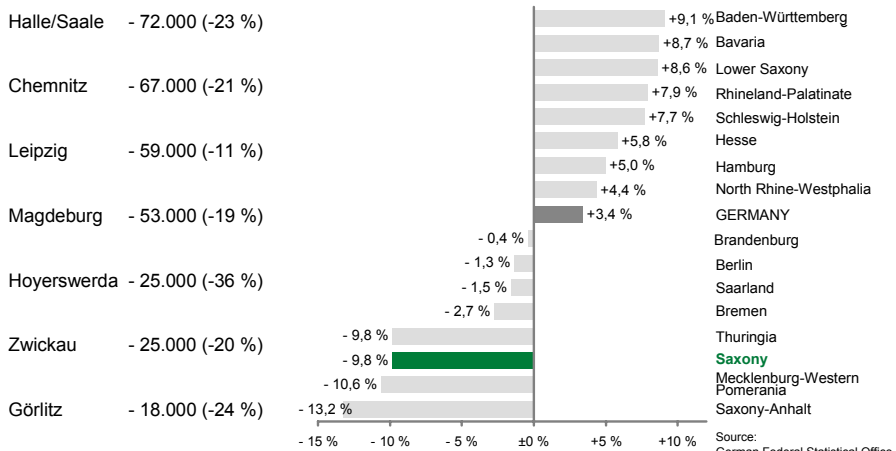


Demographic change and the role of public programmes

Dresden, 31. März 2006

Stefan Weber

Population Development, 1990 - 2004



The "Lost City" is the largest city in Eastern Germany (1.3 million inhabitants)

Population Forecast Germany 2000 – 2050

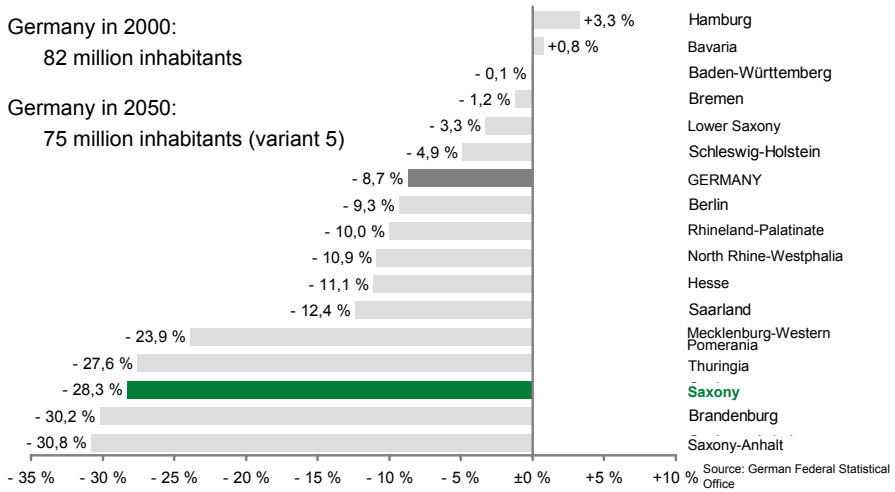
Regional Divergencies

Germany in 2000:

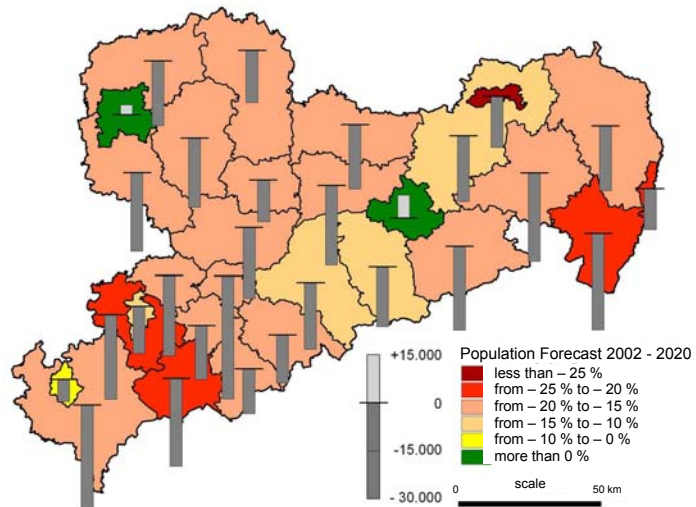
82 million inhabitants

Germany in 2050:

75 million inhabitants (variant 5)



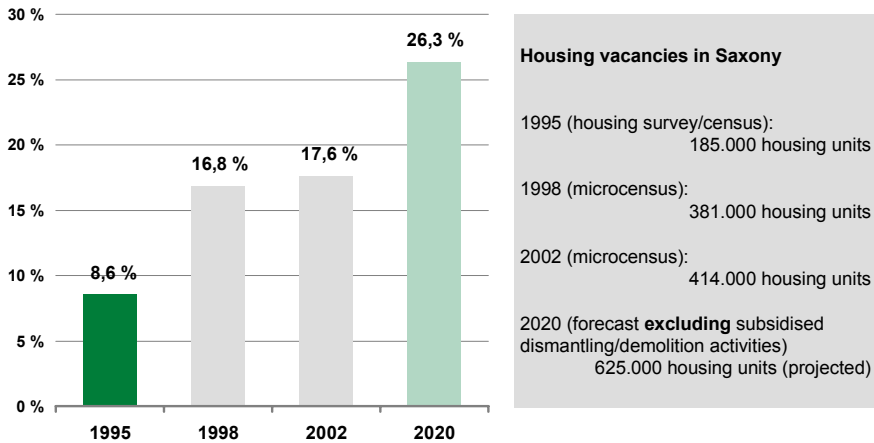
Population Forecast for Saxony



cartography: Land Surveying Office of Saxony; data: Statistical Office of Saxony; graphics: SAB/JG

Development of Housing Market Vacancy Rates in the Free State of Saxony, 1995-2020

Proportion of vacant housing units (excluding dismantled/demolished housing units)



Sources: 1995/1998/2002 – Statistical Office of Saxony
Forecast 2020 TU Freiberg / Association of Saxon Housing Cooperatives (VSWG)

graphics: SAB/JG

The State of Eastern German Housing Markets and Property Owners

- owner-occupied property is suffering from latent economic vulnerabilities
- real estate investors are victimized by stringent BASEL II regulations
- high vacancy rates show up on balance sheets of real estate cooperatives and corporations
- utility fees and other extra charges increase disproportionately

Vacancies devalue not only directly affected buildings, but also whole neighborhoods.

Deconstruction may put property at risk:

- legal disadvantages, e.g. reclaim of subsidies (clawback clauses)
- planning, zoning and development laws resp. building codes
- factual



Market failure – stabilizing intervention or implosion

Loss of Collaterals' Values

A decline of demand means a decline of value.

1995	market value	1.4 million €
	collateral value	1.0 million €
	hypothecary value (in the real estate credit sector)	0.6 million €
current	market value	0.7 million €
	sales value (negotiable)	0.6 million €
	breakup-/ liquidation value	0.3 million €
	asset value (standard depreciation)	0.8 million €

Shrinking Cities Need Adjustment – Stabilization of the Housing Markets

Urban Renewal in Eastern Germany

A Four-Phased Approach

1 Conceptual Design

- urban planning incl. change management
- involvement of affected companies/associations

2 Preparations for Deconstruction

- gaining tenants' acceptance of urban renewal
- securing formal agreement of creditors
- assuring funding of deconstruction
- reconciliation of interests and burden sharing

3 Deconstruction

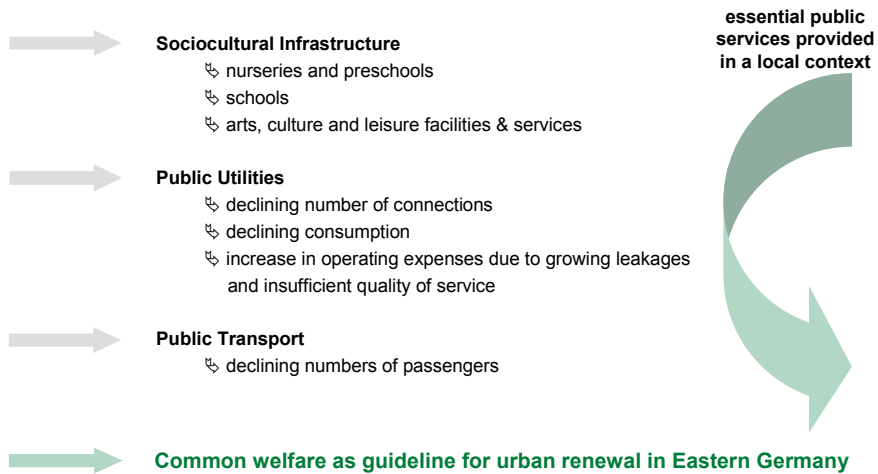
- planning
- dismantling/demolition work

4 Adapting Oversized Infrastructure to the Demographic Transition



Urban renewal in Eastern Germany consists of a **multiphased** and **multidimensional** shrinking process

Shrinking Cities Need Adjustment – De- resp. Reconstruction of Infrastructure



Fields of Activities Eligible for Subsidies

1. Construction and Housing Industries

(changing housing markets, problems caused by housing vacancies, exacting requirements for modern standards of living resp. special needs of senior citizens)

2. Urban Planning and Urban Renewal

(shrinking cities need adjustment of infrastructure)

3. State of the Economy and Labor Market

(transformation of industries, adaptation of products, shortage of skilled labor, assisting entrepreneurs in identifying a suitable successor and handing over their companies, advising startup entrepreneurs, managing regional economic disparities)

4. Research & Development

(brain drain; loss of competitiveness due to lack of innovative capacity)

Why not let the market do the job ?

- bankruptcy ruins the owner, not the real estate
- The redundant real estate enters the property market again with the proper price after a foreclosure sale and threatens market stability once again.

soft landing...

- Real estate markets must be stabilized (also) with governmental aid.

Policy Measures for Stabilizing the Housing Market

Federal Republic of Germany

- Regulation on Administrative Debt Relief for Outstanding Debts Accrued before German Reunification

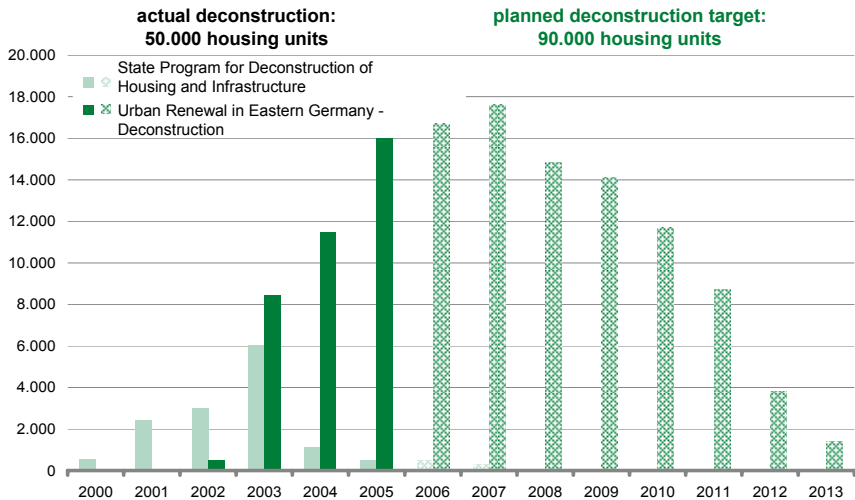
Free State of Saxony

- State Program for Deconstruction of Housing and Infrastructure

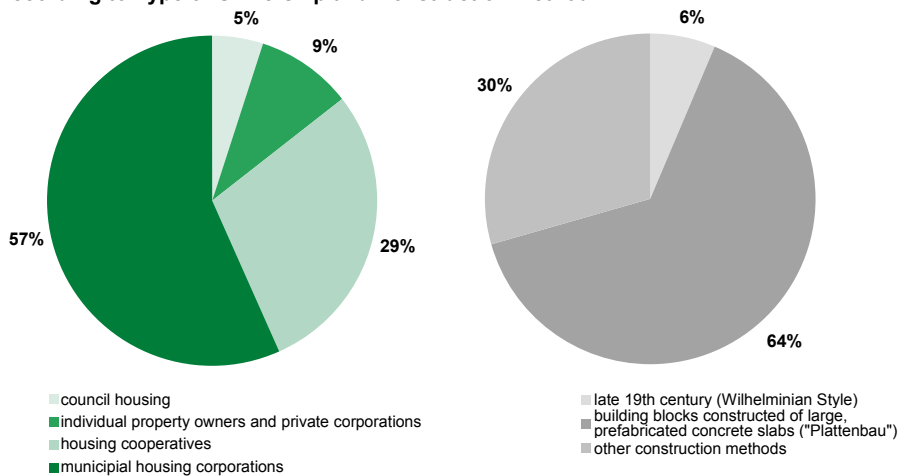
Joint Federal and State Programs

- Urban Renewal in Eastern Germany
- Relocation Assistance Program for tenants consenting to vacate housing designated for deconstruction (provision of renovated housing)
- Tax exemption from real estate transfer tax granted in case of mergers

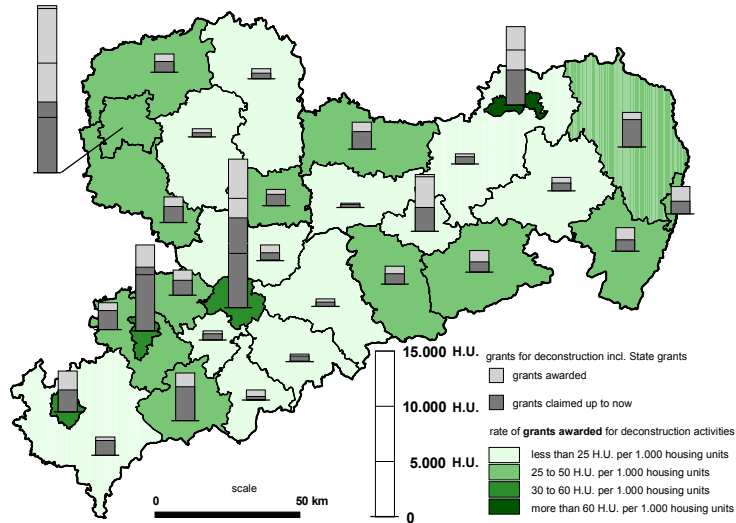
Deconstruction Activities Funded by Federal or State Grants between 2000 and 2010 in the Free State of Saxony



Deconstruction Activities Funded by Federal or State Government 2000 - 2004, According to Type of Ownership and Construction Method



Deconstruction Activities funded by State and Federal Grants in the Counties of Saxony



Real Estate Remains Immovable

- BUT**
- Volatility of property values increases
 - useful economic life of real estate is shorter than physical life span of buildings
 - mobility of users increases
 - Attitudes towards real estate ownership change from "building a nest for life" to "temporary accessory for a fast lifestyle"
 - real estate as a brand

**Thank you
for
your attention!**