THE DETERIORATION AND REHABILITATION OF MARKET HOUSING IN EAST GERMANY AND THE UNITED STATES

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EXECUTIVE SUMMARY

Students at The Ohio State University and the Technical University of Dresden collaborated on a research project on the topic of the deterioration and rehabilitation of market rate housing in urban neighborhoods in the United States and East Germany. Background studies of trends and issues at the national level were augmented by case studies of neighborhoods in Dresden, Saxony and Columbus, Ohio.

Dresden's Plauen neighborhood is an older urban neighborhood with housing stock that became badly deteriorated during the socialist era under the German Democratic Republic. The physical fabric of the neighborhood is being revitalized under Dresden’s Rehabilitation Areas program. Columbus’ Olde Towne East neighborhood is also an older urban neighborhood. Affected by the American trend of inner city decline in the 1960s and 1970s, the area is currently undergoing a renaissance of sorts. Many instances of private rehabilitation efforts have improved the overall housing stock, but raise the spectre of gentrification.

Both the background research and the case studies illuminate some fundamental differences between the American and East German situation in terms of market rate housing and typical processes of its deterioration and rehabilitation. The housing markets themselves are different, with a much higher homeownership rate in the United States. Furthermore, differences in the relative roles of the public and private sectors in the two nations (in the past and the present) translate into different processes of housing decline and rehabilitation.
1. INTRODUCTION

This paper is the culmination of a six-month-long program of collaboration between students of The Ohio State University (OSU) in Columbus, Ohio and the Technische Universität Dresden (TUD) in Dresden, Saxony. The program was facilitated by OSU’s Department of City and Regional Planning and TUD’s Institut für Ökologische Raumentwicklung (Institute of Ecological and Regional Development). The purpose of the program, which had the overarching theme of “Community Redevelopment in a Regional Context: Problems and Strategies,” was to allow students to undertake country-specific and comparative analyses of redevelopment-related urban planning issues in the United States and the former East Germany.\(^1\) Background research on a particular topic was supplemented by case studies conducted by bi-national teams during two-week excursions in Dresden (in June 2001) and Columbus (in August 2001).

Within the general theme of the program, our specific area of research was market housing. Market housing is simply that which is ‘traded in the market,’ with rents or purchase prices determined by market forces. It is thus differentiated from ‘social housing’ (either public housing or subsidized housing), which is primarily an element of government social welfare efforts rather than a market commodity.\(^2\) It is

\(^1\) In the remainder of this paper, ‘East Germany’ should be understood as shorthand for ‘the former East Germany.’ Because of the profound historic and enduring differences between East and West Germany, background information, analysis and conclusions applies to East Germany rather than Germany as a whole.

\(^2\) Both types of housing are important determinants of the well-being of individual households and the community at large. Issues related to social housing in Germany and the United States are explored by our colleagues al-Ansari, Beige, Hankins and Kube in their paper in this series.
important to note, however, that the relationship between market and social housing is not a strictly binary one but is perhaps better viewed as a continuum. For example, there are many government subsidy or incentive programs (such as home mortgage insurance and loans or grants for home construction or renovation) that influence the market housing that we discuss in this paper.

Given that the program was structured around ‘Problems and Strategies,’ we defined a specific problem related to the redevelopment of market rate housing: the deterioration of the housing stock in particular urban neighborhoods. Thus the strategies we discuss tend to focus on the rehabilitation of the housing stock rather than on redevelopment in its typical usage (that is, rebuilding on previously used sites).

Sections 2 and 3 of this paper outline the important issues related to the rehabilitation of market rate housing in East Germany and the United States – specifically, reasons for the deterioration of the housing stock and strategies for addressing this problem. The next two sections document our case studies of market housing rehabilitation: the Plauen neighborhood in Dresden (Section 4) and the Olde Towne East neighborhood in Columbus (Section 5). In Section 6, we compare East Germany and the United States in terms of market housing, its deterioration, and its rehabilitation based on our background research and our case studies.
2. THE REHABILITATION OF MARKET RATE HOUSING IN EAST GERMANY: A SYNOPSIS

2.1. THE PROBLEM: DETERIORATION OF MARKET RATE HOUSING IN EAST GERMANY

In East Germany the housing situation is still affected by the relics of the centralized planned housing policy during the 40 years of the socialist state system. The 1990’s have therefore been a decade of transformation for different housing market issues, as well as for the whole society. First there was a lack of acceptable housing structures with low rent levels after the reunification; then properties and houses were returned to their former private owners, state-owned housing corporations were privatized, and rent levels slowly approached western prices. Already in the mid-1990s the demand for newly constructed housing was fulfilled. Due to the sustained out-migration to Western Germany, the market became oversupplied and is nowadays faced with distressing vacancy rates, mainly in rental housing. So within 10 years the market situation completely changed from one extreme to another (Pfeiffer, Simons and Porsch 2000, 10).

Deterioration of the housing stock in Eastern Germany has its origin in post-World War II economic development. As a considerable share of inner-city structures are more than 80 years old and maintenance activities had only been applied poorly since the 1940s, after the reunification the rehabilitation of neighborhoods became a

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3 Written by Anne Hennig and Albrecht Malcherek (Hennig and Malcherek 2001b); edited by Sarah Starkweather. This is a synopsis of Hennig and Malcherek’s detailed study of market rate housing in East Germany (Hennig and Malcherek 2001a), which was written in German. It is available upon request.
major topic on Federal housing policy. A primary goal was to preserve urban structure and the cities’ identities in order to avoid a substantial city population loss.

While socialist housing policy and economy supported prefabricated facilities with a high number of apartment structures, a growing demand for more individual housing like single-or double-family houses after 1990 was obvious (Hennig and Malcherek 2001a, 8).

This trend to the urban edge has been propelled by investors as well as by medium and high-income consumers. That’s why processes of sub-urbanization or downgrading of neighborhoods is also visible in Eastern Germany, on a different scale than the United States. Recent legal and economical conditions do limit a forceful urban sprawl. The territorial and school administration system does not support an out-migration, and building codes and planning principles are limiting the growth (but do not avoid it).

Downgrading of neighborhoods is recently most visible in prefabricated housing structures (Plattenbauten) that used to provide high-quality living conditions during the last decades of the socialist period. Although most of those concrete-made houses were rehabilitated within the last years, the high density of inhabitants causes negative trends. For example, segregation concerns arise when low-income households or certain ethnic groups are clustered in these Plattenbauten neighborhoods without the necessary social infrastructure.

Traditional pre-war urban neighborhoods are nowadays facing different development paths. In those where the housing stock was not maintained, a tremendous population loss could be documented. This caused social segregation, as only low-income households stayed in these deteriorating neighborhoods. At the same
time, high vacancy accelerates the physical decay of structures and vandalism and illegal occupation are significant problems.

In neighborhoods with better physical conditions the certain historical atmosphere may attract younger people ("pioneers") who could start a gentrification process. In those neighborhoods both the public and private sector quickly intervene to influence and share the positive development. After a decade neighborhoods like these – for example, Dresden’s Outer Neustadt – can be transformed into vital, multifunctional neighborhoods with citywide importance.

Housing vacancy is recently the biggest concern in private and public housing activities. Eastern Germany’s cities are suffering average flat vacancy rates around 20 percent. Particularly affected are rental housing in the above-mentioned ‘Plattenbauten’ and still unrehabilitated pre-war-structures. Lower vacancies in newly constructed housing or rehabilitated houses are also not unusual, if neighborhood context or rent levels are inadequate. Due to the oversupply of new constructions and a clearly decreasing population, the market is therefore very much controlled by consumers, and price levels are low. This could lead to an increasing number of private households as low-income inhabitants could afford rental apartments (Hennig and Malcherek 2001a, 7). On the other side the lost incomes of East German housing corporations and private rental-homeowners add up to 2.2 billion DEM (about 960 million USD) every year.

2.2 Market-driven Housing Redevelopment in East Germany

Strategies of rehabilitation have to take high vacancy rates into account. Private investments will only be made if there are chances to gain a return within an adequate
time period. Beyond these requirements market-driven rehabilitation activities are
mainly undertaken if the investment is supported by the public sector or if location
qualities or contracts are justifying the rehabilitation investment.

Refunded rehabilitations can be documented in highly attractive neighborhoods,
where upgrading processes have been comparable to gentrification as known.

The recent market trend in problem areas is causing ruinous businesses that may
force entrepreneurs into bankruptcy. Private owners have to decide whether to sell their
houses or not, because maintaining a vacant house is problematic (Pfeiffer, Simons and
Porch 2000, 24). Housing corporations that financed their rehabilitation activities by
mortgage loans cannot repay them from rent incomes; therefore the risk of
rehabilitation becomes higher. although a higher amount of rental-housing units may
give them the opportunity to cross-finance rehabilitation between economically active
and passive neighborhoods. On the other hand, the level of rehabilitation standard has
to be balanced carefully because rehabilitation that is too fast and too high displaces
low-income renters and causes liquidity problems.

2.3 Public Sector Support for Housing Redevelopment in East Germany

The public sector plays an important role in deterioration concerns in Eastern
Germany. When the Federal government decided to support the five Federal countries
during their transformation especially, housing grants were enlarged for newly
established, tax releases in housing investments became efficient and insuring mortgage
models had been published. The goals of this policy were to provide people with
adequate living standards as well as supporting the housing industry during years of recession.

The public support of investment in rental housing has led to an unknown boom within the housing construction industry. Special depreciations for investments into rental housing between 1991 and 1998 (50% of investment values could be depreciated) totalled 27 billion DEM in foregone tax income (Pfeiffer, Simons and Porch 2000, 30).

Municipal rehabilitation area projects are the major tools for supported revitalization. In 1996 more than half a million housing units were in designated rehabilitation areas. All three levels of government fund this program which takes an integrative approach to the revitalization of neighborhoods – that is, it involves the renewal of infrastructure and green space as well as the housing stock. Homeowners were mainly supported by grants for the renovation of façades and roofs.

Additionally, public programs for renovation have been established by the Federal Bank of Recovery (KfW) and the Federal countries. Although the KfW programs are economically not very important, they have had an effect, as homeowners for the first time experienced a wide chance for supporting rehabilitation and modernization. These are grants and mortgage loans with low-interest rates and low-downpayment requirements.

The state’s renovation programs are meant to be supplement subsidies, especially for private homeowners of deteriorated houses within rehabilitation areas, although they are hardly within reach (Pfeiffer, Simons and Porch 2000, 35). For the future the support is proposed to be more individually tailored, in order to rehabilitate urban neighborhoods more successfully. The State of Saxony is therefore providing low-interest mortgage loans for home purchase and renovation as well as the recovery of
unusable housing space for occupation. The same support is granted to rental-housing investors. New constructions are supported in inner-city neighborhoods only.

Another important tool is a special depreciation (tax release) for rehabilitation investments (10%) that ensure profitable investments at low rent levels. This support is also used for self-occupying investors.

Federal and state programs support circumstances of homeownership development similar to West Germany. They are also usable for redevelopment projects, although the public grant is halved for older structures in comparison to newly established houses. This difference is almost without importance, as renovation needs higher investments.

A long-term study for the Minister of Transportation, Construction and Housing has proposed the demolition of up to 400,000 vacant units in Eastern Germany, which should be achieved in concert with recent rehabilitation programs. While in future the construction of single-family homes should be halved, the redevelopment of lots made vacant by demolition shall be supported with double grants.

As an answer the Federal government intends to publish a new program “Urban Redevelopment East” in 2002 with three main targets: removal of structural housing vacancy; revitalization of cities; and redevelopment into attractive housing and business localities. Again an enormous stimulation of the construction industry is expected.
3. The Rehabilitation of Market Rate Housing in the United States

In this section we consider the problem of the deterioration of market housing stock in the United States: the sources of the problem, and in particular strategies for revitalization and redevelopment of urban housing. Although we are interested in market-rate housing, this does not mean that we limit our discussion to private-sector, purely market-driven activities. Despite the importance of private-sector investment decisions, public sector programs and subsidies are often a factor in investment in housing by developers and individual households. Our focus is the urban setting, particularly the older ‘inner city’ neighborhoods, and the ‘redevelopment’ of housing stock through both renovation and new construction. Although we attempt to convey a general sense of conditions in the United States as a whole, we also try to explicitly link the concepts to the Columbus context wherever possible.

3.1. The Problem: Deterioration of Market Rate Housing in the United States

The quality and quantity of the housing stock is important to the well-being of individuals, households, neighborhoods and cities. The deterioration of the market-rate housing stock is therefore of great concern to planners, community groups, and government agencies (as well as consumers of housing, of course). The problem is particularly acute in older, inner city neighborhoods. In Columbus in 1990, there were about 17,450 substandard housing units (approximately 7 percent of the total). Of these, 83 percent were in the ‘older city’ (which is defined by the 1950 city limits).
Vacant and boarded up units were even more concentrated, with 96 percent (1,411 out of 1,470) located in the older city (Columbus Housing Task Force 2000). Figure 1 shows the location of housing code violation complaints in Columbus from October 1999 to July 2000 and Figure 2 shows the location of vacant housing structures in July 2000 – the concentration of these problems in certain areas of the city is apparent.

There are many factors that may contribute to housing decline. Individual units may be allowed to deteriorate through neglect and lack of investment. As units age, they may become structurally obsolete and require extensive renovations that the owner is unwilling or unable to make. They may have been constructed poorly or with low-quality materials to begin with. Also, maintenance decisions about urban properties are often made by absentee landlords (Dubin 1998, 144). Often, a lack of investment in individual housing units can be linked to conditions in the surrounding neighborhood. For example, mortgage lenders have historically made decisions about what neighborhoods were or were not acceptable for loans. The act of defining a geographic area in which no mortgages would be granted – called redlining – has resulted in neighborhood-scale disinvestment, as well as affecting the quality of individual units (Miles et al. 1991, 131). Federal policies of the past half-century encouraged suburban growth (for example, subsidies for new developments, suburban-oriented mortgage provision, and highway construction) and operated at the expense of inner-city neighborhoods (Accordino and Johnson 2000, 302). The actions of local government agencies may also contribute to housing stock deterioration. For example, failing to enforce the building code regulations allows small problems to become major ones, and high property taxes may lead to abandonment (ibid.).
FIGURE 1

Housing Code Inspection Complaints
October 1999-July 2000

Active Vacant Structure Cases
July 2000

The consequences of housing decline are severe, and affect both quality and quantity. At the scale of the household, it may lead to unsafe or uncomfortable living conditions. At the extreme, a unit may be condemned and/or left vacant. In the City of Columbus in 2000, over 25,000 housing units were vacant – this accounts for 7.8 percent of the total housing stock (City of Columbus 2001). This reduces the supply of housing, primarily disadvantaging low-income households (Figure 3). On the neighborhood scale, rundown or boarded up housing may trigger a downward spiral of property value decline, abandonment, and vandalism (ibid., 303; Scafidi et al 1998, 288) (Figures 3 and 4).

**FIGURE 3 Abandoned Rental Housing in Columbus, Ohio**

SOURCE: Photo by Prateek Sharma.
3.2. MARKET-DRIVEN HOUSING REDEVELOPMENT IN THE UNITED STATES

3.2.1. LIVING IN THE CITY

One of the factors in the decline of the urban housing stock was that in the 1950s American central cities began to decline in population (Miles et al. 1991, 118). This was due to both ‘pull’ factors (such as increased suburban home construction and the construction of new highways) and ‘push’ factors (such as racial tensions in the inner cities). However, in the latter decades of the century some Americans began to take more interest in the city and, specifically, in downtown living. Although the trend of suburban growth was by no means reversed, there was an increased demand for downtown development in many (though not all) American cities (London and Palen 1984, 4; Smith 1996, 6).

3.2.2. NEIGHBORHOOD GENTRIFICATION

Gentrification has been a process of great interest to scholars of the modern city. It is one expression of the renewed appeal of urban living, and has been an important element of the restructuring of many urban areas in the United States and around the world. In this process, inner-city neighborhoods are ‘revitalized’ by an influx of middle-class residents who purchase and renovate homes. Affected neighborhoods are generally those that have a working-class population and housing stock that, although rundown, has some particular architectural distinction or charm. For example, the
historic homes of Columbus' Victorian Village and German Village have made these areas particularly attractive to gentrifiers (Figure 4).

**FIGURE 4  Historic Homes of German Village**

Source: German Village Society 2001.

The term ‘gentrification’ was coined by sociologist Ruth Glass in 1964 (xviii), when she described the process in London as follows:

One by one, many of the working-class quarters of London have been invaded by the middle classes .... Shabby, modest mews and cottages ... have been taken over, when their leases have expired, and have become elegant, expensive residences. Larger Victorian houses, downgraded in an earlier or recent period ... have been upgraded once again... Once this process of ‘gentrification’ starts in a district it goes on rapidly until all or most of the original working-class occupants are displaced and the whole character of the district have changed. (quoted in Smith 1996, 33)

Glass emphasized the negative aspect of the gentrification of neighborhoods: the displacement of the working-class population to make way for the gentrifiers. Thus gentrification is generally viewed as a two-sided coin. On the positive side, gentrification increases the value and beauty of historic neighborhoods and represents the ‘return of the middle class’ to the inner city; it improves the condition of the local housing stock and increases the local property tax base, and may exert upward pressure
on surrounding neighborhoods as well. On the other hand, gentrification displaces lower-income residents and reduces the supply of affordable downtown housing.

The stereotypical image of the gentrifier is a young urban professional who braves the ‘urban frontier’ and starts a chain reaction that eventually upgrades an entire neighborhood. However, neighborhood gentrification has not been entirely due to the decisions of individual households. Developers may also spur gentrification by buying a large proportion of houses in a promising neighborhood and then renovating them before putting them up for sale (Smith 1996, 68). Although gentrification is usually discussed in terms of owner-occupied housing, rental housing in the gentrified area may also be affected by the overall local upgrading, and rents may increase due to the increased attractiveness of the neighborhood.

3.2.3. NEW HOUSING CONSTRUCTION

Demand for housing in the inner city has been satisfied not only with the renovation of the old housing stock, but by the creation of new housing. The fact that downtown housing development is a big business is evidenced by the following complaint in a magazine for the multi-family development industry:

While demand for suburban and inner-city multifamily projects remains high, developers are discovering that they cannot build as many projects as they would like because acceptable land is not available. A combination of factors – ranging from competition from other real estate sectors such as the office market, to an increasingly vocal not-in-my-backyard (NIMBY) movement, to municipalities demanding more concessions from developers – has contributed to the shortage of buildable land. (McIntosh 2001)
As land becomes scarcer, development costs go up and it becomes more difficult to undertake housing projects. However, despite the worry expressed in the above quote, development opportunities are still available: just one example of an ongoing project in Columbus is Jeffrey Square, a large mixed-housing development planned for a former industrial site just northeast of Columbus’ city center (Figure 5).

FIGURE 5  Future Site of Jeffrey Square

SOURCE: Photo by Kathryn Wimberger.

Downtown housing redevelopment can take the form of infill development (the addition of new buildings to increase the density of development), adaptive reuse (conversion of some other type of structure – for example, old factories or schools – into living spaces), or clearance (clearing an occupied site and building housing on it). The type of housing created can range from low-income rental units, to luxury apartments, to townhouses and even detached single-family homes, depending on available sites and local housing demand. Figures 6 and 7 show some examples of recent urban housing
redevelopment projects in Columbus: The Meridian, a luxury apartment community west of Columbus’ core, and Victorian Gate, an infill development in the Victorian Village, near downtown.

**FIGURE 6  The Meridian**

![The Meridian](image1)

**FIGURE 7  Victorian Gate**

![Victorian Gate](image2)

SOURCE, both figures: Photo by Kathryn Wimberger.
The public sector, at all levels of government, has developed housing policies to augment and guide market forces. We begin by discussing the homeownership agenda that has long been embraced by the public sector and endorsed through access to low-rate, low-downpayment mortgages. We then consider support for home renovation, programs to assist new housing development, and the employment of ‘urban homesteading’ strategies.

### 3.3.1. The Importance of Homeownership

Many housing-related policies at the national, state and local level are oriented toward increasing homeownership rates. Homeownership is widely thought to be an effective solution to the problems of neighborhood decline and housing deterioration. It is commonly argued that home owners are more stable neighborhood residents and are likely to invest more time and money in maintaining their property, while taking an active interest in the community as a whole (Ambrose and Goetzmann 1998, 274; DiPasquale and Glaeser 1999). This belief has strongly influenced government housing policies for decades. Emphasis on encouraging homeownership increased in the 1990s in response to a slight decline in the national homeownership rate during the 1980s. This resulted in a steady increase in homeownership in the past decade (Figure 8).
In 1996, then-President Clinton announced the National Homeownership Strategy, under which the U.S. Department of Housing and Urban Development (HUD) would allocate funding to support large-scale homeownership initiatives in designated ‘Homeownership Zones’ across America. The following is from a 1996 speech by Clinton:

We have to be committed to helping all Americans achieve this large part of the American dream known as homeownership. .... Homeownership is one of the best ways to empower local residents, to give them a stake in the community, and to increase the bonds that tie people together. It means commitment. If we have any hope of bringing success back to these inner cities, we have to have people there who care and who are committed. (U.S. Department of Housing and Urban Development 1996, 1-2)
His statement incorporates the anticipated effects of homeownership on individuals, neighborhoods, cities, and the nation as a whole. Given these expectations, it is not surprising that homeownership is such an important aspect of American housing policy. Figure 9 shows just one development that has taken advantage of federal-level financial support for homeownership initiatives – Central Commons, a new neighborhood on the East Side of Cleveland, Ohio.

**FIGURE 9  Cleveland’s Central Commons Neighborhood**

We should note here that, although the American government is committed to homeownership as a policy of housing and neighborhood revitalization, it is not necessarily a magic formula. First, homeownership may not be the most important factor in neighborhood stability and community commitment. Just as some renters may be excellent neighbors and community citizens, some homeowners may be completely irresponsible and take little interest in maintaining their own property, let alone improving the neighborhood. Second, it seems clear that no matter how much homeownership is encouraged, there will always be some who do not take part – whether because of personal preference, or inability to afford to make such an investment. Therefore, the important role of rental housing should not be forgotten.

3.3.2. SUPPORT FOR HOMEOWNERSHIP THROUGH MORTGAGE LENDING

For the majority of would-be homeowners, the purchase of a home is only possible if they get a mortgage loan. Therefore, a popular government strategy for increasing homeownership is making low-downpayment, low-interest mortgage loans readily available to prospective buyers. This strategy was pioneered in the 1930s and 1940s by federal programs administered by the Federal Housing Administration (FHA) and the Veteran’s Administration (VA). Mortgage loans under these FHA and VA guidelines had extremely low downpayment requirements, long terms, and low fixed interest rates – and were insured by the federal government, so there was no risk to lenders (Hornburg and Simmons 1994).

Historically, mortgages have been much easier to obtain in suburban areas than in inner city neighborhoods. In fact, past difficulties in obtaining mortgages for homes
in inner city neighborhoods have contributed to the decline of such neighborhoods. Lending institutions, encouraged by federal guidelines, refused to grant any mortgage loans in certain neighborhoods (usually poor and often with mainly non-white populations). This practice is called redlining: imagine a bank official circling a neighborhood on a map with a red marker and saying, “No loans here.” In contrast to this discriminatory history, the mortgage lending industry has recently been actively marketing homeownership to what they call ‘underserved markets’ (Listokin and Wyly 2000). This has been supported by federal policy: an act passed in 1992 required the federal mortgage lending agencies to finance more home purchases by low-income households (Ambrose and Goetzmann 1998, 274). Between 1993 and 1998, loans to all racial groups increased. However, the increase was higher for African Americans (95 percent) than for white Americans (40 percent). In terms of geography, there was a greater increase in loans granted in low- and moderate-income neighborhoods (75 percent) than in high-income neighborhoods (57 percent) (ibid.). These disparities are probably partly due to the relatively low number of loans granted to underserved markets to begin with – however, it does indicate that the gap is closing.

Although this trend has made mortgage loans more available to historically disadvantaged groups, there is some concern that mortgages may be given to households that do not have the financial resources to pay for them, leading to stress on the household and default on the loans. Listokin and Wyly, who have studied this trend, observe that “the mortgage finance industry is doing much more to attract historically underserved households and qualify them for mortgages than it is to ensure that they remain in their homes” (2000, 15).
The State of Ohio’s First-Time Homebuyer Program is designed “to create homeownership opportunities for those who could not otherwise afford to purchase a home” (Ohio Housing Finance Agency 2001a) – that is, the ‘underserved market’ discussed above. Applicants must be first-time homebuyers or must purchase homes in targeted ‘distressed’ areas. Thus, this program is intended not only to assist households but to encourage neighborhood revitalization. Assistance takes the form of lower-than-usual down payment requirements and below-market interest rates on the mortgage loan (ibid.). Many of Columbus’ census tracts are identified as target areas.

The City of Columbus administers a Down payment Assistance Program to help low- and moderate-income households to purchase a home. Households with incomes at or below 60% of the local median income (which was $26,651 for the City of Columbus in 1990) must contribute only $500.00 to the down payment; households with incomes between 60% and 80% of the local median income must contribute half of the down payment. The home purchased must be within the city limits, presumably in an effort to encourage revitalization of urban neighborhoods. Significantly, to be eligible, “the property must serve as the applicant’s primary residence” – therefore, these funds do not contribute to the purchase and upgrading of rental housing (City of Columbus 2000a).

3.3.3. Home Renovation Loans and Grants

For people who already own homes, or those who are willing to purchase rundown properties, there are renovation grants and loans available to encourage housing rehabilitation. For example, on the federal level, the Federal Housing
Administration’s Rehab Express (203k) loans and Fannie Mae’s HomeStyle Home Improvement loans both allow people to either take out a loan for renovations alone, or combine a mortgage for the purchase of a home with a loan for needed repairs. Property types eligible for these programs include not only owner-occupied dwellings (single family units, condominiums and townhouses), but also rented dwellings. The loans can even be used to convert single-family homes to multi-family rental units. Therefore, these initiatives can affect both owner-occupied and renter-occupied housing stock (AllyMac Mortgage Services 2000; Fannie Mae 1998; North American Mortgage Company 2000; U.S. Department of Housing and Urban Development 2000c). Again, these assistance programs are intended not only to help individual households, but also to stimulate neighborhood reinvestment and revitalization.

The Federal Housing Administration further encourages housing rehabilitation by insuring loans made for this purpose by private lenders. Under the program, called Title I, private lenders (such as banks) can make loans for housing renovations up to $25,000 (for single family homes) or $60,000 (for multifamily buildings) without any risk. Like the 203k and HomeStyle programs, both owner- and renter-occupied dwellings are eligible (U.S. Department of Housing and Urban Development 2000d).

In addition, HUD’s Home Investment Partnerships Program (HOME) provides grants to state and local governments that can be used to fund, among other things, the rehabilitation of affordable housing – either rental or owner-occupied. Under this program, more than $1 billion dollars is allocated every year to support community development initiatives across the country (U.S. Department of Housing and Urban Development 2000a).
The City of Columbus administers a Homeowner Assistance Program under which funding is provided “to correct substandard, unsanitary and deteriorated conditions in the homes of seniors, disabled persons and low-income persons who own and occupy the residence” (City of Columbus 2000b). The program’s zero-interest or low-interest loans of up to $15,000 and grants of up to $5,000 can be used for various types of repairs. These funds are available only to owner-occupied, single-family homes within designated neighborhoods (ibid.). Another program, the Homeownership Development Program, provides financing of up to $15,000 per unit to developers who are rehabilitating or constructing owner-occupied units. First-time homebuyers are also eligible for this funding (City of Columbus 2000c). Neither of these programs makes provisions for renter-occupied housing.

3.3.4. NEW HOUSING CONSTRUCTION

Although the rehabilitation of the existing housing stock is important, it is also important “to support cycles of new residential construction in order to renew some proportion of the nation’s housing stock periodically” (Kutty 1999, 40). Housing passes through a ‘life cycle’ at the end of which it is no longer habitable – even with rehabilitation efforts – and must be replaced. New housing is also obviously necessary in areas experiencing population growth. In most of Ohio’s cities, the construction of new housing units in the 1990s was heavily concentrated in the suburbs. For example, in Cleveland only about 2,000 new units were built in the central city from 1990 to 1997, compared to 18,000 new units in the surrounding county. Columbus, however, was an
exception to this rule with about 32,000 units built in the central city and about 22,000 in the surrounding county (Ohio Urban Revitalization Task Force 2000, 17).

All levels of government support the construction of new housing, particularly for low- and moderate-income households in troubled urban communities. The U.S. Department of Housing and Urban Development’s HOME program – mentioned above with reference to its funding of housing rehabilitation – also provides funds for the construction of new affordable housing. The HOME funding pool is allocated to state and local governments to do with as they see fit. However, although the grants are very flexible, there are requirements that must be met – specifically, a certain proportion of the housing units being rehabilitated or constructed must benefit low-income households. Each state receives at least $3 million in HOME grants each year, and municipalities may also be eligible for grants (U.S. Department of Housing and Urban Development 2000a).

The Ohio Housing Finance Agency’s Housing Development Assistance Program – relying, in part, on Ohio’s share of HUD’s HOME funds – subsidizes the construction of both owner-occupied and rental housing by community-based nonprofit organizations. New housing intended for low- and moderate-income households is eligible for this funding (Ohio Housing Finance Agency 2001b).

Columbus’ Homeownership Development Program, mentioned above, offers financing to developers or first-time homebuyers who wish to either renovate or construct new housing in the city. Developers’ applications for funds must explicitly consider the neighborhood context of the proposed redevelopment: they must predict the impact of the development on the neighborhood, consult the appropriate Area
Commission (local citizen group), and – if building in a historic neighborhood – ensure that the new construction will be appropriate (City of Columbus 2000d).

3.3.5. Urban Homesteading Programs

Urban homesteading is one of the ways of reutilizing and revitalizing the existing building stock and stopping the process of urban decay. The program seems to be an ideal solution to the problem of urban decay but it has its own bag of implementation problems. Despite this fact it can be said that urban homesteading has been moderately successful in the United States.

The term ‘urban homesteading’ harkens back to the 19th century American practice of granting parcels of land on the Western frontier to settlers (homesteaders) who were willing to improve the land and make their permanent residence there. Indeed, the program is based on an exact analogy to this situation, with deteriorated urban neighborhoods replacing the Western frontier. The Federal urban homesteading program was initiated in the 1970s as Section 810. The stated purpose of the Section 810 Program is to “utilize existing housing stock to provide homeownership, thereby encouraging public and private investment in selected neighborhoods and assisting in neighborhood preservation and revitalization” (Chandler 1988, 12). Local governments also actively pursued the idea – urban homesteading programs were initiated in many cities, including Baltimore, Chicago and New York.

In this contemporary reworking of the homesteading concept, abandoned or tax delinquent properties in distressed neighborhoods are acquired by the city. These properties are then made available to households for a nominal fee (for example, $1) –
in exchange for a promise to fix up the structure within a given amount of time and live in it for a certain period.

Although the heyday of urban homesteading may be past, the Federal government has maintained an interest in the concept. For example, former President Clinton announced an Urban Homestead Initiative in 1997, which was essentially an update of the old idea. Instead of giving homes away, this program endorsed the use of mortgage rebates to entice people to urban neighborhoods. One of the cornerstones of the Initiative was the Officer Next Door Program, which was designed to enable police officers to purchase HUD-owned inner-city homes at half-price (U.S. Department of Housing and Urban Development 1997). Local homesteading initiatives are also still underway, from the Bronx, New York to Wichita Falls, Texas (City of Wichita Falls 2001; Inner City Press 2000).

3.4. COMMUNITY DEVELOPMENT CORPORATIONS

Community development corporations (CDCs) occupy a middle ground between private sector and public sector rehabilitation efforts; although the complexity of this topic cannot be given justice here, we offer a brief introduction to the concept. CDCs are generally nonprofit tax-exempt organizations with a volunteer board and an emphasis on physical redevelopment. They have taken up the task of rebuilding communities devastated by disinvestment. The CDC concept goes back to the late 1960s and the passing of Special Impact Amendment to the Economic Opportunity Act. There were about 100 first-generation 1960s CDCs with the primary mission of job creation. In the 1970s 500 to 1,000 new CDCs were created in the second wave; their primary focus
moved away from economic development toward housing development. Federal funding to CDCs increased to over $500 million by 1980 and the number of CDCs was about 2,000 by the end of 1980s.

The original goal of the CDC model was to attempt to correct three marked failures: 1) social or legal restrictions on investment, such as zoning laws, 2) the inability of potential investors to see opportunities in urban neighborhoods, and 3) a focus on profit maximization that prevented socially conscious investing. The goal of CDCs is not to transform society but to “extend the benefits of the American economic mainstream... to [those] that are left out” (Peirce and Steinbach 1990, 33).

CDCs as a concept have been largely unsuccessful. If they are to be rated according to three levels of success – namely, staying in existence, achieving their major objectives and achieving those objectives efficiently – then only the largest CDCs show success beyond the first level. Indicators of community development such as quality of life, community stability, resident health and happiness, and personal empowerment are rarely cited (Taub 1990).

CDCs have been unsuccessful because the relationship between the community and the private market has not been understood properly. It is the community’s desire to preserve neighborhood space as a use value for the service of community members, while on the other hand the private market has a tendency of exploiting these spaces for exchange values that can create profit. For example, green space – which is very essential for any community’s healthy survival – may not be maintained in market-driven projects. In any case the community suffers through destructive investment or disinvestment. Another problem is that CDCs have to manage projects within the constraints set by their funders. They attempt to be community oriented, but their
finances may be controlled by outsiders who know little about the community. Finally, and perhaps most importantly, little government funding has been made available for CDC activities.

3.5. CONCLUSION: MARKET RATE HOUSING REHABILITATION IN THE UNITED STATES

The decline of market-rate housing stock in American cities is a problem that has many causes and many negative ramifications. In many American cities, market forces in recent decades have favored urban housing redevelopment, in the form of neighborhood gentrification and new housing construction of various types. Public sector programs work to supplement these market forces and guide housing development. Homeownership is a vital part of housing policy at all levels of government, although support is also available for the renovation or construction of renter-occupied housing, particularly for low- and moderate-income households.
The neighborhood of Plauen is situated in the Southwest of Dresden. Originally an independent village outside the city, Plauen was annexed by Dresden in 1903. Plauen has been a traditional housing area since the “Gruenderzeit” at the end of 19th century. There has always been a variety of commercial activity in Plauen because of its connection to other cities by the railways. Until 1914 the still existing housing structure had been established.
During World War II and GDR times the neighborhood suffered an increasing deterioration. Houses were not maintained and living conditions decreased. Besides this workshops in the courtyards also decayed, when private properties by the socialist state were claimed. After the reunification more than 80% of houses have been proved for restitution.

In the beginning of 1990 Dresden analyzed the most affected areas in order to find suitable conceptions of rehabilitation and redevelopment and spend funds most efficiently. In June 1994 Plauen was designated an official ‘rehabilitation area’ by the City of Dresden and this concept became effective for a period of 15 years. The rehabilitation area is bound by Wuerzburger Str, Chemnitzer Str, Altplaune and the tracks of the railways Dresden-Chemnitz. This ensured that redevelopment and rehabilitation in Plauen was given a high priority and that holistic planning was supported by 9 million DM of public funds till 2000.

4.1. CURRENT SITUATION

We assessed the current situation in Plauen- over a decade after reunification and seven years since the designation of the Plauen rehabilitation area – in terms of the housing stock and housing market; the population and social structure; and what we call the ‘neighborhood context,’ which includes location, local green space, and retail and social services.
4.1.1. **Housing**

There are about 990 apartments in the Plauen rehabilitation area, in 137 residential or mixed-use buildings. These buildings are both rented and owner occupied. Eighty-five percent of the buildings were constructed before 1914. These buildings are typical architecture in Plauen, mainly blocks surrounding courtyards.

Plauen has a very high residential vacancy rate: in 1999, its rate of 46% was the highest of Dresden’s rehabilitation areas. About 60% of the apartment units have been either completely or partially renovated, and more renovations are in progress. Here are some residential buildings in Plauen.

**FIGURE 11 Plauen Rents by Unit’s Renovation Status**

![Graph showing rent by renovation status](image)

*Source: SAS GbR 2000.*
FIGURE 12 Vacancy Rates in Dresden’s Rehabilitation Areas


FIGURE 13 Plauen Housing, Pre-Rehabilitation

SOURCE: Photo by Sarah Starkweather.
FIGURE 14  Plauen Housing, During Rehabilitation

SOURCE: Photo by Albrecht Malcherek.

FIGURE 15  Plauen Housing, Post-Rehabilitation

SOURCE: Photo by Anne Hennig
This rehabilitation of housing has of course had an effect on the local housing market. Average rents per square meter doubled from 1994 to 1999, from 4.5 marks to 9 marks. Average total monthly rents have increased from 290 marks to 637 marks. Rents range is from about 2.8 marks to 14 marks per square meter, due to the disparity between rehabilitated and non-rehabilitated units.

**FIGURE 16  Rents in Plauen, 1994 and 1999**

This map, one of a series created by local planners to facilitate the neighborhood rehabilitation program, shows vacancies in Plauen’s residential buildings.

4.1.2. Population

The population of the Plauen rehabilitation area has declined by 41% of its 1990 level, to 980. This is the largest decline of all the rehabilitation areas. The area has experienced a high population turnover rate in recent years – about 50% in the late 1990s - probably mainly due to rehabilitation efforts that require people to vacate buildings.

The composition of the population has also shifted. Compared to 1994, there are now relatively fewer families with children and many more students. 9% of the population was students in 1994; today it’s 25%. Average household size of 1.78 is lower than the Dresden average of 2.0. Unemployment of 10.4% on the other hand is lower than the Dresden average of 11.62% in 2000.

4.1.3. Neighborhood Context

The Plauen rehabilitation area consists of 12 hectares in the southwest quadrant of the city, very close to the Technical University of Dresden and fairly close to the city center. Transit connections are good: the area is served by several bus lines and has a stop for the suburban train.

There is also good access to green space, including the old village square, several newly improved playgrounds, and the adjacent recreation area beside the Plauen Ravine.

There are 28 stores, 10 restaurants and 44 service facilities. The vacancy and turnover rates for commercial property in the area are high.

Local social services include a community center with a teen drop-in facility and other programs, and schools and kindergartens nearby.
4.2. **STRENGTHS AND WEAKENESSES**

The Social Structure is very good. The neighborhood has a Positive image and there is no segregation but at the same time there exists a major problem of high turnover rate and population decline. The population decline is mainly due to the renovation process where the tenants have had to leave the houses as they were selected for renovation.

This has affected the Housing Market too. Although the neighborhood is upgrading the vacancy rates are very high as the new upgraded houses have higher rents for the owner to be able to break even. As a result the old tenants cannot afford the new rental prices and are forced to look for housing elsewhere.

The Physical quality of housing stock is very poor. The renovation process is done in order to preserve the dilapidated buildings at the same time maintain the historic character of the neighborhood. Although the renovation and rehabilitation efforts are underway they are far from being complete.

The Neighborhood resources are being utilized as parking and streetscapes are being improved. Green spaces are functional and liked by the people and the location of the neighborhood is also very convenient. There are regular bus and tram connections to the city center and the Technical University of Dresden is at a 10 minutes walking distance. But there still exists the problem of insufficient mixed-use and commercial vacancy.
The factors to be considered in molding the future of Plauen are whether to have a social mix (income, household type, age, etc.) or gentrification. The neighborhood has always had a mix of social groups and gentrification is not what it wants. But the problem is of the rising rents due to rehabilitation, which brings us to another issue of what should be given priority the returns to investors or affordability for tenants. There needs to be a balance where both the goals are achieved.

Another issue is governmental management vs. influence of market forces. Is it right to let the government direct and manage the rehabilitation or to let the market forces govern the process. Again a balance is needed where to an extent the market forces can govern the progress but the government should have an overall control of the whole process.

The neighborhood image and competitiveness is also very important because of the prime location. Being in such close proximity to the University and the city center the neighborhood image needs to be improved. The area can be marketed to the students who study at the university as it is close by and at the same time it is a quiet and peaceful area very conducive to studying. At the same time it can be marketed to the young couples that cannot afford the high rents in the city center. The rents would be lower than the city center at the same time there are good connections to the city.
5. **Case Study: Columbus’ Olde Towne East Neighborhood**

**Figure 18** The Location of Olde Towne East in the City of Columbus

SOURCE: City of Columbus 1993.
Columbus' Olde Towne East neighborhood is located just east of the downtown core. It is one of the larger historic neighborhoods in the city. Settlement began in the area in the 1830s and intensified when prosperous streetcar suburbs sprang up along Main, Broad and Long Streets. It is here where the industrial barons, bankers, educationists, architects, mayors, teachers, judges of the time preferred to live. In the 1960s and 1970s the neighborhood experienced population decline, concentration of poverty, an increase in crime and decay of the housing stock. Currently, many of its homes are being restored to their former glory and Olde Towne East is widely characterized as a renaissance neighborhood. As the neighborhood faces the potential for dramatic changes in housing market and social structure, it is vital for planners, neighborhood groups, residents and other stakeholders to strive for neighborhood balance.
SOURCE: City of Columbus Planning Division.
5.1. CURRENT SITUATION

The neighborhood suffered a great deterioration in the 1960s & 70s. As the deterioration increased so did the poverty and crime. In the beginning of 1990 the neighborhood had the highest crime rate of the 12 precincts in the city of Columbus. But today the area has the lowest crime rate among these 12 precincts.

The neighborhood has experienced an influx of a variety of population groups. The neighborhood boasts a huge mix of people from such varied communities as Gays and Lesbians, Artists, Whites, Afro-Americans. The residents take pride in the diverse community they have in Olde Towne East. One of the major goals of Olde Towne East Neighborhood Association (OTENA) is keeping this mix of cultures intact.

FIGURE 20  Population Change in Columbus and Olde Towne East’s Census Tract 38, 1970-1990

SOURCE: Census Data
FIGURE 21 Abandoned Housing in Olde Towne East

SOURCE: Photo by Sarah Starkweather.

FIGURE 22 Interior of Olde Towne Home During Rehabilitation

SOURCE: Photo by Sarah Starkweather.
FIGURE 23 Renovated Home in Olde Towne East

SOURCE: Photo by Sarah Starkweather.
Even though everyone in the neighborhood wants to bring the neighborhood back to its old glory, there have been differences amongst the residents regarding the future of the neighborhood. One faction wants to completely demolish the old traditional Victorian style architecture and bring in buildings, which stand testimony to contemporary architecture; on the other hand there is OTENA, which wants to maintain the traditional look of the neighborhood. But since the declaration of Olde Towne East as a historic neighborhood the approach is to maintain the Victorian look.

Neighborhood revitalization efforts have been underway since early 1990s. OTENA is playing a major role in this. The members of OTENA are residents of the neighborhood who are trying to preserve the Victorian image of the area. One major problem here is that there is a severe lack of funds to do the rehabilitation. The government doesn’t have money to provide for rehabilitation. It is some rich people who are buying up properties and renovating them to prevent them from being torn down. But this is causing a new problem; that of the rents in the region shooting up. The new renovated buildings are rented at a higher price naturally; as compared to the average rental price in the area.

As of 1990, there was conflicting evidence of whether full-blown ‘gentrification’ was occurring. For example, mean family income increased while median family remained constant. Also, rent levels remained the same despite an increase in the value of owner-occupied dwellings. Data from the 2000 census is not yet available. What Olde Towne East needs is BALANCE.
FIGURE 24  Family Income in Olde Towne’s Census Tract 38, 1970-1990  
(As a Percentage of Columbus Family Income)

FIGURE 25  Housing Values in Olde Towne’s Census Tract 38, 1970-1990  
(As a Percentage of Columbus Housing Values)

SOURCE: Census Data
5.2. WHAT IS BALANCE? THE GOALS

Balance in this situation is encouraging a diverse mix of housing types and tenures, income levels, races, occupations, etc. This is keeping in mind the community’s desires and goals of having a diverse neighborhood. At the same time it also would imply that a moderate change in investment, social structure and neighborhood image is carried out. The image of the neighborhood is that of a rundown area with high crime rate. But as mentioned above the crime rate today, is very low.

5.3. WHY SEEK BALANCE? THE OBJECTIVES

Neighborhood balance is an alternative to the negative effects of deterioration on the one hand and to gentrification on the other. The neighborhood has two options; first to let things be the way they are and let the neighborhood deteriorate, second to gentrify the neighborhood. Both these options have their negative sides to them. If deterioration is allowed then the market values of properties will keep dropping and crime and poverty levels will rise. If gentrification is allowed then current residents who are either lower or lower middle-income group people will be forced out of the neighborhood due to higher rents. Hence an in between situation needs to be arrived at, where the deterioration is stopped at the same time complete gentrification is prevented.

The advantages of such a situation are that it will prevent the displacement of long-term residents and disadvantaged residents, at the same time it will preserve affordable housing close to downtown. Other advantages are; property values will be maintained without a rapid increase in taxes and it will minimize social conflicts,
opportunities for social interaction, learning and growth afforded by neighborhood diversity and the residents who want a mixed neighborhood will also be satisfied.

5.4. HOW CAN BALANCE BE ACHIEVED? THE STRATEGIES

How can this balance be achieved is a question that arises after all this analysis. The answer is the following strategies.

Reduce the concentration of poverty by redistributing Section 8 housing and screening applicants for assisted units. By doing so the so called poor parts of the neighborhood will be spread out thin and will mingle with the well to do parts. This will remove the negative image attached with the Section 8 housing its residents.

Another strategy is to market Olde Towne East to potential residents that will value a balanced neighborhood by cultivating the image of a mixed-income, mixed-race neighborhood. There are many people who value a diverse neighborhood and this existing potential should be tapped in order to bring in more people of different backgrounds, income levels and cultures.

Encourage grassroots participation by increasing membership in local organizations and enhancing partnerships between these organizations and local planners. OTENA is working hard towards this goal. The organization is arranging neighborhood tour festivals twice a year. The residents walk visitors to selected houses and show them around the neighborhood and in the process promote the good side of the neighborhood. By these tours they are able to show to the visitors the diversity and integrity of the neighborhood.

Other ideas are to promote a neighborhood identity that includes the entire defined Olde Towne neighborhood using entry signs, distinctive street markers, etc. Also
as Olde Towne already has beautiful Victorian architectural style to its buildings, these should be conserved. Hence efforts should be made to conserve a variety of housing types, tenures, sizes and values through zoning controls, development incentives, and other measures.
6. LESSONS LEARNED: COMPARING MARKET RATE HOUSING AND ITS REHABILITATION IN EAST GERMANY AND THE UNITED STATES

Based on our background research on market rate housing in East Germany and the United States, as well as our two case studies, it is possible to identify some fundamental differences between the two countries in terms of market housing, its deterioration, and strategies for its rehabilitation. These differences are interrelated in complex ways, but we have attempted to define five specific issues of interest. General national differences were well illustrated by our case studies of the neighborhoods of Plauen and Olde Towne East.

6.1. HOUSING MARKET STRUCTURE

First, there are fundamental differences in the structures of the housing markets of East Germany and the United States. The United States has a much higher homeownership rate – 67 percent, compared to just 42 percent in Germany as a whole (Mann 2000). The figures are even more disparate when comparing the cities of Columbus and Dresden: in the former, 49.2% of housing units are owner-occupied; in the latter, only 8.9% are (Table 1).

Why is owner-occupied housing such a small share of the housing market in Dresden, even in comparison to Germany’s low homeownership rate? First, homeownership is lower in East Germany than in West Germany (source). Second, urban housing is much less likely to be owner-occupied (source). Another difference in market structure that is revealed by the data in Table 1 is the importance of rental units
operated by co-operatives or owned by the City in the Dresden housing market –
combined they account for almost 50% of Dresden’s housing units.

**TABLE 1  Housing Market Structure in Columbus and Dresden**

<table>
<thead>
<tr>
<th></th>
<th>Owner-Occupied Units</th>
<th>Rentals – Private Owners</th>
<th>Rentals – Co-Operatives</th>
<th>Rentals – City-Owned</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Columbus</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(2000)(^a)</td>
<td>148,800 (49.2%)</td>
<td>153,530 (50.8%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Dresden</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1998)(^b)</td>
<td>23,800 (8.9%)</td>
<td>117,900 (44.0%)</td>
<td>73,800 (27.6%)</td>
<td>52,200 (19.5%)</td>
</tr>
</tbody>
</table>

After Hennig and Malcherek 2001b.

\(^a\) Source: City of Columbus 2001.

\(^b\) Source: Stadtentwicklungsbericht Dresden 2000 (Entwurf), Chapter 2.2, p.1

### 6.2. Homeownership as an Element of Housing Policy

A second major difference in the housing market situations of the United States and Germany, closely related to the first, is the relative importance of homeownership in the housing policies of American and German governments at all levels. The promotion of homeownership is arguably the central focus of housing policy in the United States. As described in Section 3, American governments at the local, state and federal levels encourage homeownership in many different ways. These efforts are closely related to the fact that the prototypical ‘American Dream’ revolves around homeownership.\(^4\)

The situation is somewhat different in Germany. It is true that there are many government initiatives targeted to increasing homeownership. For example, there is a federal tax relief program for people who build or purchase a home (BMVBW 2000),

\(^4\) In the words of one HUD document, “Owning one’s home is one of the defining elements of the American dream” (U.S. Department of Housing and Urban Development 2000b).
and both the federal government and the State of Saxony oversee low-interest loan programs for homeowners (KFW 20001, Saechsische Aufbaubank 2001). At the local level, the City of Dresden has recently been attempting to sell city-owned apartments and houses with the twin goals of increasing homeownership and reduction of the City’s debt burden (Albrecht Malcherek 2001, personal communication). However, while initiatives to increase homeownership in Germany may be important, the goal does not carry the ideological weight that it does in the United States. The desire to increase homeownership cannot be described as the major driving force in German housing policy.

6.3. RESPONSES OF RESIDENTS TO NEIGHBORHOOD CHANGE

Obviously, because of the differences in housing market structure, the resident profile of a typical East German neighborhood will differ from that of a typical American neighborhood – the East German neighborhood will be dominated by renters, many in co-ops or government-owned buildings, while the American neighborhood will have more homeowners. Consequently, the residents’ perceptions of and relationship with the neighborhood and their reactions to neighborhood change will also be different.

For an American homeowner, their perception of their neighborhood and of changes in that neighborhood is necessarily colored by the fact that they have made a sizeable financial investment there. One of the most important – arguably, the most important – determinant of the value of a home is its location (Morrow-Jones 1988). Therefore, homeowners’ reactions to neighborhood changes such as disinvestment, reinvestment, or redevelopment will probably be more extreme than those of a renter.
This is illustrated by the active interest of homeowners in Olde Towne East in all the
details of their neighborhood’s housing stock quality and community profile.

This suggests that neighborhood residents may be a more active force for
neighborhood change in the United States than in East Germany. Further evidence for
this idea is that there was no Plauen counterpart for Olde Towne’s OTENA.\(^5\) On the
other hand, the homeowners that do exist in East Germany are far more ‘permanent’
than those in the United States. As we discussed several times during the course of the
program, East Germans typically buy or build a home that they expect to inhabit for the
remainder of their lifetime, whereas Americans usually expect to own multiple homes by
‘trading up’ when necessary (C&RP 815/816 2001, lectures and discussions). Therefore,
American homeowners may be more likely to abandon a troubled neighborhood, as Olde
Towne residents did in the 1950s, 60s and 70s.

\[\text{6.4. REASONS FOR DETERIORATION OF MARKET HOUSING}\]

In terms of the dynamics of the specific problem we addressed, the deterioration
of market rate housing in urban neighborhoods, there are clear differences between the
United States and East Germany. This was demonstrated by our two case studies: the
reasons for neighborhood disinvestment and, more specifically, for housing
disinvestment in Plauen were different from the reasons for disinvestment in Olde
Towne East.

In East Germany, housing disinvestment was the result of decisions made by the
public sector during the GDR era. This is unsurprising, given that centralized decision-
making and government control were hallmarks of that political regime. In general, during GDR times the older housing in urban neighborhoods was not well maintained. This was primarily due to economic constraints: it was more expensive to maintain older housing than to construct new prefabricated apartment buildings (plattenbauten), in part because of scarcity of the necessary materials. Political ideology also supported a focus on the plattenbauten neighborhoods. As a result, older urban neighborhoods like Plauen fell into serious disrepair (Albrecht Malcherek 2001, personal communication).

In the United States, housing disinvestment has typically been in response to the decisions of individuals and private firms. Again, this is unsurprising, given that the principles of individualism and the free market are so integral to American society. In contrast to the East German context, in the United States housing maintenance is primarily the responsibility of the private sector (although their decisions are undoubtedly affected by government policies, such as tax benefits for building a new suburban home [Accordino and Johnson 2000, 302]). The disinvestment in and downgrading of the housing stock in Olde Towne East was merely one example of a general American trend that began in the 1950s: as more suburban land was developed and as it became easier and cheaper to afford a home outside of the city, middle class households moved out of urban neighborhoods. The vacuum they left was often filled with poverty, crime, and neighborhood decay. In Olde Towne East, the out-migration of the neighborhood’s relatively wealthy households led to decay of the housing stock when homes were subdivided into apartments and rooming houses (City of Columbus 1995).

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5 Another possible reason for a lower tendency for residents to be actively involved in neighborhood planning concerns is the East German tradition of more public-sector intervention.
Finally, our background research and case studies demonstrated that national context is a determinant of the actors that are important in the neighborhood housing rehabilitation process. Once again, the difference comes down to the primary importance of the public sector in East Germany, compared to the determinative role played by the private sector in the United States.

Thus, in East Germany the public sector is not only responsible to the deterioration of urban neighborhoods, it is also primarily responsible for making the decisions that can turn these neighborhoods around. We saw that, in the Plauen neighborhood, the main impetus for rehabilitation of the housing stock came from its designation as one of Dresden’s official rehabilitation areas. Rehabilitation and redevelopment activities are largely planned out in advance by City staff, and supported by funding from all levels of government. Of course, the decisions of actors in the private sector – individual renters, homeowners, co-operatives, and so on – are not irrelevant; they may also have a significant impact on the revitalization (or lack thereof) of a neighborhood. However, the impacts of the public sector are more apparent, at least in neighborhoods like Plauen.

Similarly, in the United States the tide of decision-making by individuals and private firms that condemns a neighborhood (and its housing) to decline must be reversed if it is to recover. The plight of Olde Towne East was primarily caused by private sector decisions to limit investment in the neighborhood. The market housing in the neighborhood could not be rehabilitated by the City of Columbus even if the city had the funds and the inclination, because such decisions must ultimately be made by
property owners. Therefore, it was the decision of individual homeowners to renovate Olde Towne properties that spurred the rehabilitation of the neighborhood’s housing stock. Happily for the physical fabric of Olde Towne East, a sizeable number of property owners have had this decision; otherwise, the housing they have restored would continue to deteriorate.
7. **Conclusion**

The OSU-TUD program was an invaluable opportunity for participating students to learn about planning issues and processes in another country. Furthermore, it allowed a deeper understanding of the situation in their own nations by providing a view through ‘outside’ eyes. In both Germany and the United States – indeed, in all nations – housing is a fundamental concern, and an important indicator of quality of life and the health of neighborhoods and cities. We examined processes of market rate housing deterioration and rehabilitation in East Germany and the United States in the broad, national context, and augmented this research with detailed case studies of American and German neighborhoods.

Plauen and Olde Towne East were excellent illustrations of certain aspects of market housing issues in East Germany and the United States, respectively (although they did not necessarily encapsulate all interesting or important dimensions of the topic). Processes of deterioration and rehabilitation in Plauen have been characteristic of East German trends, and its pressing problem of high vacancy rates is one that plagues many East German neighborhoods today. Likewise, deterioration and rehabilitation in Olde Towne have followed a pattern that has been seen in many American neighborhoods, and is just one of many communities where questions related to gentrification are hotly contested.
APPENDIX A

MARKET HOUSING REHABILITATION: DRESDEN, PLAUEN

Poster Presented in Dresden Germany at Technische Universität Dresden
INTRODUCTION

The neighborhood of Plauen is situated in the Southwest of Dresden (FIGURE 1). Originally an independent village outside the city, Plauen was annexed by Dresden in 1903. During World War II and the GDR era, the neighborhood’s housing stock declined due to lack of maintenance. In June 1994, a 12 hectare area within Plauen was designated an official ‘rehabilitation area’ by the City of Dresden. This ensured that redevelopment and rehabilitation in Plauen was given a high priority, and that holistic planning was supported by public funds (FIGURE 2).

CURRENT SITUATION

Housing:
- 990 apartment units, both rented and owned
- 62% of units rehabilitated (FIGURE 3)
- 46% residential vacancy (FIGURE 4)
- Average rent 9 DM/m², up from 4.55 in 1994 (FIGURE 5)

Population:
- Total population 980 (~41% since 1990)
- 51% turnover rate from 1996 to 1999
- 25% students (up from 9% in 1994)
- Proportion of families with children decreasing

Neighborhood Context:
- 12 ha close to the city center and the university
- Good transit connections (via bus and suburban train)
- Access to various green space types
- 44 service facilities, 28 stores, 10 restaurants, high commercial vacancy and turnover rate
- Social services include community center and nearby schools

STRENGTHS AND WEAKNESSES

- Social Structure:
  - S. Positive neighborhood image, no segregation,
  - W. High turnover rate, population decline
- Housing market:
  - S. Neighborhood upgrading,
  - W. High vacancy rate, more expensive for tenants
- Physical quality of housing:
  - S. Preserved historic character, renovated apartments,
  - W. Rehabilitation incomplete
- Neighborhood resources:
  - S. Improved parking and streetscape, green space, good location,
  - W. Insufficient mixed-use, commercial vacancy
- Planning process:
  - S. Priority of rehabilitation (acceleration), public funding,
  - W. Disruption of market forces

FACTORS FOR CONSIDERATION

- Social mix (income, household type, age, etc.) - gentrification?
- Returns to investors vs. affordability for tenants
- Governmental management vs. influence of market forces
- Neighborhood image and competitiveness

FIGURE 1 (Below): Location Map
FIGURE 3 (Left): Example of Local Planning (Green Space Map)

FIGURE 4

FIGURE 3: Buildings before, during and after rehabilitation

FIGURE 5

Sources:
Claudia Bickel, Regional Vertriebs- und Verwaltungsstelle, GDR, Dresden 2000
Mins, STAND Akten 2000
Photos: Privat

Anne Hennig, Albrect Maltser, Piaek Sh terra, Sarah Starkmutter
Presented at Technische Universitaet Dresden, 25 June 2001
MARKET HOUSING REHABILITATION: OLDE TOWNE EAST

Poster Presented in Columbus, Ohio at The Ohio State University, Department of City and Regional Planning. August 2001.
Introduction
Columbus' Olde Towne East neighborhood is located just east of the downtown core. Settlement began in the area in the 1830s and intensified when prosperous streetcar suburbs sprang up along Main, Broad and Long Streets. In the 1960s and 1970s the neighborhood experienced population decline, concentration of poverty, an increase in crime and decay of the housing stock. Currently, many of its homes are being restored to their former glory and Olde Towne East is widely characterized as a renaissance neighborhood. As the neighborhood faces the potential for dramatic changes in housing market and social structure, it is vital for planners, neighborhood groups, residents and other stakeholders to strive for neighborhood balance.

WHAT is Balance? The Goals
Encourage a diverse mix of housing types and tenures, income levels, races, occupations, etc. Support a moderate change in investment, social structure and neighborhood image.

WHY seek Balance? The Objectives
Neighborhood balance is an alternative to the negative effects of deterioration on the one hand and gentrification on the other.

Benefits include:
- Prevention of the displacement of long-term residents and disadvantaged inhabitants.
- Maintenance of property values without a rapid increase in taxes.
- Preservation of affordable housing close to downtown.
- Minimization of social conflicts.
- Opportunities for social interaction, learning and growth afforded by neighborhood diversity.
- Satisfaction of residents' preference for a mixed neighborhood.

Current Situation
Neighborhood deterioration, increased crime. Influx of a variety of population groups. Different opinions about the future of the neighborhood. Neighborhood revitalization efforts.

HOW can Balance be Achieved? The Strategies
Reduce the concentration of poverty by redistributing Section 8 housing and screening applicants for assisted units.
Market Olde Towne East to potential residents that will value a balanced neighborhood by cultivating the image of a mixed-income, mixed-race neighborhood.
Encourage grassroots participation by increasing membership in local organizations and enhancing partnerships between these organizations and local planners.
Promote a neighborhood identity that includes the entire defined Olde Towne neighborhood using entry signs, distinctive street markers, etc.
Conserve a variety of housing types, tenures, sizes and values through zoning controls, development incentives, and other measures.

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City of Columbus: Comprehensive Plan – December 1993
City of Columbus: Near East Area Plan 1995
Anne Hennig, Albrecht Malcherek, Prateek Sharma, Sarah Starkweather
Printed at The Ohio State University, 20 August 2001.
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