of the percentage they contribute to housing at any given time. Second, because of the permanence of the housing issue, a share of public housing is justifiable for the future since it addresses the most urgent needs of low-income groups which are going to exist for an extended period of time.

#### 3.1. General Assumptions for a Prospective Housing Market

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The dominant model for housing in a market-driven economy should be a *blended market*<sup>151</sup> which features the following criteria:

- (1) The overall housing market is characterized by the coexistence of public and private submarkets. Thereby each sector aims at distinct population segments. The primary goal of the public submarket

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<sup>151</sup>Pugh, C. 1980. *Housing in Capitalist Societies*. Westmead, Farnborough, Hampshire: Gower Publishing Company. p.14.

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- is the decent accommodation of low-income groups, while the private market targets at middle and high-income groups. This fact has an important impact on the housing stock flow as we saw before.
- (2) We should further recognize the changing role of the public and private market. Current and prospective societal needs indicate that the initial pure separation of both markets does not seem a sustainable concept. Elements of one sector may penetrate the other, thus instead of acting against each other, supplementing each other.

The dovetailed structure of the overall housing market is depicted in the diagram (figure 41). The scheme is largely simplified in order to better reflect the main principle.

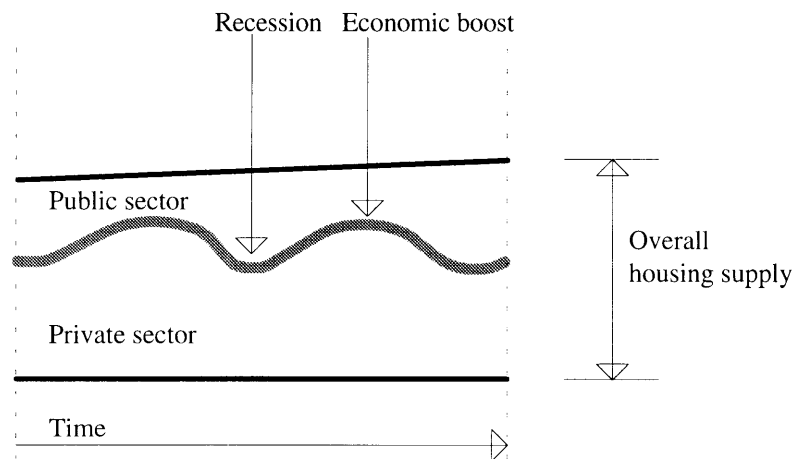


Figure 41. Principle of a blended housing market

In order to prove why the model of a blended market is favorable, three scenarios shall be investigated.

What are the general assumptions?

The private housing sector is subject to market principles. That means, the private housing production *cycles*, depending upon the economic conditions of a country or region. If the public housing sector did not exist, the result would be an unfavorable up and down of supply. Demand<sup>152</sup> on the other

<sup>152</sup>We need to distinguish between actual, existing demand which cycles and theoretically existing demand which is rather stable. To make this point clear, the author refers to theoretical demand here. It reflects the real needs of people freed from artificial constraints given by the economic constitution of a household. In other words, the suppressed portion of demand can be denoted as hidden. A further assumption is that no sudden changes in the population make-up or other unexpected events occur. Then we can infer that demand is stable or changes rather slowly.

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hand is a rather *constant, stable* size if *hidden* demand becomes incorporated in our consideration. One could also say, hidden demand is suppressed actual demand.

The three scenarios for such a housing market are:

- (1) A market without public housing;
- (2) A market with a constant share of public housing;
- (3) A market with a variable share of public housing.

*Scenario 1: A market without public housing.*

Scenario 1 (figure 42) elucidates that a market without the supplement of public housing is at least capable of meeting demand. It can be anticipated that under those conditions, particularly at recession times, substantial housing shortage occurs. The impact is that households will artificially suppress their real needs, thus ostensibly diminishing demand. This scenario also entails an unstable element in fulfilling social needs. An increasing supply shortage may occur over time caused by the delay phenomenon inherent in housing delivery, each time after leaving a recession. Past development has proven that at least one or two years lapse before housing production takes ground again due to the required preceding planning phase. This pattern is of particular importance to Germany where typically up to two years pass before a building permit is approved.

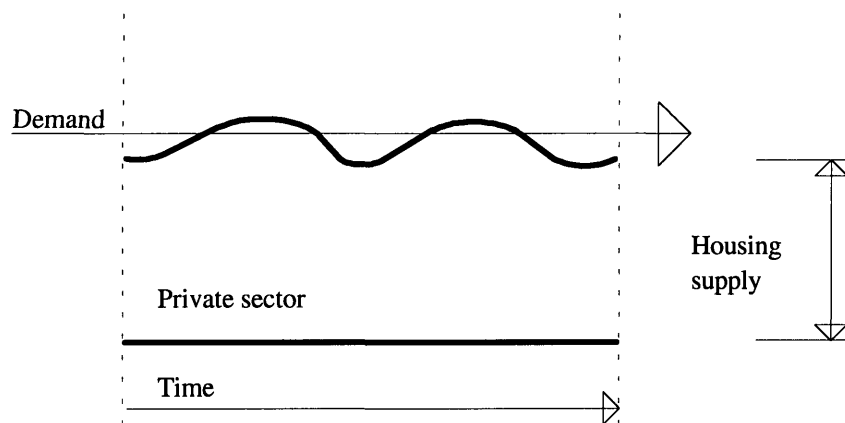


Figure 42. Market without public housing

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*Scenario 2: A market with a constant share of public housing.*

In scenario 2 (figure 43), public housing exists in the form of a constant share, a preferred model of public authorities. A constant or stable share of public housing is relatively easy to manage, since the sizes influencing the production are better to anticipate and plan. This production form is mainly tailored to invariably large authorities sluggish to rapid shifts.

The result, as indicated by the diagram, is an oversupply, particularly during periods of economic prosperity. That is, in *these* periods the effectiveness of public housing becomes a major concern of society. The practical examples were provided by some industrialized countries in the late 1980s as mentioned above.

The economic consequences are additional financial expenditures mainly borne by the public in supporting and maintaining this partially ineffective structure of public housing in periods of oversupply.

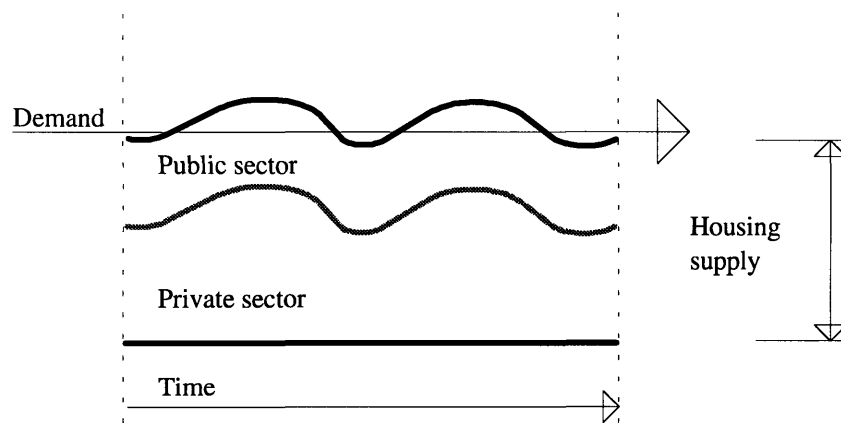


Figure 43. Market with a constant share of public housing

*Scenario 3: A market with a variable share of public housing.*

Scenario 3 (figure 44) also involves public housing, however, suggesting that the public share varies, depending upon the concrete economic conditions. What are the impacts? In economic terms it contains the contradiction that in recession times public housing needs to be augmented. Thus, what justifies maintaining this contradiction? The rationale behind this is:

- Public housing fills the gap which exists between overall demand and private housing supply, thus straightening and adjusting the supply curve in recession periods.
- Private housing construction should be incited by the increase of public housing supply (prospect of generating revenues for the private sector).



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By virtue of its purpose, *public* housing cannot be strictly determined by market laws. In sheer economic terms, increasing public housing during recessions seems to be imprudent. However, if we also incorporate the social purpose of housing in our consideration, then this concept starts making sense, as the fact that shelter is permanently needed independently of any economic cycle.

The author further argues that the evaluation of the usefulness of public housing according to strict market law is not meaningful and relevant.<sup>153</sup> I do not imply that public housing necessarily needs to be inefficient in mere production terms. The big challenge for the future is to make publicly assisted housing a competitive contributor to housing in economic respect.

It is unproductive considering only cycle patterns of a market system as one single aspect of a larger picture, since housing needs to be incited and accelerated during recessions. The decision to be made is setting the appropriate priorities. If we want overall prosperity and decent living conditions for *all* individuals of society, then we need public housing as it primarily aims at low-income groups. If this is not prime, we can dispense with public housing.

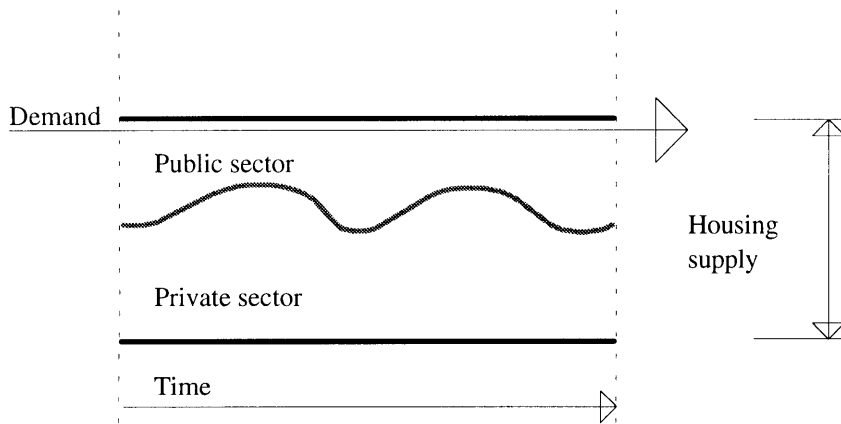


Figure 44. Market with a variable share of public housing

*The author bases the further considerations on scenario 3.* In the next section a few strategies are elaborate, useful for implementing a blended market system.

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<sup>153</sup>There is indeed a kind of a scapegoat function in public housing, meaning that higher and middle income people doubt the usefulness of this housing type. However, society consists of *all* income groups and needs to take care of *all* its members. This social goal can never be achieved by applying sheer economic terms.

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### 3.2. Governmental Interventions as Regulative

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The following explains why to deal with governmental interventions. Public housing is mainly propelled by governmental and communal activities. Then the issue is: What are appropriate ways to further the effectiveness of this housing supply form. Since society in general changes and the transformation of current East Germany is only a fragment of the same, we need some meaningful general strategies:

- (1) The history of housing policy has shown that at times of political turnovers and economic recessions, governmental intervention in housing is an appropriate means to mitigate and partially overcome accumulated housing problems. There is a clear tendency that in difficult economic times the private sector is not capable of solving the problems of accumulating housing shortage. Therefore, governmental involvement should endure.<sup>154 155</sup>

The legitimacy of public housing can neatly be proven by the German housing market development after W.W.I, during the Great Depression, and after W.W.II. In all three periods, public housing substantially contributed to stock augmentation and was characterized by social commitment (as discussed above). Indicators are the percentage of public housing and the ratio of units built per 1,000 persons. For instance, West Germany had built by far the most housing units compared to other European countries during the 1950s.

The current economic and societal situation suggests that the *whole* of Germany currently passes through a similar cycle as happened three time before. Therefore, *a mandate exists to deal with public housing on an extended basis anew*. Public housing policy has two major goals:

- Accelerating public housing production<sup>156</sup> during economic hardship;
- Providing incentives for private housing production.

- (2) At first glance, it seems contradictory to argue in favor of an increasing public housing share, while in East Germany the reduction of publicly held housing stock is one major issue. The answer is: East Germany's public housing *system* is characterized by a diametrical situation. On the one hand, the reduction of excessive public housing *stock* is required. On the other hand, public housing *production* needs badly to be incited.

How can this dichotomy be solved?

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<sup>154</sup>Pugh, C. 1980. *Housing in Capitalist Societies*. Westmead, Farnborough, Hampshire: Gower Publishing Company. p.215.

<sup>155</sup>Vliet, W.v. ed. 1987. *Housing Markets and Policies under Fiscal Austerity*. New York, Westport, London: Greenwood Press. p.62.

<sup>156</sup>Production means new construction, restoration, and upkeep. It refers to the proper design and maintenance of the balance of stock flow patterns, discussed in Chapter II.

## CHAPTER V    Generalizations of the German Case—International Aspects

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The sell-off of state-owned housing stock in East Germany is more difficult than initially assumed. A promising concept could be the sell-off of housing units which embody market value, provided the stock proportions are appropriately maintained. That is, the revenues should *mainly* be used for upgrading dilapidated public housing stock and *partially* for new construction. Additional public monies will be necessary to further spur rehabilitation of historical core structures *and* suburbia. Both need to be treated equally. The current emphasis is predominantly on retaining and modernizing the historical fabric of settlements. However, if we do not deal with the presently condemned suburbia, solving this problem during ensuing years will be enormously expensive in both economic and social terms. Therefore, the consideration of physical stock problems needs to be extended to upgrading and vitalizing of prefabricated suburban structures.

*Prioritizing and stratifying the problems can only be done by the local governments and communities.* For instance, the determination of the exact proportions between diminishing public housing stock, upkeep, upgrading, and new construction can vary widely, depending upon a neighborhood, community, or region.

- (3) Revealed by analyzing past policy patterns, the incentives established by the government(s) had an enormous impact on housing in general. That is, the 'self-regulating' forces of economy were indeed incited by political measures.<sup>157</sup>

*Mobilizing, utilizing, and involving private initiatives and forces is a public task.* Private activities for housing production should be fostered by financial incentives (tax relief, favorable depreciation rates, subsidizing low interest rates for market loans). In particular, statutory regulations should be established that lower downpayments and lift the financial ceiling for assisted private housing investment.

- (4) Based on the experience with free market economies and the particularities of housing, governmental involvement in housing on the basis of an equal competitor to the market forces should help keep housing prices affordable, provided there is no profit interest of the public investor. Public housing policy should be designed in a way pushing prices downward. That means lean production. *Subcontracting private planning and construction firms, while holding on the overall responsibility for the goals could be a legitimate way. The disentanglement and leaning of public authorities would contribute a good deal to confine planning and production costs for social housing, simultaneously making the public sector economically competitive.*

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<sup>157</sup>Pugh, C. 1980. *Housing in Capitalist Societies*. Westmead, Farnborough, Hampshire: Gower Publishing Company. p.178.

### 4. Tendencies for a Prospective Housing System

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A housing system consists of the *housing market* and *housing policy* which shapes and influences the market. Both interact with and depend upon each other.

(A) The housing market is conceived of a blended market—a market forming a *partnership* between the private and public housing sector which complement each other as opposed to work against each other. Both have their justification in this system. The public housing sector mainly serves lower-income brackets, whilst the private sector aims more at middle and upper income groups. The housing market inextricably depends upon economic conditions. During recessions the general affordability of excessive housing *decreases*, having the effect that the demand for less excessive (moderate-scale) housing *increases*. The demand increase for moderate housing is a consequence of tightened budget constraints of households. A detailed explanation of this mechanism is not the subject of this work; it can therefore be marginally mentioned.

(B) Housing policy makes up the frame and designs the rules for how housing happens. Naturally the impact of housing *policy* on the public sector might be stronger compared to the private sector; however, this depends upon country-specific economic patterns.<sup>158</sup>

In Germany the quest for decent housing solutions was always driven by public housing. This fact is internationally recognized.<sup>159</sup> The springs of this development must not dry out. Current German housing policy should be very aware of this tradition. Therefore, the author had drawn upon a number of historical results in order to support the argument. Reshaping and revitalizing the devotedness and power inherent in progressive social forces which are the roots for success is vital with respect to the whole of society.

Housing policy should be designed to foster the blended market. The patterns described above also indicate the vulnerability of a housing system, i.e. housing in general is subject to permanent changes caused by supply and demand. The East German transformation process is just a tessera of a larger process, nothing more. Contemporary housing policy badly needs a higher degree of flexibility. The specific task of Germany's housing policy is the disentanglement of bureaucratic authorities. In East Germany, this needs to be accompanied by a piecemeal reduction of public housing stock.

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<sup>158</sup>In the U.S. the private housing sector is the dominant size in the market, similarly in Australia. The Netherlands, Finland, and Germany, for instance, have a stronger public sector.

<sup>159</sup>Catherine Bauer describes the pioneer role of German social housing already 1934 in her well-known book 'Modern Housing.'

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Public housing policy has to reach a higher degree of efficacy. It cannot, however, gain the effectiveness of the private sector since by virtue of its nature it serves a different purpose (general acceleration function during economic hardship). But, the public sector can become more competitive in its own sense. For instance, by showing and proving through projects that the provision of decent housing is possible at low costs, thus guaranteeing affordability. By utilizing elements of the private sector for the production process, a higher degree of physical effectiveness should be reachable. The non-physical (organization and management) improvement of effectiveness is, however, an affair of the public and can only be done by the public.

Public housing policy needs to receive a revamped and unbiased recognition. This may only be achieved by concepts and projects which gain the confidence and recognition of people and thus prove the viability of public housing. Wordy statements will not succeed, but deeds will.

### 4.1.    Generic Incentives for Low-Income Housing in Free Market Economies

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Aiding low-income housing is not accomplished by well-meant statements. Rather, the financial aspect is of great significance in shaping reasonable housing policy. A number of directions—generally not new<sup>160</sup>—will be related to current and prospective requirements. Low-income housing can either be supported by directing assistance to the individuals who are able and willing to invest in their own property or to public projects which ultimately serve low-income people on a rental basis:

- (1) Use of income tax subsidies to encourage investment in low-income housing:

This type should inspire individuals to invest in housing. The pattern can only be successful if the income tax subsidies are substantial *and* a relative economic advantage compared to rental housing is given; i.e., the individual must financially be better off in the long run when investing in a home. This type is basically a production subsidy.

- (2) Flow of funds into residential mortgage markets:

Mortgages support the construction or purchase of homes. Two factors are decisive, first, the size of the downpayment (or points) and the interest rate for the principal. If this type is successfully to work for low-income groups, heavy subsidization is required for both factors. Otherwise, the procurement

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<sup>160</sup>Wendt, P.F. 1963. *Housing Policy— The Search for Solutions*. Berkeley, Los Angeles: University of California Press. p.273.

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of these financial means is out of reach for those groups. This support type can be a production or consumer subsidy.

- (3) Granting of family housing subsidies for those unable to afford housing of acceptable quality:

Family housing subsidies are allowances, i.e., they work as consumer subsidies. This type needs to be applied selectively. The traditional pattern of granting allowances<sup>161</sup> across population on a large scale definitively contributes to ever-increasing budgets of governments and local authorities.

- (4) Encouragement of housing cooperatives through technical and loan assistance:

This type is meant to work on the side of production subsidies. It could be lifted to a new quality if properly applied, and an interesting alternative for those—unable to individually raise enough money and yet are willing to invest. Pooling can substantially decrease the investment share per household, but only works within small groups, having at least similar goals for their lifestyles in mind. Otherwise such cooperatives might be disastrous. The traditional type of large-scale cooperatives degraded to mere administration and is therefore prone to financial failure. (The "New Homestead"—West Germany's largest cooperative went bankrupt in 1986.) It therefore does not go conform with social trends aiming at diversity in life patterns.

### 4.2.      Back to the Roots—Back to the People

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Oftentimes, it is hard to grasp the real mechanisms of actions inherent in society. There is a difference between what we believe to understand and what is going to happen in reality. Each individual is entangled in a web, making it oftentimes difficult to see the bigger picture. Even on the Eighth of November, 1989, 99% of the East German population might have ridiculed everybody who would have anticipated the fall of the Wall for the next day.

A comprehensive picture of what may happen in the future is hard to render. However, a few aspects, as deemed important by the author may be mentioned here:

- (1) We should recall the roots of successful social housing policy. In Germany, successful social housing policy came about as the synergy of informal forces. It was not dictated by huge centralized

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<sup>161</sup>The mechanisms of allowances are discussed in some detail in Chapter II.

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structures; rather it was based on solid and feasible ideas by needy people implemented by socially concerned pacemakers. This is meant by: Back to the Roots—Back to the People.

- (2) Successful ideas generally started working on a small-scale level. The author advocates for small-scale, informal programs, confining the number of players involved to an absolute minimum. If the number of players is small and the number of different programs is high, a broad range of opportunities and varieties is automatically given. Again, the shift away from huge bureaucratic machines which produced and produce huge living machines is on the agenda. This is one of the most important lessons we can learn from East German housing policy of the 1970/1980s.
- (3) Finally, professionals in the planning field should carefully listen to the needs of people who they are planning for. The reliance on the creativity and ingenuity of people is an inexhaustible spring. We just need to commit ourselves to tap and employ these sources properly.

A wonderful exhibit of informal American planning practice may conclude this more personally tainted paragraph. Kimi Gray<sup>162</sup> describes the revitalization of her formerly troubled neighborhood with these words:

After our training, we became incorporated, and we became a business. That is what I want you all to understand, and that is what I think, now, HUD understands. Resident management is not just a demonstration program where you give residents an opportunity to manage themselves. We not only manage people, we manage money, we manage businesses, and we do a good job at it.

We have proven that residents can take on opportunities. We hired all of our residents. ...

We did a needs survey to find out what is that residents actually needed. ...

We will decide who will do the work on our property, and we will do the majority of that work. ...

Ninety percent will be done by the residents. ...

Through our needs survey, we created a co-op market; ...

Children who were selling PCP now sell CCC, Chocolate Chip Cookies. ...

We have our own trash company. ...

Our trashmen live in the community. ...

We have our own roofing company. ...

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<sup>162</sup>Lipsitz, M. ed. 1986. *Revitalizing our Cities— New Approaches to Solving Urban Problems*. Washington: The Fund for an American Renaissance and The National Center for Neighborhood Enterprise. p.64—66.

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We now do our own roofs. ...

We have created our own catering service. ...

We have an arcade. ...

We have the city's best football team. ...

In creating economic development and raising money, the money has to go back into the community to create certain services. We now have two daycare facilities. Both are licensed. The staff is paid out of our operating budget. We have our own health center and our own doctor. He is a graduate of Howard University; he does home visits and takes care of my senior citizens.

We have our own employment office that finds jobs throughout the private sector. It averages 14 resident hirings per week.

If we were able to reach this kind of communal and housing policy, we would be much better off these days in Germany—and perhaps at other places of this planet as well.

### 4.3.    Social Trends in Germany—Valid Elsewhere in this World

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What is left? Left are the global problems bruising our souls. Global social trends are emerging which need to be tied into the fabric of (German) society:

The central issue is **social integration**. A housing system can work in favor of or against integration. It is up to us—it is up to the planner, the architect, the politician, everybody—to design appropriate strategies.

Society becomes increasingly diversified. Accommodating different aspirations is mostly about finding compromises. Social problems are not static; they change over time, can be soluble or persistent. There are two categories of problems—short-term and long-term problems.<sup>163</sup> What are the new social problems which Germany faces:

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<sup>163</sup>Short-term social problems are deemed soluble within few years, say 5 to 10.  
Long-term social problems are those where no finite solution is in sight.



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### Short-term social problems:

The full social integration of former East Germans in the social entity of the whole of Germany is *the* social goal of transforming East Germany.

Social integration does not mean absorption of East Germany in West German society. Rather, both sides can contribute with their particular strengths to this development. The years of 1989 and 1990 have shown that many people are willing to social collaboration if the conditions and goals are based on mutual understanding.

### Long-term social problems:

- (1) The immigration factor gains increasing importance in German social life.

Germany needs to develop a new stance toward immigration. Historically, Germany has failed several times in integrating immigrants or ethnic minorities in its social fabric. The changing status quo in Europe is, again, a new opportunity for Germany to handle integration of foreign people in a better way. Utilizing the experience of other countries could be helpful in accomplishing this goal. For instance, the American experience/failure of integrating ethnic groups is worth considering for Germany.

We face an issue which may become the global problem of the post cold-war period. The quest for appropriate solutions is just at the very beginning. International cooperation seems to be a promising way to cope with this issue. Germany needs to design new policy patterns corresponding to this development. So far, too little has been done to find solutions.

- (2) The integration of marginal groups of German society is the second long-term problem.

Fringe groups are certainly not the dominant phenomenon of German social life at the moment, but in anticipating demographic changes, this issue will gain importance. In particular big West German cities<sup>164</sup> are already seeing and East German cities will see an ever-growing increase of immigrants, still very often marginalized by the German population. In addition, low-income groups tend to be separated as well. The re-integration of those groups is a permanent problem. Economic constraints may further contribute to the persistence of disintegration.

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<sup>164</sup>Henckel, D., Grabow, B., Hollbach, B., Usbeck, H., and Niemann, H. 1993. *Entwicklungschancen deutscher Staedte— Die Folgen der Vereinigung (Developmental Chances of German Cities— The Consequences of the Unification)*. Stuttgart, Berlin, and Cologne: Verlag W. Kohlhammer. p.98.

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The social issues are intimately linked to urban and housing development. Castells<sup>165</sup> states:

Urban movements, and indeed all social mobilizations, happen when, in their collective action and at the initiative of a conscious and organized operator, they address one or more structural issues that differentiate contradictory social interests.

Social integration should find its reflection in changed concepts for urbanism and housing. Continuing spatial separation of immigrants in so-called foreigner dormitories is inappropriate to accelerate integration, marginalizing fringe groups as well. Social integration only works in concord with spatial integration. The ongoing tendency of accommodating foreign people in spatially separated dorms does not help them nor native Germans in the long run. The same holds for low-income groups. If these groups are accommodated and concentrated at particular large settlements, then the occurrence of social problems will be the logical consequence.

The matter is indeed intricate since limited financial means oftentimes force communities to alleviate just the most urgent problems, thus maintaining spatial separation in order to do anything at all. Therefore, new spatial and housing concepts need to be conceived which guarantee a blend of different social groups. This is a task that can only be implemented by concerted governmental and communal efforts.

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<sup>165</sup>Castells deals in 'The City and the Grassroots' predominantly with the integration of social marginal groups and racial minorities in the city of San Francisco. [Castells, M. 1983. *The City and the Grassroots. A Cross-Cultural Theory of Urban Social Movements*. Berkeley, Los Angeles: University of California Press. p.123.]

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CHAPTER VI

# Final Thoughts

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This chapter gives a short summary of some results and thoughts gained in East Germany's quest for establishing a better housing system. It further summarizes the essentials of the transition and transformation process.

The transition process in East Germany's housing system is by and large finished. First results are already visible in social and urban respects.

The transformation period will endure longer than initially conjectured. Transformation is a long-term process. History has proven this thesis. Anything else would mean closing one's eyes before reality. East Germany has commenced transformation in housing. The first results of the current endeavors may become visible in five to ten years.

### 1. First Results of Transition

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The transition in East Germany was very much a way of adaptation, rather than an of mutual confluence. However, transition comprises only the first steps—the take-off—the real work is due now and in the time to come.

After a period of aberrations and uncertainties in 1990 and during the first half of 1991, the overall restructuring process began to stabilize.

An undoubted trend change in the building sector ushered in a first period of moderate economic upswing in 1992/1993. The future path of East German economy will depend a great deal upon the capability of restructuring some of the traditional industrial branches such as machine-building, textile, chemical, and electronic industry under simultaneous consideration of service-type industry.

With regard to urban development and housing, the adoption of new laws (urban codes) begins to provide first tangible results. After an almost total breakdown of the whole building sector during 1990/1991, the investment rate is slowly climbing. The building sector will play the role of a vanguard and motor for economic prosperity. However, property issues still impede and distract potential investors and slow down the development.

The establishment of private industry is key for further progress. Private entrepreneurship is supported by special assistance ordinances (favorable credit conditions and depreciation rates, etc.). Also, special funds of the E.C.<sup>166</sup> flow into East Germany.

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<sup>166</sup>E.C. = European Community.

Numerous municipalities and communities have finished the process of setting up strategic concepts, master and zoning plans due to the new urban developmental ordinances, building codes, changed standards, and investment laws.

Another essential step towards the recuperation of a renewed housing policy was the implementation of the two first stages of the adaptation to the federal rent system. Thus, at least a certain offset between expenditures for operating costs and revenues through rents is assured. Subsequent steps of rent increases will be required in order to secure a certain portion of investment monies, functioning as feedback for implementing social housing projects. However, additional raises in rent are currently not feasible. The past development has verified the thesis of a piecemeal approach to rent adaptation. Further rent increases can only be implemented in unison with economic growth.

The removal of centralized political pressure on the communities and municipalities is an important result. This is hardly measurable in economic terms, but immensely important to enhance decision-making quality and the sense of work. The disentanglement of huge overhead structures needs to receive an impetus. Momentarily, it does not seem that the degree of bureaucracy decreased; it rather increased. This holds for East and West Germany.

## 2. Which Directions Should be Pursued?

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The existing social value systems are the decisive factor in designing transition and transformation phases. This recognition might be painful for some East and West Germans who either believe that they had or they have the perfect system.

The failure of a housing system cannot be attributed to the assumption that everything of the abandoned system was faulty. A housing system contains dynamics. Lingering at a certain stage of transformation may have horrendous consequences. We see this very clearly in the East and West.

In West Germany, based upon the self-satisfying assumption that prosperity would be maintained in a free-wheeling development led to housing shortage by under-estimating the global development. (West Germany was assumed to decrease its population until the late 1980s.) The lesson: Housing needs to be part of national *and* international development these days.

In East Germany, the rigid adherence to ambitious, ideal objectives for a better society were not seen in relation to reality. Thus, housing became the play ball of ideology. The lesson: The disregard of

rather straightforward economic principles led to warping in all fibers of society. However, the inherent strength of some ideals which were constantly propagated, had indeed an impact on people. The recognition that there were positive effects in this bygone system is in particular hard to understand by those people who used to think in strict, rational economic terms. This ultimately means that we should direct our endeavors toward finding a concept for housing which more comprehensively embraces the ideas and ideals we are aiming at. This happened in the 1920s in Germany under circumstances, far less favorable than now. The positive impact of that time on the international development is known.

Even the unbiased evaluation of a failed development can reveal worthwhile insights. *Processing these insights, contrasting them with reality, and seeing their relation to prospective development, this is meant by confluence.*

I established the term skewness of mergence, meaning that the different systems most probably will not meet halfway. Carefully weighing the positive and negative effects yields the degree of skewness. This may seem rather abstract, but describes best what is meant here. I also hesitated to propose so-called tangible and measurable categories in order to determine the exact target of an (asymmetrical) convergence concept. I was thinking of a model of system dynamics and feeding this with some numbers. However, after immersing in the categories which might have been applicable therefore, I found that weighing them against each other as subjective. I tried in this thesis to discuss and reveal the pros and cons of some essential categories of (social) housing. I think that is the better way. I did not elude problems, but simplifying the complexity of the issue seemed to be a rather concrete danger. The thesis tried to provide a basis for further discussions in (social) housing.

The degree of skewness depends on the specifics of regions, countries and the corresponding current conditions. Asymmetrical convergence might be most appropriate in cases where different social systems with distinct economic capacity impinge upon each other.

Notwithstanding the initial encouraging results in transforming East Germany, the quest for new social concepts as to housing needs to be continued. Social disequilibrium mainly has its roots in an unsatisfying built environment. Housing contributes a good deal to this problem.

One prime emphasis of housing should point in the direction of surmounting the passive acceptance of given circumstances by people. Approaches which actively involve citizens in the decision-making process need to be further explored, certainly for *both* parts of Germany.

As discussed above, the proportions of assistance strategies and the determination of social goals for housing deserve ongoing undivided attention, since both are a crucial part of designing a housing system. The author pleads for a diminution of the social housing share in East Germany, as the bulk of existing

publicly held housing is not sustainable anymore. This, however, requires a piecemeal approach since the problems are of complex nature.

Social housing in East Germany is currently still a disaster, almost having come to an outright standstill in 1991/1992 and slowly recovering now. This is the total antipode to the approach prior to 1989 and as problematical as well. As social housing concepts are deeply rooted in German housing policy having a tradition over decades, a well elaborated and future oriented policy is required. The 14.6%<sup>167</sup> fraction of West German social housing (1989) seems to be inappropriate to secure affordable housing for low income brackets which can be expected to make up about one third of society. The impacts of winding down the social housing share toward a minimum are recognizable through alarming signs of *growing physical housing shortages in West Germany and restructuring problems of East German housing stock*. It is an inherent principle of market societies that the private sector is incapable of solving housing problems without a governmentally supported public sector. The big issue is and will be: How *deep and in what manner* the government and public authorities become to be involved in designing programs and taking on responsibilities.

Since Germany has to reckon with immigration rates rising in magnitude in the foreseeable future, the design of social housing will become even more complicated and necessary since these people cannot be expected to have the financial means for acquiring homes. They will chiefly depend upon public housing provisions. **Therefore, the of whole society takes a share in responsibility in the quest for appropriate solutions.**

I consider the problem of (housing) transformation within Germany as solved, once a distinction between **East** Germany and **West** Germany does not have to be made any longer. As long as we deliberately refer to the "New" and "Old" States, no mental barriers are torn down. **This** is the truly inner-political and social problem of the current Germany.

Housing is **one** essential ingredient of the ongoing overall transformation process. When we want to put this right, we do not simply have to consider daily troubleshooting, rather the chance is given now to look for opportunities to solve accumulated problems and implement future concepts collaterally.

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<sup>167</sup>Statistisches Bundesamt der Bundesrepublik Deutschland. 1991—1992. *Statistisches Jahrbuch 1991— 1992 fuer das vereinte Deutschland (Statistical Yearbook 1991— 1992 for the United Germany)*. Wiesbaden: Metzler-Poeschel.

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APPENDIX

## Definitions

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### Blended Housing Market

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A blended housing market consists of the two major housing sectors—the private and public housing sector. Both sectors receive equal treatment and recognition. Both have different target groups. The private sector aims more at higher and middle income groups, while the public sector serves the lower-income groups.

### Decent Housing Unit

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A decent housing unit is defined as: Number of persons  $\leq$  Number of rooms + one room.

### Filtration

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Filtration can be summarized in this way:

In a time of economic and demographic growth middle- and high-income groups can afford new housing which potentially offers special qualities of design, location and way of life in the suburbs. But, if filtration is to have a significant impact upon housing in general, then the rate of new construction must exceed the rate of demographic growth. This should push prices downwards in relative terms and open up moderate- and low-income access to standard housing. Thus, it is predicted that the reduction in relative prices will not lead to unacceptably low standards of maintenance. Also, where production eases sub-markets down to the bottom of the stock, there should be some way of removing any unwanted (i.e., abandoned) housing without pushing up relative prices and rents at the lowest utilised level.

In its welfare implications, filtration theory presents some dilemmas. First, [...], in the context of new social and economic conditions there are more direct ways of dealing with the 'housing gap' problem. Second, the filtration process contains the seeds of its own destruction. If relative prices and values are indeed dragged down by new construction, the competitive edge of existing ('durable') housing will bring a halt to new construction.<sup>168</sup>

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<sup>168</sup>Pugh, C. 1980. *Housing in Capitalist Societies*. Westmead, Farnborough, Hampshire: Gower Publishing Company. p.117.

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## Housing Allowances

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Housing allowances are financial support means aimed at the reduction of rent burdens. They work either on the consumer or production side:

(A) On the consumer or demand side (*subject* subsidies):

(1) Pure subject subsidies:

are income supplements paid to households regardless of their tenure status, depending on household size and income.

(2) Conditional subject subsidies:

are housing allowances which are payments to households, depending on household size, income, and the price of housing services (typically cash payment).

(B) On the production or supply side (*object* subsidies):

(1) Pure object subsidies:

are payments to housing suppliers that contribute to building management, or interest costs. They are unrelated to the characteristics of the occupants of the dwelling.

(2) Conditional object subsidies:

are payments to the housing suppliers given on the condition that (1) the occupants of the dwellings are in certain economic or social groups, and (2) they are charged prices or rents within certain limits.<sup>169</sup>

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## Housing Gap

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The housing gap can be defined as follows:

The 'housing gap' is the difference between the consumer's cost of standard housing (expressed in rents or repayment of loans) and the amounts which moderate- and low-income households can reasonably afford to pay.<sup>170</sup>

A gap between what is legally enforceable and what is regarded as minimally acceptable is not new either in housing or in other sectors of economy. There is something new in the current relationship, however. For the first time in history, the better local housing codes do not

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<sup>169</sup>Vliet, W.v. ed. 1987. *Housing Markets and Policies under Fiscal Austerity*. New York, Westport, London: Greenwood Press. p.165—166.

<sup>170</sup>Pugh, C. 1980. *Housing in Capitalist Societies*. Westmead, Farnborough, Hampshire: Gower Publishing Company. p.103.

seriously lag behind scientific knowledge in matters of health and safety, and even incorporate a few purely aesthetic items. It would be surprising, therefore, if these codes were upgraded significantly in the next decade or so. As a result, the gap between enforceable standards and generally accepted norms of housing consumers may become pronounced.<sup>171</sup>

### Housing Production

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Housing production comprises the whole spectrum of physical change in housing. It contains three major elements: (1) New construction;

- (2) Restoration and modernization;
- (3) Upkeep.

### Housing System

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A housing system consists of:

- (1) the *housing market* represented through its major components supply and demand, and
- (2) *housing policy* embodied by federal and local governments, communities, and citizen participation.

### Housing Unit

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In Germany all habitable rooms count toward a unit provided they fulfill certain minimum standards as to size, ventilation, and exposure to sunlight.

Example: A two-room housing unit corresponds to a one-bedroom unit in the U.S.

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<sup>171</sup>Grigsby, G.W. and Rosenberg, L. 1975. *Urban Housing Policy*. New York, N.Y.: APS Publications, Inc. p.39.

### Overcrowding

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If the number of persons per dwelling unit is greater than the number of habitable rooms or if one or more than one room(s) is less 8m<sup>2</sup> (86sqft.).

Much depends on whether the dwelling unit both can be and actually is adequately ventilated by the occupants; the amount of time spent in the dwelling; population density in the neighborhood as well as in the structure; the social mores of the culture; and resistance of the subject population to disease. In America, efforts to establish a relationship between overcrowding and various health and disorganization indicators have met with little success. And populations in other countries somehow manage to live at much higher densities than do most Americans, with apparently no adverse physical, mental, or moral effects.

The case for various U.S. standards of overcrowding must, therefore, be made largely on grounds of comfort and equity, not health and safety. Stated as a goal, each low-income family should be able to acquire an amount of housing space that prevailing norms have established as sufficient for pleasant living.<sup>172</sup>

### Public Housing

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There exists a distinction between social and public housing which may be made as follows:

Public housing incorporates ownership in addition to the process of building houses.

Public housing is as a term which is applied to housing constructed by government housing authorities. [...] Public housing means different things in according to its cultural and institutional context, ...<sup>173</sup>

The boundaries between public and social housing are increasingly fluid. Presently, both terms are very often used interchangeably.

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<sup>172</sup>Grigsby, G.W. and Rosenberg, L. 1975. *Urban Housing Policy*. New York, N.Y.: APS Publications, Inc. p.42.

<sup>173</sup>Pugh, C. 1980. *Housing in Capitalist Societies*. Westmead, Farnborough, Hampshire: Gower Publishing Company. p.xv.

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## Social Housing

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Social housing is very often referred to as a charitable commodity given to low-income groups and needy. However, social housing should be a decent and integral part of general housing policy. There seems to be a compelling commitment of society to deal with the housing issue accordingly. The fundamental assumptions therefore are:

- Society is not benevolent to each individual.
- Society is inherently unjust with regard to housing provision which needs to be alleviated by appropriate housing policy.
- The controversy about the housing issue is long-standing and in philosophical terms insoluble under current socio-economic conditions.

Social housing is a term which is used in continental Europe and originally referred to housing directly assisted by government subsidies and loans. It includes public housing, but also other housing which is government-assisted. The meaning of the term has changed as housing policies have developed and altered. Once it referred to housing provided for low-income and working-class groups. But as government policies began to extend assistance through the community, social housing has taken on a new and broadened meaning. This leaves the term somewhat indefinite, and particularly because the notion of subsidisation in housing raises many complications and problems of interpretation. Nevertheless, there are good reasons for using the term where the intent is to describe general classes of events rather than highly specific economic definitions.<sup>174</sup>

Social housing is housing provided by non-profit agencies targeted at low- and moderate income households.<sup>175</sup>

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## State-Owned Housing

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State-owned housing is a term mainly used in former socialist countries to ownership in housing and the act of creating housing by extended governmental involvement.

State-owned housing is [...] known as state housing, public housing, social housing, and council housing.<sup>176</sup>

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<sup>174</sup>Pugh, C. 1980. *Housing in Capitalist Societies*. Westmead, Farnborough, Hampshire: Gower Publishing Company. p.xv—xvi.

<sup>175</sup>Vliet, W.v. ed. 1987. *Housing Markets and Policies under Fiscal Austerity*. New York, Westport, London: Greenwood Press. p.6.

<sup>176</sup>Katsura, H.M. and Struyk, R.J. 1985. *Selling Eastern Europe's Social Housing Stock: Proceed with Caution*. Washington, D.C.: The Urban Institute. p.2.

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APPENDIX

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