ROCHUS WIEDEMER

WHY DEMOLITION?

URBAN RESTRUCTURING IN WOLFEN-NORD

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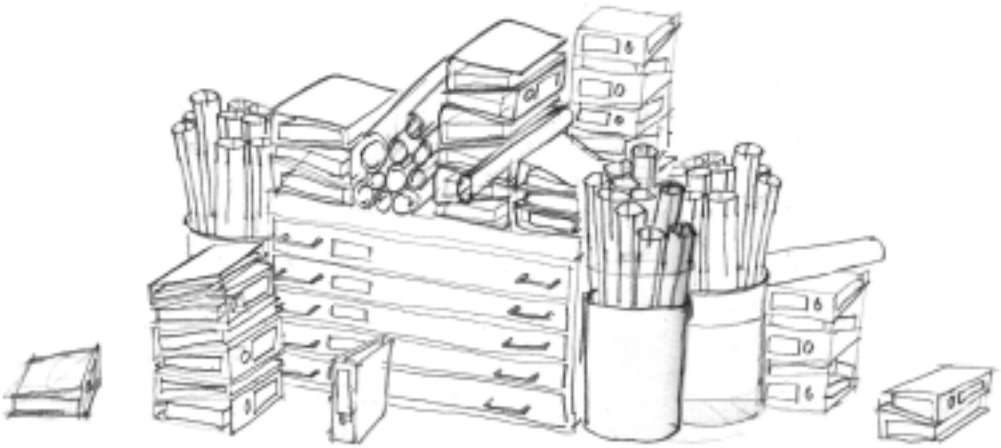
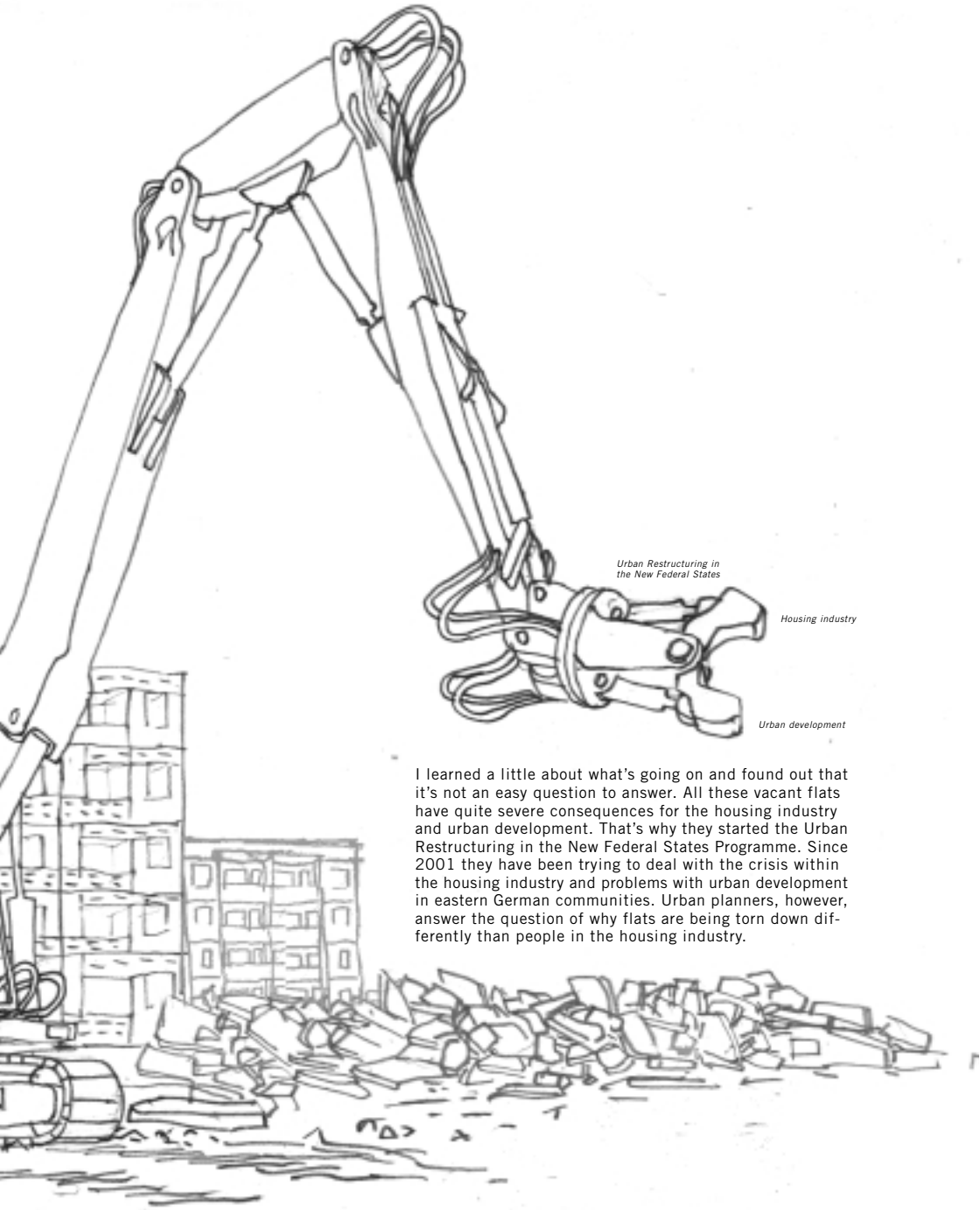


Hello, my name is Uwe and I operate an excavator. I'm here in Saxonia-Anhalt in Wolfen-Nord and have the job of demolishing these buildings you see behind me. To be honest, I don't really understand why empty flats are simply being torn down.



Urban Restructuring in the New Federal States

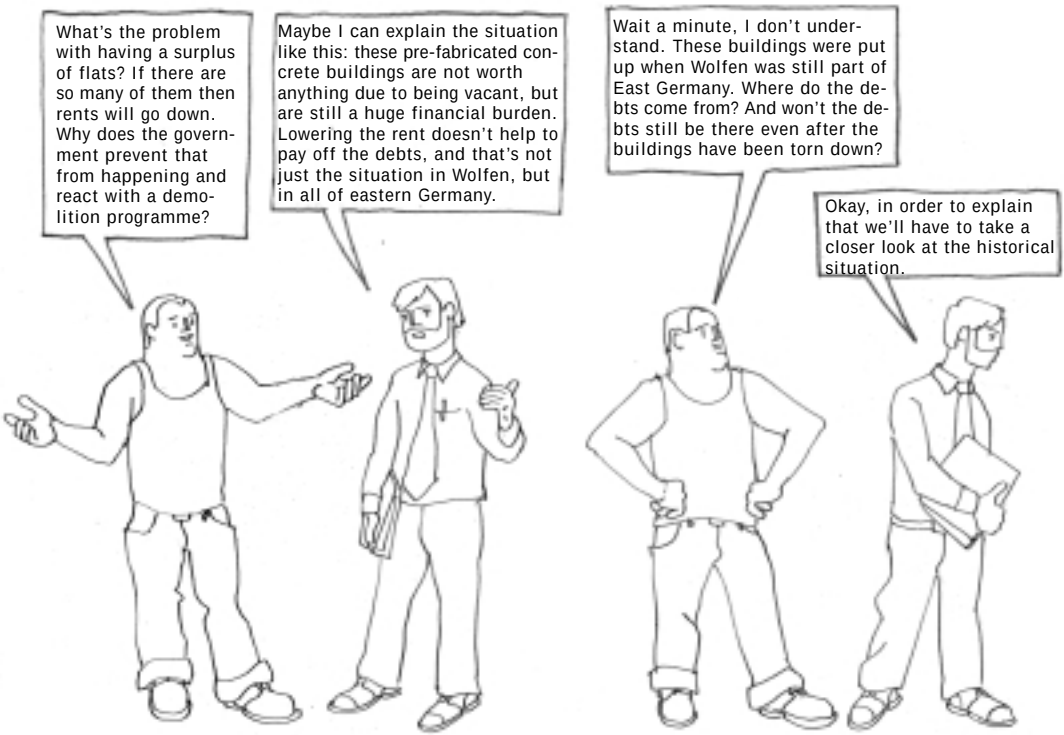
Housing industry

Urban development

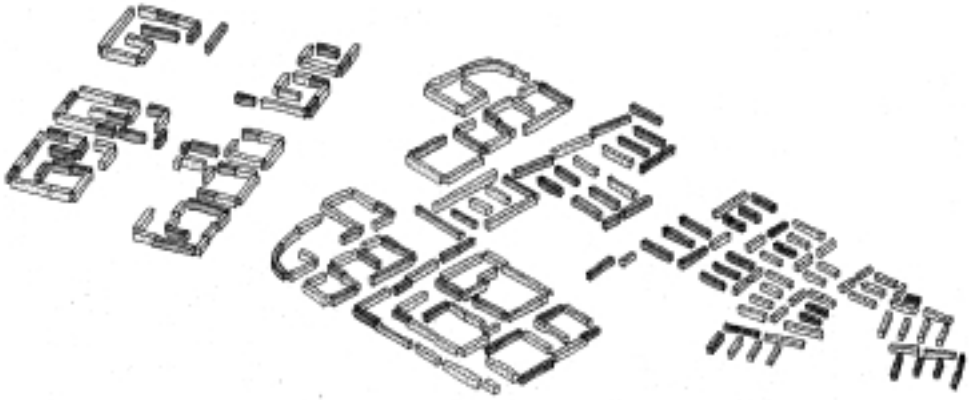
I learned a little about what's going on and found out that it's not an easy question to answer. All these vacant flats have quite severe consequences for the housing industry and urban development. That's why they started the Urban Restructuring in the New Federal States Programme. Since 2001 they have been trying to deal with the crisis within the housing industry and problems with urban development in eastern German communities. Urban planners, however, answer the question of why flats are being torn down differently than people in the housing industry.

HOUSING INDUSTRY

First I met with the director of the WBG (the Wolfen Housing Construction Company).


What's the problem with having a surplus of flats? If there are so many of them then rents will go down. Why does the government prevent that from happening and react with a demolition programme?
Maybe I can explain the situation like this: these pre-fabricated concrete buildings are not worth anything due to being vacant, but are still a huge financial burden. Lowering the rent doesn't help to pay off the debts, and that's not just the situation in Wolfen, but in all of eastern Germany.
Wait a minute, I don't understand. These buildings were put up when Wolfen was still part of East Germany. Where do the debts come from? And won't the debts still be there even after the buildings have been torn down?
Okay, in order to explain that we'll have to take a closer look at the historical situation.

THE WBG, A MUNICIPALLY OWNED HOUSING COMPANY



The 13,500 flats of the Wolfen-Nord Housing Estate belong to two housing enterprises: The WBG (the Wolfen Housing Construction Company) and the WWG (the Wolfen Housing Construction Cooperative). Both companies were created in 1990 from existing structures within the GDR housing industry: the 5,000 state-owned flats were transferred to the municipality of Wolfen, which then founded the WBG as an independent subsidiary. The 8,500 flats belonging to the Wolfen Workers' Cooperative remained a cooperative and received a new legal form as the WWG.

1960-1990 state-owned housing industry
Since 1990 the Wolfen Housing Construction Company (WBG)

1991-1990 the Wolfen Workers' Cooperative
Since 1990 the Wolfen Housing Construction Cooperative (WWG)

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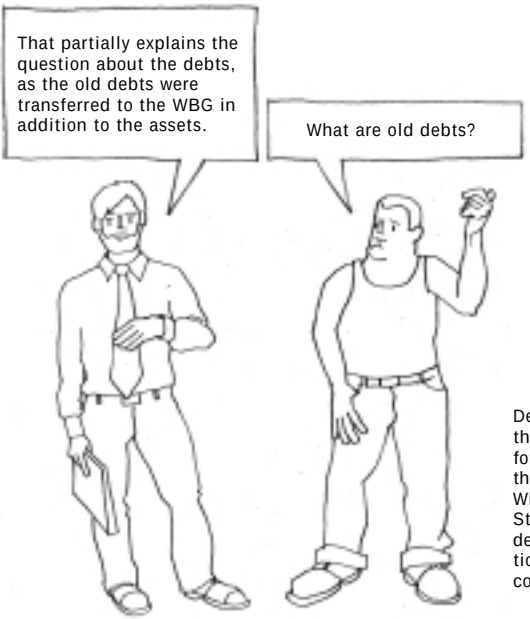
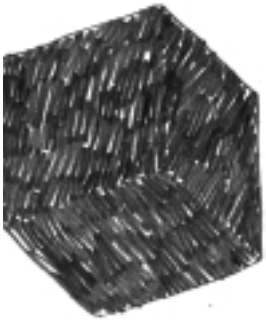
DEBTS



Old Debts 1990



Old debts 1990
14.6 billion Euros

Debts occurred because the construction of the flats in the GDR was financed by the country's state bank in the form of loans. At the time of the monetary union in 1990 the construction loans were at a level of 72 billion marks. When West German banks took over the East German State Bank a 14.6 billion Euros market economy-based debt was created. These "old debts" were simply proportionately transferred to the 1200 newly founded housing companies.

At first the WBG and the GdW (Head Federation of Housing Companies) in East Germany refused to acknowledge the old debts. The housing industry debt dilemma was similar to other reunion-related problems such as the privatization of state-owned firms and the “return before compensation” regulation.

But hang on, what was the actual problem?

In 1990 the WBG’s old debts at first amounted to 56 million Euros. That was its proportion of these all-German debts

56 millions Euros

First of all, the transfer of old debts is still being legally contested. The concrete economic problem, however, was that rent in the GDR was state subsidized, which means it was cheap. Because of these existing cheap rents in 1990 interest and the repayment of the debts couldn’t be financed. The debts didn’t shrink, they grew, which quickly became obvious to everyone involved. A compromise was thus reached in 1993 with the passing of the Old Debt Assistance Law.

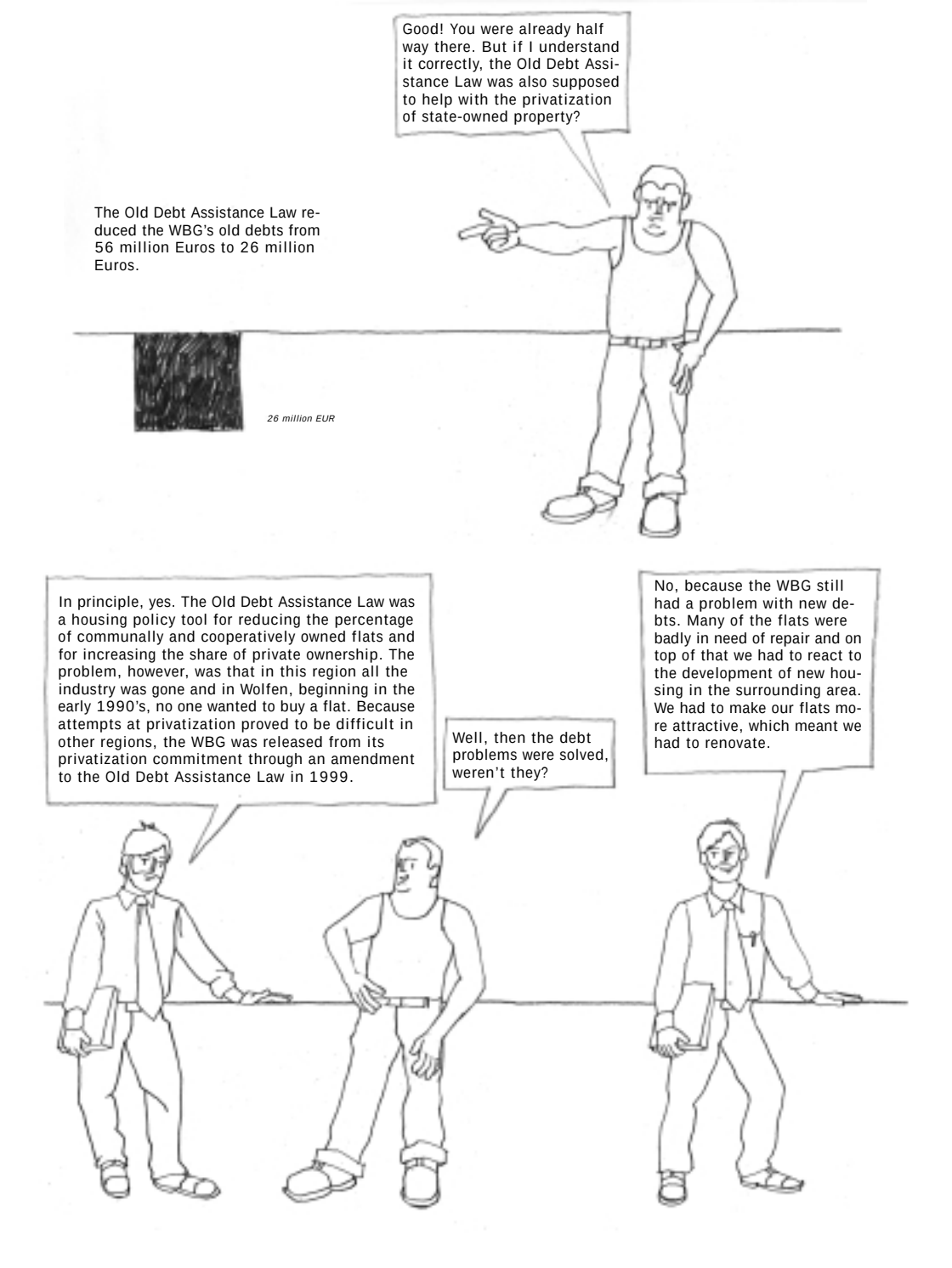
Old Debt Assistance Law 1993

11 billion Euros of old debts are taken over by the federal government.

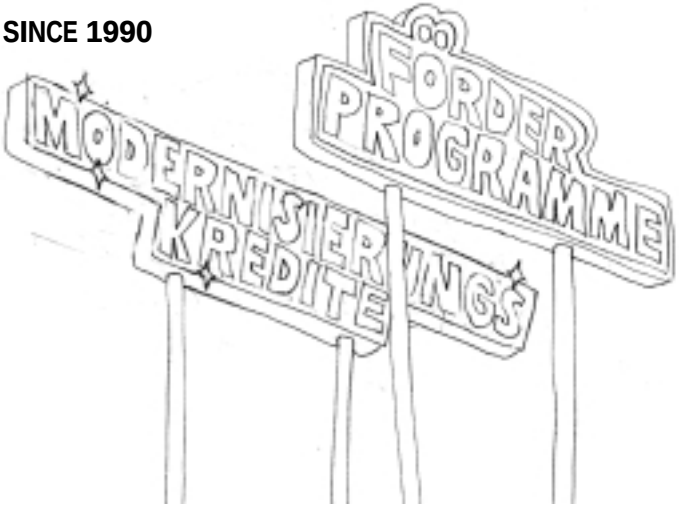
800 million Euros are raised through the sales of flats according to the terms of privatization.

14.2 billion Euros of old debts remain with the housing companies.

Because of interest and unsettled repayments the all-German old debts grew to 26 billion Euros by 1993. With the Old Debt Assistance Law the federal government agreed to cover old debts up to a limit of 78 Euros per square meter. In return, the housing companies agreed to acknowledge the old debts and to privatize 15% of their holdings within ten years. That meant that flats had to be sold in order to make money available for old debt repayments.

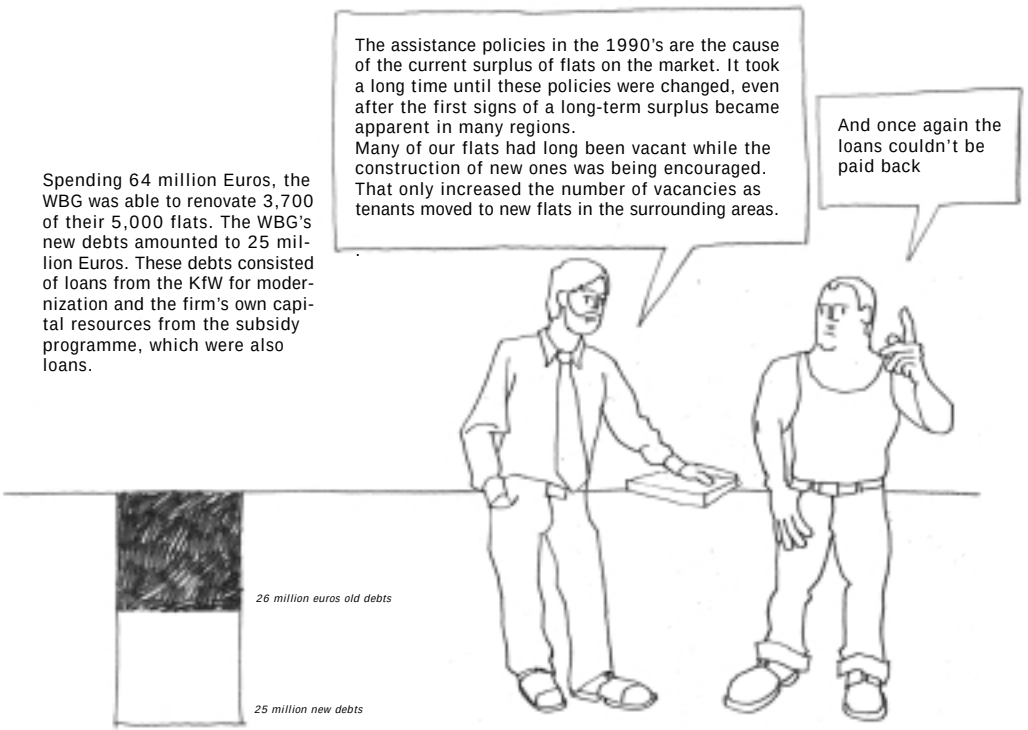

Good! You were already half way there. But if I understand it correctly, the Old Debt Assistance Law was also supposed to help with the privatization of state-owned property?
The Old Debt Assistance Law reduced the WBG's old debts from 56 million Euros to 26 million Euros.
26 million EUR
In principle, yes. The Old Debt Assistance Law was a housing policy tool for reducing the percentage of communally and cooperatively owned flats and for increasing the share of private ownership. The problem, however, was that in this region all the industry was gone and in Wolfen, beginning in the early 1990's, no one wanted to buy a flat. Because attempts at privatization proved to be difficult in other regions, the WBG was released from its privatization commitment through an amendment to the Old Debt Assistance Law in 1999.
Well, then the debt problems were solved, weren't they?
No, because the WBG still had a problem with new debts. Many of the flats were badly in need of repair and on top of that we had to react to the development of new housing in the surrounding area. We had to make our flats more attractive, which meant we had to renovate.

NEW DEBTS SINCE 1990

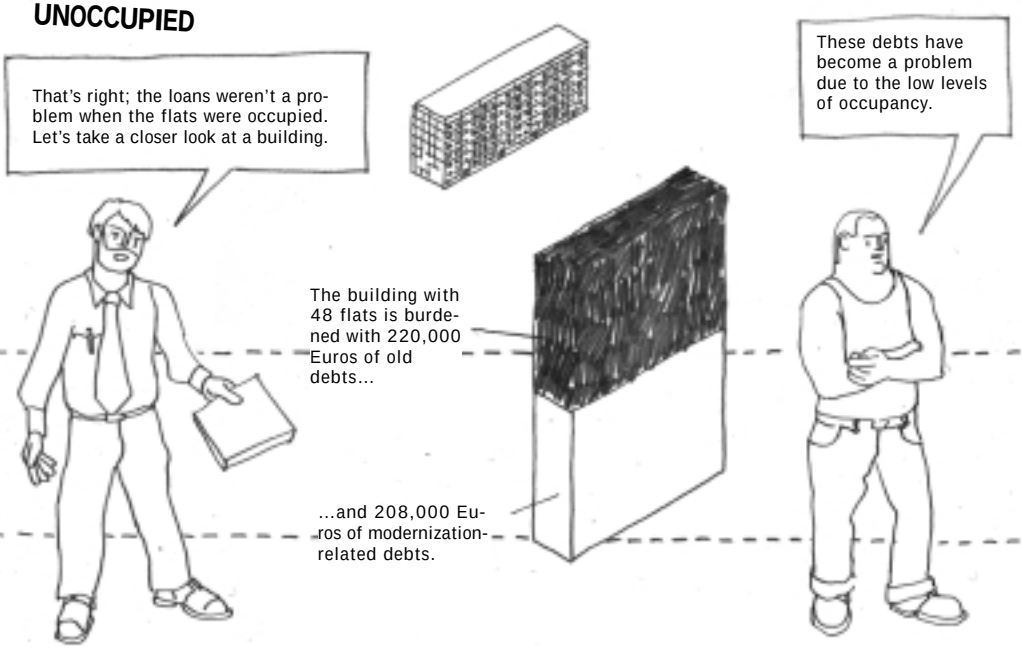


There was still a lack of flats in East Germany at the beginning of the 1990's. Due to direct and indirect subsidies totalling 17.4 billion Euros, the construction of new flats and the renovation of existing ones were supported. There were also federal and state subsidy programmes for the renovation of prefab-concrete tower blocks and the upgrading of large housing estates, and the Credit Institution for Reconstruction (KfW) gave low-interest loans. In a majority of the new federal states, however, the subsidies were linked to the use of housing companies' own capital resources. That means, in order to get money, the housing companies had to bring their own money with them. The fact that they didn't have any money meant they had to take out additional loans in order to receive any subsidies. The subsidies resulted in the housing companies having even more debts.

Spending 64 million Euros, the WBG was able to renovate 3,700 of their 5,000 flats. The WBG's new debts amounted to 25 million Euros. These debts consisted of loans from the KfW for modernization and the firm's own capital resources from the subsidy programme, which were also loans.

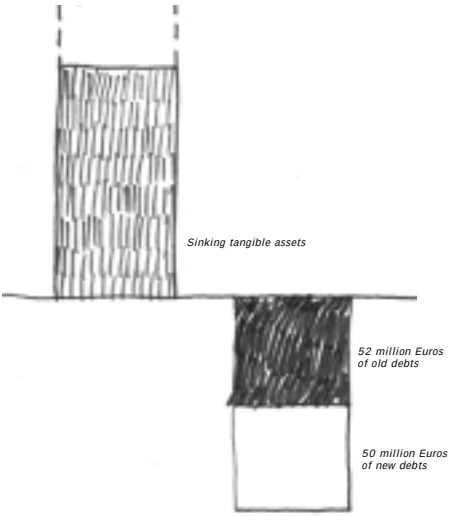


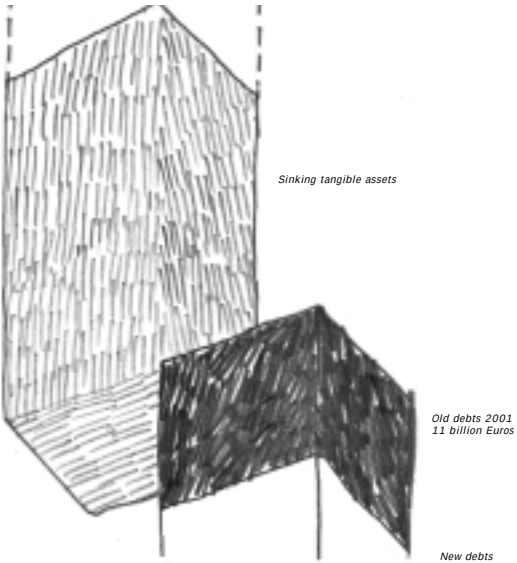
UNOCCUPIED



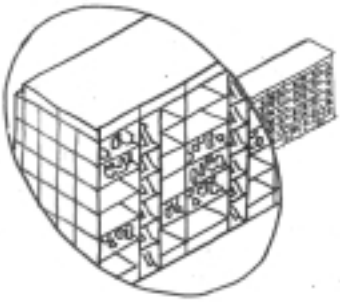
CRISIS

In 1998 the WBG had a vacancy quotient of 30%. It became more difficult to cover costs. At the same time the company's tangible assets became worth less and less. The WBG was threatened with insolvency.

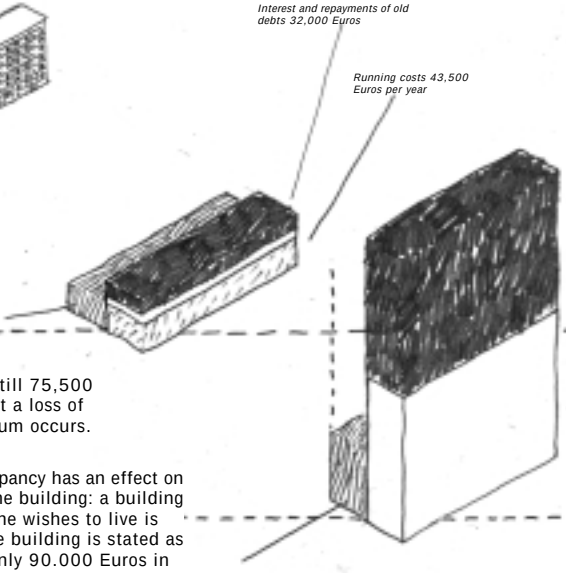




The WBG is, however, not an isolated case. The vacancy level in communally and cooperatively owned flats grew to an average of 14% in 2000. The housing companies' tangible assets decreased dramatically. In 2000 the National Association of Housing Companies stated that 30 companies were in danger of becoming insolvent.



In mid-1998 26 flats were vacant.



That leaves 22 occupied flats. With a rent (excluding heating) of 3.8 Euros per square metre, they bring in an income of 60.000 Euros.

The building costs are still 75,500 Euros, which means that a loss of 15.000 Euros per annum occurs.

A lack of occupancy has an effect on the value of the building: a building in which no one wishes to live is worthless. The building is stated as being worth only 90.000 Euros in the WBG balance sheets. The market value is probably quite a bit less.

INSOLVENCY OR RECAPITALISATION

Okay, the low occupancy rates threaten the housing companies. Why not just let them all go broke? We live in a market economy, don't we?

It's not a problem for banks or the regional housing market if a single homeowner goes broke, but the insolvency of a large housing company has much different consequences for the entire region. The communally and cooperatively owned flats in eastern Germany account for 57% of the rental market; in some regions this rate is much higher.

What would happen if the WBG went broke?

The WBG's flats would be taken over by an insolvency administrator. He would first of all try to find a buyer for the flats. He would dramatically cut down on running costs as the creditors' interests are of the utmost priority. As a result the living conditions for 7,500 tenants would deteriorate and the exodus would increase.

If the stock of flats is sold to an investor, he would naturally purchase them without any debts, and at the current market value, which, due to low occupancy levels, is incredibly low. Because of this he would have much lower capital costs than the WBG and could offer tenants lower rents.
One housing company's insolvency doesn't mean that a supplier disappears from the housing market, because a new supplier is created; one which has much more favourable conditions. This makes the situation on the regional housing market more difficult for all competing suppliers.

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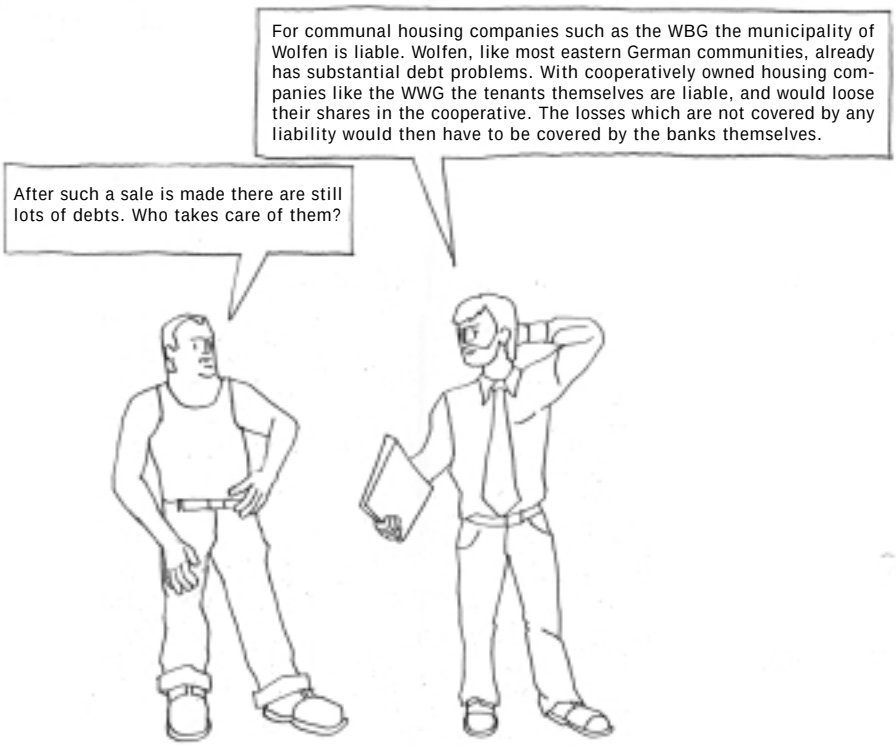
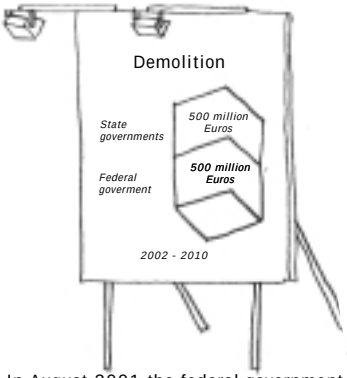
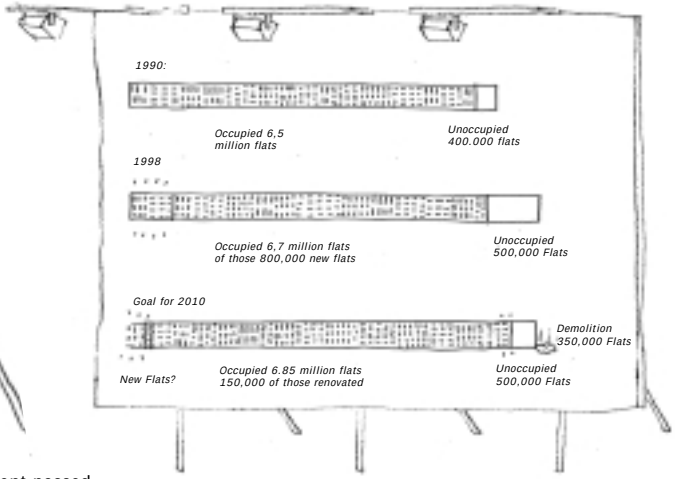


The housing market crisis in eastern Germany is not simply due to a surplus of flats, but rather the threat of insolvency for communally and cooperatively owned housing companies. The municipalities and banks fear firstly the collapse of the housing industry and urban development, and secondly, that as a result they won't be able to control development at all.

STADTUMBAU OST AS A MARKET ADJUSTMENT PROGRAMME



In August 2001 the federal government passed the Urban Restructuring in the New Federal States (Stadtumbau Ost) assistance programme. The so-called partial demolition (Rückbau) is being subsidized by the federal government (500 million Euros) and by state governments (500 million Euros).

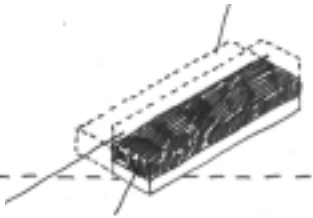


The demolition is intended to reduce the surplus of dwelling units.

Right, this stabilizes the rents and the value of flats on the housing market. But what does a demolition programme do for an indebted housing company such as the WBG? The debts don't disappear if the buildings are demolished or sold.

The partial demolition in Saxonia-Anhalt is subsidized with a lump sum of 65 Euros per square metre; this adds up to 190.000 Euros for the building in our example.

Whether there is a loss of rental income depends on how many tenants accept a substitute apartment owned by the WBG.

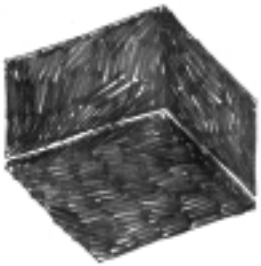


43.500 Euros running costs per year are done away

32.000 Euros capital cost per year remain.

The value (90.000 Euros) of the building in the balance sheets is lost.

STADTUMBAU OST AS A PROGRAMME FOR WRITING OFF DEBTS

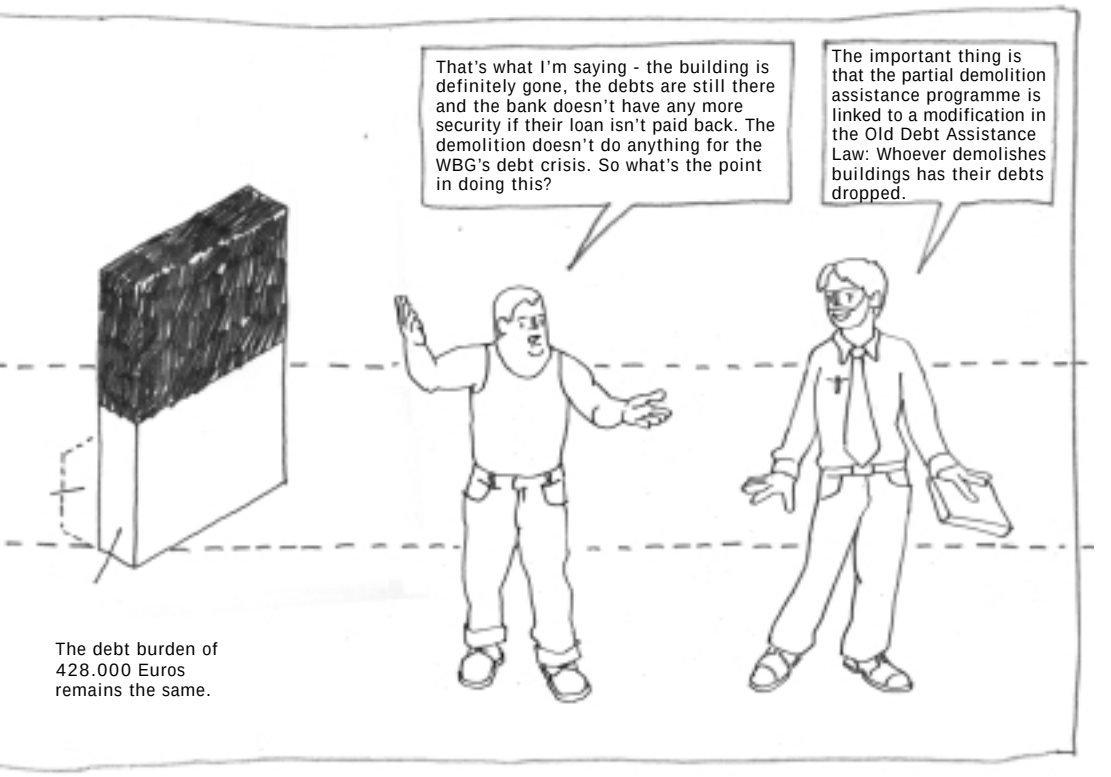


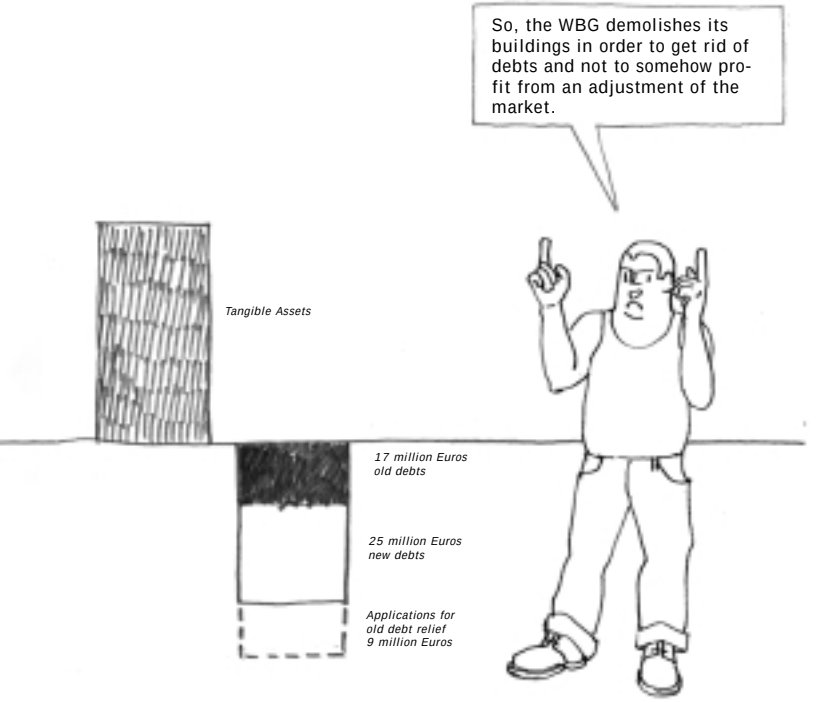
Remaining old debts 10,6 billion Euros

Old debt relief 2000 358 Mio. Euros

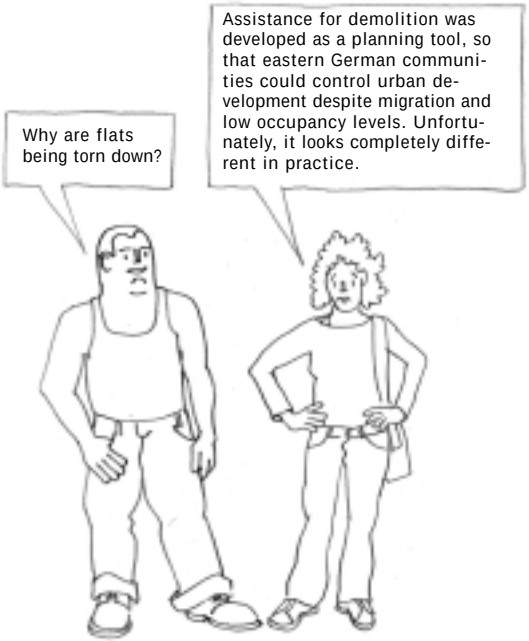
The WBG's concept for redevelopment calls for the demolition of 2,000 flats and a corresponding application for debt relief. That means the waiving of 9 million Euros in old debts.

The debt crisis of the municipal and cooperative housing companies revived the debate about the old debts: The Old Debt Assistance Decree of December 2000 waived the old debts for demolished housing if the housing companies had a higher than 15% vacancy rate. The federal government made 358 million Euros available. Applications for the waiving of debts, however, had to be submitted by the end of 2003. Housing companies still had to pay off any new debts connected with a demolished building. These debts could be transferred to another residential building upon the banks' approval.

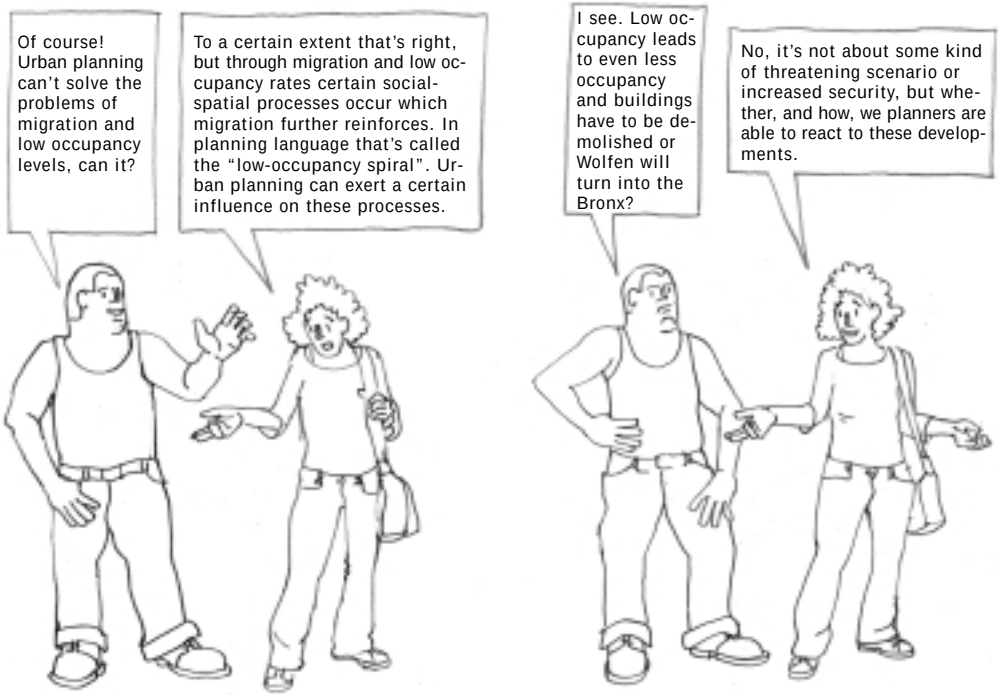

That's what I'm saying - the building is definitely gone, the debts are still there and the bank doesn't have any more security if their loan isn't paid back. The demolition doesn't do anything for the WBG's debt crisis. So what's the point in doing this?
The important thing is that the partial demolition assistance programme is linked to a modification in the Old Debt Assistance Law: Whoever demolishes buildings has their debts dropped.
The debt burden of 428.000 Euros remains the same.


So, the WBG demolishes its buildings in order to get rid of debts and not to somehow profit from an adjustment of the market.
Tangible Assets
17 million Euros old debts
25 million Euros new debts
Applications for old debt relief 9 million Euros

URBAN DEVELOPMENT



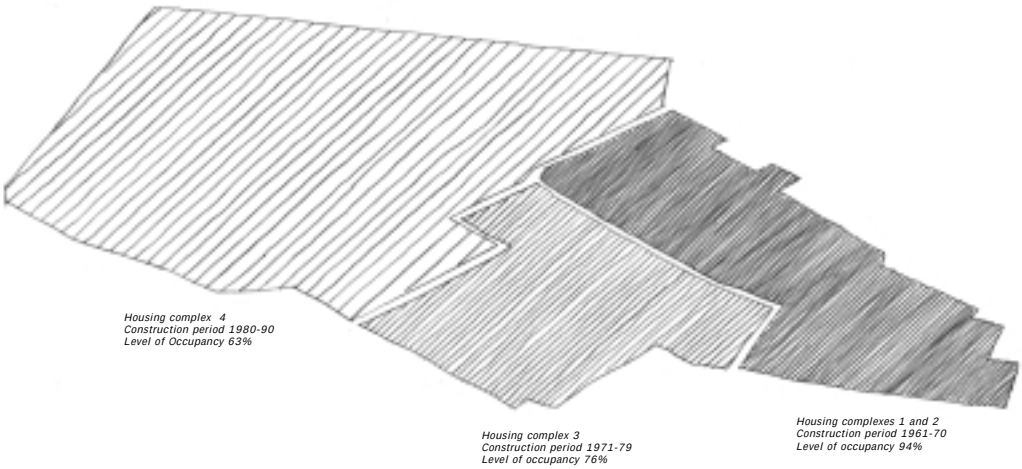
In order to find out what effect the demolition has had on urban development in Wolfen I got together with an architect who works in the City Planning Department in Wolfen.


Of course! Urban planning can't solve the problems of migration and low occupancy levels, can it?
To a certain extent that's right, but through migration and low occupancy rates certain social-spatial processes occur which migration further reinforces. In planning language that's called the "low-occupancy spiral". Urban planning can exert a certain influence on these processes.
I see. Low occupancy leads to even less occupancy and buildings have to be demolished or Wolfen will turn into the Bronx?
No, it's not about some kind of threatening scenario or increased security, but whether, and how, we planners are able to react to these developments.

Wolfen-Nord was built as a series of housing complexes between 1960 and 1990. The development had a varied social mixture; chemical plant workers lived next to engineers.

The development was organized according to the age of its tenants. In 1990 the average age in the oldest sections was approximately 50 and in the newest sections barely more than 20.

THE LOW-OCCUPANCY SPIRAL



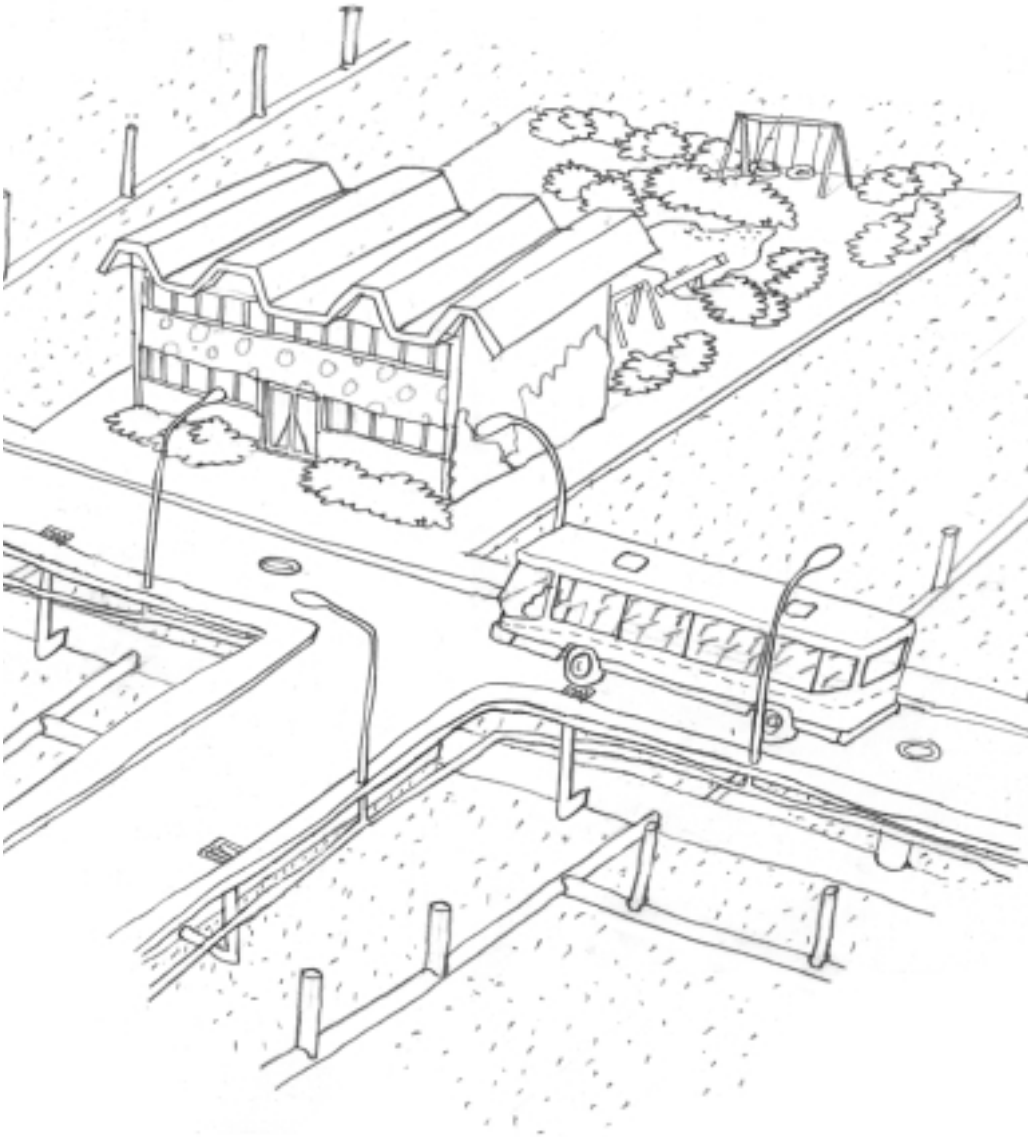
The social-spatial development is clearly discernible on a map showing the levels of occupancy at the end of 2001.The level of occupancy in Wolfen-Nord isn't evenly distributed. It is worst in the newest housing complexes, which have the youngest tenants.

The so-called mobile segment of tenants, young families and singles, were the first to leave due to unemployment and a lack of jobs. Single-family housing developments and residential areas were built in the vicinity. Little by little, families with good incomes began to move into their own homes. New tenants, mostly emigrants and families on welfare, moved in due to the availability of empty flats in the newer complexes which were large enough for families.

The social mixture disintegrated and the housing estate's image became worse. The migration to the surrounding areas increased. The migration of tenants to the surrounding areas is now much greater than the migration of jobs. Socially and economically disadvantaged tenants remain in Wolfen-Nord while those who earn more do what they can to get away. You could say the development within the region has more to do with segregation, that is, the separation of social groups from one another, and polarization, the strengthening of social differences.

In comparison to its neighbouring municipalities Wolfen-Nord has the highest percentage of welfare recipients and unemployed persons in the region. On top of that is the fact that social tasks and burdens are not equally divided among the communities. It's a paradox that despite low occupancy levels in Wolfen urban sprawl continues to grow.

ECONOMIC DILEMMA

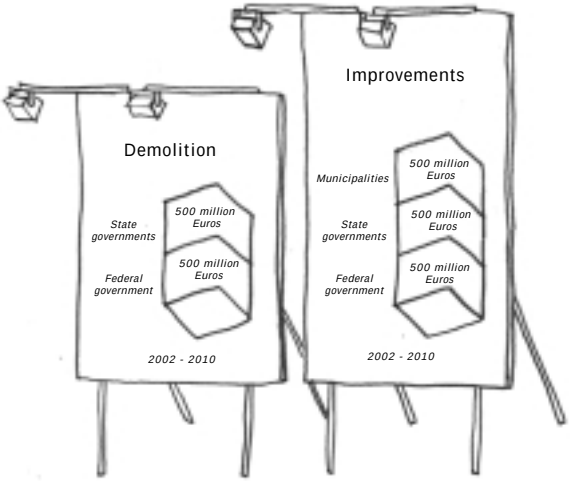


An economic dilemma has been created for the municipality of Wolfen by all the empty flats and the migration. The technical and social infrastructure, that is day-care centres, schools, public transport, parks, etc. is no longer working to capacity, but the running costs are nevertheless rising. The municipality has no money for infrastructure reorganization because, due to a decline in the number of residents and weakened economic activity, the municipal income is dwindling.

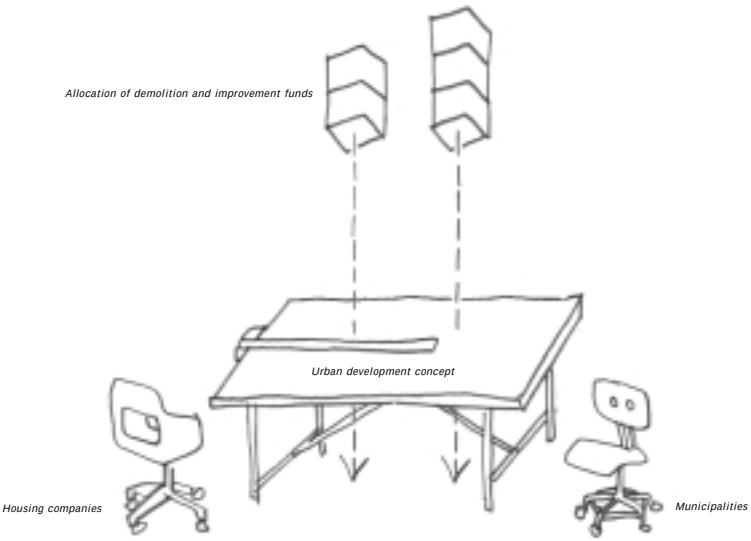
URBAN PLANNING NO LONGER FUNCTIONS

Wolfen could barely control these processes. Because the present planning tools are for dealing with growth and improvement, eastern German communities have an enormous challenge to deal with. The planning department in Wolfen-Nord, in concert with the housing companies, tried to deal with the problem of empty flats in the mid 1990's. We weren't able to achieve much though, despite renovations and open-space improvements.

STADTUMBAU OST AS AN OPPURTUNITY FOR URBAN DEVELOPMENT

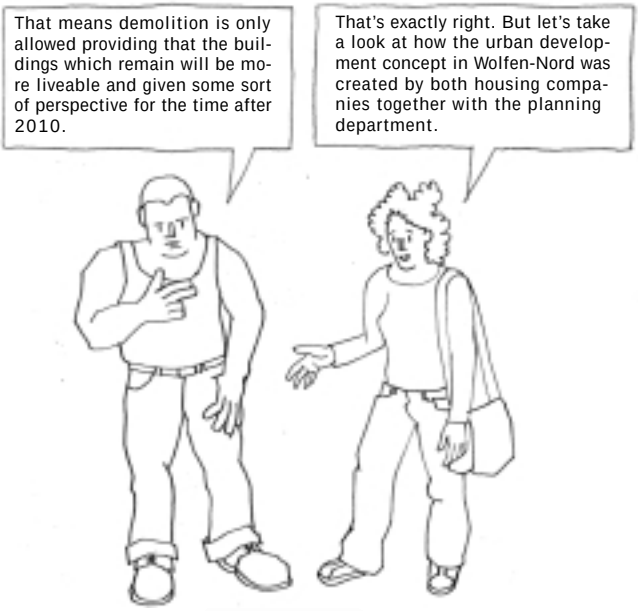


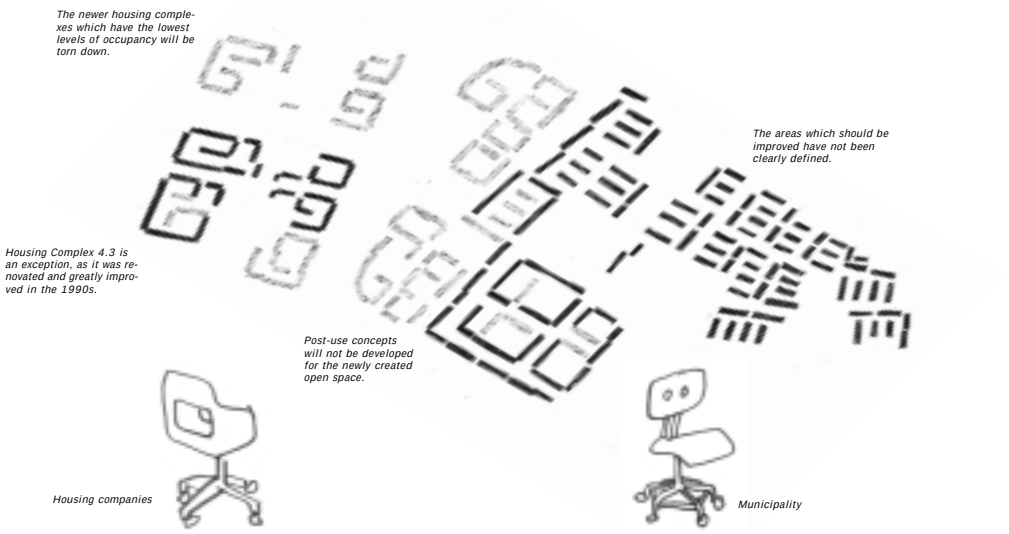
The Urban Restructuring in the New Federal States Programme (Stadtumbau Ost) tries to solve urban development problems by offering improvements in addition to demolition. Particular areas where demolition is occurring are also to be stabilized. More money is allotted for improvements than for demolition. A third of the capital for improvements has to be raised by the municipalities themselves.



The allocation of funds is tied to the creation of an urban development concept. This concept has to react to occupancy level investigations and the long-range prognosis, and must be developed in concert with housing companies.

URBAN DEVELOPMENT CONCEPT





The situation for the housing companies in Wolfen is so precarious that their highest priority is for economic redevelopment through partial demolition and debt relief. The redevelopment plans of both housing companies call for the demolition of between 5,000 and 12,000 flats by 2010. The firms intend to carry out these plans as inexpensively as possible.

The planning department wanted to use the concept to define which sections of the development would be demolished and which sections would be preserved and improved over a prolonged period of time. The planning department's position was, however, very weak and not formulated in concrete terms because it was extremely important for the municipal budget that the WBG remained solvent.

IMPLEMENTATION

That means we couldn't develop the best possible plan in terms of urban development. Instead we had to develop a plan which allowed the WBG to economically survive. The plan merely defined where buildings would be demolished and indicated no development within the housing estate.

Even though consent for the financial assistance for demolition is sometimes late in coming, 1,200 flats have been torn down up to now. The money for improvements has failed to arrive as Wolfen isn't able to come up with its own share of the necessary funds.

That means city restructuring in Wolfen amounts to no more than demolition.

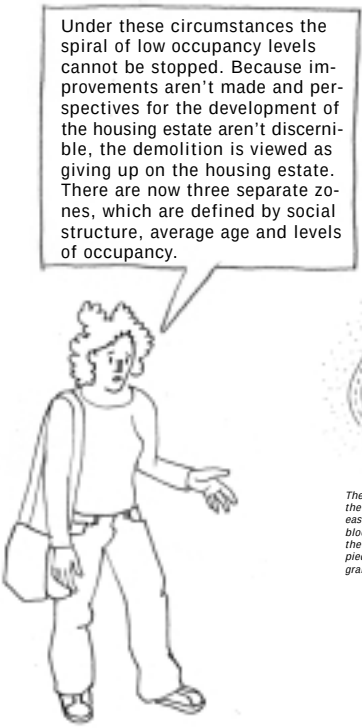
Housing companies

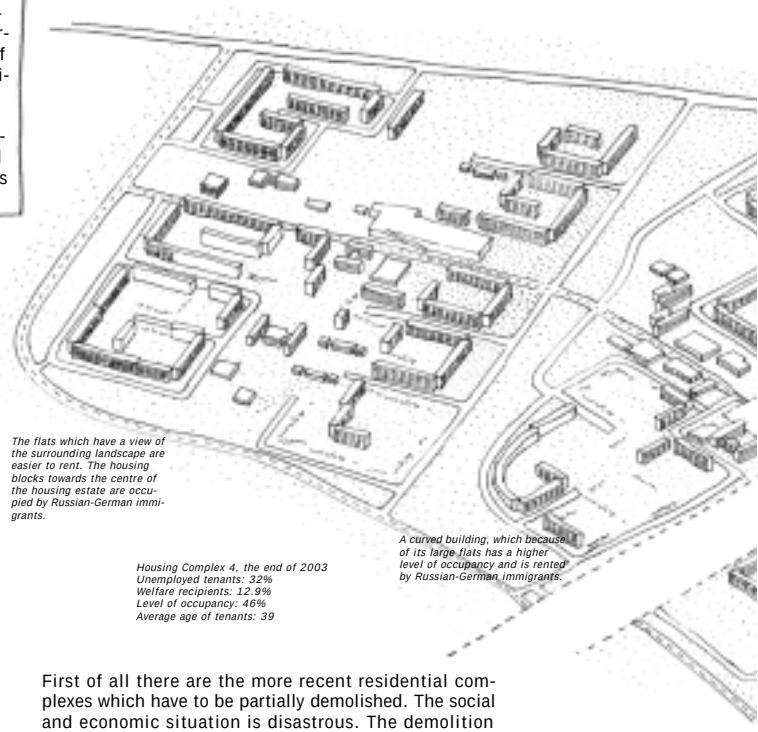
Municipality

Yes and the process of demolition is dictated by the interests of the housing companies: little by little the buildings with the lowest levels of occupancy are vacated and then demolished.

The demolition of an entire area would be more favourable for the municipality. If only the buildings with low occupancy levels are torn down the streets still have to be maintained and the restructuring of the social infrastructure is made more difficult. An example: which day-care centre should be renovated and which one closed?

END OF THE SPIRAL?



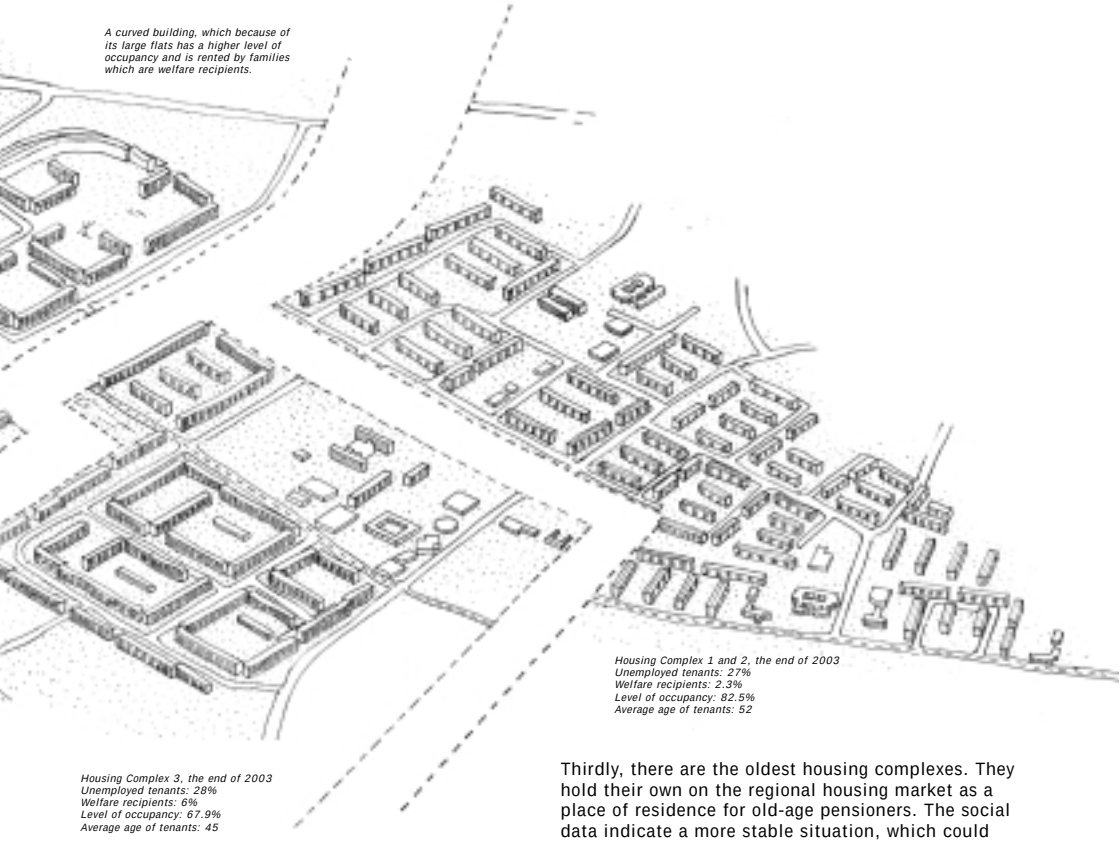


The flats which have a view of the surrounding landscape are easier to rent. The housing blocks towards the centre of the housing estate are occupied by Russian-German immigrants.

A curved building, which because of its large flats has a higher level of occupancy and is rented by Russian-German immigrants.

Housing Complex 4, the end of 2003
Unemployed tenants: 32%
Welfare recipients: 12.9%
Level of occupancy: 46%
Average age of tenants: 39

First of all there are the more recent residential complexes which have to be partially demolished. The social and economic situation is disastrous. The demolition results in large, unused open areas which increase the segregation within the housing estate.



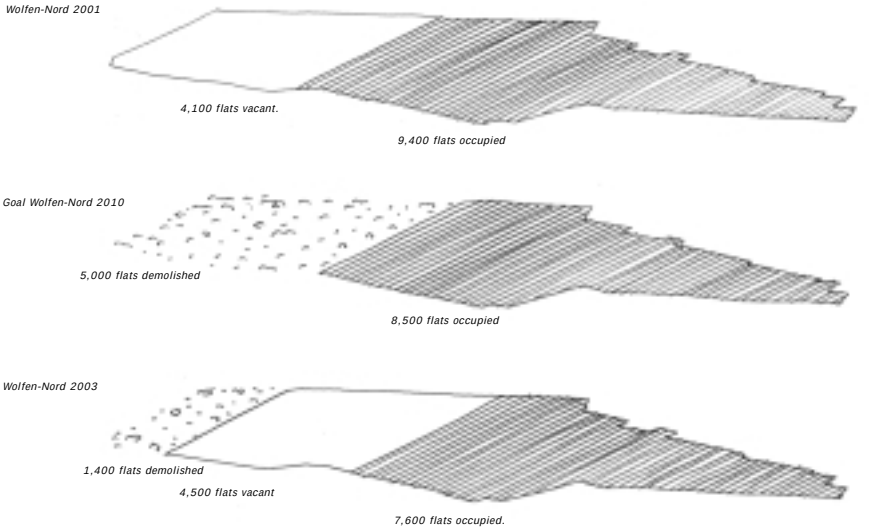
A curved building, which because of its large flats has a higher level of occupancy and is rented by families which are welfare recipients.

Housing Complex 1 and 2, the end of 2003
Unemployed tenants: 27%
Welfare recipients: 2.3%
Level of occupancy: 82.5%
Average age of tenants: 52

Housing Complex 3, the end of 2003
Unemployed tenants: 28%
Welfare recipients: 6%
Level of occupancy: 67.9%
Average age of tenants: 45

Second of all, there is a housing complex for tenants who previously lived in demolished buildings. The unemployment rate is meanwhile quite high, the percentage of welfare recipients is lower and the level of occupancy is currently better than in Housing Complex 4. Improvements and discernible growth perspectives would be especially important here.

Thirdly, there are the oldest housing complexes. They hold their own on the regional housing market as a place of residence for old-age pensioners. The social data indicate a more stable situation, which could change around 2015 due to a high percentage of elderly tenants, which could then trigger a new wave of low occupancy.



The loss of tenants is still so high that present plans for demolition will not eliminate the problem of low levels of occupancy in Wolfen-Nord. The number of residents within the housing estates has dropped from 31,000 to 15,000 since 1993. The rate of loss in the last two years has slowed down from 9.6% to 6.4%. This has less to do with the results of demolition than with the residents' economic situation, which no longer allows for migration to the surrounding areas.

2010

This means that after 2010 there will still be too many flats and that the WBG and WWG will be faced with insolvency once again.

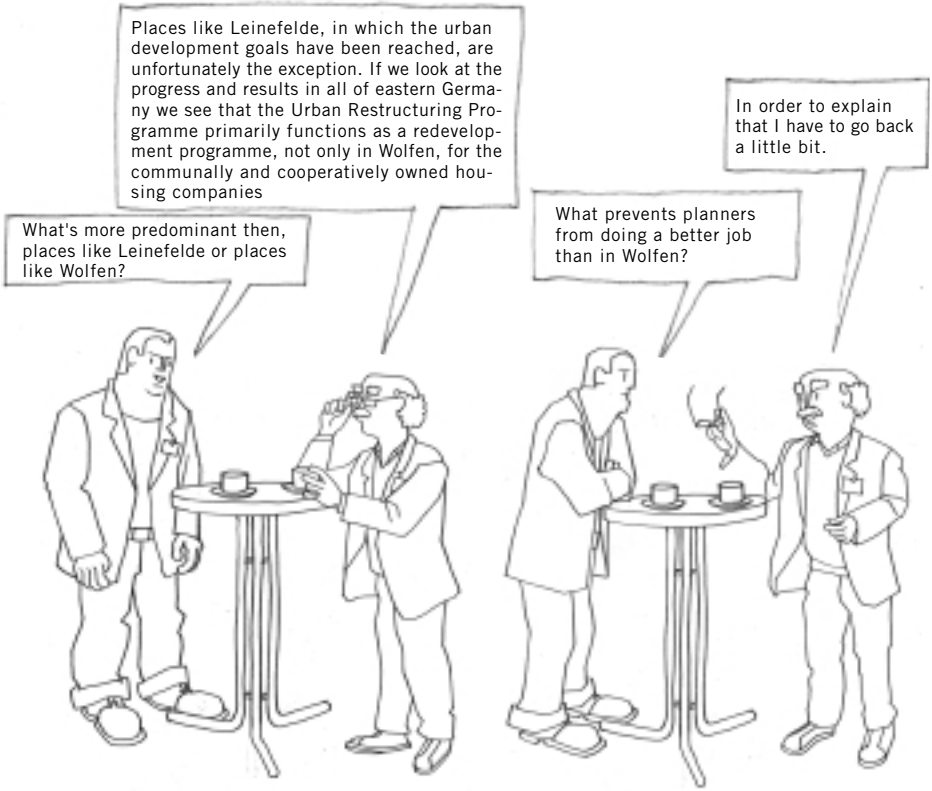
Those involved in Wolfen-Nord appear to think that the programme for demolition will continue even after 2010. A new wave of empty flats threatens and there are no recognizable perspectives for any kind of development. The only thing we can do at the urban planning department is to organize the winding-up of the housing estates.

This means that perhaps little by little the entire development will be demolished just in order to prevent both housing companies from going broke. Demolition assistance sure did develop a life of its own. I hope the Urban Restructuring in the New Federal States Programme functions better in other communities

TWO YEARS OF URBAN RESTRUCTURING IN THE NEW FEDERAL STATES

A few weeks later I took a day off and went to a conference called "Two Years of Urban Restructuring in the New Federal States", which was sponsored by the Federal Ministry of Transport, Building and Housing. I talked to an urban sociologist there, as I wanted to know how the programme worked in other communities. Are the results as equally disillusioning as they were in Wolfen? Is urban restructuring really only determined according to the stipulations and interests of the housing industry?

Luckily there are more encouraging developments than those in Wolfen. For example in Leinefelde, where housing companies and communities successfully cooperate and urban restructuring actually takes place, and not just demolition. Through demolition in Leinefelde new open-space areas and connections with the wider landscape have been created; improvement funds are used for the experimental reconstruction of prefab-concrete buildings. Because of this, sections of the housing estate now have a long-term perspective as places to live.


What's more predominant then, places like Leinefelde or places like Wolfen?
Places like Leinefelde, in which the urban development goals have been reached, are unfortunately the exception. If we look at the progress and results in all of eastern Germany we see that the Urban Restructuring Programme primarily functions as a redevelopment programme, not only in Wolfen, for the communally and cooperatively owned housing companies
What prevents planners from doing a better job than in Wolfen?
In order to explain that I have to go back a little bit.

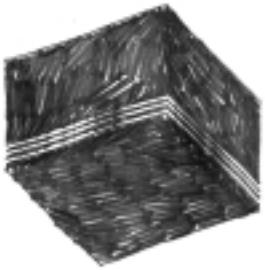
CONSEQUENCES OF ASSISTANCE PROGRAMMES SHORTCOMINGS

Empty flats are not just limited to the housing estates with prefab-concrete buildings, in older buildings it's even more of a problem. In old sections of the city many buildings are no longer habitable and are falling apart. The restored buildings are often empty.

In the mean time there are even low levels of occupation in some of the housing estates built during the 1990's.

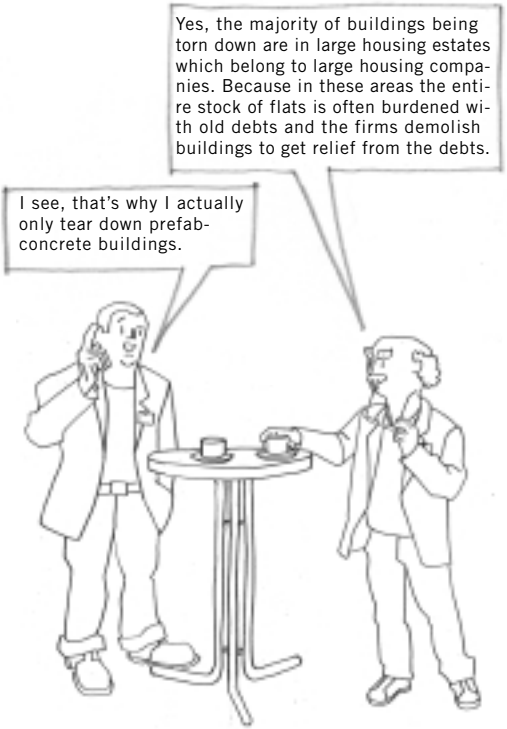
The assistance programme for Demolition is so organized, however, that with its help only the GDR housing stock belonging to companies which are entitled to old debt relief...

...and debt-free old buildings can be torn down.



Remaining old debts
10 billion Euros

Old Debt Relief
270 million Euros, April 2004
300 million Euros, Dec. 2002
358 million Euros, Dec. 2000



The linking of relief from old debts and partial demolition will continue to determine the implementation of the Urban Restructuring Programme in the future. By the time the deadline arrived in December 2003 the housing companies had applied for relief for 250,000 flats. Authorization for 150,000 flats has already been given. The assistance programme for old debts has already been increased twice and now amounts to 928 million Euros, which adds up to relief for 215,000 flats.

Housing company, created during the process of privatization which began in 1993, which has large debt problems, but no old debts.

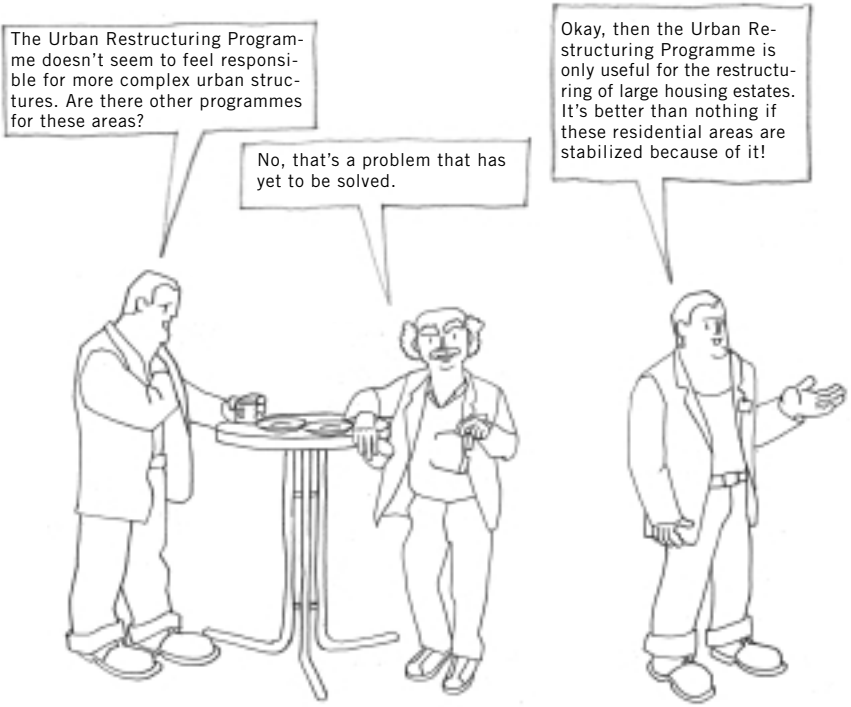
Municipality /

Private owner of renovated old buildings.

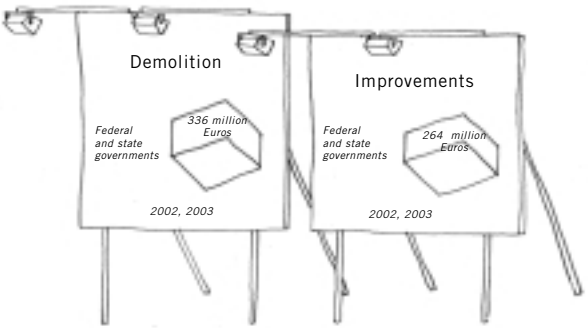
Housing construction cooperative with an occupancy level of 83% is entitled to old debt relief.

Munal housing company with an occupancy level of 86% is not entitled to old debt relief

In communities with a complex housing market and a more complex urban structure the problem is that most property owners are given no incentive to demolish their empty flats and buildings. They therefore don't get involved in the development and implementation of urban development concepts. The result is that in these communities partial demolition only takes place where the assistance programmes allow for it and not where it would also be useful in an urban planning sense.

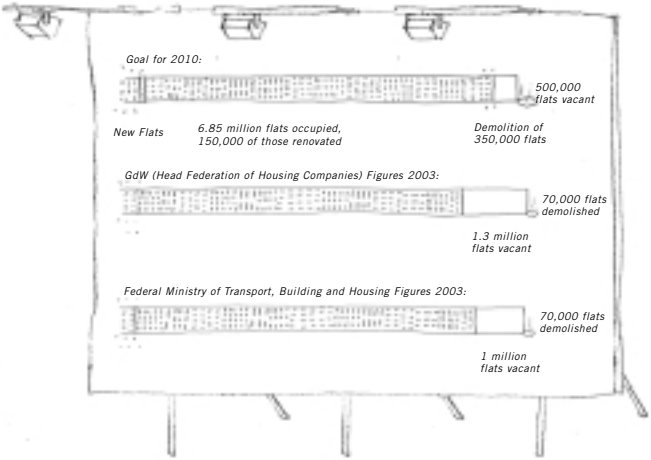


DEMOLITION VS. IMPROVEMENTS



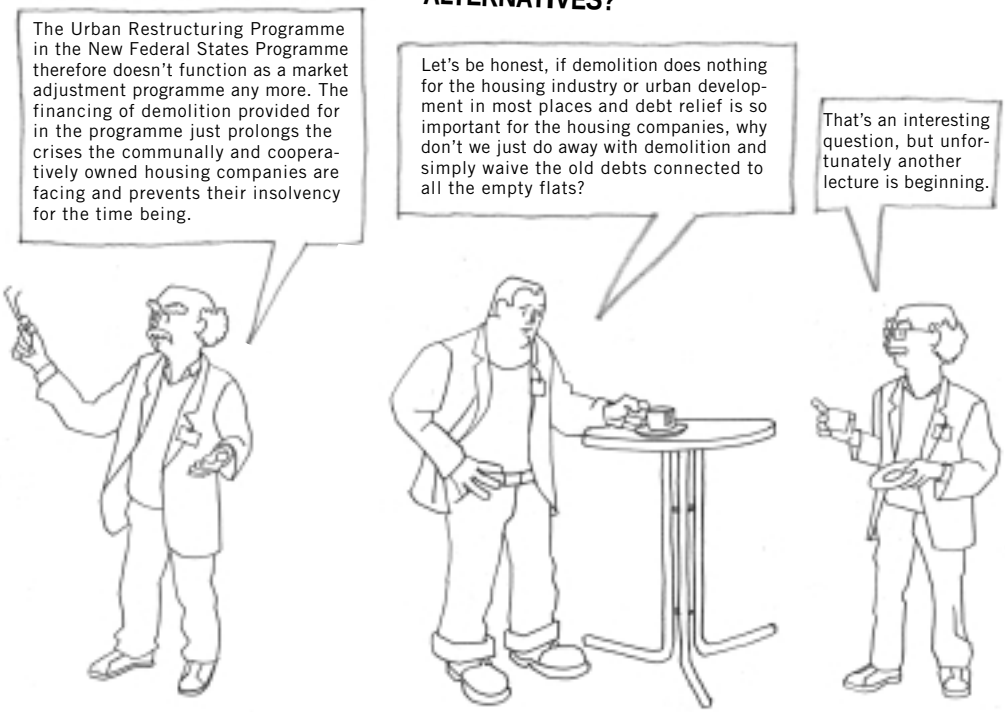
Many communities can't raise their own share of money for improvements and, as in Wolfen, partial demolition is not enough to prevent the downward spiral within the large housing estates. Saxonia and Saxonia-Anhalt have reacted to the latest developments concerning occupancy problems by increasing the financial assistance for partial demolition - more and more improvement funds are being used for partial demolition. The goals of the Urban Development Programme become less and less important as time goes by.

MARKET ADJUSTMENT?



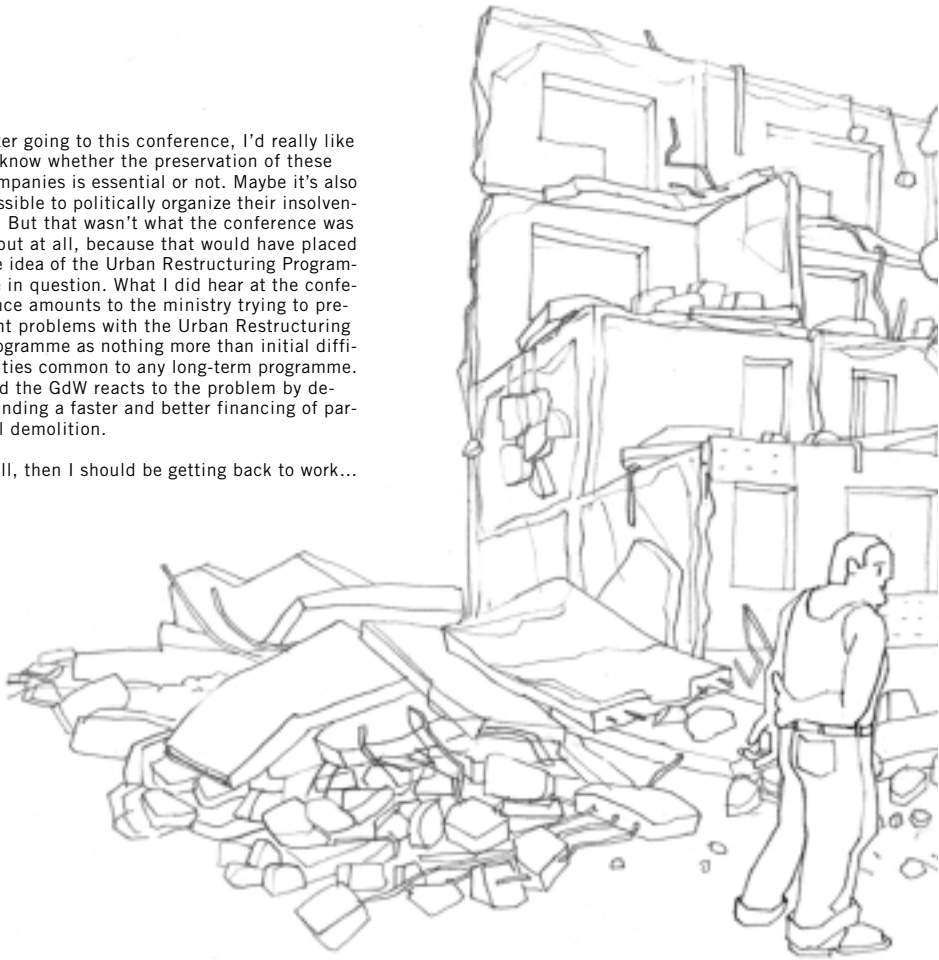
Investigations have been conducted concerning low occupancy levels. The results vary, depending on who did the research. The increased financial assistance of partial demolition in Saxonia and Saxonia-Anhalt tend to confirm the GdW's figures. And that means, that a surplus of flats will continue to exist in many regions after 2010 and that the housing companies will once again face insolvency.

ALTERNATIVES?



After going to this conference, I'd really like to know whether the preservation of these companies is essential or not. Maybe it's also possible to politically organize their insolvency! But that wasn't what the conference was about at all, because that would have placed the idea of the Urban Restructuring Programme in question. What I did hear at the conference amounts to the ministry trying to present problems with the Urban Restructuring Programme as nothing more than initial difficulties common to any long-term programme. And the GdW reacts to the problem by demanding a faster and better financing of partial demolition.

Well, then I should be getting back to work...



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Based on my own calculations, the average size of a flat is 60 square metres.

The names and characters in this story are the products of the author's imagination and any resemblance to actual persons, living or dead, is entirely coincidental.

Why demolition? was created as part of Shrinking Cities as a contribution to the exhibition Schrumpfende Städte. Internationale Untersuchung. The exhibit will first be shown at the KW - Institute for Contemporary Art in Berlin from September 4 to November 7, 2004.
Shrinking cities is a project (2002-2005) of the Federal Cultural Foundation in cooperation with the Leipzig Gallery of Contemporary Art, the Bauhaus Dessau Foundation and the magazine archplus.
www.shrinkingcities.com
Berlin 2004

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In eastern Germany 350,000 vacant flats will be demolished by the year 2010 as part of the Stadtumbau Ost (Urban Restructuring in Eastern Germany) programme.

The excavator operator Uwe wonders every time he tears down a building: Wouldn't it be much better to keep the buildings and lower the rents? Uwe wants to know what's going on. In North Wolfen he meets the head of a housing construction company and an architect from the planning authority, and participates in a conference at the Federal Ministry of Building and Housing. Along the way he asks many questions in order to get to the bottom of the demolition programme, with all its contradictions and problems.

He finds out that flats are being torn down in order to prevent the big housing construction companies in eastern Germany from becoming insolvent. In addition, the housing estates which are subject to partial demolition should be made more attractive with so-called improvements programmes. After two years and the demolition of 70,000 flats it becomes clear that the goals of the Stadtumbau Ost programme are not being met. Instead, the affected housing estates are becoming less and less attractive and the bankruptcies of the housing construction companies are only being postponed in a very expensive and extravagant manner.