

Is Affordable Housing Still Viable in Metropolitan Urban Development?

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Key words: Affordable housing, housing market Europe, land policy, land management, urban land strategy, Germany

SUMMARY

The availability of adequate dwellings to live in at “affordable” prices is a fundamental need of each household – in each country. Affordable housing policy is indispensable necessary, in particular in agglomerations and it is a responsibility of each government to care for. In most metropolitan regions in the world the supply at the housing markets is scarce because of increasing population and increasing number of flat demanding households. In Germany land policy for affordable housing is back to the political agenda. After a decade of calmness at the housing markets rents, house prices and land values are appreciably increasing since 2010.

The governments have the duty to provide a framework for affordable housing which is recommended to be composed of institutional, legal, social, economic and urban development matters. It clearly can be seen in history that the free market mechanisms striving for maximum profit and minimum public intervention are not able to fulfill these requirements. As well past decades show that segregated huge social housing areas do not result in sustainable development. In fact, implementing affordable housing requests more integrating cooperation of private and public stakeholders.

Based on these general experiences the paper describes at first the housing market development and affordable housing requirements in Germany within the EU-sphere. Following a new land policy strategy is introduced which today becomes accepted and used in German metropolitan cities progressively. The Urban land strategies (“Baulandmodelle”) are municipal initiatives to implement urban development projects in close cooperation between private and public stakeholders. The approaches usually cover different urban development goals; the integration of quotas of affordable housing within the development is part of the commitment between municipality and developer.

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1. REQUIREMENTS AND AIMS OF THE HOUSING MARKET

Urban agglomerations and metropolitan cities in most parts of the world are affected by immigration and strong increase of population, the people are bothered with high and rising house prices and flat rents. Many households are confronted with the problem of finding an adequate dwelling at a price which can be covered by an adequate part of their monthly budget. In an increasing number of metropolitan cities the costs of the place to live requires more than 50% of the available budget. Especially low income groups and unemployed people are totally unable to pay the rent for a free market flat. In many cities with attractive development opportunities this problem is not an exemption concerning few households but claims an important portion of the households suffered by – financial or qualitative - inadequate housing conditions.

How can affordable housing be integrated in metropolitan urban development strategies? This question of implementing affordable housing is relevant in metropolitan areas of countries in all stages of development – in developing countries, in emerging economies and in developed societies.¹ The experience in all parts of the world shows that the free market forces are not able to solve the problem of adequate rents and prices for housing. Public policies and the governments are obliged to care for affordable housing conditions as a field of their social policy. The housing market is in need of support of public stakeholders in order to result in satisfying and sustainable outcomes.

To support affordable housing is an obligation of the public sector which in general is not denied but accepted and fixed by national and international law, for instance:

- The right to adequate housing is fixed in Article 11 (1) of the International Covenant of Economic, Social and Cultural Rights (CESCR). The General Comments execute: „...The human right to adequate housing, which is thus derived from the right to an adequate standard of living, is of central importance for the enjoyment of all economic, social and cultural rights.” (Source: UN – Office of the High Commissioner for Human Rights: The right to adequate housing (Art.11 (1)), 13.12.1991. CESCR, General Comment 4, No. 1).
- Revised European Social Charter, Article 31 statement: “With a view to ensuring the effective exercise of the right to housing, the Parties undertake to take measures designed to promote access to housing of an adequate standard; to prevent and reduce homelessness with a view to its gradual elimination; to make the price of housing accessible to those without adequate resources” (Council of Europe 2002; Philippakopoulou et al. 2013).

¹ In many countries low quality housing and infrastructure is an additional problem.

- “The acquisition of a home by the homeless or inadequately housed is an object of special state care.” - the state’s obligation is guaranteed by the Greek Constitution (Potsiou 2014).
- Next to the general obligation of the state in Germany the Law on Social Housing Provision (Wohnraumförderungsgesetz WoFG) assigns the following tasks to the municipalities (§ 4 WoFG):
 - The municipalities are required to care that plots dedicated to housing are not speculatively accumulated, but will be built up and taken into use;
 - in view of the existing housing stock the municipality has to care that appropriate dwellings will be modernized.
 - Finally the municipalities are obliged to consult and support potential house builders (§ 4 WoFG).
 - Techniques of land-saving and cost-reducing construction methods should be preferred. (Voss 2012, p. 11)

While the states and municipalities general responsibility is quite clear the application of this provision is difficult and may be very expensive for the public stakeholders, especially in the metropolitan regions with increasing demand and land values for housing. In the focus of the state’s activities in supporting affordable housing should be – next to the financial aid as subsidies – the “land topic”, the access to and availability of land at adequate conditions. Therefore this paper will focus at the “land topic” as a main factor of success in affordable housing provision. Three reasons support this choice: The “land topic” is heavily influenced by the public planning system and policy; the cost of the land acquisition as a major part of the investment determines significantly the house prices and rents; the contribution of the land management and surveyors branch to the interdisciplinary topic of sustainable and affordable housing is deeply enmeshed in the “land topic”. The question “How to implement access to land for affordable housing in increasing markets?” is in the center of this paper.

2. HOUSING MARKETS IN GERMANY AND EUROPE

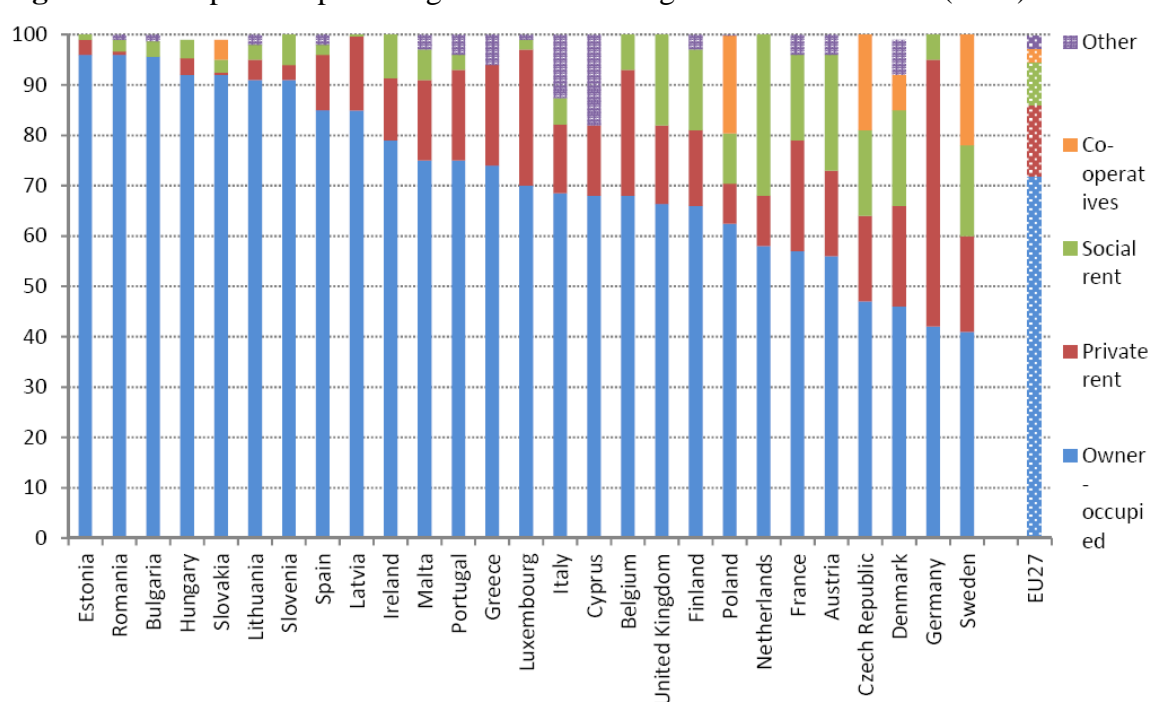
Housing markets could be characterized by few key indicators:

- Tenure structure
- Construction rate
- Age of the housing stock, modernization rate
- House price and rent development
- House price to income relation (chap. 3)

a) Tenure structure

The tenure structure in the housing stock in European countries varies between 90 – 95 % owner-occupied dwellings (mainly south-east European and Baltic countries) and 40 – 50 % owner occupied dwellings in Sweden, Germany, Denmark and Czech Republic. The average in Europe is about 70 % owner occupation rate (Fig. 1). In Germany the private rental housing market is the broadest in EU countries and covers more than 50 % of the housing stock. The social rented housing stock is rather small (5 %).

Fig. 1: Tenure split as a percentage of total dwellings stock in the EU 27 (2010)



Source: Pittini, A. (2012): Housing Affordability in the EU – Current situation and recent trends. CECODHAS Housing Europe’s Observatory Research Briefing, Year 5/ No. 1/ January 2012, p. 6

The tenure structure suggests that the affordable housing policy especially in Germany has to mention strategies for owner occupiers as well as landlords; here the cooperation with private landlords is very important.

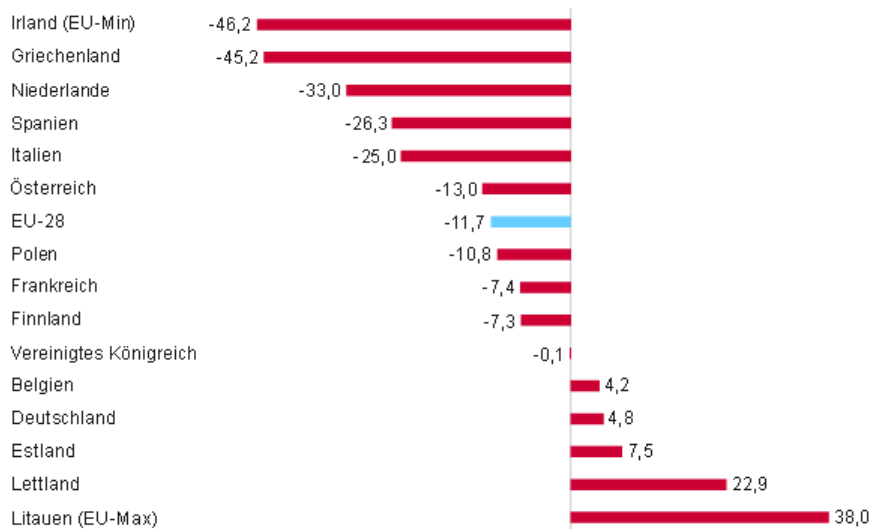
b) Construction rate of new housing

The construction of new dwellings (supply) largely follows the demand for housing. In 2012 in many European countries the construction rate of new houses decreased in correspondence with macro-economic problems, less demand and declining house prices. Next to the Baltic countries, Germany and Belgium developed against the trend; the number of approved new dwellings increased in 2012 (Fig. 2). Also Switzerland’s housing market (not listed in Fig. 2) is increasing at a high level of activity (5 new residential units per 1.000 inhabitants in 2011; BBSR 2012, p. 11).

The situation in Germany is marked by a historic low of the construction rate in the years before (2009 about 150.000 new units only). The number of new dwellings decreased permanently during the last 15 years, especially multi-family houses. In 2011 the activity was still low with about 2 residential units per 1.000 inhabitants (BBSR 2012, p. 11). But since 2010 the number of completed dwellings slowly increase (Fig. 3), in line with a more optimistic economic perspective and very low interest rates. Within the social housing framework there are about 12.000 new units currently (ca. 6-7 %).

Fig. 2: New housing, number of approved planning permissions 2012
(change in %, compared to year before)

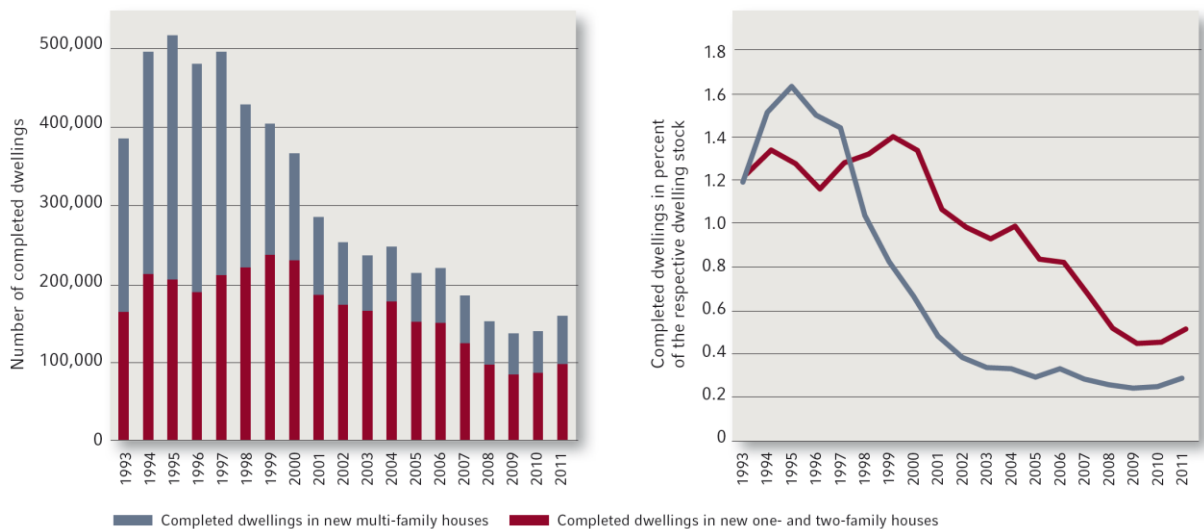
Zahl der Baugenehmigungen im Wohnungsneubau 2012
Veränderung zum Vorjahr, in %



Quelle: Eurostat, für Deutschland: Statistisches Bundesamt

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Fig. 3: Germany: Number of completed dwellings in absolute terms and in percent of dwelling stock



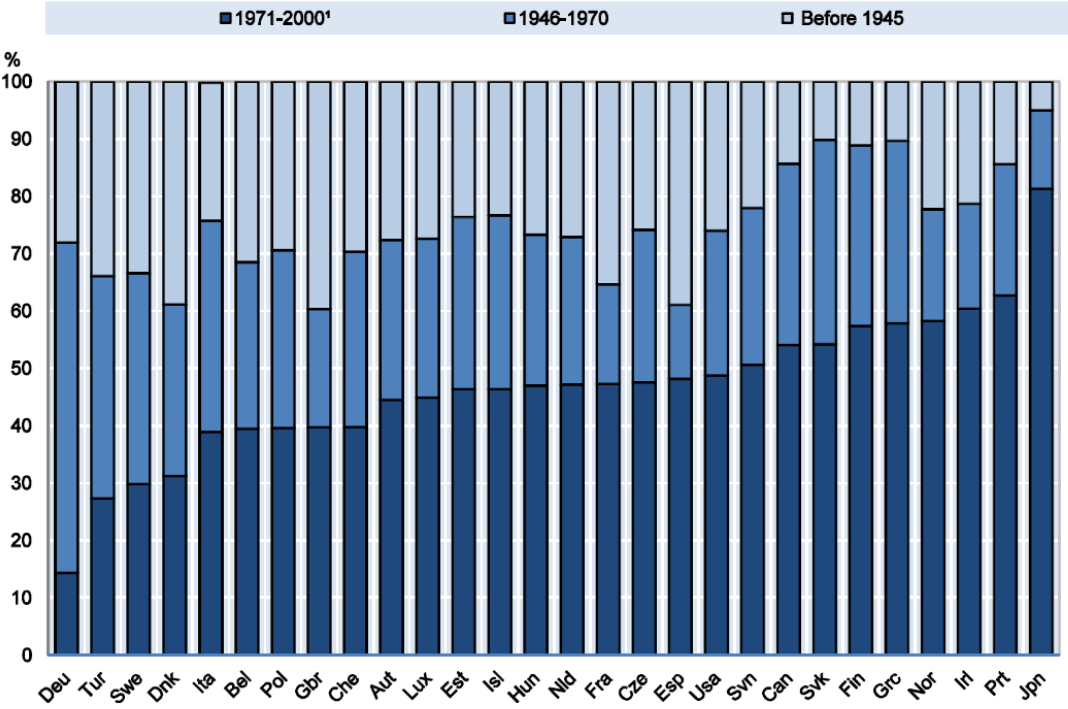
Source: Federal Statistical Office, vdpResearch; vdp-Spotlight Real Estate, Jan. 2013, p. 2

c) Age of housing stock

Fig. 4 shows the age profiles of the dwelling stock in OECD member states. Three categories are differentiated. Germany (DEU, first column left) is at the bottom part of the list because

the housing stock contains the fewest new dwellings (constructed after 1971) and the most mid-aged dwellings (constructed after World War II up to 1970 (Andrews et al. 2011, p. 14).

Fig. 4: Age profile of the dwelling stock in OECD-countries



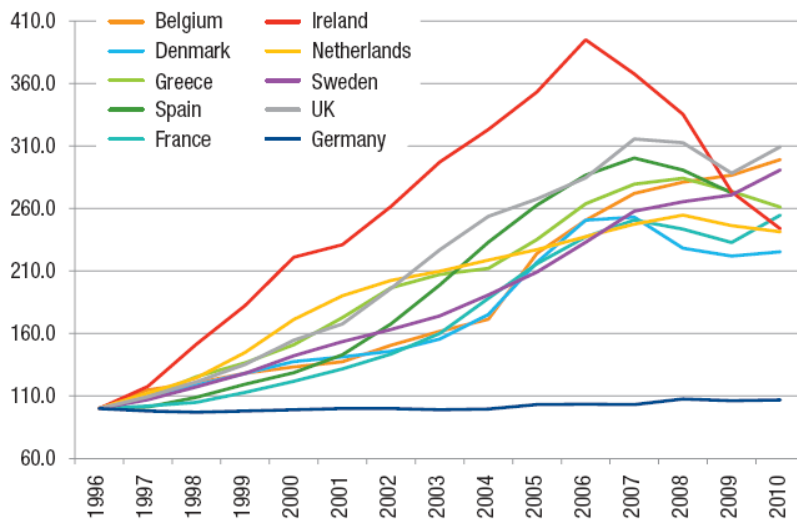
1. For countries for which 2000 data are not available, the most recent data are used.
 Source: UNECE and Bulletin of housing statistics for Europe and North America, 2006 and Statistics Japan.

d) Development of house prices and rents in EU and Germany

An appropriate detector of the development of the housing markets is the monitoring of prices, rents and their changes in time. Although prices and rents are the result of a conglomerate of different economic and social influencing factors these data are the most important outcomes to watch and evaluate market forces. House and condominium prices are relevant for all residential sub markets, but especially important for the owner occupied sector; rents are the indicator in the rental housing market. The nominal house prices and rents are significant to judge the burden of households caused by housing costs – as used in this paper. If the housing investor’s view is in the focus house prices and rents in real terms are more significant.

The house price development had been quite similar in EU countries in the period before the financial crisis 2007/2008. Fig. 5 clearly shows the predominant increase over a period of 10 years till 2007. The following dramatic housing market collapses especially in Ireland and Spain are still in mind. In this period the housing market in Germany was very calm and designated by the macro-economic trends and imponderability of resetting the labour market and the social security system in Germany. In real terms the property values decreased on average.

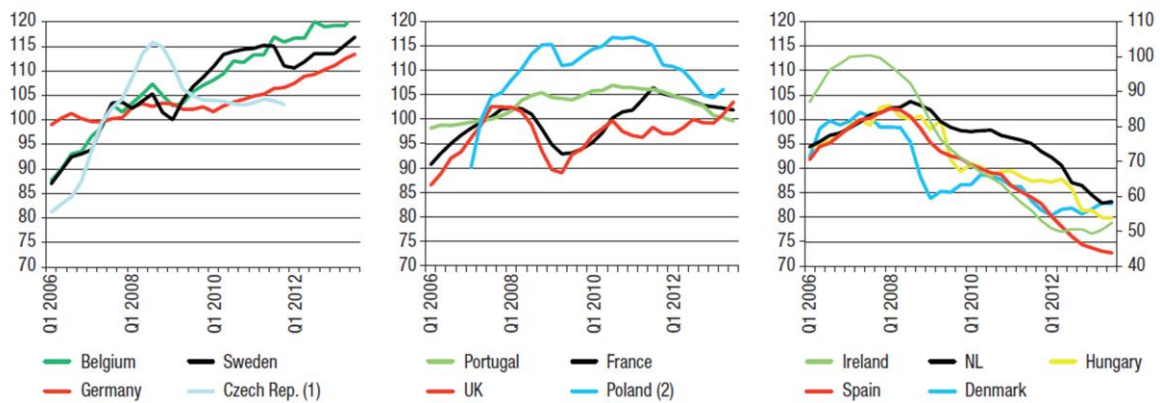
Fig. 5: Nominal House Price Indices before financial crisis (1996 = 100)



Source: European Mortgage Federation

After the financial crisis the picture in EU Countries can be differentiated in three groups (Fig. 6): The housing markets, respectively the house prices, are under pressure or volatile since 2008 in many countries (more or less stable or volatile markets in UK, France, Portugal and Poland; decreasing markets e. g. in Spain, Netherlands, Denmark and Ireland). Increasing markets are registered in Sweden, Belgium and Germany.

Fig. 6: Nominal House Prices in European Countries after financial crisis (2007 = 100)



Source: European Mortgage Federation

Note:
 (1) 2010 = 100
 (2) Data is available from Q1 2007
 Data for house prices is on the right hand-scale only for Ireland

Source: European Mortgage Federation, Report Q3/2013, p. 3.
 Remark: It is worth mentioning that house prices are calculated according to different methodologies at the national level.

Again the German housing market follows a divergent development: a) House prices had almost not been struck by the financial crisis. b) Since 2009/10 an increase in average house prices has to be mentioned - first time since more than a decade. The key price indices (2008 – 2013) of the residential sub-markets are shown in Fig. 7.

Fig. 7: Key price indices of the German housing market

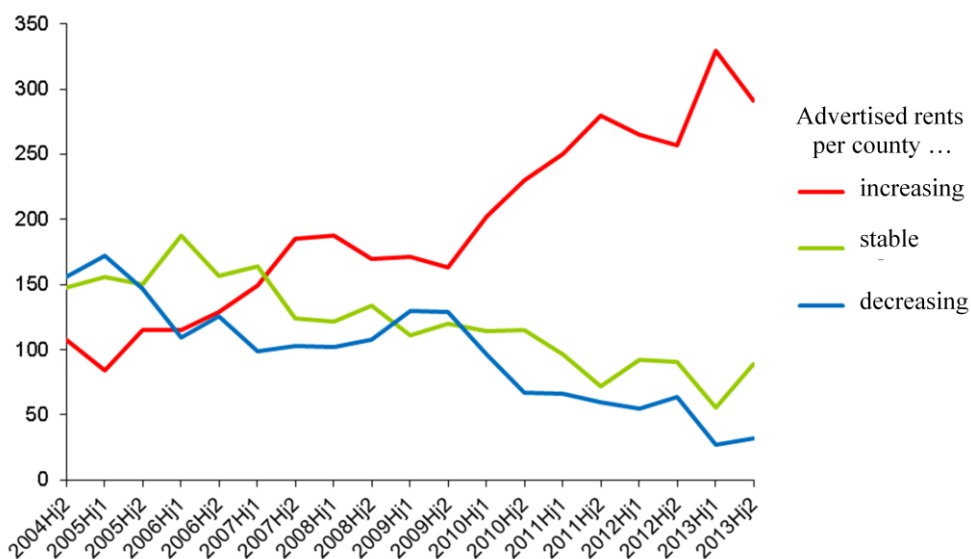
	Nominal and inflation-adjusted development of prices and rents					
	2008	2009	2010	2011	2012	2013 ¹⁾
	Nominal					
Prices family homes	100	99	99	101	104	108
Prices condominiums	100	102	102	107	111	117
Prices owner-occupied housing ²⁾	100	100	100	103	106	110
New rental contracts housing	100	101	102	104	107	113
Capital values for multi-family houses ³⁾	100	99	100	103	108	114

Source: vdpResearch, Federal Statistical Office; vdp-Spotlight Real Estate, Nov. 2013, p. 1

Because of the great importance of the rental housing market in Germany rent development is a crucial factor, especially in view of the affordable housing topic. In new rental housing contracts strong rent increases are registered in the last years (Fig. 7). The data of contracted rents are not registered systematically in Germany. Alternatively the offered rents in placed advertisements (Internet platforms and print media) are analyzed by different providers. Fig. 8 shows the development of the advertised rents 2004 – 2013.

Fig. 8: Development of advertised rents in German counties in 2004-2013 (half-year changes clustered in three categories)

Number of countys (Landkreise)



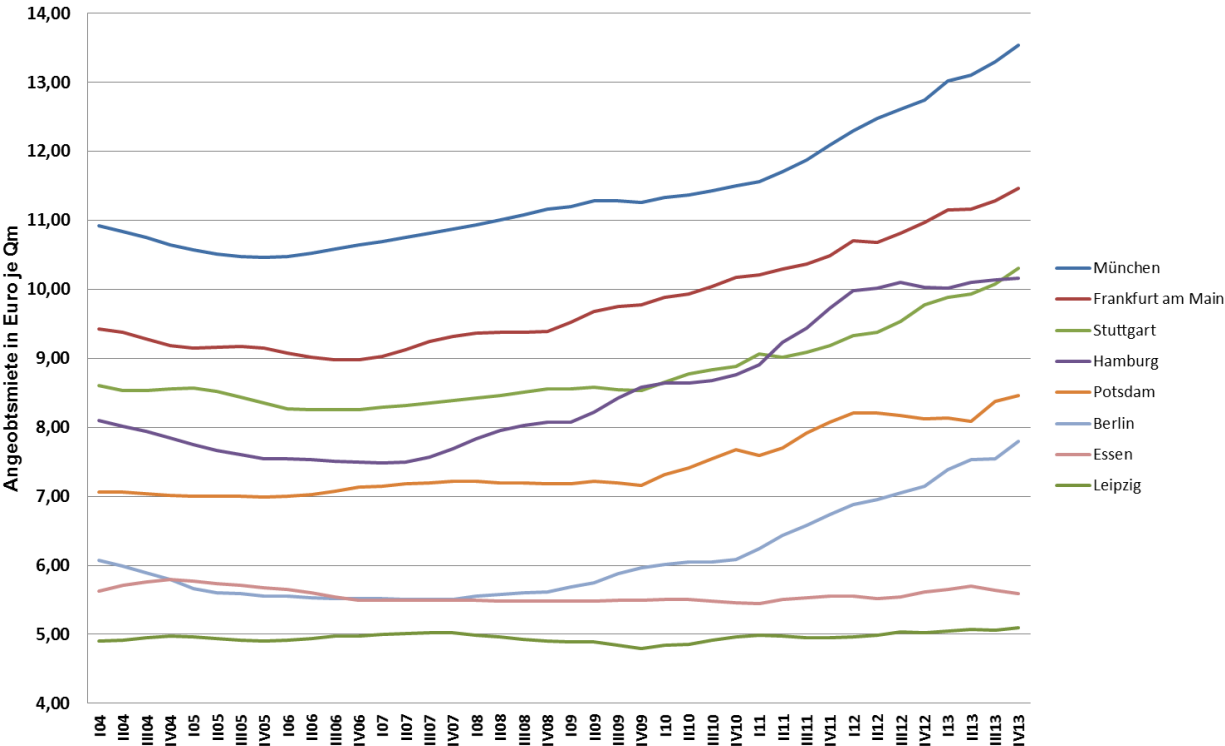
Source: BBSR-Wohnungsmarktbeobachtungssystem, IDN ImmoDaten GmbH

Fig 8 additionally shows that the average data do not tell the whole story. The generally increasing trend summarizes the widespread differentiated regional and spatial developments of the housing markets (Waltersbacher 2014). In 2013 increasing advertised rents could be registered in 2/3 of the German counties (counties + county-independent towns) in contrast to 1/3 of the counties with stable or decreasing rents, especially in East Germany, old industrialized and rural areas). The change is obvious in comparison to 2005 when less than 25 % of the counties registered increasing rents – mainly in the county-independent bigger towns.

3. THE NECESSITY OF AFFORDABLE HOUSING IN GERMANY

The burden of inadequate increased and high house prices and rents today is a distinct problem in all German metropolitan areas (> 500.000 inhabitants), but also in many well performing midsize cities (> 100.000 inhabitants). The increase of average rents in the metropolitan centers shows Fig. 9. Most of these markets record 25 – 40 % increase of the average offered rent level within the previous 5 - 7 years. This comes up to a steady yearly increase in Munich and Frankfurt – the cities with the highest rent level – in average of about 4 % per year, in Hamburg of about 6 % and in Berlin – the German capital still benefits from a relatively moderate rent level – of an increase of about 7 % per year.

Fig. 9: Development of advertised rents in German metropolitan cities (2004–2013, €/m² living space)



Source: BBSR-Wohnungsmarktbeobachtungssystem, IDN ImmoDaten GmbH

The rates of rent and house price increase are pretty over the average yearly rate of inflation (1,7 %, 2005-2013) and the average yearly increase in salaries (2,5 %, 2005–2013). While property owners and investors are encouraged about the regenerated attractiveness of the housing markets, the affordable housing sector backslides to well known problems. The housing cost as part of the living cost became more and more expensive during the last years, especially for households in rental dwellings (owner-occupiers could ease the burden somewhat because of low interest rates). In public discussions in Germany the housing market is at the top end of the agenda again.

The EUROSTAT statistics strengthen the necessity of promoting affordable housing in Germany. The amount of affordable housing is derived from the share of housing cost at disposable income. Affordable housing should support those households which are “overburdened” by housing costs. EUROSTAT considers a household as “overburdened” when the total housing costs - including utilities (water, electricity, gas and heating) and any costs related to regular maintenance and structural insurance - represent more than 40 % of disposable income (Pittini, A. 2012, p. 2).

Fig. 10: Housing cost overburden rate by tenure status 2011 (% of population)
(number in brackets marks selected ranking)

	Total population	Owner occupied, with mortgage or loan	Owner occupied, no outstanding mortgage or housing loan	Tenant — rent at market price	Tenant — rent at reduced price or free
EU-28	11.4	9.0	6.5	26.1	14.0
EU-27	11.5	9.0	6.5	26.1	14.0
Euro area	10.9	9.0	5.1	23.8	10.6
Belgium	10.6	3.3	2.4	38.1	14.9
Bulgaria	9.0	23.1	7.4	32.8	15.4
Czech Republic	9.5	5.3	6.4	25.0	18.7
Denmark (1)	19.9 (2)	12.2	9.8	36.9	:
Germany	16.1 (4)	13.6 (8)	10.5 (5)	21.4 (18)	16.5 (7)
Estonia	7.4	12.7	4.9	28.1	9.3
Ireland	6.1	3.3	2.0	19.9	8.4
Greece	24.2 (1)	11.9	21.4 (1)	42.7	30.6 (1)
Spain	12.1	13.8	4.8	48.1	10.1
France	5.3	1.4	0.6	16.0	9.4
Croatia	7.8	13.3	6.9	33.0	12.8
Italy	8.4	6.3	2.9	33.3	9.3
Cyprus	2.7	3.5	0.5	17.0	1.1
Latvia	12.6	27.9 (1)	10.5	16.5	12.8
Lithuania	10.7	20.6	8.9	66.5	12.8
Luxembourg	4.2	0.6	0.5	13.7	1.6
Hungary	11.8	20.5	6.8	43.8	16.8
Malta	2.8	4.5	1.9	32.5	1.5
Netherlands	14.5	14.0	3.4	18.2	6.6
Austria	4.8	1.4	1.9	11.3	5.0
Poland	10.2	10.0	8.6	27.1	14.3
Portugal	7.2	8.5	2.0	25.5	3.1
Romania	9.9	13.5	9.2	65.3 (1)	11.4
Slovenia	4.7	10.5	2.8	18.3	5.6
Slovakia	8.4	23.6	6.4	12.9	8.9
Finland	4.4	2.3	2.8	12.5	8.3
Sweden (1)	7.9	3.1	10.9	17.5	46.5
United Kingdom	16.4 (3)	8.8	9.1	45.0	23.9
Iceland	11.3	10.8	6.5	18.6	13.7
Norway	10.4	8.2	7.1	27.7	18.2
Switzerland	13.1	7.1	11.8	17.7	15.7

(1) Tenants — rent at reduced price or free: unreliable.

Source: Eurostat (online data codes: ilc_lh007c and ilc_lh007a)

Source: EUROSTAT 2014: Housing Statistics

The situation became worse since 2010 in EU and in Germany. The rate of overburdened households in 2010 add up to 10,1 % of all EU-households, in 2011 the rate increased to

11,4% (Fig. 10). In Germany in 2011 on average 16.1% of the population had been overburdened by housing costs, in 2012 the rate increased to 16,6 %. In 2012 only Greece (24,2 %) and Denmark (19,9 %) note higher rates (EUROSTAT 2014, Housing Statistics; Pettini, A. 2012; Voss 2012). In 2011 the UK was in this group yet (Fig. 10).

The housing cost overburden rate statistic is not differentiated according to spatial aspects. Such examinations would result in much higher rates in metropolitan areas. And if the examination would include the category “population at risk of poverty” (the group of persons with a disposable income below 60% of median national income) the vast majority of these households will be overburdened by housing costs in German metropolitan areas. The need for implementing affordable housing is out of doubt.

4. NEW APPROACHES TO PROMOTE AFFORDABLE HOUSING

In previous chapters the states’ responsibility to care for people in inadequate living/housing conditions is mentioned, furthermore that free market forces without administrative control are unable to provide affordable housing supply. Land policy for affordable housing is necessary to close the gap. There should be no doubt that affordable housing has to be an indispensable element of local policy, esp. in big cities. Not least the availability of land at adequate prices is a main precondition to establish adequate housing; in high-price locations the land acquisition often swallows more than half of the investment budget. Therefore the core area of land policy for affordable housing is dominated by approaches to support the availability of land designated for affordable housing at an adequate price.

Land policy may have a strict attitude or a cooperative character. Cooperation with the private property owners and investors is the path German urban development goes since 20 years. Public land policy favors solutions in cooperation with private stakeholders. This policy became more and more important since the legal tool of “Urban Development Contracts” was fixed in German Federal Planning and Building Code (BauGB) in 1993. Today Section 11 BauGB (Urban Development Contract) is used widespread in German municipalities and it became a dominant tool to support the implementation of planning ideas. The Urban Development Contracts can be used more flexible than other mandatory regulations, e. g. concerning cost coverage and assignment of rights and duties in cooperation with the involved stakeholders (Mütze/ Senff/ Möller, 2007).

However Urban development contracts have limits fixed by law: Of course they are limited to voluntary agreements only – the local authority may not claim for it; Urban development contracts may interlink rights and duties of a party only if affecting the same urban development issue (“Koppelungsverbot”); the arrangements have to be balanced and may not overreach one party (Battis/ Krautzberger/ Löhr 2014).

This “controlled flexibility” of the Urban Development Contracts is used to implement new approaches of local land policy for affordable housing in German metropolitan areas.

4.1 Traditional Approach

What is called “traditional approach” in this paper is the social housing policy of the post war period (1960 – 1980) exercised in many European countries at a similar way (e. g. Netherlands, UK, Germany). These approaches can be characterized as follows:

- a) State-dominated approach (in Germany in the period of strong economic increase 1960 – 1980, continued in a slow down period till 1990, followed by a transition period till 2000),
- b) Social housing is a separate market sector next to the free housing market, divided into the market of land designated to build on (land market) and the housing market of built-up properties (property market),
- c) Special companies are dominating the social housing market - limited-profit-companies in public or semi-public ownership (local housing associations/ public utility housing enterprise, in Germany predominantly in ownership of municipalities, in large cities already existing since the beginning of the last century),
- d) Land banking by public or semi-public bodies, especially by the municipality itself or its housing association,
- e) Tax incentives which had been the most important market-orientated tool of the federal state to stimulate social housing investments in the rental housing market (tax reduction by declining depreciation), later on also in the owner-occupied market,
- f) Direct financial aid to investors (object-based subsidies) and to target group households (subject-based subsidies (for details see Voss 2012, p. 14),
- g) Rules and ceilings as framework for social housing aid concerning
 - disposable income of target group households,
 - size of flats and number of rooms admitted for target group households (Voss 2012, p. 12).

Fig. 11: Social housing buildings in Bremen-Tenever (left) and Berlin-Märkisches Viertel



Source: Wezel, M., bremen4u.weser-kurier.de (left); detektor.fm, Judith 74

The social housing policy with strong involvement of public stakeholders has achieved different results in Germany from today’s perspective. The very positive contribution is that this “traditional approach” strongly supported one of the most important policy aims of the post-war period – to accommodate the increasing population with adequate provisions for housing. In the 1960ies one out of two new flats was in the social housing sector, during the 1970ies

the number still was like the total of new dwellings per year today (e. g. ca. 160.000 flats, Fig. 3; Pestel 2012, p. 2).

On the other hand the state's strong involvement and controlling came along with a strong claim for the public budgets and resulted in high cost and increasing need of financial aid per flat. The existence of two housing market sectors and the affiliation of benefitting households produced undesired side-effects with abuses of the financial aid (e. g. inappropriately occupying subsidized dwellings). From current perspective the most important problems of the traditional social housing areas are demonstrated by social segregation and by urban separation of many of these districts (Fig. 11). The intermixture of different social groups often could not be realized. The linkage and urban integration with the neighborhoods often failed. The experiences of large neighborhoods of social housing complexes are unfavorable in a long-term perspective; the social problems in unilateral neighborhoods tend to accumulate and the value of the building stock is unsustainable. Social housing must not decline to low quality housing (Voss 2012, p. 17). Today many of these big social housing districts are problematic urban quarters and involved in urban and social regeneration programs; these areas claim for public support for a second time. Maybe it is eligible to classify these developments as "not sustainable". New approaches should aspire to combine social housing developments and private residential property developments within an urban development area in a mixture.

In Germany the social housing limited-profit companies had been abolished in 1991. The former social housing companies are acting under free market conditions today. Since 2000 the important tax incentives had been reduced strongly. The traditional state-orientated approach is not preferred any more in Germany. The above mentioned rules a) to e) are out of order today. The social and affordable housing approaches changed to operate under the general housing market rules.

The financial aid is still very important and existing at a low level. The construction of new dwellings in social housing has been reduced to ca. 12.000 units per year currently (Pestel-Institut 2012, p. 15). However, the additional need for more affordable housing developments in recent years has been mentioned before. The metropolitan areas try to meet these requirements by new market-led approaches.

4.2 New Approach in German Metropolitan Urban Development

Metropolitan cities are the centers of increasing demand and thus they are in the center of the interest of investors in real estate. On the other hand the necessity of affordable housing developments and infrastructure provisions are strongest here, in the expanding agglomerations. To merge these two counterparts means to change a "big win - big-duty"- relation between private property investors and public authority into a "win-win-relation". Increasing responsibility and financial participation of the private land owners and property investors is attended by a removal of public burdens in infrastructure or affordable housing provisions at the side of public authority. Is such an alliance possible in a free market system and on a voluntary base?

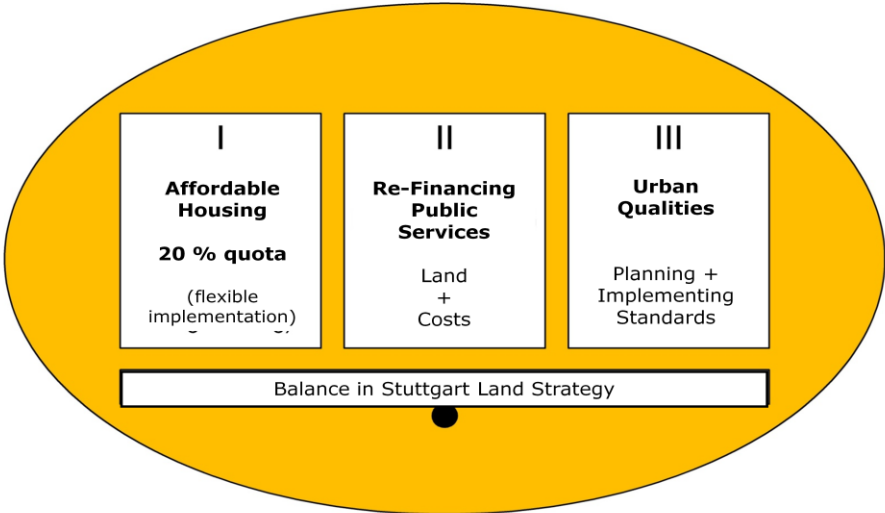
New approaches called „Baulandmodelle“ (Urban land strategies) are on the top of the local agenda in many German towns. An Urban land strategy is a local framework to implement urban development projects. “Baulandmodelle” are cooperative models aiming at a new balanced distribution of advantages and burdens of private urban development projects. The local authorities operate with the Urban land strategy in cases of medium-size or bigger development project (e. g. in Cologne housing projects over 25 new dwellings). The details of the arrangements are fixed in “urban development contracts”.

The prototype of the Urban land strategies has been developed in the City of Munich; a very long tradition in land strategies for social housing is cultivated in the City of Stuttgart. Both cities are the trend-setters for the new Urban land strategies (Voss, Fricke, Pazerat (2013).

The today strategies have an agenda of several goals; promoting affordable housing usually is one of them. Fig. 12 shows a typical composition of objectives:

- Re-financing public services is a main objective in each cities’ strategy. The complete coverage of the servicing costs including land acquisition cost is the starting point. In the advanced models an additional financial support of necessary social infrastructure facilities is included, e. g. fixed amount of 50 – 60 €/m² gross space.
- A quota of affordable or social housing (e. g. number of dwellings from all dwelling in a new development area) is a matter of course of the today strategies in big cities. Such fixed quotas of social housing within new development areas is also known from other countries (Housing Europe Review 2012; Voss 2012).
- A third component could be a wide range of different objectives safeguarding urban qualities like environment protection, reducing carbon gas emissions or standards for parked cars placing.

Fig. 12: Balance of the Stuttgart Urban Land Strategy

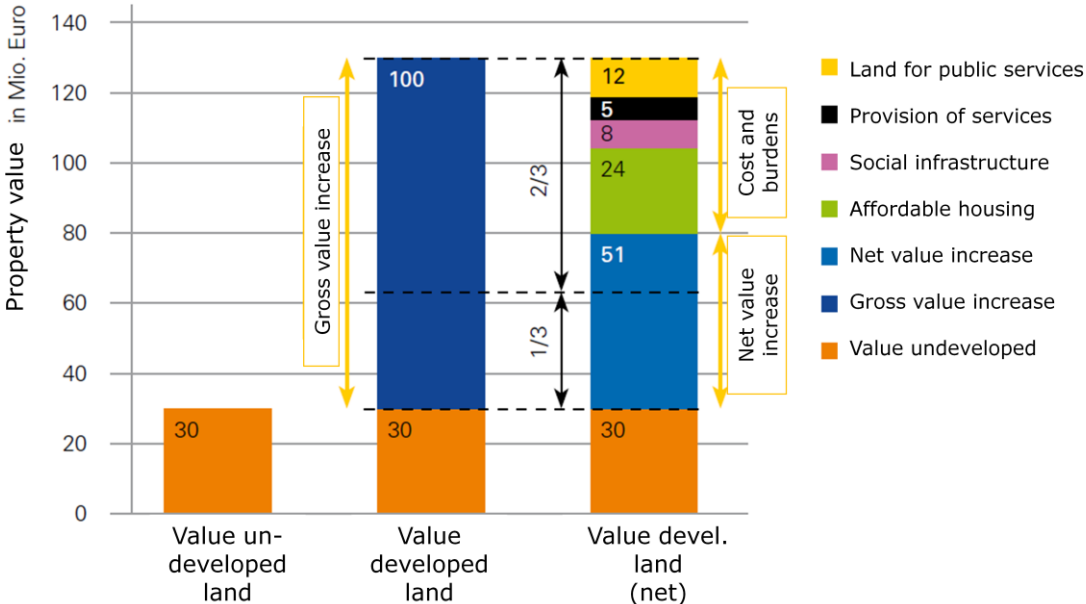


Source: Stadt Stuttgart, Stuttgarter Innenentwicklungsmodell, www.stuttgart.de

The economic model of the Munich Land strategy is becoming standard in new approaches. The model of total cost coverage and a untouched minimum value increase is explained in Fig. 13.

Each project creates a specific gross increase of land value. The models of Urban land strategies do not consider the total investment but the land values only. The gross value increase is the difference between the “final value” - the market value of the land after the development is completed - and the “value before” - the market value of the undeveloped land before the development was projected. It is assumed that the latter value is near to the acquisition price the developer paid for land ownership. The most important aspect of the economic model represents the agreement between developer and municipality that the developer contributes to the public costs and burdens provoked by the project (incl. site development costs), but the contribution is limited to max. 2/3 of the gross value increase. Minimum 1/3 of the value increase is guaranteed to stay as net value increase with the developer. Affordable housing obligations and social infrastructure participation of the developer are included in the cost and burden calculations. The strategy indicates that the contribution of the developer is restricted to the real costs and burdens of the complete site development, but not over 2/3 of the gross value increase. A mixture with other projects is not allowed. As shown in the example (Fig. 13), the developer’s proportion also may exceed 1/3 of the gross land value increase; it depends on each project (Landeshauptstadt München 2013, p. 28).

Fig. 13: Economic impact of the Munich Land Strategy



Source: Landeshauptstadt München (2009): Die sozialgerechte Bodennutzung – Der Münchner Weg, p. 31

The quota of affordable and social housing in the Munich land strategy is required by 30 % of the project’s residential floor space. The difference in land values between free market hous-

ing and affordable housing is mentioned as part of the cost and burden calculation. An example is shown in Fig. 14, differentiated in social housing flats for rent (20% of new floor space) and affordable housing unit for owner occupiers (10% of new floor space). The requirement of 30 % affordable or social housing quota goes along with a loss in land value of 1,76 Mio. € in the example.

Fig. 14: Impact of an affordable housing quota

Calculation: 30% affordable housing quota - loss in land value			
Type of housing	Free market housing	Social housing by rent	Afford. housing Owner occup.
Accepted price (€/m ² floor space)	800,-	281,20	536,85
Proportion in %	70	20	10
Floor space (in m ²)	9.450	2.700	1.350
Loss in land value per m ²	-	518,80	263,15
Loss in land value (€)	-	1.400.760	355.253

Source: Landeshauptstadt München (2009): Die sozialgerechte Bodennutzung – Der Münchner Weg, p. 13

The infrastructure costs caused by the project development (land value for public services 0,60 Mio. €, provision of services 0,33 Mio. €, contribution to social infrastructure facilities 0,90 Mio. €) accumulate to 1,83 Mio. €. The gross value increase of the development arises to 10,6 Mio. € (project area 20.000 m²); it is reduced by costs and burdens of 3,53 Mio. € according to the rules of the Munich land strategy; the loss of land value because of the affordable housing quota makes an important part of that. Nevertheless the developers usually accept these costs and burdens if the calculation shows a remaining net value increase of minimum 1/3 – in the example even more (7 Mio. € or 66 % of the gross value increase) - and the project gets a “go” from the City Council (Fig. 15). According to German law and jurisdiction there is no doubt in this example that the burdens of the developer on the one hand and the potentials on the other hand are in an adequate relation.

The procedure of implementing an urban land strategy project is very important and has to be mentioned carefully (Voss, Fricke, Pazerat 2013):

- First of all it is necessary to implement the new urban land strategy as a basic decision and commitment in the political sphere of the municipality (“Grundsatzbeschluss”).
- The strategy should be used generally in each urban development project; only thereby the competition and neutrality of treatment can be guaranteed across the region, otherwise the strategy would collapse.
- The 1. step is necessary in a very early stage of the development. Before public planning activities starts the involved private stakeholders agree that this project is based on urban land strategy framework (basic acceptance).
- The most important 2.step is necessary before the draft of the development plan goes to public inquiry. At this stage – the legally binding development plan is not yet in

force and a period of consultations between Local Government and developer is finished - an agreement about the distribution of costs and burdens has to be arranged, fixed in urban development contracts.

- The final 3. step follows after the development plan is approved. Detailed implementation contracts are arranged – if necessary. These contracts prepare the construction of public facilities and the construction permits.

Fig. 15: Developments according to Urban land strategies in Stuttgart (left) and Munich



Source: Stadt Stuttgart (redevelopment of Olga-Hospital site); Stadt München (Arnulfpark)

Different aspects are essential if the approach of urban land strategies should operate successful:

- Planning law has to be used progressively. The process of implementing the urban land strategy is organized with respect to public planning activities and the development plan. The planning decision is the most powerful tool of the municipalities in the German planning system because development plans are legally binding.
- The local authority's experts have to be prepared for the intensive cooperation with the developers and investors. The experiences in German metropolitan cities show that interdisciplinary teams are recommendable with a leading role of landmanagers and surveyors.
- A clear agreement and promotion with local politics and politicians about the general advantages and use of the urban land strategy is indispensable.
- Land and property valuation has a decisive role for the agreement about the gross value increase; this includes the scope for supporting affordable housing within the project.
- The stakeholders – private and public – need the willingness to make the project development transparent. This includes the exchange of project calculation data and estimation of land values and value increase. This is one of the most important preconditions for a successful practice of such strategies. It is a challenge for all participants, especially for the private partners.

5. CONCLUSIONS

Successful systems of promoting social housing had been established in European countries since 1960ies. The traditional state-dominated approach in Germany had realized social housing in huge tranches. In contrary to this success the results in view of social stability and sustainable urban structures became less sufficient – the living together in huge social housing neighborhoods became problematic. Additionally the public financing became scarce. Today German public authorities prefer more market-led approaches. Affordable housing still needs public intervention, legal rules and public financial support to close the gap to free housing market conditions and to assist the target groups directly, but in a reduced volume. Social stability and mixed urban structures can be promoted easier in market-orientated approaches.

The introduced approach of Urban Land Strategies is pursued by many German metropolitan cities; trend-setters are Munich and Stuttgart. In an Urban land strategy the metropolitan city determines a local framework or strategy which is applied for the approvals of new urban development as for redevelopment projects. Different objectives are on the urban development agenda, nowadays affordable housing becomes important more and more. Reducing climate change and in particular private co-financing of project-relevant public facilities are other important objectives. The new approach of Urban land strategies tries to combine these different urban development requirements in an unique implementation strategy.

The main principles are the acquisition of land for public use and the distribution of costs and burdens in relation to profits and potentials. The strategy cares for “land aspects” only, not for property values (values of premises etc.). The strategy focuses on the increase of land values caused by planning permission and public activities in urban development. The functioning of the Urban land strategies is predicted on the law of “urban development contracts” in Sec. 11 BauGB (Federal Building Code) which enables the municipalities to burden all public costs directly caused by new development projects to the initiators (“user pays principle” or costs-by-cause principle). The core fact of the new Urban land strategies is the affirmation that minimum 1/3 of the (gross) land value increase caused by planning permission and public activities in urban development is guaranteed to stay with the initiators. Within the “disposable” maximum 2/3 of (gross) land value increase it is possible – and a prior aim - to support affordable housing. The Urban land strategies usually include a 20 – 30 % quota of the new floor space to be supplied by the developer at affordable housing conditions.

The strategy is based on the attractiveness of highly demanded regions; these regions usually are high property price regions and the core areas requiring affordable housing supply. Housing developments based on land strategies as mentioned are able to create win-win-situations and a balance of powers between public and private stakeholders. Of course, investors will not be happy with the approach in the beginning. But the attractiveness of high price regions and the guarantee of a fixed net value increase will persuade the investors sooner or later. This is the experience of the German metropolitan cities. Most of the investors stay in the local market and affordable housing gets a chance to be implemented where it is most essential. Finally the Urban Land strategies provide an important standardization and contribution to transparent cooperation between local authority and investors.

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