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## **Workshop 17 - Housing Renewal and Maintenance**

### **Investments into the existing German Housing Stock with respect to developments in East Germany**

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Paper presented at the ENHR conference  
"Housing in an expanding Europe:  
theory, policy, participation and implementation"  
Ljubljana, Slovenia  
2 - 5 July 2006

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Paper presented at the  
International Conference

**"Housing in an expanding Europe: theory, policy, implementation and participation"**

Ljubljana, Slovenia, 2-5 July 2006

Arranged by the European Network for Housing Research (ENHR)

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# **Investments into the existing German Housing Stock with respect to developments in East Germany**

## **Abstract**

This paper summarises results of the research project "Investigation of Investments into the existing German Housing Stock". In a first part of the project information about structures and processes of the whole housing stock in Germany were collected and analysed. In a second part private landlords were interviewed.

On the one hand the importance of investments into the existing housing stock in Germany has increased since the end of 1990's. On the other hand the importance of investments into new buildings has decreased. Despite the dominance of investments into the existing housing stock there are only very few information about the structures, basic parameters and height of investments into the housing stock from official statistics. Therefore the aim of the research project is to investigate investments into the German housing stock.

Through high amounts of investments in East Germany the conditions of buildings in East Germany were upgraded considerably. Still there are differences of investment processes between West and East Germany because of different structures of the housing stock and other basic parameters. Due to the lack of demand and increasing vacancies investments get more and more unprofitable in East Germany. Therefore a further reduction of the investments into the housing stock in East Germany is very likely. But also in West Germany there are shrinking regions, where the loss of population has reached a gaining importance for investment decisions of private landlords.

## **1 Research project and methodical procedure**

The Leibniz Institute of Ecological and Regional Development (IOER) was commissioned from the Federal Office for Building and Regional Planning and the Ministry of Transport, Building and Urban Development to analyse secondary data about housing investments and to perform a survey of private landlords in Germany as a pilot project. The project has two main parts: 1. the secondary data analysis and 2. the survey of private landlords.

Important secondary data sources are for instant the Micro-census, the Socio-Economic Panel Germany (SOEP), the Volume of construction output from DIW and the statistic of GdW-members (association of German housing enterprises) (cf. IÖR 2005). However, there are only few official statistical data about the developments of restoration and modernisation processes in the German housing stock. Therefore it is planned to build up step by step a monitoring system with primary data of different housing market segments in Germany.

The field research of the current project focuses on the segment of private landlords. Selected results of this survey are presented in chapter three. More than 650 interviews in six German towns are conducted during the second part of the project. Four towns are located in West Germany: Frankfurt a.M., Osnabrück, Celle, Essen; and two in East Germany: Dresden and Köthen. Only houses which were built until 1990 belonged to the target segment. This is necessary to exclude effects of new

buildings.<sup>1</sup> The towns were selected in a way that different market situations (different size; prospering and shrinking) are reflected. The survey was realised by Technical University of Dresden, Institute of Geography. Although the representativeness is limited it is possible to make statements about the situation in West and East Germany (cf. TU Dresden 2006).

## **2 Selected results of secondary data analysis**

### **Share of dwellings with investments**

The Socio-Economic Panel (SOEP) – edited by the German Institute for Economic Research (DIW) – include information's about the quantity of renovated flats per year. However, the SOEP provides information about occupied houses only and no information about the costs of the investments.

At the beginning of the 1990's the share of occupied flats with investments was in East Germany higher than in West Germany (cf. Fig. 1). The reason was the disastrous condition of the housing stock, particularly of older housing stocks with a constructing date before World War I. After the political change in East Germany the renewal started within in the housing stocks of big housing organisations and in the housing stocks of "self users" (owner-occupied flats). Later private rental housing stocks<sup>2</sup> followed. The biggest problems for renewal in towns at this time were the high number of (old) buildings with unsolved ownership status (cf. Reimann 1997), the lack of money through GDR-debts and low income of private households.

One of the most important public subsidies for supporting housing owners was the KfW-credit-program.<sup>3</sup> In 1999 the low-priced KfW-credits reached in East Germany a market share of housing stock investments of nearly 60 %. Further important public promotions were the possibility of income tax release up to 62,5 % of the investment costs within the first 5 years until 1998 and the investment grant (Investitionszulage) from federal government from 2001 to 2004. These public subsidies stimulated the investments within existing housing stock considerably.

Since the end of the 1990's the wave of renewal in East Germany has calmed down. In East Germany the level of refurbished or modernised dwellings per year has been under the level of West Germany since 2003. Self users are the biggest group of owners which renew dwellings or buildings. They often fulfil renewal measures on their own over a longer period of time (cf. Technomar GmbH 2005).

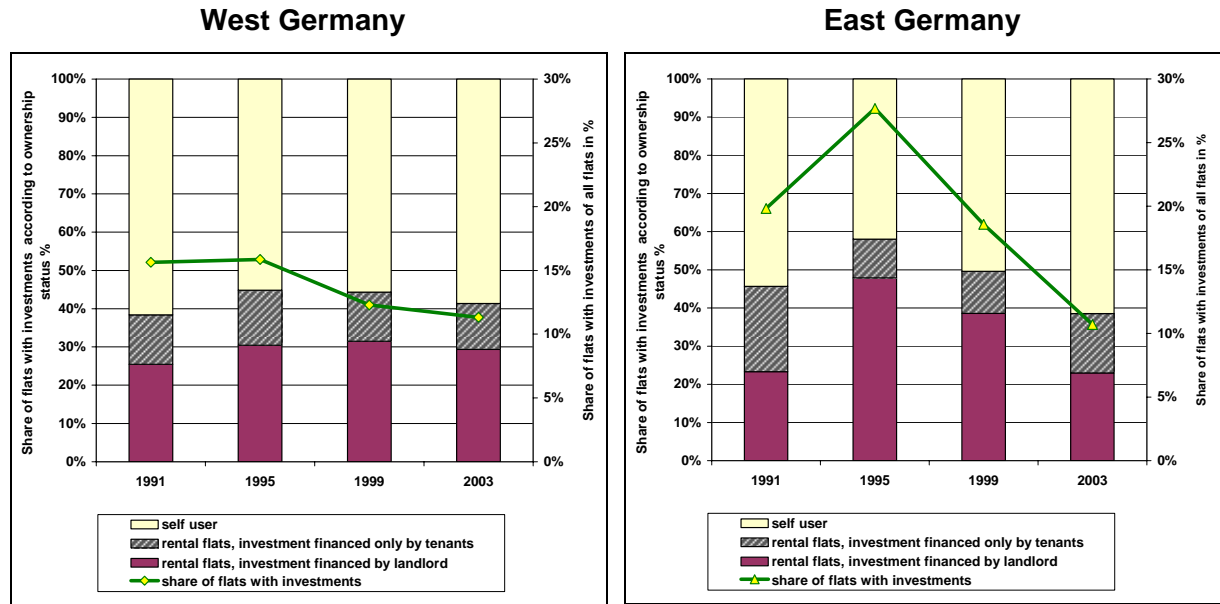
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<sup>1</sup> New buildings are mostly in a good condition and don't need investments for renewal.

<sup>2</sup> By private persons

<sup>3</sup> The KfW is a public bank in the ownership of the Federal Republic of Germany. The bank should help owners with interest-reduced credits to enable investments which are of public interest.

**Fig. 1: Share of occupied rental dwellings with investments 1991 - 2003**



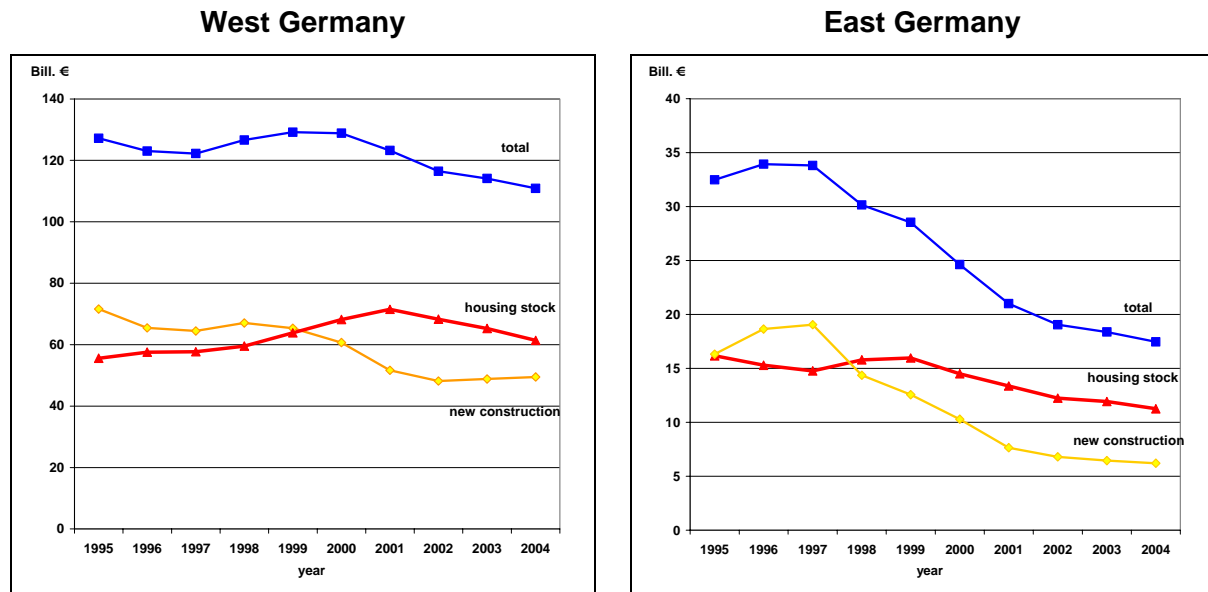
Source: Socio-Economic Panel Germany, own calculations

### Amount of investments in residential buildings construction

In Germany the total investments into the residential building sector have decreased since the year 2000. The reason for that is the regression of new construction investments in West and East Germany due to a saturated market. In East Germany the reduction began earlier and was stronger (cf. Fig. 2). The investments into the existing housing stock have also gone down continuously in East Germany since 2000. In West Germany the investments into the existing housing stock have increased until 2001, since then they have decreased slightly.

Analysis of IÖR shows that only a small part of investments into the existing housing stock were used for the construction of new flats within existing buildings. The majority of modernisations included energetic restorations. Reasons are the higher energy costs, the climate change discussion and public support programs like "KfW-CO<sub>2</sub>-Minderungsprogramm".

**Fig. 2: Investments in residential buildings construction**



Source: Bartholmai, B. 2002, 2005 (Volume of construction output)

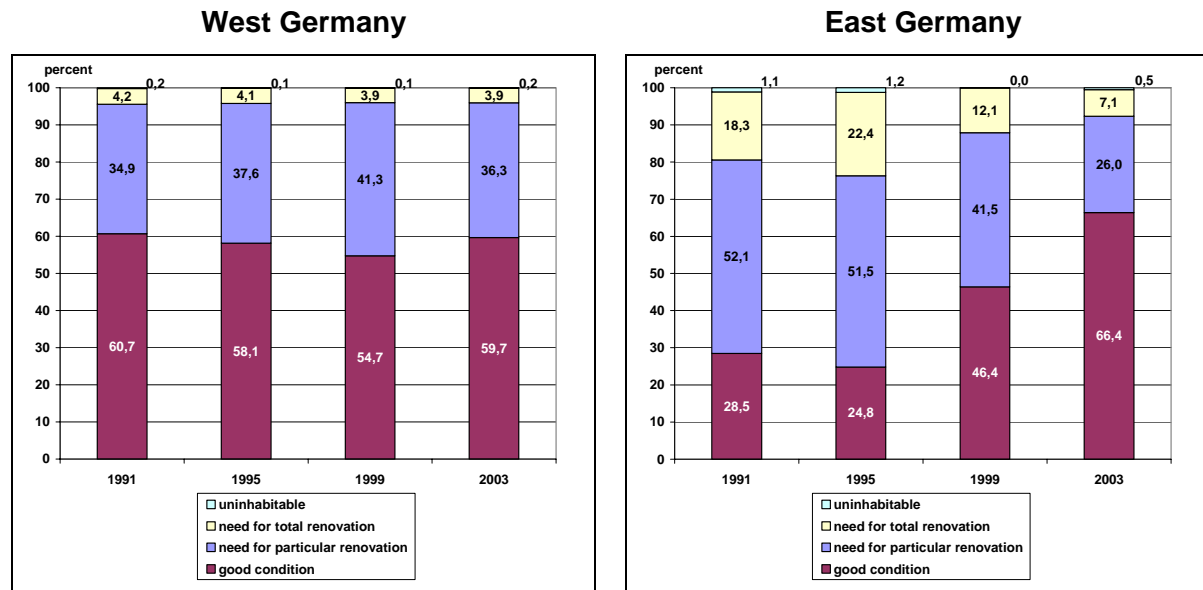
### Building conditions

At the moment of the reunion of Germany the conditions of the rental houses in East Germany were so bad that only 29 % of the occupied rental flats were in a good condition (cf. Fig. 3). The rented flats in buildings with heavy damages (need for total renovation) had in 1991 a share of nearly 20 %. In other east European countries there was a similar situation due to maintenance neglect in the socialist era.

In West Germany about 61 % of the housing stock was 1990 in a good condition. This proportion seems to be as a normal level by stable market conditions. Now (2003) - after extensive investments into the housing stock - the buildings in East Germany are even better rated by tenants than in West Germany. However, the proportion of buildings with heavy damages is still considerably higher than in West Germany.<sup>4</sup>

<sup>4</sup> Buildings in which nobody lives are not documented by the Socio-Economic Panel.

**Fig. 3: Qualitative changes of housing stock – need for renovation of residential buildings (occupied rental flats constructed until 1990)\***



\*rated by tenants

Source: Socio-Economic Panel Germany, own calculations

### 3 Selected results of survey

21 % of the occupied flats in Germany are situated in multi-family houses which have been constructed until 1990 and are now in ownership of private households. The policy and science have only few information about this segment regarding the structures of housing stock, the economic and social situation of owners and developments of investments. In the second part of the project this target segment was investigated. In six selected towns 5.146 addresses of rental buildings were chosen by coincidence. A standardised questionnaire was sent to the owners of these buildings. 654 interviews were evaluable.

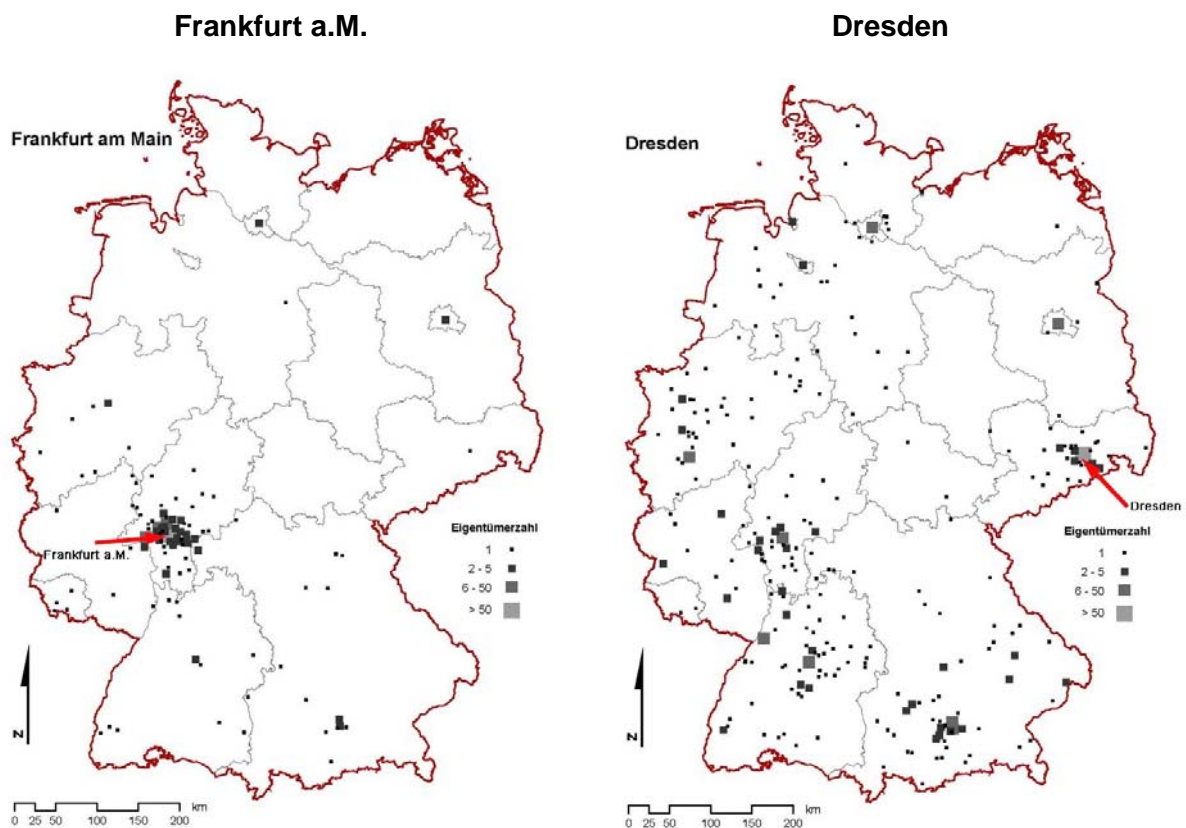
#### Selected characteristics of private landlords

In Germany the most private landlords live generally in the town of their real estate. But in East Germany a big transfer of ownership from East to West can be recognised. So 61 % of landlords of private rental flats in Dresden lived in West Germany today (cf. Fig. 4). In contrast to this 65 % of landlords of private rental flats in Frankfurt a.M. are living within the city and nearly 0 % in East Germany.

The income of the owners who live in West Germany is considerably higher than of owners who live in East Germany. However, especially these West German high-income-landlord-households are able to invest in their housing stock. About 75 % of all private landlords of dwellings in the six investigation towns owned only 1 to 15 dwellings; they are so-called "amateur landlords".



**Fig. 4: Residences of contacted private landlords of flats in two selected towns**



Frankfurt: 601 landlords contacted; Dresden: 625 landlords contacted

Source: Survey of private landlords, TU Dresden 2005

### Some characteristics of the housing stock of private landlords

The age of housing stock of private landlords in West and East Germany is considerably different (cf. Table 1). The housing stock of private landlords in East Germany is dominated by buildings which were built before World War II. During the time of GDR rental flats were built nearly only within the public housing building program.

Year structure built	Results of survey 2005 percent of private rental flats (with vacancies)		For comparison: all rental occupied flats (Micro-census 2002)	
	West Germany	East Germany	West Germany	East Germany
before 1901	17,8 %	55,7 %	5,5 %	7,1 %
1901 to 1918	20,2 %	33,7 %	7,3 %	10,6 %
1919 to 1948	11,0 %	8,6 %	12,6 %	16,2 %
1949 to 1978	41,1 %	2,0 %	63,1 %	41,7 %
1979 to 1990	9,8 %	0,0 %	11,5 %	24,5 %
altogether	100 %	100 %	100 %	100 %

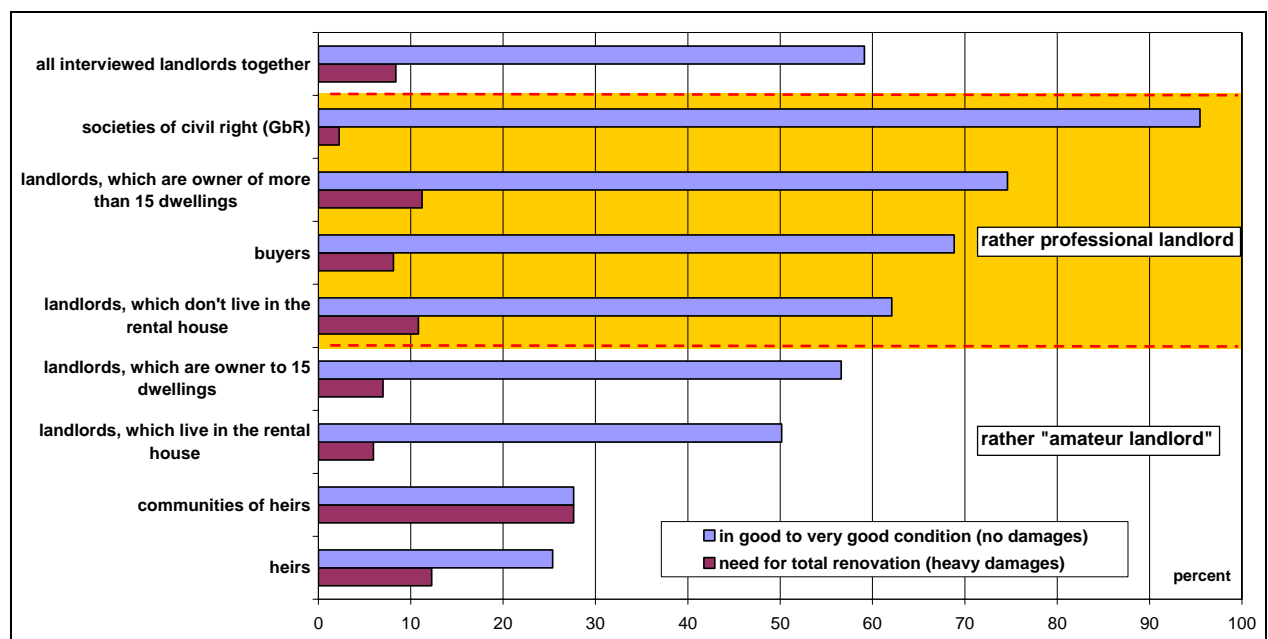
**Table 1: Age of housing structures of private landlords**

Source: Survey of private landlords, TU Dresden 2005, Micro-census 2002

Due to high private investments into the existing housing stock in East Germany from 1990 to 2004 the conditions of buildings now exceed the level of West Germany slightly. On the one hand the share of buildings in a good to very good condition in East Germany has reached 59 % in view of interviewed landlords (52 % in West Germany). But on the other hand the proportion of buildings with heavy damages is still three-times higher than in West Germany (8,4 % to 2,7 %).

Not all types of owners of rented buildings in East Germany were able to invest a lot into the housing stock. The conditions of buildings in ownership by heirs are worse compared to buyers or societies of civil right (GbR). Altogether professional landlords could renew the buildings better than so-called "amateur landlords" (cf. Fig. 5).

**Fig. 5: Need for renovation of private rental buildings in East Germany, 31.12.2004\***



\* rated by landlords

The rest of proportion belongs to the category "need for particular renovation (light damages)".

Source: Survey of private landlords, TU Dresden 2005

Due to migrations and a high number of new constructed flats in the 1990's the vacancy rate in East Germany increased to a high level. The quota amounts within the selected towns and the target segment in East Germany 13,1 % and in West Germany 5,6 % (31.12.2004).

In East Germany the vacancy rate is highly dependent on the degree of the condition of buildings and on the degree of the dwelling equipment. For instance the quota of empty dwellings in buildings with heavy damages is about 36 % (only few cases). In contrast to this the quota in buildings without damages and modern dwelling equipment amounts less than 6 %.

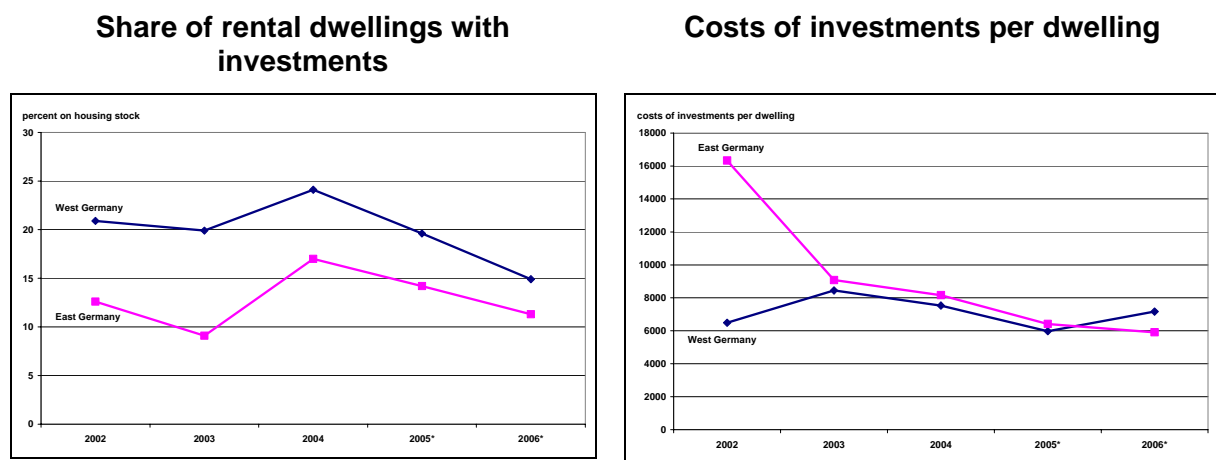
On the basis of the high vacancy rates and the low level of rents private landlords in East Germany are under a high economic pressure. Financial losses caused by the ownership of a rental building have to be compensated with other types of income.

## Investment behaviour

The wave of renewal in the housing stock of private landlords in East Germany is over. During the period under review of survey from 2002 to 2004 the share of dwellings with investments was already under the level of West Germany (cf. Fig 6). At the end of the federal investment grant (Investitionszulage) for East Germany in 2004 there was a temporary rise of investments. Now the trend of investments seems to continue to go down. But also in West Germany it appears that the investment into the housing stock will decrease.

Furthermore in East Germany the costs of investments per dwelling went rapidly down and reached the level of West Germany. In 2006 the investments per dwelling will probably go down under the level of West Germany for the first time.

**Fig. 6: Investments into the existing housing stock of private landlords\***

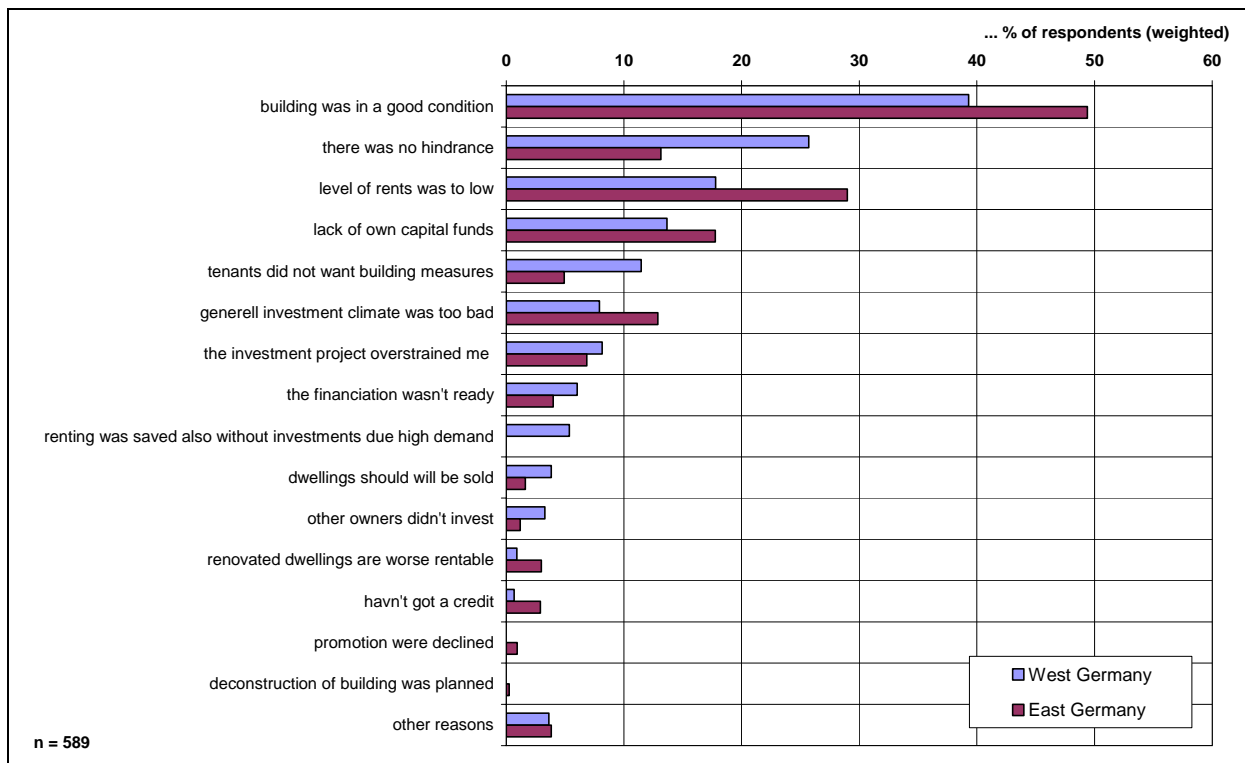


\* The results for 2005 and 2006 are temporary.

Source: Survey of private landlords, TU Dresden 2005

The main reasons why the investments are declining in East Germany are the relative good condition of the buildings, the lack of own capital funds and problems due to the bad market conditions with low rents and negative investment climate (cf. Fig 7).

**Fig. 7: Reasons, why investments were not realised, 2002 to 2004**



Source: Survey of private landlords, TU Dresden 2005

The survey already showed the importance of the demographic situation for owners, especially in shrinking towns. Nearly 30 % of interviewed owners mentioned that the demographic situation in the town has already an influence to investment decisions today.

#### **4 Conclusions**

From all investments for residential real estate premises of 129 billion € in 2004 about 73 billion € of investments went into the existing housing stock. Investments for new construction reach only 56 billion €. The investments into the housing stock exceed the investments for new construction since 2000. This is the case for the eastern part and the western part of Germany with slight temporary differences. Despite the high macroeconomic importance of investments into the existing housing stock, this does not lead to a significant greater number of new flats constructed within the existing stock. This was temporarily not the case for East-Germany end of the 1990<sup>th</sup>, where several extensions of existing premises took place.

In the beginning of the 1990's high renewal investments were necessary in East Germany. The majority of the existing buildings had medium and heavy damages. The highest investments in East Germany took place from the middle to the end of 1990's. Public subsidies supported housing owners considerably. Since 2000 the investments into the housing stock are continuously decreasing. The share of buildings with good condition has reached the level of West Germany. But the share of buildings with heavy damages is still essentially higher than in western part of Germany. The lack of demand and the high costs of renewing heavy damaged

buildings are now restraints of further investments. Due to the demographic change the lack of demand will be an ongoing problem.

The group of private landlords is very heterogeneous. The majority own only until 15 dwellings and are so-called "amateur landlords". The share of private rental buildings in a good condition is in East Germany now slightly higher than in West Germany. But nearly a tenth of the buildings in East Germany still has got heavy damages. This is three times higher than in West Germany. The conditions of buildings in ownership by heirs and communities of heirs are bad. The building conditions of houses in ownership of professional landlords are better as buildings from so-called "amateur landlords". The vacancy is concentrating in buildings in a bad condition. These buildings are not conforming to the demand of tenant households.

The wave of renewal in East Germany is also in the private rental housing stock over. The three most important reasons why investments in East Germany between 2002 and 2004 were not realised are: 1<sup>st</sup> the buildings were in a good condition, 2<sup>nd</sup> the level of rents was too low and 3<sup>rd</sup> the lack of own capital funds by private landlords.

In West Germany the development of the investments into the housing stock is still stable. But the lack of demand in some regions in West Germany makes investments more and more difficult, too.

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