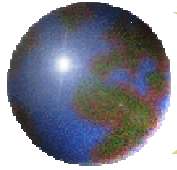


*Private Funds for Revitalising East  
German Historic Cities:  
The Case of Zittau*

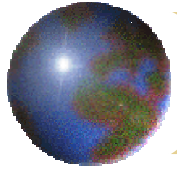


Presentation for the  
European Network of Housing Research International Conference  
Sustainable Urban Areas, Rotterdam, The Netherlands  
25.-28. June 2007  
Presenter: Stefan Kofner, TRAWOS Institute



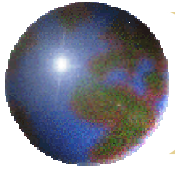
## *Contents*

1. Current housing market situation:  
Saxony and Zittau
2. The historic inner city of Zittau
3. Stages of revitalisation
4. Résumé

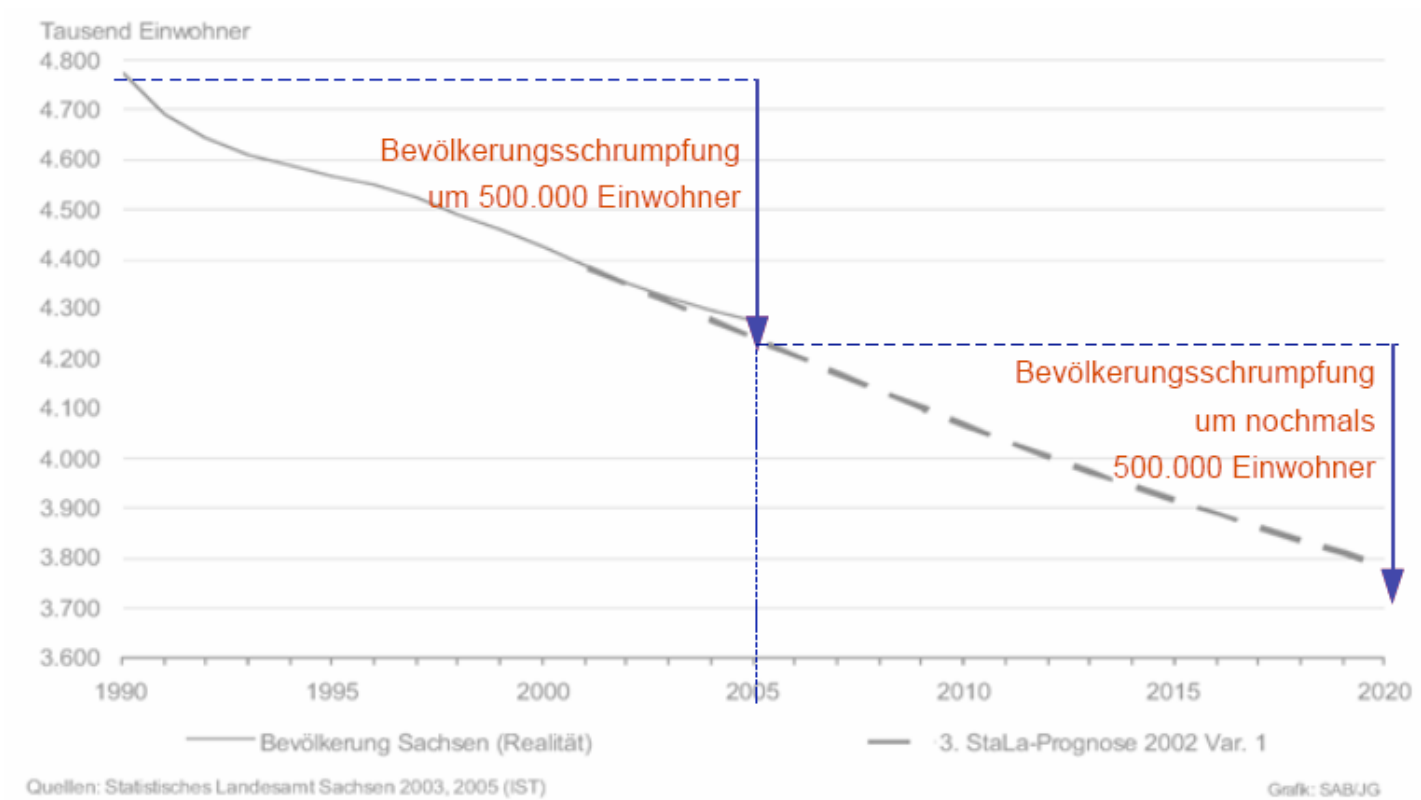


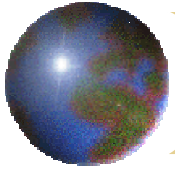
## *Current Situation: Saxony*

- since 1990 loss of more than 500.000 inhabitants (from 4,776 Mio. to 4,274)
- 800 schools closed since 1990
- Housing market
  - 31. December 2004: 2.342.058 dwellings
  - vacant dwellings approx. 400.000 = 17 per cent
  - 70.000 dwellings already demolished
  - another 240.000 demolitions planned until 2015
  - only 12 out of 144 member companies of vdw Sachsen (repr. municipal housing organisations) make a profit



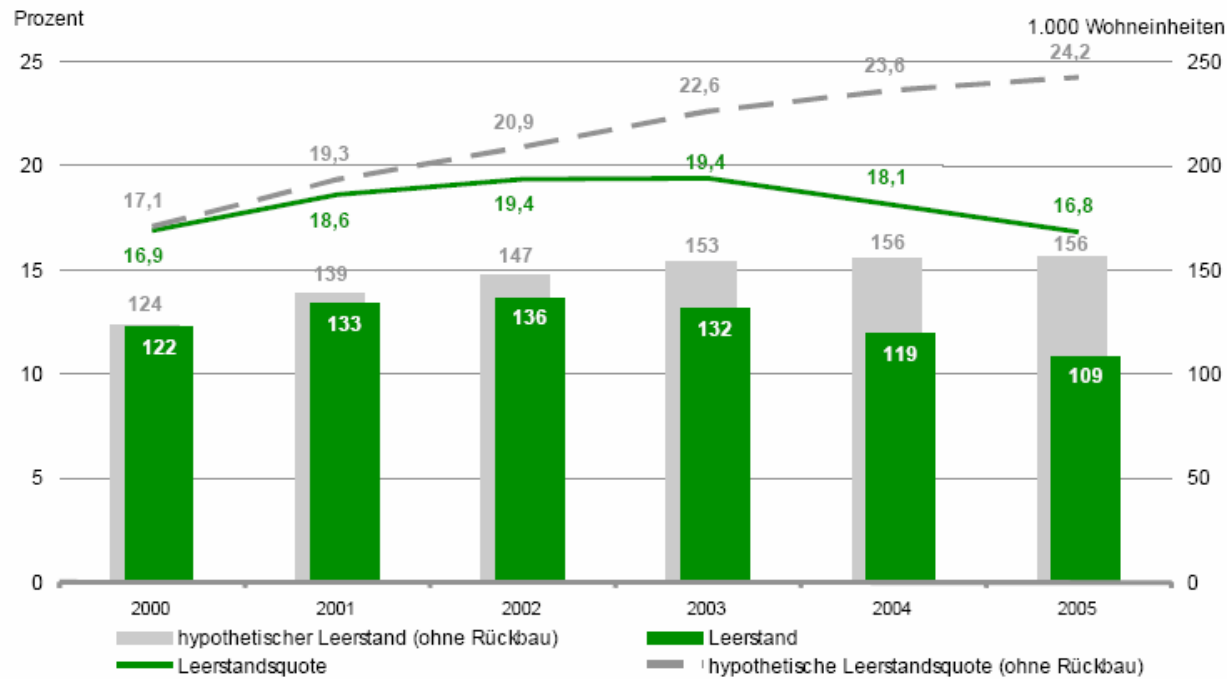
# Continuing population decrease



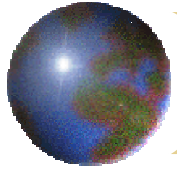


# Vacancies in Saxony: Municipal housing and co-operatives

Entwicklung des Wohnungsleerstandes  
in den Mitgliedsunternehmen des vdw Sachsen und des VSWG

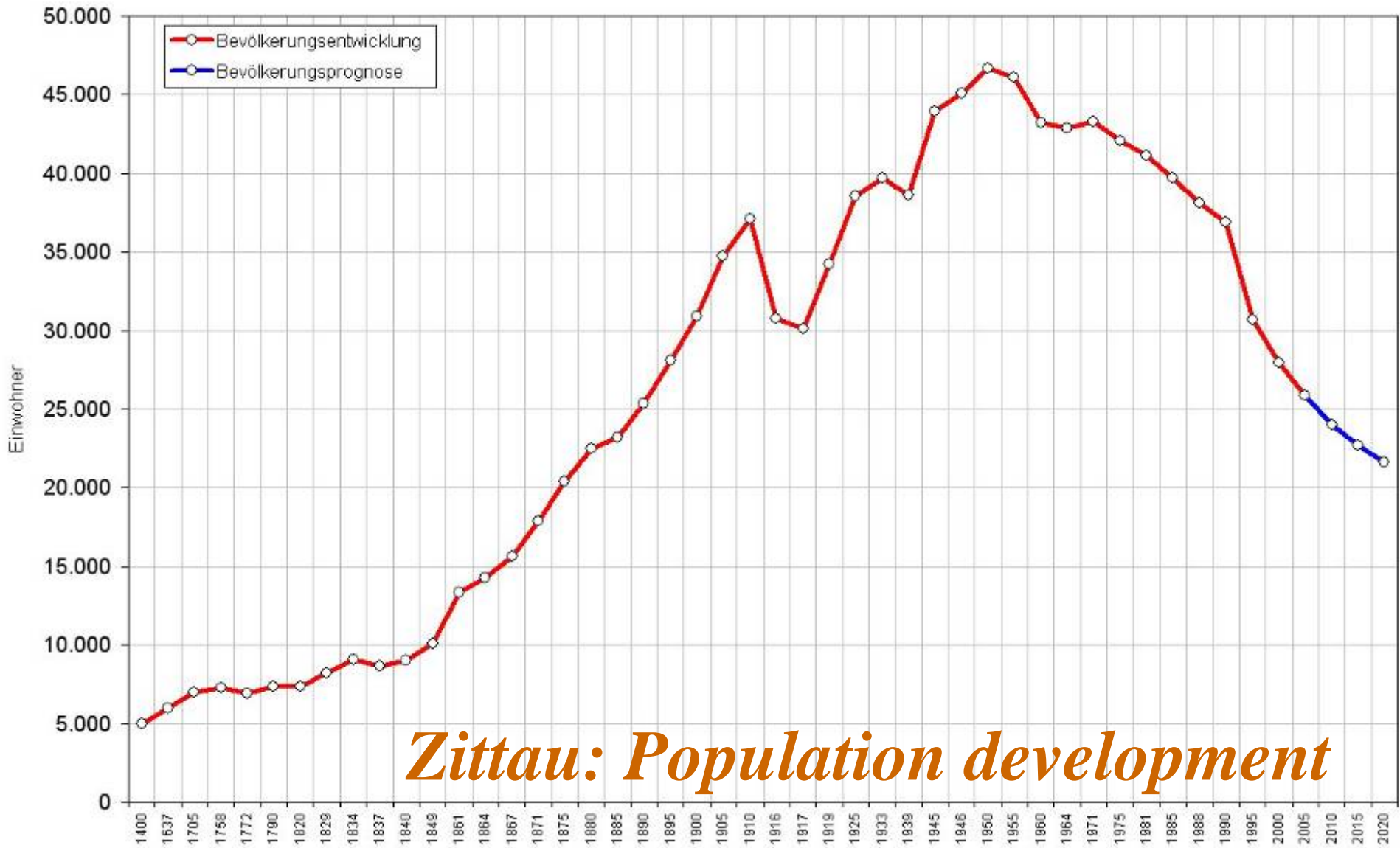
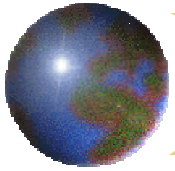


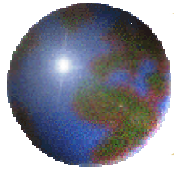
Quelle: vdw Sachsen (Verband der Wohnungs- und Immobilienwirtschaft e.V.), VSWG (Verband Sächsischer Wohnungsgenossenschaften e.V.) Stand: März 2006



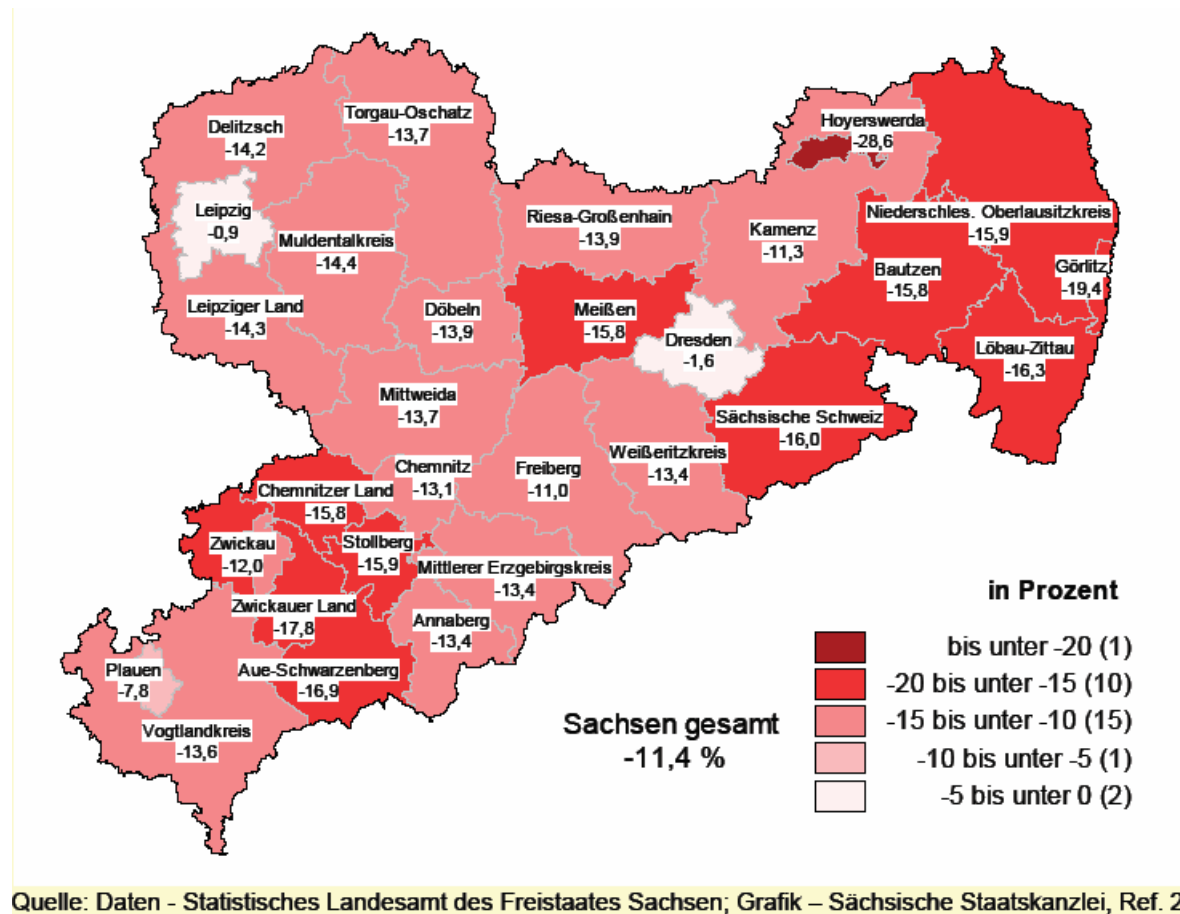
## *Current Situation: Zittau*

- automotive and textile industry almost completely vanished after 1990
- 3.268 jobless in 2005 (24,2 per cent)
- county ranked no. 425 in ISM regional ranking from 2005 (total: 435 cities and counties)
  - average gross wage: € 19.560 (national: € 25.822) – rank 429.
  - purchasing power: € 5.611 (national: € 8.523) – rank 434
  - average GDP per labourer: € 39.790 (national: € 53.331) – rank 432
  - share of long-term unemployed 49 per cent (national: 35,4) – rank 428

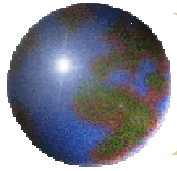




## Saxony: Population development 2005-2020





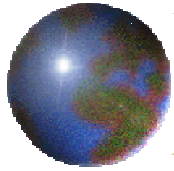


## *Characterisation of the historic inner city*

- ✚ cityscape of Zittau marked by buildings from **diverse periods** like early gothic period, renaissance, baroque, classicism and Jugendstil.
- ✚ Most of the buildings in the inner city were erected at the end of the 18th and during the 19th century.

Marktplatz





## *Characterisation of the historic inner city*



Salzhaus in der Neustadt



Rathaus

- ✪ city walls demolished in the middle of the 19th century
- ✪ replaced by the „green ring“ with subsequent development
- ✪ Public space in the city centre
  - ✪ singular places
  - ✪ fountains
  - ✪ Prominent buildings: Salzhaus, Johanniskirche, Rathaus



- 670 buildings in the historic inner city
- about 55 per cent restored
- 88 buildings acutely endangered
- 21 buildings demolished
- about 110 buildings vacant
- many objects with shops
- more than 30 shops vacant

Große Kreisstadt Zittau  
 Erhaltungssatzungsgebiet  
 Sanierungsstand: Juli 2005

- sanierte Objekte
- unsanierte Objekte
- gefährdete Objekte

Bearbeiter:

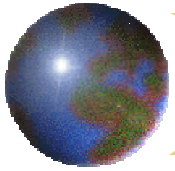


Zittauer Stadtentwicklungsgesellschaft mbH  
 (Stadtentwicklungsbüro)















zu verkaufen  
Telefon: 97140

20  
ZONE

NO PARKING  
ZONE

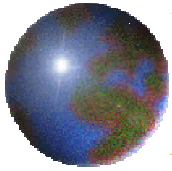
20  
ZONE

NO PARKING  
ZONE

NO ENTRY

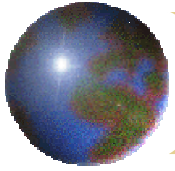


Historic Buildings

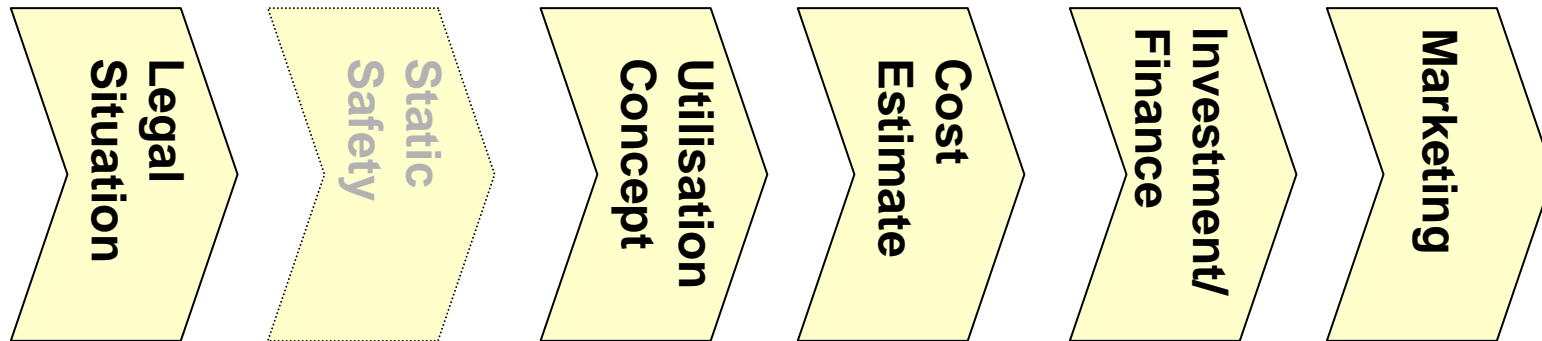


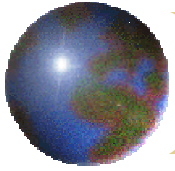
## Historischer Stadtkern Zittau

	<b>Gebäude</b>	saniert	unsaniert	leer	unbebaut	<b>WE</b>	WE saniert	WE unsaniert	WE leer/unbewohnt
Erhaltungssatzungsgebiet	<b>679</b>	<b>318</b> 46,83%	<b>193</b> 28,42%	<b>121</b> 17,82%	<b>47</b> 6,92%	<b>2.411</b>	<b>1.458</b> 60,47%	<b>321</b> 13,31%	<b>632</b> 26,21%
Privat	<b>574</b>	<b>291</b> 50,70%	<b>174</b> 30,31%	<b>88</b> 15,33%	<b>21</b> 3,66%	<b>2.121</b>	<b>1.302</b> 61,39%	<b>298</b> 14,05%	<b>521</b> 24,56%
Wobau	<b>62</b>	<b>22</b> 35,48%	<b>7</b> 11,29%	<b>22</b> 35,48%	<b>11</b> 17,74%	<b>264</b>	<b>156</b> 59,09%	<b>21</b> 7,95%	<b>87</b> 32,95%
Stadt	<b>32</b>	<b>2</b> 6,25%	<b>10</b> 31,25%	<b>9</b> 28,13%	<b>11</b> 34,38%	<b>26</b>	<b>0</b> 0,00%	<b>2</b> 7,69%	<b>24</b> 92,31%
Bund / Land	<b>11</b>	<b>3</b> 27,27%	<b>2</b> 18,18%	<b>2</b> 18,18%	<b>4</b> 36,36%	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

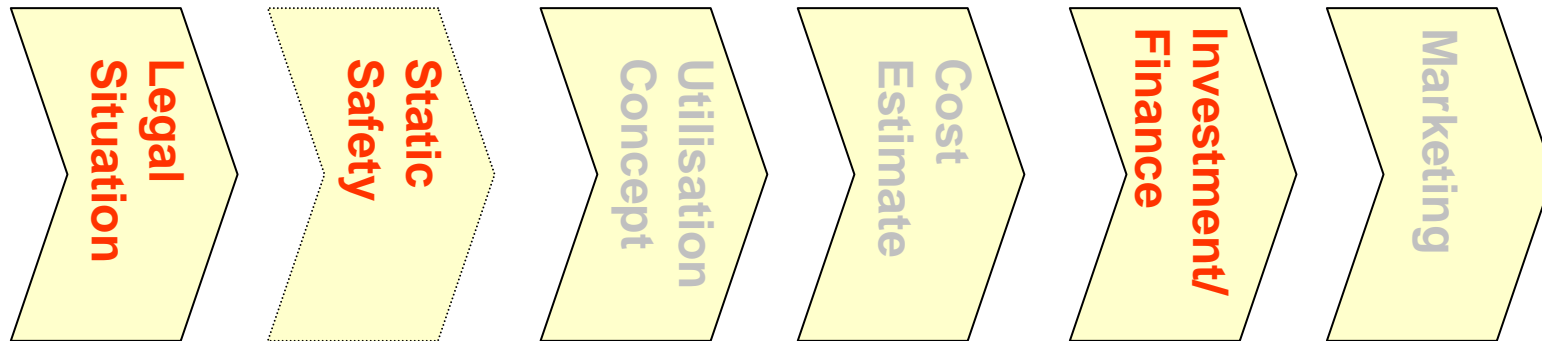


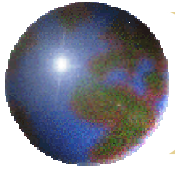
# *Stages of Revitalisation*



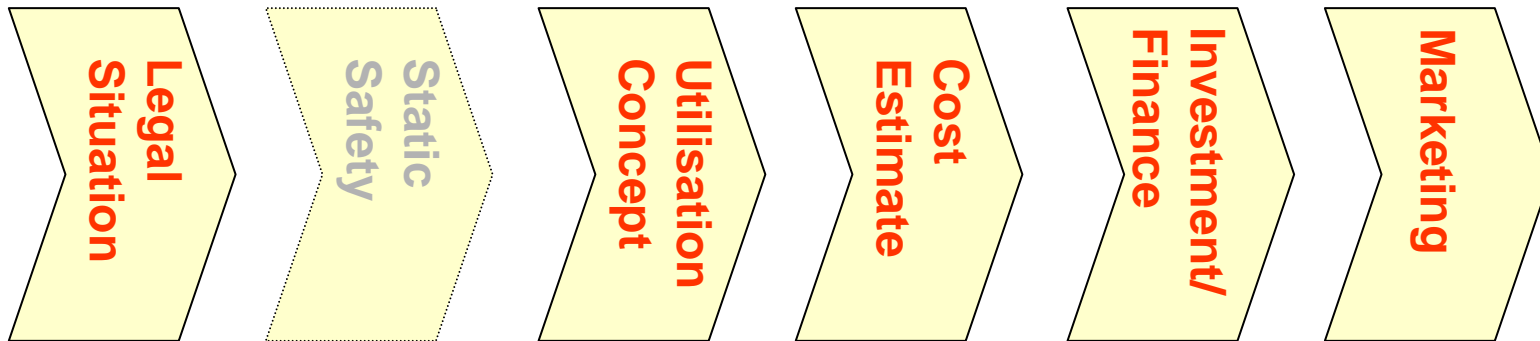


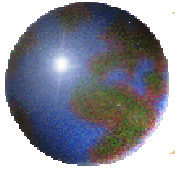
# *Model 1*



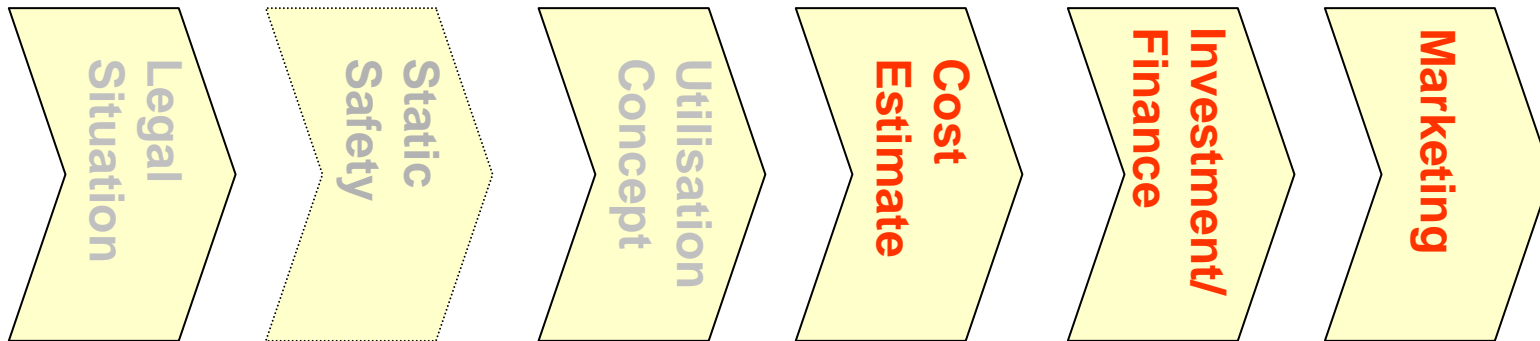


## *Model 3*

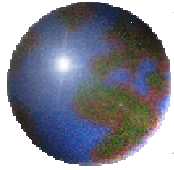




# *Model 4*

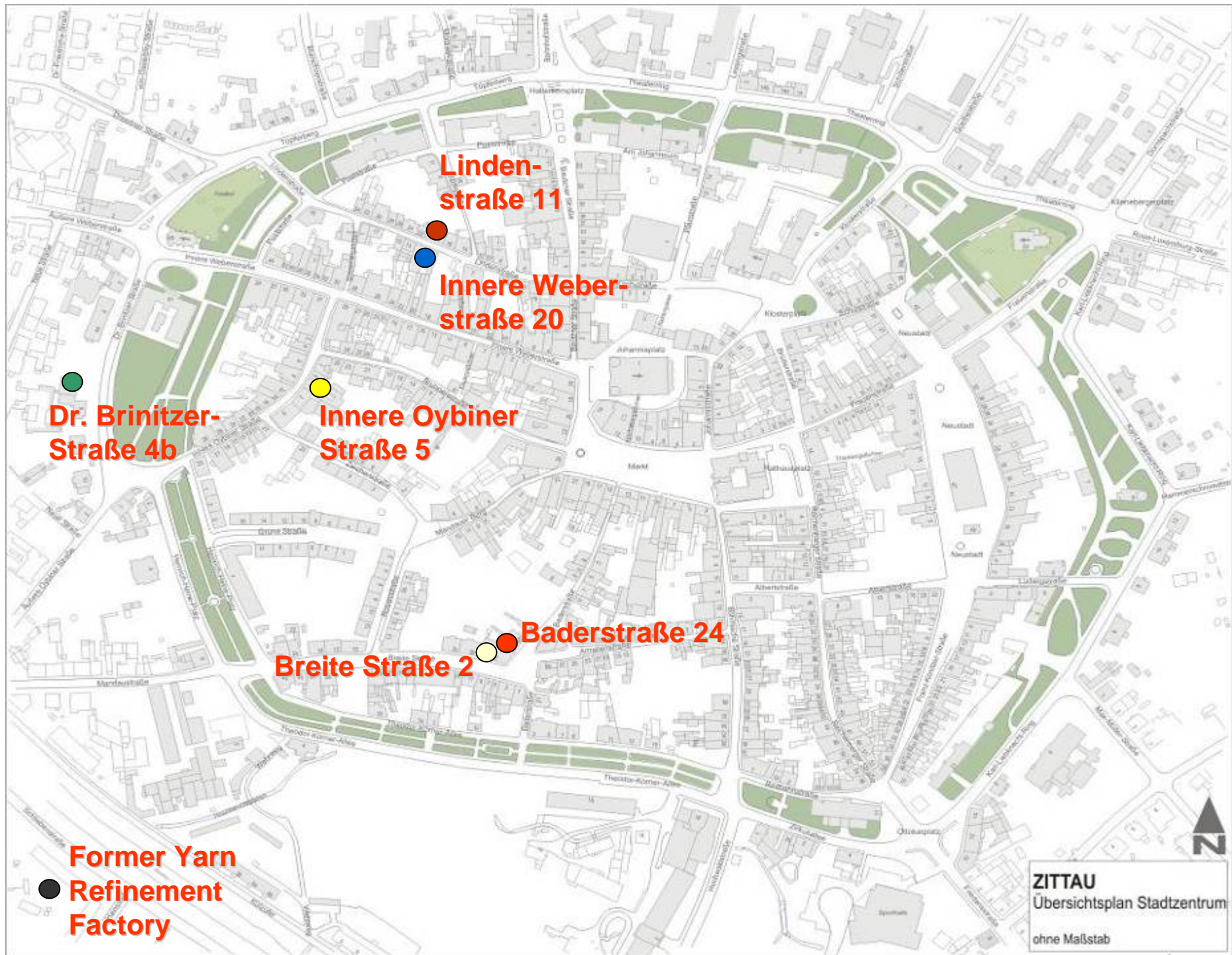






## *Scope of services*

<b><u>Model 1</u></b> : preservation of townscape shaping buildings	<b>Breite Straße 2 / Baderstraße 24 Lindenstraße 11</b>
<b><u>Model 3</u></b> : development of alternative concepts of usage	<b>Innere Weberstraße 20 Lindenstraße 11</b>
<b><u>Model 4</u></b> : objects ready to be marketed	<b>Innere Oybiner Straße 5 Dr. Brinitzer Straße 4b Ehemalige Garnveredlung Äußere Oybiner Straße</b>
<b><u>Model 5</u></b> : quarters marketing	<b>Quartier (Amalienstraße, Baderstraße, Theodor-Körner-Allee, Böhmische Straße)</b>



**Linden-  
straße 11**

**Innere Weber-  
straße 20**

**Dr. Brinitzer-  
Straße 4b**

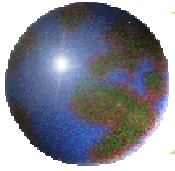
**Innere Oybiner  
Straße 5**

**Baderstraße 24**

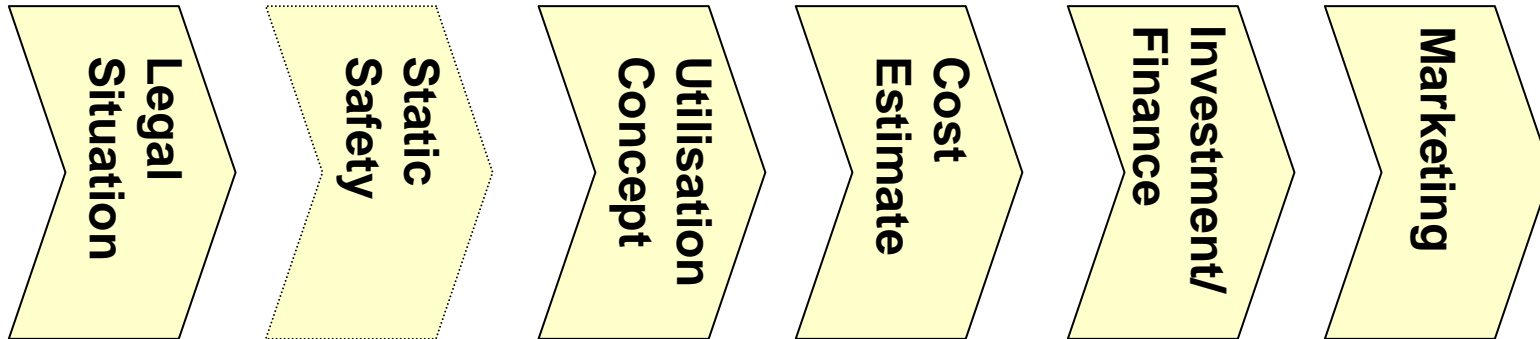
**Breite Straße 2**

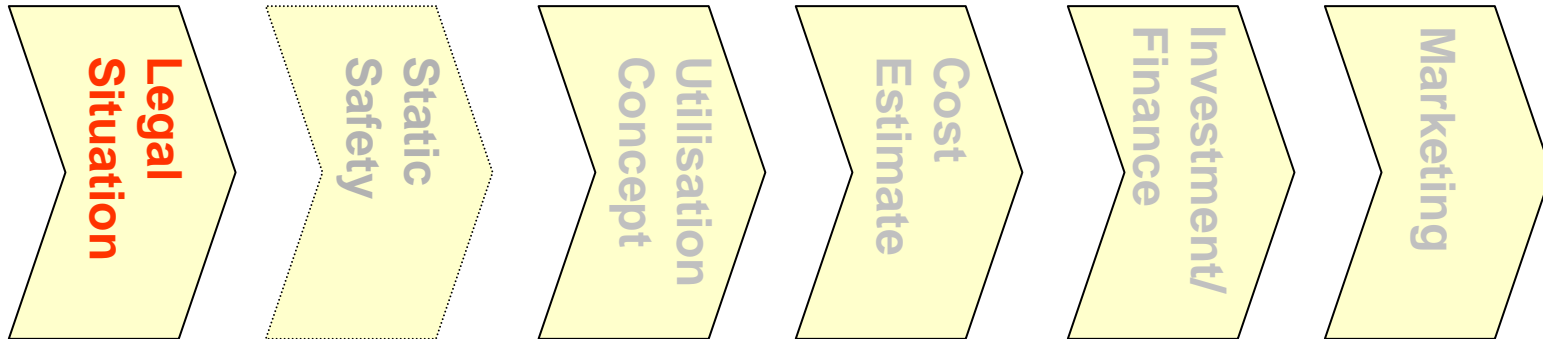
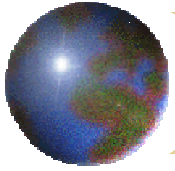
**Former Yarn  
Refinement  
Factory**

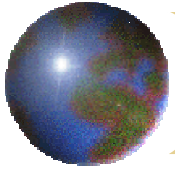
**ZITTAU**  
Übersichtsplan Stadtzentrum  
ohne Maßstab



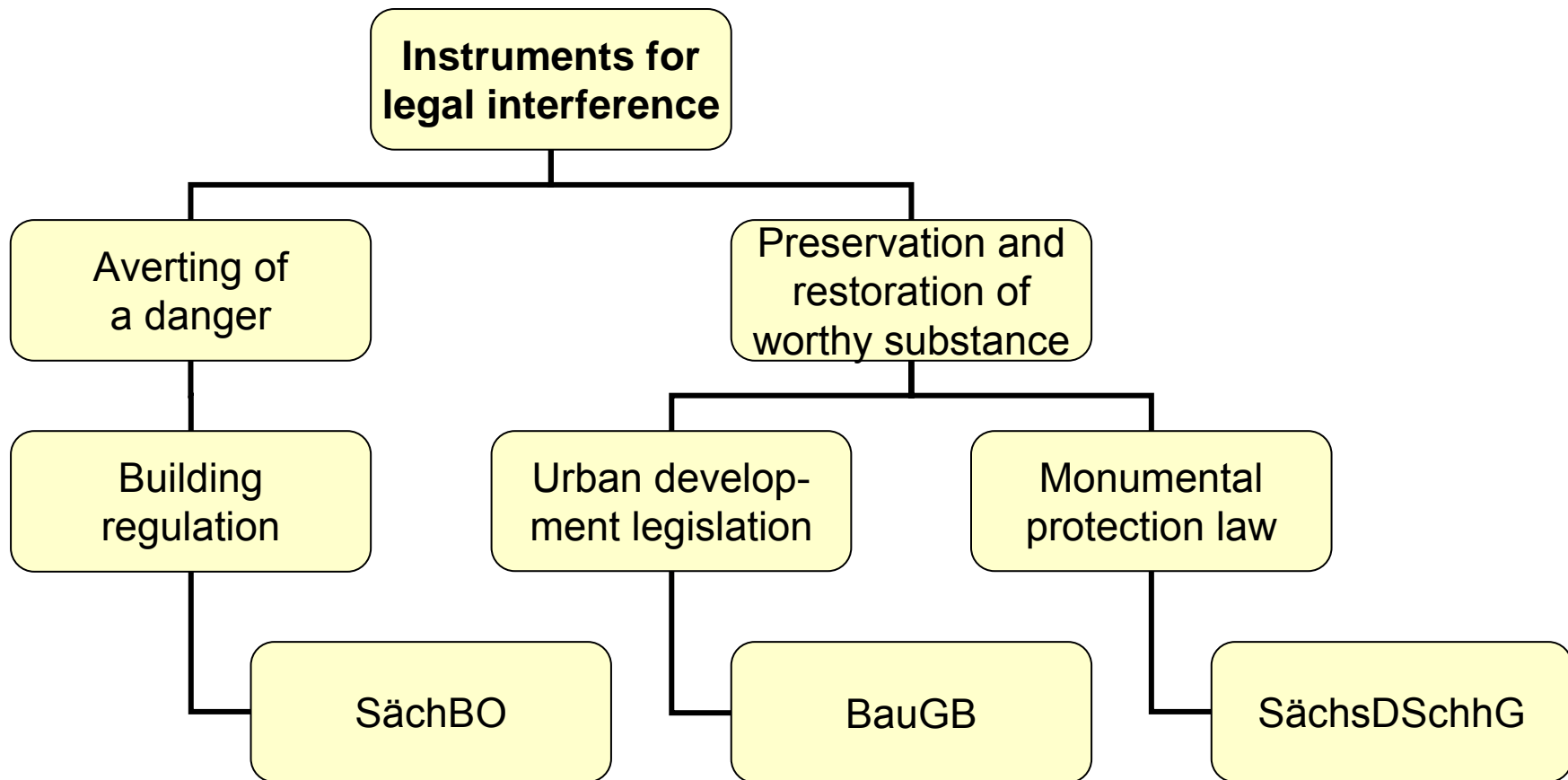
## *What have we learnt so far?*

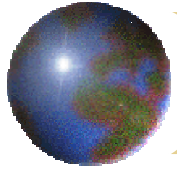






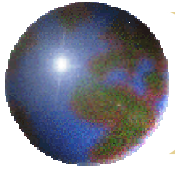
# *Instruments for interference*



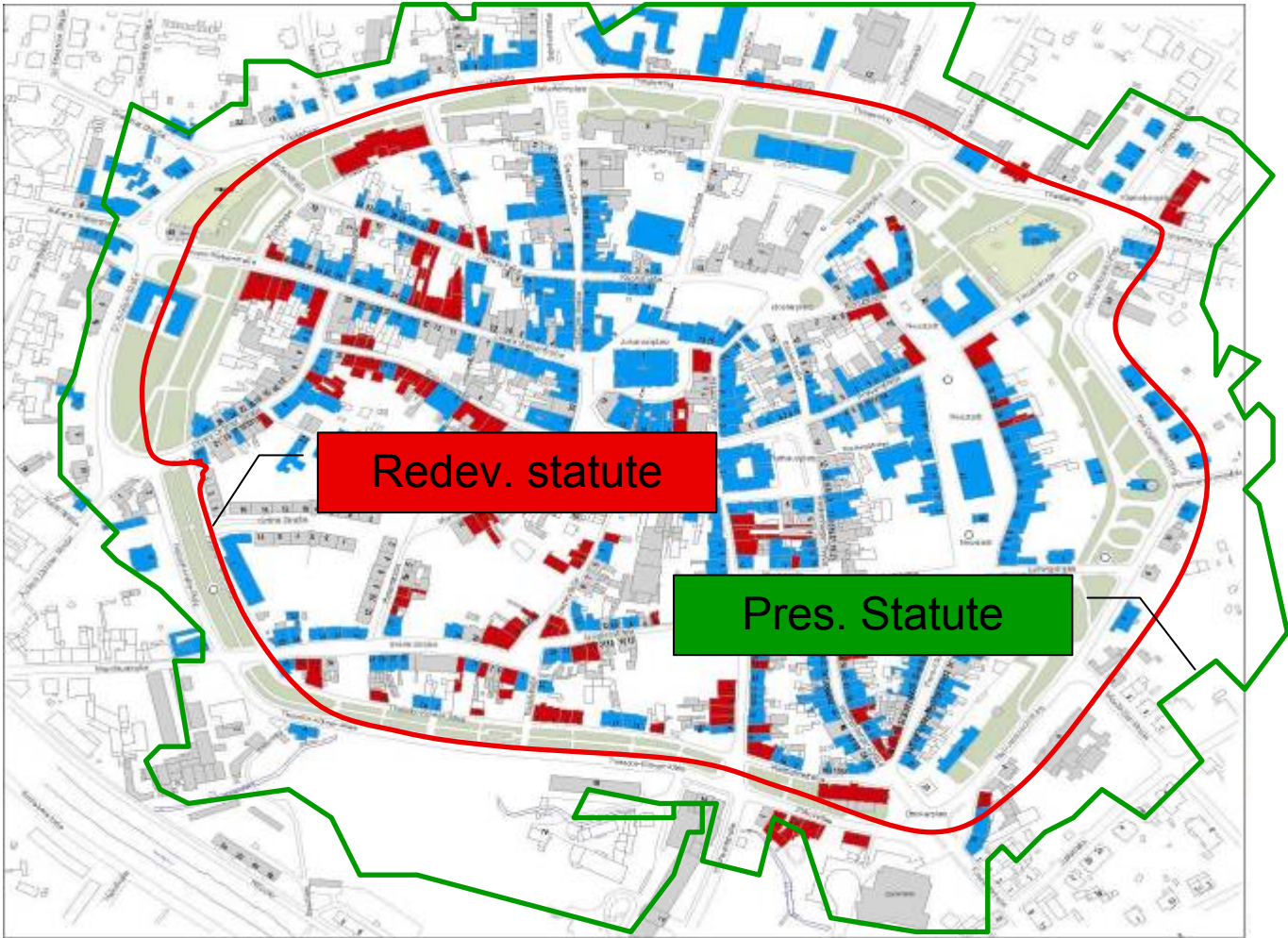


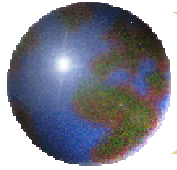
## *Building regulation*

- ⊕ interference to **avert a danger**, e.g. the danger of components crashing down
- ⊕ **substitutive action** in case of unwilling or economically incapable owners
- ⊕ instruments to secure the respective **claims** (e.g. the compulsive hypothec – Zwangshypothek) often not effective
- ⊕ improvement
  - ▣ claim securitisation
  - ▣ check the financial capability of an owner (e.g. disclosure of accounts)



# *Urban development legislation*

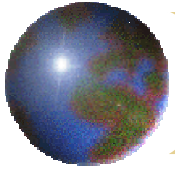




## *Redevelopment procedure*

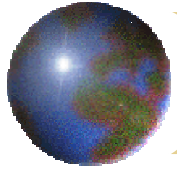
- ⊕ inside the redevelopment area
  - ⊞ preemptive right,
  - ⊞ expropriation and
  - ⊞ provisions on building permissions  
(Genehmigungsvorbehalte)





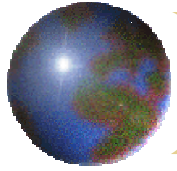
## *Realisation of urban redevelopment*

- ✚ regulatory measures (Ordnungsmaßnahmen),  
e.g.
  - land reallocation - Bodenordnung – or
  - exposure of sites - Freilegung von Grundstücken
- ✚ building measures (e.g. modernisation, restoration, new construction).



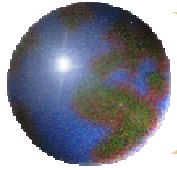
## *Execution deficit*

- ⊕ the insufficient engagement of private owners with respect to modernisation and restoration of historic buildings,
- ⊕ insufficient legal forms of pressure,
- ⊕ insufficient financial resources of local authorities for purposes of urban re-development and
- ⊕ difficulties in acquiring private investors.



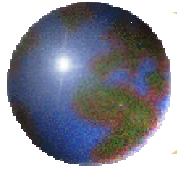
## *Ineffectiveness of the special interference instruments*

- ⊕ (limited) possibilities to pressurize unwilling owners
  - ▣ substitutive action requires a toleration agreement (Duldungsvertrag)
  - ▣ “order based on urban-planning grounds” (**städtebauliches Gebot**)
- ⊕ special powers in a preservation statute require adequate **financial resources**
  - ▣ refusal of a permission for demolition
  - ▣ exercise of preemptive right



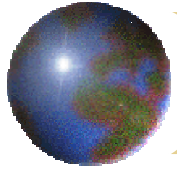
## *Orders based on urban-planning grounds*

- ❖ very limited practical relevance due to
  - ❑ incertain jurisdiction,
  - ❑ long administrative procedures,
  - ❑ cost and time requirements of legal disputes and
  - ❑ insufficient financial resources of local authorities:  
requirement of **economic acceptability**
- ❖ The use of these powers is however indispensable to force irresponsible owners to cooperate.



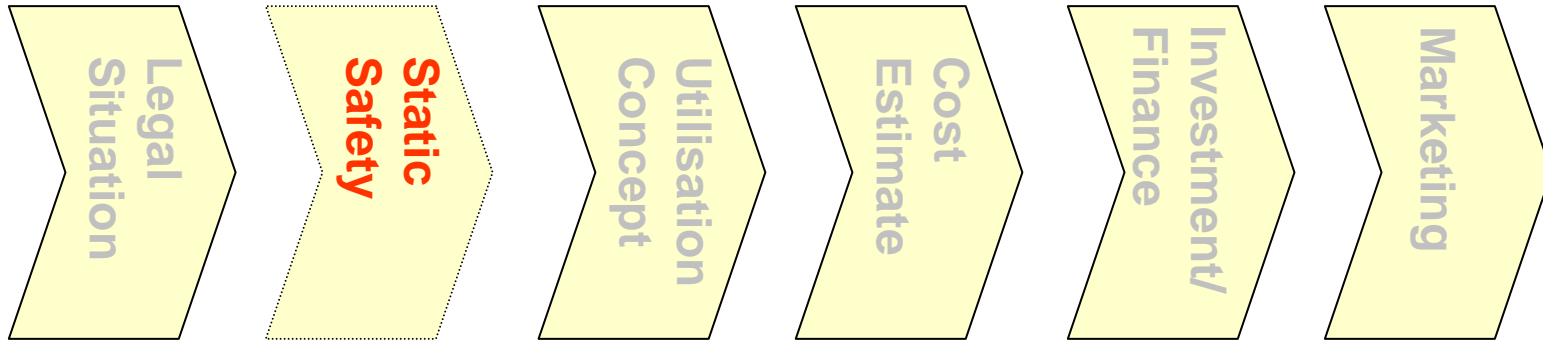
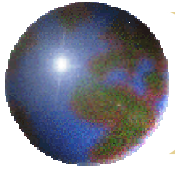
## *Monumental protection law*

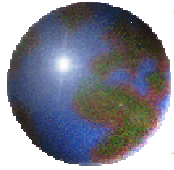
- ⊕ owner's duty to to preserve and restore a monument
- ⊕ in case of violation monumental protection authorities can proceed against him, e.g. **preservation order** (Erhaltungsgebot).
  - ⊞ very modest practical importance
  - ⊞ in case of **economic unacceptability**: monumental protection authority has to cover the costs itself



## *Passage of title*

- ⊕ limited practical importance
- ⊕ consolidation of property rights to **internalise neighbourhood externalities** and reinstall incentives to invest
- ⊕ **preemptive right** only applies in case of a sale
- ⊕ **dispossession**: last resort in cases where the purpose of the dispossession cannot be attained otherwise.
- ⊕ adequate financial resources and qualified personnel

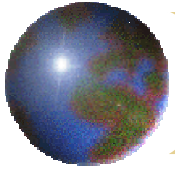




## *Tasks fulfilled*

- ✚ registration of the state of construction
- ✚ measurement
- ✚ damage mapping, damage assessment
- ✚ static recalculation
- ✚ planning of safeguarding measures
- ✚ involvement in the preparation of the public tender offer
- ✚ building supervision

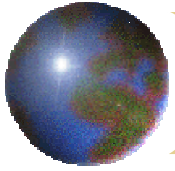




## Baderstraße 24

A sad example for the downfall of historic buildings worthy to be preserved by lack of maintenance



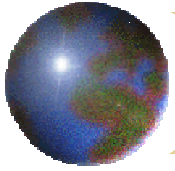


## *Base floor door*



*Base floor Unterzug*

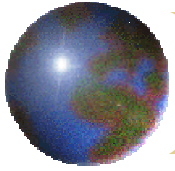




## *Base floor water*

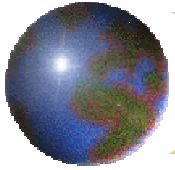




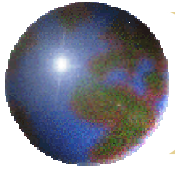


*First floor,  
room 6*





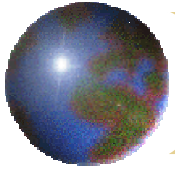
*Second floor,  
room 3*



*Erstes DG,  
Room 6*

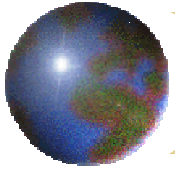






# *Roof*



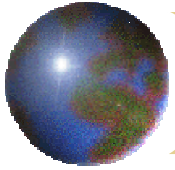


## Breite Straße 2

Prominent corner house Breitestraße/ Baderstraße

- municipal property
- measurements taken
- state of construction



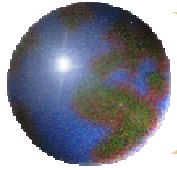


## Lindenstraße 11

Private property

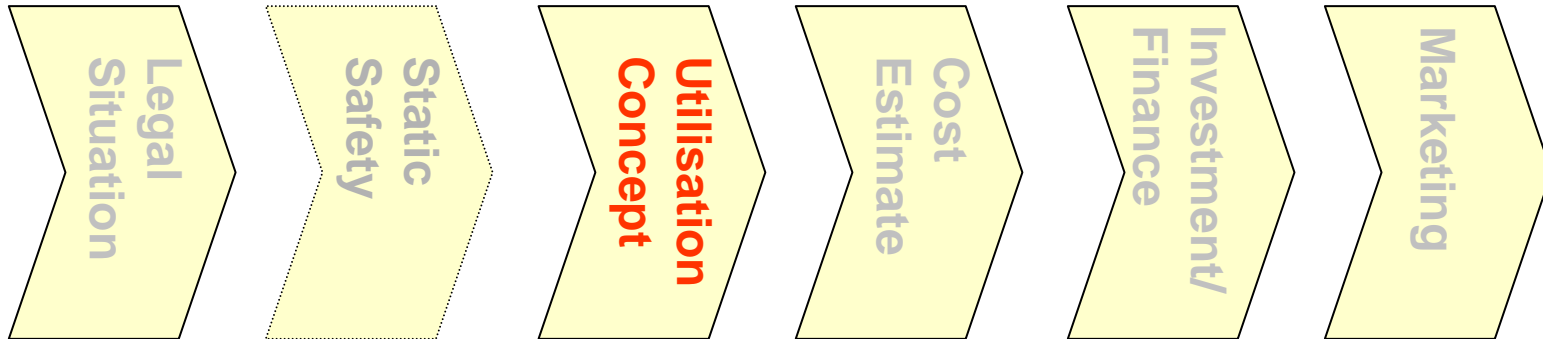
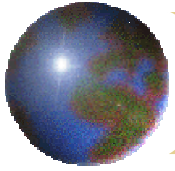
- no building file
- measurements taken
- state of construction

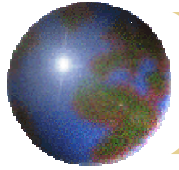




## *Résumé on static safety*

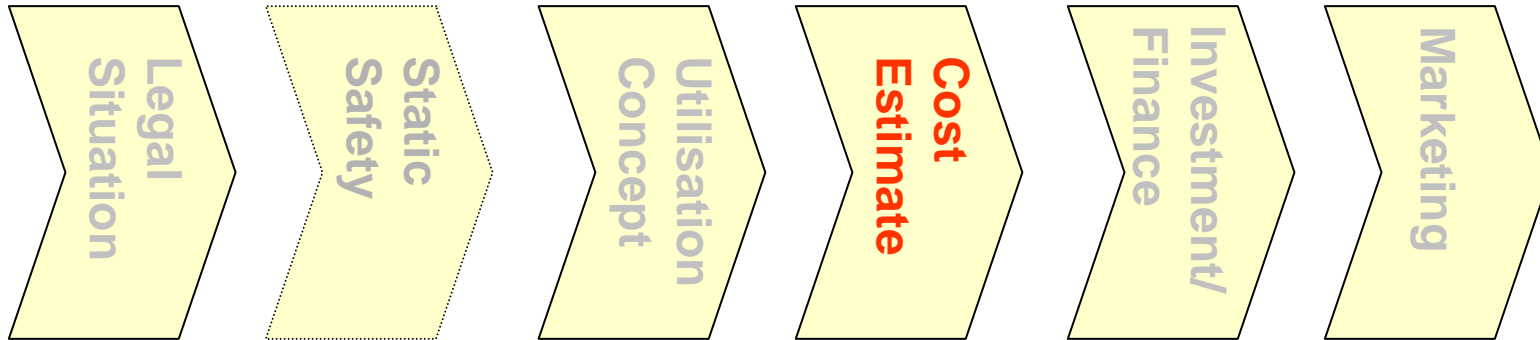
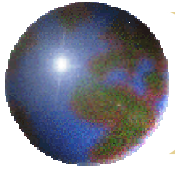
- ⊕ fight against water penetration
- ⊕ safeguarding measures  $\equiv$  conservation of value
- ⊕ deterioration of state of construction only decelerated
- ⊕ to facilitate: check relevant administrative fiat
- ⊕ best solution: back in use
- ⊕ volume of the safeguard programme for endangered monuments: € 3 Mio. for whole Saxony
- ⊕ Saxony has 105.000 monuments (!)

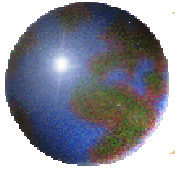




## *Utilisation concepts*

- object properties:
  - location
  - fitness, adaptability for different uses
- residential use: less than 5 per cent vacancies in restored inner city dwellings
- retail use
  - depends on location
  - architectonic limitations
- objects designed for special (historic) uses: z.B. "Durchhäuser")

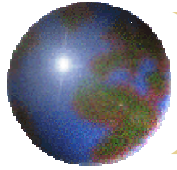




## *Cost estimate*

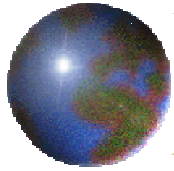
- ⊕ importance for further stages of revitalisation
- ⊕ costly because of the heterogeneity of historic buildings (including state of construction)
- ⊕ cost estimate subject to incertitude on a large scale: cost divergences of more than 30 per cent usual → higher rate of return





## *Our approach*

- ✚ measures of the elements in each room were ascertained (e.g. inside walls, outside walls, ceilings)
- ✚ A class of damage was assigned to each single element
- ✚ costs per unit, element and room depending on the damage class taken from the „Kostenspiegel zur Kostenschätzung“ (Neddermann 2005)
- ✚ based on a catalogue of 350 bundles of restoration measures



## *Restoration costs per element and costs per room*

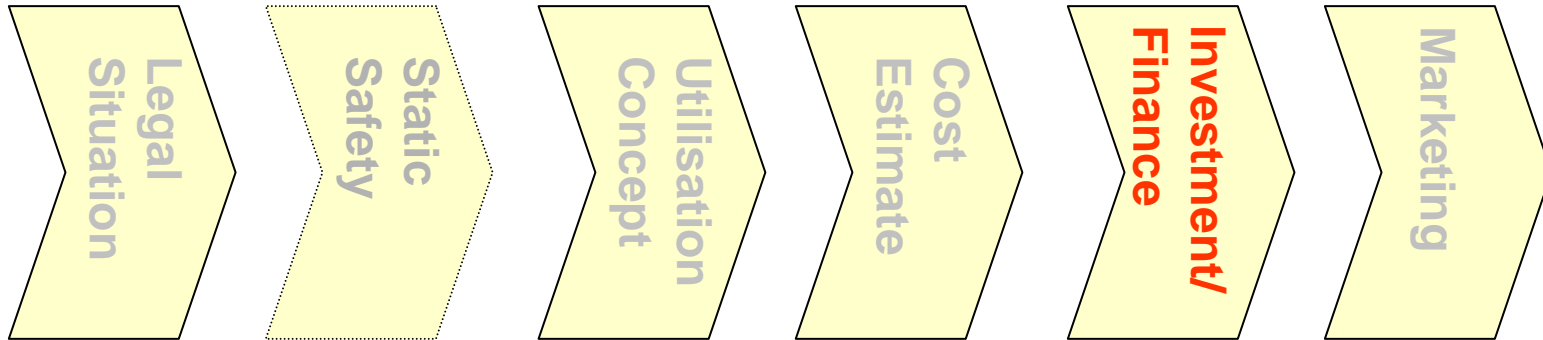
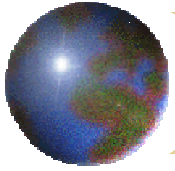
Element	Bezeichnung	Menge	Skl	Einzelpreis	Gesamtpreis
EG 1.3.1	Innenwand, Ziegelmauerwerk, verputzt, gestrichen	12,73	4	152	1.935,62 €
EG 1.2.2	Außenwand, Ziegelmauerwerk, verputzt, gestrichen	43,59	4	152	6.626,32 €
EG 1.2.3	Außenwand, Ziegelmauerwerk	12,71	3	103	1.309,53 €
EG 1.2.4	Außenwand, Ziegelmauerwerk, verputzt, gestrichen	42,23	4	152	6.419,48 €
EG 1.4	Decke, Kreuzgewölbe, verputzt gestrichen	34,36	2	46	1.580,65 €
EG 1.4	Fußboden	29,88	3	111	3.316,68 €
EG 1.6a.3	Außenfenster, Holzrahmen, doppelt verglast	1,71	3	638	1.090,98 €
EG 1.6b.3	Außenfenster, Holzrahmen, doppelt verglast	1,71	3	638	1.090,98 €
			<b>Raumkosten:</b>		23.370,23 €

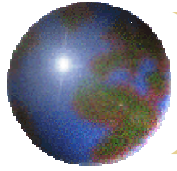


# Sanierungskosten für die Innere Weberstraße

## 20

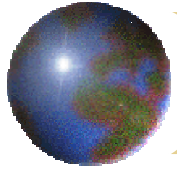
Kostengruppe	Bezeichnung	Gesamtkosten
100	Grundstück	80.465 €
200	Herrichten	26.500 €
<b>300</b>	<b>Bauwerk - Baukonstruktion</b>	<b>1.045.207 €</b>
400	Bauwerk - Bautechnik	519.242 €
500	Außenanlagen	3.193 €
600	Ausstattung und Kunstwerke	15.644 €
700	Nebenkosten	258.549 €
Gesamtbaukosten, netto		1.948.800 €
<b><i>Gesamtbaukosten, netto, gerundet</i></b>		<b><i>2.000.000 €</i></b>



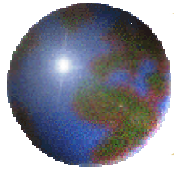


## *Relevant subsidies*

- ⊕ Additional depreciation
- ⊕ KfW-programmes
- ⊕ State supply side subsidies
- ⊕ Programme „Städtebauliche Erneuerung“
- ⊕ Programme „Städtebaulicher Denkmalschutz“
- ⊕ Programme „Soziale Stadt“
- ⊕ Programme „Stadtumbau Ost“



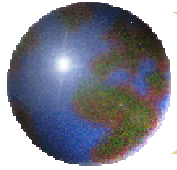
# *Bundesfinanzhilfen zur Städtebauförderung im Programmjahr 2007*



## *Potential subsidies for Saxony in 2007*

<b>Programme</b>	<b>subsidies 2007, 1.000 Euro</b>
Städtebauliche Erneuerung	72.321
Städtebaulicher Denkmalschutz	67.803
Stadtumbau Ost	99.255
Soziale Stadt	18.012
total	257.391

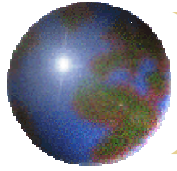
**€110 per dwelling**  
**€60 per capita**



## *Private owners in Brandenburg: Finance and impediments to invest*

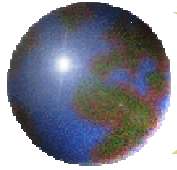
- ✿ Subsidies: level of awareness:
  - ▣ tax subsidies: 82 %
  - ▣ KfW-programmes: 75 %
  - ▣ urban redevelopment programmes: 50 %
  - ▣ state supply side subsidies: 50 %
- ✿ Main investment impediments:
  - ▣ lack of equity capital: 46%
  - ▣ rental housing market situation: 33 %





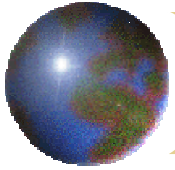
## *Other problems*

- ⊕ restrictive lending practices
- ⊕ decreasing willingness of owners and investors to take risks
- ⊕ decreasing subsidies



## *Investment / Finance*

- ⊕ location with risk of property rental difficult to estimate, ...
- ⊕ ... but also providing chances
- ⊕ double-digit after tax rate of return necessary as an incentive
- ⊕ uncertain data input: cost estimates
- ⊕ decisive influence of additional depreciation on rate of return after tax:
  - ⊠ Innere Oybiner Straße 5: until  $t_{12}$  cash flows more than three times higher than before tax



## Object Innere Oybiner Straße 5

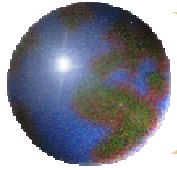
Municipal property

- up-to-date building file available
- registration of state of construction



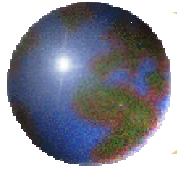
ws 01: Historic Buildings



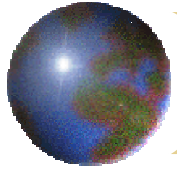


## *Investment / Finance*

- ❖ investment calculation in case of fundamental restoration: Innere Oybiner Straße 5
  - ❑ with an initial rent of € 4,90 und 5 Prozent loss of rent negative CF before taxes
  - ❑ after taxes IRR 11,67 per cent
  - ❑ critical values:
    - initial rent € 4,40
    - loss of rent 12,7 per cent
    - mortgage interest rate 8,25 per cent
    - restoration costs +21,04 per cent



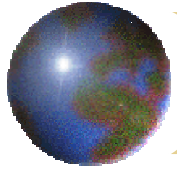
# *Acquisition of suitable investors*



## *Coordination of investment decisions*

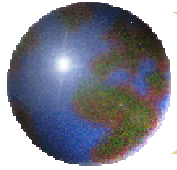
- ⊕ building damages in the inner city **concentrated in certain areas**: external diseconomies
- ⊕ free rider-behaviour of individual private investors (rational)
- ⊕ each restored building improves
  - ⊞ rental prospects for neighbour objects
  - ⊞ rentability of investments already made
- ⊕ acquisition of neighbouring sites and subsequent restoration or development („**big push**“)
- ⊕ more leeway for complex investments in the surroundings





## *Institutional investors*

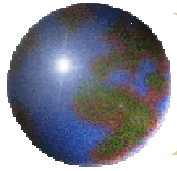
- ❖ Closed-end property funds?
- ❖ Can we find an experienced initiator?
  - ❑ remote location
  - ❑ small size of the city
  - ❑ demographic development
  - ❑ cumulative risk



## *Alternative: Regional equity capital*

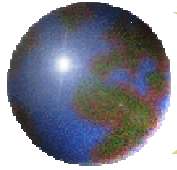
- ✚ We help ourselves.
- ✚ equity capital from regional sources
- ✚ households in the region as small scale investors into the restoration of the cityscape of Zittau
- ✚ a campaign bringing together all institutions interested in the economic development of the region (Frauenkirche)





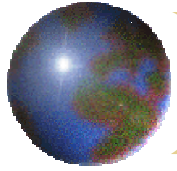
## *Legal form*

- ✚ public interest non-listed public limited company”  
(gemeinnützige „kleine“ Aktiengesellschaft gAG)
- ✚ citizens and enterprises from the region as  
shareholders or donators
- ✚ advantages:
  - no income-related taxes
  - suited to collect small invested amounts and donations  
from many shareholders / donators.



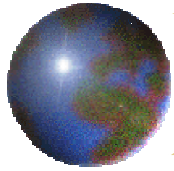
## *Limitations of the business activities of the company due to its public interest status*

- ⊕ limitations on distributed income,
- ⊕ a focus on investment objects unappealing to individual investors,
- ⊕ a commitment to reinvest the largest part of its cash flow in other restoration projects in Zittau's historic inner city,
- ⊕ rent limitations,
- ⊕ to rent out primarily to disadvantaged parts of the population.



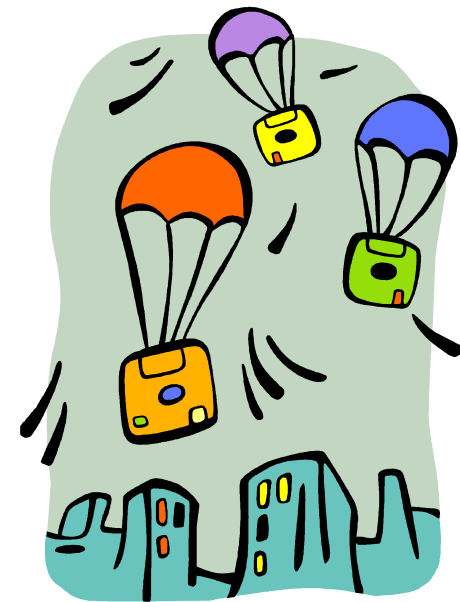
## *Public interest property development as a business model*

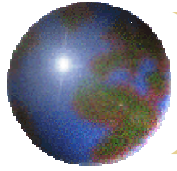
- ✚ The gAG shall invest as much of the collected capital as possible directly into the restoration of historic buildings.
- ✚ organisation as virtual as possible
- ✚ business mission: to buy and restore historic buildings at a stretch in Zittau's historic inner city
- ✚ after redevelopment sale to investors
- ✚ revenue from sales to be re-invested



## *Prerequisites for success*

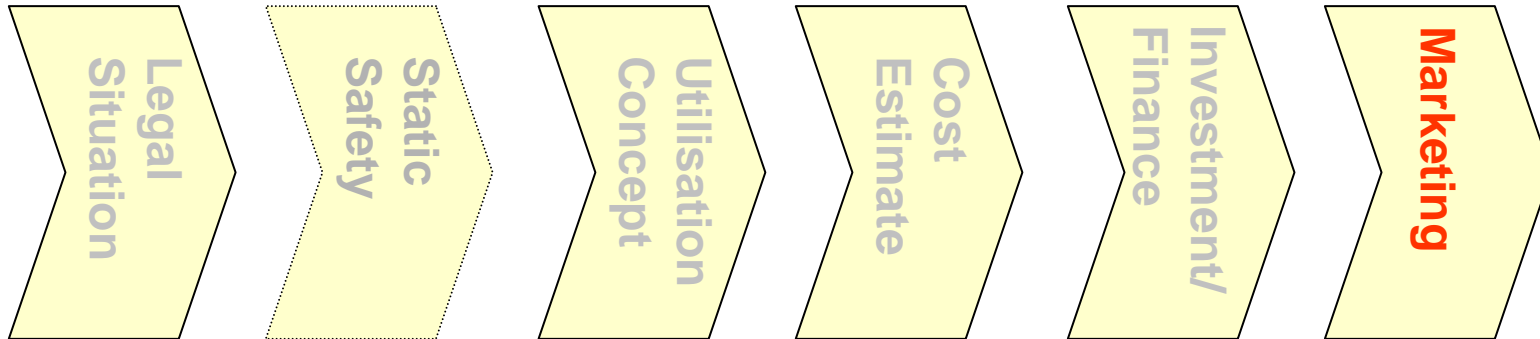
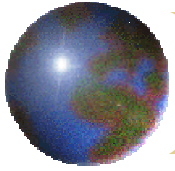
- ✚ in case of bankruptcy a public guarantee of a certain percentage of the funds invested,
- ✚ public guarantees for a part of the credit risks,
- ✚ a good understanding with regional banks,
- ✚ engagement of all institutions interested in the economic development of the region for the placement of the shares.

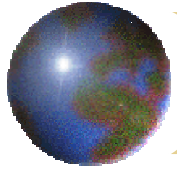




## *Possible drawbacks*

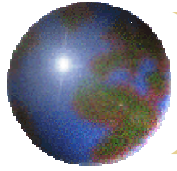
- ❖ consolidation of the fragmented property rights structure: excessive sales prices or not ready to sell at all
- ❖ acknowledgement of the public interest status
- ❖ placement of the shares: feeling of solidarity of the citizens in the wider region with the town of Zittau





## *Marketing*

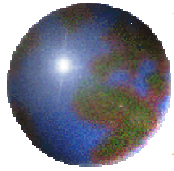
- ⊗ Damaged Buildings have a severe handicap:
  - ⊠ analysing costs for a rational investment decision
  - ⊠ eventually lost
- ⊗ higher broker's fee?
- ⊗ Compiling an exposé is not enough.
- ⊗ integrative approach including object analysis



## *Résumé: Our proposals*

- ⊕ more effective legal forms of pressure,
- ⊕ adequate financial resources of local authorities for purposes of urban re-development and
- ⊕ subsidies for making objects marketable („ready to sell“):
  - criteria qualifying for subsidies
  - definition of a standard package of services
  - commission of suitable analysts
- ⊕ building inspectorate, “Feuerwehrrfonds”
- ⊕ public interest local institutional investor as developer





# Projektteam

Modell Nr. Kompetenzfeld	I	III	IV	V
Projektleitung	Kofner	Kofner	Kofner	Kofner
Leitung Modell	Hillesheim	Giese	Slansky	N.N.
Immobilien- recht	Hillesheim DR1: Langkavel HR1: Tost (FB B)	DR1: Langkavel HR1: Tost (FB B)		
Immobilien- marketing		HM1: Spychala	HM2: entfällt	HM3/4: MM1: Friedrich MM2: Bernoth
Statische Sicherung / Bauschäden / Kosten- schätzung	HT1: Zenker	HK1: Kellermann (FB B)	HK1: Kellermann (FB B)	
Immobilien- finanzierung	HF1: Simmangk (FB W)	HF1: Simmangk (FB W)	HF1: Simmangk (FB W)	