Towards a Housing Market in Eastern Germany

By Horst Tomann

INTRODUCTION

In the process of German unification, the governments faced as a major chal lenge the replacement of a socialist system of housing regulation. To stimulate the emergence of housing markets in eastern Germany, adequate housing policy instruments had to be designed. With housing markets being markets for assets, it was particularly important, which initial conditions were set. The former east German government and the federal government agreed that a federal constitution of Laender and Gemeinden (states and local governments) should be reestablished in eastern Germany and that eastern Germany should join the Bund (federation) according to the rules laid down in the West German constitution. As a consequence, legal institutions, democratic planning instruments, and policy concepts were transmitted from West to East. When the Unity Treaty was enacted in October 1990, critical reflections had been put aside, whether this complicated system of checks and balances would be an appropriate framework for the development requirements of eastern Germany. A need for transitory measures was recognized, however. As to housing policy, a bundle of investment incentives was combined with continuation of rent control schemes, to dampen the shock. These instruments had been applied successfully in West Germany after World War II. The question is, whether they are an adequate means of tackling the peculiar problems in eastern Germany.

This paper reviews the state of the eastern German housing sector compared to western Germany and presents the government's reform strategy. A major deficit in housing finance is identified and a redirection of housing policy is suggested.

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THE EAST GERMAN HOUSING SECTOR

The east German housing sector was subject to government rationing for about forty years, the regime of which ended in fundamental imbalances. The main features are as follows:

a. Poor Quality of the Existing Housing Stock

Table 1 shows the state of the east German housing sector, compared to western Germany. These figures are quite arbitrary. The first census in east German states will be conducted in 1993. Nonetheless, the figures indicate unambiguously that the existing housing stock in eastern Germany is relatively old compared to western standards. The share of pre-l919 dwellings amounts to more than 40%, the share of pre-World War II dwellings to 60%. In addition to this, only 30% of the pre-war housing stock were upgraded after 1945 as housing investment policy gave priority to new construction and private landlords were disencouraged by rent control or by government regulation to maintain their houses. Consequently, urban decay is a serious problem in many east German towns today. Approximately a half the existing stock of multi-family houses is below standard and damaged. Estimates on dwellings being in an unusable state range from 600,000 (9%) to 1.5 millions (21% of the stock). Pessimistic observers calculate that about 700.000 dwellings will have to be torn down, approximately one tenth of total stock.

Moreover, newly constructed buildings frequently suffer from construction damages due to methods using ready-made elements (Plattenbauweise). Typically, these buildings are not waterproof, lacking appropriate thermal insulation and suffer from bad sanitation.

The main challenge to housing policy in eastern Germany is, therefore, the rehabilitation and renovation of the existing housing stock. This is an urgent task, and very different to the task the post-war housing management in West Germany had to tackle. Unlike then, the east German housing market is not characterized by a huge housing shortage requiring rationing on the demand side. Rather, the main problem is income constraints rationing the supply side of the market. Furthermore, apart from war destruction, the pre-war housing stock in West Germany was well maintained after the war, whereas broad strata of the east

German housing stock has been ruined during the past forty years. Hence, rent control in existing stock could be exerted for a while in post-war West Germany without causing an accelerated process of deterioration. By contrast, a further delay of maintenance and rehabilitation of today's east German housing will greatly deteriorate housing quality and render many more dwellings uninhabitable. In a sense, housing supply has become very elastic in eastern Germany.

Table 1: Indicators of the Housing Stock in Germany

	East (1989)	West (1989)
Number of Housing Units		
Total	7 million	26 million
Per 1,000 Inhabitants	426	415
Size of Housing Units	64 sq. m.	84 sq. m.
	East (1988)	West (1987)
- in percentage of stock of dwellings-		
Type of Property		
1-2 Family	29	49
Multi - Family	71	51
Tenure		
Owner Occupation	24	39
Private Rented Sector	17	52
Cooperatives	18	4
State (public housing)	41	5
Age of Housing Stock		
pre 1918	42	18
1918 - 1948	17	12
post 1948	41	70
Equipment		
Central Heating	41	73
Bathroom/Shower	79	95
Inside Toilet	72	98

Source: BMBau, Statistisches Bundesamt, Bartholmai / Melzer 1990.

b. Ownership Status Still Unclear

The Unity Treaty enacted a transfer of the former states ownership of residential property (*Volkseigentum)* to local governments. To provide an appropriate institutional setting for the management of residential property, the former local housing administration units (RWVs) and public construction firms *(VEB Gebaudewirtschaft)* were transformed to companies with limited liability, owned by the local governments. The cooperatives, on the other hand, received the ownership status for the buildings which they had constructed, but were obliged to buy the residential estate which they had built upon. This obligation may seriously violate their viability, particularly if current real estate prices have to be paid (Bartholmai/Melzer 1990).

The ownership status of private property is rather undetermined in many cases as local land registers had been closed by the GDR authorities and many private owners had abandoned their property, be it deliberately or by coercion.

One of the basic principles of the Unity Treaty was to restore private ownership rights in eastern Germany. Furthermore, whenever the rights of ancient owners conflicted with the rights of present users, restitution should be given priority to a compensation of the former owners. Since October 1990 about 1.3 million claims on private property by ancient owners have been registered. These claims, as long as they remain unsettled, impede the process of fresh housing investment.

The housing administration estimates that about 600,000 claims concern 1-2 family homes, and 700,000 claims lie on multi-family buildings. Approximately 800,000 claims are raised against local and state agencies, the rest (500,000) against private persons. To settle these claims, offices for unsettled property rights (Amt zur Regelung offener Vermoegensfragen) have been established by the east German states. Part of the claims (200,000) will be cleared by the end of 1992. These are private property rights which were put under state protection by the GDR government, an act due to expire. The Federal Government expects that most of the remaining claims will be settled by the end of 1994 (Deutscher Bundestag 1992).

c. The Problem of Housing Finance

Local housing companies could, in principle, be viable if returns covered current expenditure. Two qualifications have to be made, however. First, the East German housing sector bears a high debt burden which has been converted in the course of the German Monetary Union from 102.6 billion mark (GDR) to 51.3 billion Deutschmark (applying the standard conversion rate of 2:1); (Deutsche Bundesbank 1990). In October 1990, this debt was assigned to individual properties. It has to be repaid and financed at market conditions since then. The Federal Government estimates the amount per dwelling as indicated in table 2.

Table 2: Debt Burden on East German Dwellings built since 1960, by age.

Year of Construction	DM per Dwelling*
1985-89	48,000
1980-84	31,000
1975-79	18,000
1970-74	16,000
1965-69	12,000
1960-64	7,000

Source: Deutsche Bundestag 1992
* The calculation was made for dwellings of an average size of 60 sq. m.

As to private ownership, the conversion of loans to private landlords (mainly given for maintenance) and owner-occupiers (for newly built one-family houses) actually increased the burden: if it is true that the value of the debt was halved by the Monetary Union, the interest payments still more than doubled.

Secondly, rents were political prices in the former GDR, fixed at very low levels with only minor differences among different landlords (private, public, cooperatives). In 1989, the monthly rents per square meter varied between DM 0.3 and DM 1.2, with additional fees for specific services (warm water, central heating). Neither expenditure for maintenance and management, nor operating costs were covered by rent revenues. As a rule, current expenditure for housing and utilities were financed by recurrent subsidy payments and new credit.

As the rent control scheme applied to cooperatives and private rented dwellings as well, those landlords faced similar deficits. Bartholmai and Melzer (l990a) calculated expenditure and revenues of the GDR rented housing sector for 1989 as follows:

		Billions of mark (East)
Capital Cost		4.5
Maintenance and Upgrading		6.5
Management		8.5
	Total	19.5
Rent Revenue		-3.5
	Deficit	16.0

Thus, rent revenue did not even cover 20% of total costs. Meanwhile, deficits in the East German housing sector are on the rise. Calculated at actual cost, i.e. in DM, a deficit of 20 bn has been pencilled in for 1991 pointing out the difference between rent revenue and expenditure for maintenance and management with no capital cost covered.

THE GOVERNMENT'S APPROACH TO HOUSING FINANCE REFORM

The Unity Treaty prescribes that in the long run the east German housing sector should be regulated according to western standards. That requires a radical change in rent regulation and housing finance. However, for the period of transition, the government chose a gradual strategy following social policy reasons and leaving serious financial problems unsettled.

a. Controlled Rent Adjustments and Income Related Housing Allowances

The system of rent control has not been abolished but shall be out-phased gradually. A first raise of the general rent level was enacted in October 1991, providing for a mark-up of DM 1 per month per square meter on the basic rent for a standard dwelling, allowing for minor deviations (0.15 DM) according to the site and age of the building. In addition, operating cost can be charged on tenants, with an upper limit of DM 3 per square meter for central heating and warm water services.

On the other hand, the Federal Government managed to establish in eastern Germany the western system of housing allowances for low income households by October 1991 - starting with a simplified procedure of application - in order to avoid a cost squeeze for that group of tenants. In contrast to western Germany, housing allowances for east German households have been extended to the costs of heating and warm water on a flat-rate basis. As a rule, the cost of housing is not to exceed 10% of income for people of low income.

As to the landlords, the average basic rent per month and square meter has been about DM 2 since October 1991. That is approximately the amount required to cover current maintenance and management cost. The debt service on old liabilities, however, as well as the cost of rehabilitation still remained uncovered by rent revenue.

The federal and states governments had enacted a temporary subsidization scheme to cover operating cost during the transition period until the end of 1991. Moreover, private landlords - as well as owner occupiers - temporarily receive interest rate subsidies to balance their increased payments of principal and interest. This programme expires by the end of 1992. Local housing associations and cooperatives, on the other hand, bearing a much higher debt on their predominantly postwar built housing stock, were granted a debt moratorium which releases them from interest payments on their old debts until the end of 1993. Their old liabilities will increase thereby from originally 36 bn DM to approximately 50 bn DM.

Meanwhile, the east German states governments took the initiative to lift east German rent ceilings a second time. The new round of rent increases, to become effective by January 1, 1993, is intended to provide strong incentives for maintenance and upgrading. Only dwellings in good conditions will be eligible for the full scale rent raise (DM 2.70 per square meter per month, which will become partly effective in 1994, with an additional mark-up for 1-family homes). The basic rent of a standard housing unit in good shape will be approximately DM 3.50/4.50 by 1993 (table 3). Hence, the liquidity status of an east German housing company will have been improved quite substantially.

Table 3: Selected Rents in eastern Germany

a) Monthly Rents in DMark per square metre in low quality, multi - family housing1*

	October 1990	October 1991	January 1993
Basic Rent	0.30	1.00	1.75
Operating Cost**	-	1.50	n.a.
"Cold" Rent	0.30	2.50	n.a.
Energy Cost	0.50	1.50	n.a.
Total Rent	0.80	4.00	n.a.

b) Monthly Rents in DMark per square metre in urban, one family homes***

	October 1990	October 1991	January 1993
Basic Rent	1.20	2.50	4.90
Operating Cost	-	1.70	n.a.
"Cold" Rent	1.20	4.20	n.a.
Energy Cost	0.50	2.80	n.a.
Total Rent	1.70	7.00	n.a.

Source: Federal Minister of Housing (BMBau)

* Pre-war multi storage buildings, without central heating; without toilet/bathroom inside apartments; non-urban areas (less than 100,000 inhabitants); windows, roof, facade, stairs or sanitary installations in need of repair.
** Land tax; water supply; street cleaning; garbage collection.
*** Post-war built homes with standard equipment; central heating; in urban areas (more than 100,000 inhabitants); no major damages.

b. Exemption From Rent Control for New Housing Supply

The rent control scheme does not apply to dwellings that have been newly constructed or rehabilitated without government subsidies after October 1990. For this additional housing supply, there is no restriction on the rent level at which a letting is initially made. As to rent increases for established tenancies, the Rent Level Act *(Miethohegesetz)* applies. A rent increase must not exceed an upper limit given by index or reference of existing and comparable tenancies. Hence, there is an incentive for private investment, although depressed rents in the existing housing stock may still work in the other direction.

Furthermore, the Rent Level Act applies in cases of renovation of dwellings. The cost of upgrading may be passed on to the tenants, imposing a mark-up of 11% of investment cost on the annual rent (net of grants). The tenants, however, have the right to object to exaggerated measures of modernization. It has been considered to treat maintenance expenditure the same way as rents still fail to cover maintenance cost. The proposal was rejected on the ground of avoiding too high an increase for the majority of rented housing.

c. Subsidies and Tax Expenditures for the Investor

To mobilize private capital, a wider scale of subsidy and tax expenditure programs have been set up. Although high priority has been given to investment in rehabilitation and renewal, in fact, a considerable share of money is still spent on social housing programs as Table 4 shows for 1991.

In addition to direct aid, specific savings grants and tax expenditures have been designed to promote housing investment in eastern Germany. In particular, specific depreciation allowances deductible from income tax were enacted by the Steueranderungsgesetz 1991. West German investors will take particular advantage of this as the German tax law allows to balance losses from investment in housing against income derived from other sources. The volume of indirect subsidization programs cannot be quantified in advance.

d. Federal Guarantees

Housing investment in eastern Germany is often hindered because it is not possible for legal or factual reasons to give loans on real estate collateral. In such cases, the Federal Government provides guarantees to make investment feasible. Furthermore, some institutional constraints to property transactions have been suspended in order to enhance privatization.

Table 4: Public Expenditure Programmes for Investment in the East German Housing Sector*

-millions of DM-

	1991	1992
Rehabilitation and Renovation		
ERP Programme**	300	450
Gemeinschaftswerk Ost***	935	1,200
Social Housing	360	360
Urban Renewal and Urban Planning	580	580
New Social Housing Construction****		
Rented Sector	520	520
Owner Occupiers	1,120	1,120
Privatization	200	200

Source: Federal Minister of Housing (BMBau); own calculations.

*Specific savings grants and tax expenditures omitted. These are target figures; actual expenditure was substantially lower in some programmes, in particular with social housing. In 1991, for instance, public expenditure on social housing amounted to DM 344 mill.
**Interest rate subsidies provided by the European Recovery Programme Fund; the Fund's credit volume amounted to DM 10 bn in 1991 and 15 bn in 1992.
***An investment promotion programme for Eastern Germany, jointly financed by the Federal and States governments; it will expire by the end of 1992^0
****Including loans and grants based on different schemes; social housing programmes are jointly financed by the Federal and States governments, but are designed by the States. The aggregate figures on annual flows indicate a mix of loans and grants, the subsidy content of which is not determined.

e. Pilot Programmes in Privatization

The Unity Treaty states that the public housing stock should be privatized gradually, mainly by selling dwellings to tenants. Since 1991, the federal government has stimulated this form of privatization by providing financial aid to tenants who buy their dwellings. As a rule, grants are paid which amount to 20% of house prices, with an upper limit depending on family status. A family of four may claim a maximum grant of DM 10,000 to buy a home priced DM 50,000 or more.

Furthermore, the government has promoted 30 pilot projects of privatization comprising a total of 6,000 housing units. These projects give evidence that house prices are between DM 900 and DM 1,500 per square meter, after payment of old debts. A dwelling, 60 square meter of size, is priced DM 72,000 on average.

Although these conditions seem to be rather favorable to tenants, particularly against the background of expected rent increases, local privatization programmes progress only slowly. One major barrier is the burden of old debt which urges local housing companies and cooperatives to demand prices which cover debts. That might work as an impediment to privatization and restrain tenants from buying because of a general uncertainty on where future prices tend when functioning real estate markets will have been established.

Secondly, rehabilitation of privatized dwellings in multi-storage buildings (Eigentumswohnungen) turns out to be a major problem. If rehabilitation is left to buyers, taking advantage of cost-reducing self-employment, it might be uncertain whether all the buyers share the cost of a building's renewal. If some of them take a free rider position, the measure will be blocked according to German laws Hence, the federal government recommends that the seller should undertake a building's rehabilitation before privatization - what again rises the supply price of dwellings.

THE DEBT DILEMMA

In the process of creating a monetary union, the re-valuation of financial assets and liabilities in eastern Germany was done rather schematically. As a rule, money values were proportionately converted from Mark (east) to D-Mark, leaving their internal structure unchanged. Hence, socialist evaluation principles still govern the balance sheets in eastern Germany. The federal government soon recognized that this procedure, which had resulted in high debt burdens on firms, impeded privatization. Debt releases were conceded for privatized firms in industry and trade (Tomann 1992). As far as the housing sector was concerned, the government took the view that housing companies in general were not over-indebted, since their debts were covered by property. Meanwhile, this position was revised. In its 1992 statement to the Bundestag the federal government concedes that many housing companies in the new Laender are not credit-worthy but at the same time points out that the task of a debt-release has been delegated to the east German states. Since housing companies are in ownership of local governments, it is to them to provide for fresh money. However, qualifying this rather formal argument, the federal government offered transitory grants to the housing companies on the condition that the states and local governments will join in. It is still an open question, whether the new Laender agree and what measures will be adopted after 1993, when the moratorium on interest payments will have expired.

On January 1, 1994, rents for high quality dwellings in urban areas, in multi-storage buildings with standard equipment and central heating, and no major damages (table 3) will be calculated according to the following scheme:

Basic rent 1993 per sq. m.	DM 4.60
Rent increase for buildings with stairs and sanitation in good shape	DM 0.60
Basic rent 1994	DM 5.20
Flat rate for management and maintenance	DM 2.15
Yield	DM 3.05

The yield will be reduced for dwellings with high energy cost, since the maximum energy surcharge will be lowered from DM 3.00 to DM 2.50 by 1994 to induce energy saving investments. As most of the postwar built stock is poorly insulated, many housing companies and cooperatives will have to bear a higher share of energy cost. Hence, the typical net yield will rather be DM 2.55 than DM 3.05.

On the basis of this calculation, a standard dwelling, 60 square meter of size, will yield a rent revenue of DM 1,836 p.a. The present value of that revenue depends on expected returns and the discount rate. As to expected returns, it should be realistic to assume that rent revenues in the new Laender will be constant in real terms for some time. Although the federal government plans to replace rent control in eastern Germany by 1995 and introduce the more flexible rent regulation system applied in western Germany, it is uncertain whether this act of deregulation of the housing market will result in a major increase of the real rent level. The west German Vergleichsmiete-system regulates rent adjustments for sitting tenants, preventing rent increases over an upper limit given by an index (Mietspiegel), or by reference to comparable tenancies. This scheme of rent regulation compromises between tenants' interest concerning stable rents and the landlords' interest in flexible market rents (as new contracts are not regulated). During periods of stagnant real income and balanced housing markets - like the 80s -, the scheme rather has dampened the increase of the general rent level. Housing companies in eastern Germany start complaining on an increase in vacancy rates (Hubert/Tomann 1992). Expectations on real income growth in eastern Germany were cut back substantially in 1992. Although land prices are rising in urban areas, there is no evidence, therefore, that yields in residential real estate will rise significantly in real terms.

As to the discount rate, a great uncertainty in financial markets on future developments in eastern Germany suggest a rather high real rate of interest. Taking the current mortgage rate of interest (9%) and the current rate of expected inflation (3%), the real interest rate is presumably not below 6%. Under this assumption, housing companies and cooperatives in the new Laender are clearly over-indebted. Table 5 shows how present values of expected yields vary with different discount rates and calculates the respective loan-to value ratios. Calculations are based on the above mentioned assumptions and on figures given in tables 2 and 3.

In Table 5, calculation was made for newly built dwellings (year of construction 1985 - 89) to make sure that maximum revenues are obtainable. These dwellings bear particularly high debts (see table 2) and would yield losses even under market conditions. It has been argued, therefore, that housing companies in eastern Germany are confronted with liquidity constraints which are not unusual in unregulated housing markets. In these markets, an investor normally has to wait 10 - 15 years to reach the break-even point. That is, real estate investment decisions are mainly governed by long-term expectations of rent increases. Apart from the fact that expectations are particularly uncertain in eastern Germany (what gives evidence to a high real interest rate), housing companies and cooperatives in the new Laender are disadvantaged in two respects, however.

First, the German Income Tax Act provides a loss sharing scheme. In particular, losses from investment in housing can be balanced against income derived from other sources. This regulation discriminates against housing companies which do not earn profits.

Second, east German housing companies cannot balance their losses against profits from their older stocks. If it is true that the debt burden on older dwellings is much lower (table 2), these stocks produce losses as well. As mentioned above, approximately a half the existing stock of multi-family houses is below standard and damaged. Rent revenues on this low quality stock will not even cover management and maintenance cost after 1993, nor the excess burden of energy cost which will fall on the companies (table 3).

Hence, financial viability of east German housing companies and cooperatives is not secured.

ALTERNATIVE STRATEGIES OF RECAPITALIZATION

The burden of old debts on east German residential real estate implies a major barrier to new investment. As Begg and Porter (1992) pointed out in the case of East European countries, "in such circumstances, the price mechanism does not properly guide the reallocation of resources". In a market economy, housing companies being unable to pay for the shortcomings of the past would have to declare bankruptcy. That is indeed what should have been done in the context of monetary unification: cancel debts of a bankrupt socialist system and revaluate real estate assets by taking into account the lack of maintenance and construction damages of the east German housing stock.

As the bankruptcy option is no more feasible - banks cannot be blamed for the failures -, it is to the government to clear the situation by providing a recapitalization of housing companies and cooperatives. It is argued here that the federal government will have to bear a major share of the cost, for two reasons. First, as to efficiency, the federal government has a better standing in the credit markets than the new states or even local governments, and provides a larger capacity of pooling risks. Second, as to distribution, it would have to bear the opportunity cost in the form of higher housing allowances to east German private households.

Table 5: Expected Loan - to - Value Ratios of a Standard, High Quality Dwelling by Discount Rates, 1994

Discount Rate	6%	4%	3%	2%
Present Value*	30,600	45,900	61,200	91,800
Old Debt**	67,000	67,000	67,000	67,000
Loan - to - Value Ratio	2.2	1.5	1.1	0.7

Sources: Deutsche Bundestag 1992; Rode 1992; Federal Minister of Housing (BMBau); own calculations

* Calculated for a yield of DM 1,836 p.a.
** Present value of a debt of DM 48,000 including interest payments postponed during the moratorium 1990-1993. That debt is representative of the debt burden charged on dwellings built during the period 19485-89 (see table 2).

Basically, recapitalization means to replace the banks' loans to housing companies by government bonds and to revalue (depreciate) those loans. These transactions result in a shift in outstanding assets and liabilities:

Banks	
50bn (loans)	

Banks	
50bn (bonds)	

Housing Companies	
	50bn (loans)

Housing Companies	
	50bn (loans)

Government	
50bn (loans)	50bn (bonds)

There are three options to implement the housing companies' recapitalization.

- The loans are transformed into social housing loans bearing no interest for 10 to 15 years, with an option of interest payments which are passed through to the tenants as soon as rent increases are affordable. In addition, the government loans are placed as second lien mortgages to provide favourable conditions for further mortgages which are needed as a collateral of new investments. That proposal refers to the way social housing programmes in West Germany were financed during the 50s and 60s (Rode 1992). It does not require social housing rent regulation.

- Debt-equity-swap: The government depreciates the loans to realistic values and transforms the debt (or part of it) into equity. As with (1), the interest burden is cancelled and new mortgages can be issued. This strategy is applied by the Treuhandanstalt with privatization of firms. A disadvantage may be that the return to states ownership introduces again soft budget constraints.

- The government depreciates the loans by targetting realistic loan-to-value ratios and provides a securitization of mortgages. The mortgage-backed securities are issued by a public mortgage bank, guaranteed by a government insurance against default, and are sold to the public (mortgage pools). Securitization with government insurance has the advantage of opening up first-rate mortgage conditions and overcoming access barriers in mortgage markets. Privatisation by selling to tenants is not opted out. Mortgages may be transmitted to tenants who then benefit from government insurance.

As far as the budget effects are concerned, these proposals have in common that interest payments on government bonds amount to 4.5 bn DM p.a. Different items have to be deducted:

- By providing social housing loans, the federal government saves housing allowances due to a reduced rent level, compared with rents covering capital cost. As housing allowances are means-tested, the amount saved depends on the number of households eligible for such grants. With rising income, it will become feasible to cut interest subsidies. That will partly be offset by increased payments of housing allowances. But, in total, the amount saved will increase.

- This option provides for lower housing allowances as well. In addition, privatization revenues accrue to public budgets.

- Securitization will result in higher rents than the above options. Nonetheless, government expenditure on housing allowances will diminish, depending on how much of the debt is depreciated. On the other hand, the government will have immediate revenues by selling mortgage-backed securities. Referring to US experience, government mortgage insurance will not cause high cost.

The third option seems to be the most economizing strategy in terms of budget effects. Rents are nearer to market conditions, and grants are targetted to low income households. Moreover, securitization takes advantage of risk pooling and government risk sharing. Consequently, mortgage cost will be more favourable to the borrower.

CONCLUDING REMARKS

Although the federal government undertook several steps to make the east German housing market work, the problem of housing finance is still not solved. The government did not abolish rent controls, so that rent revenues still do not cover capital cost and the cost of maintenance. Also, the government did not provide for a realistic evaluation of old debts on real estate. Hence, housing companies cannot start maintenance investment and the incentives to privatization remain weak. The main issue of future housing policy is that the federal government takes its responsibility for the old liabilities as soon as possible. There are several options of a recapitalization of housing companies which have in common that they provide access to financial sources of new investment within the limits of the present rent regulation regime. All such strategies could be implemented at comparable (and reasonable) cost, although they have different budget implications.

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their duties, can we expect an approximation of standards between the eastern and western parts of Germany.

Ladies and Gentlemen, this concludes my remarks. I thank you for your hospitality and for giving me the opportunity to speak to you about these very important matters in Europe. ■

NOTES

[1] EC countries; Belgium, Denmark, France, Greece, Germany, Holland, Ireland, Italy, Luxembourg, Portugal, Spain, and the UK

[2] EFTA countries: Austria, Finland, Iceland, Liechtenstein, Norway, Sweden and Switzerland

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certain period of time. On average, persons who build or acquire their own house or condominium in the Federal Republic of Germany accumulate savings over a period of around 7 years. The fact that the average age of builders or buyers currently ranges between 37 and 38 years is not due to the obligatory period of saving required under the building-saving system, because many of the savers with a Bausparkasse are young people between the age of 18 and 25 years who might very well become the owner of their own house or apartment at the age of 25 to 30 years. Quite frequently, other factors constitute an obstacle:

- Since the period of vocational training in the Federal Republic of Germany is usually longer than in many other countries, many young people only start to earn a reasonable income relatively late, and consequently also start their own family fairly late (the average age of marriage is 30 years for men and 27 years for women).
- The quality requirements as for owner-occupied houses or apartments in the Federal Republic of Germany are probably among the highest in the world, ranking second after Switzerland. People prefer to save up more money over a longer period of time rather than be forced to compromise in their demands.
- As a result of these high quality requirements, housing costs are very high by international standards.
- In contrast to most other countries, over the coming years a large number of capital assets in the Federal Republic of Germany will be transmitted by succession for the first time since the end of the war. In future, it will thus be possible to acquire real estate more easily and at an earlier stage.

Over more than four decades, the German building saving system has given impressive proof of its efficiency. The system requires efforts from the individual (savings), while the support granted by the State in the form of premiums or tax reliefs has to be considered as "help for self-help". Thus, as an "integrated contract system", the German savings and loan system for construction is also particularly well suited for the financing of owner-occupied housing in developing countries (this has been confirmed by numerous inquiries and requests for information made recently by these countries). This system might be useful for a developing country if its population is encouraged to acquire owner-occupied housing by saving up a sound amount of own capital funds rather than a system under which the builder or purchaser of an owner-occupied house or apartment is encouraged to run up high debts without having saved up any money at all*. The experience gained by the German Bausparkassen has shown that those who are prepared to cut down on their demands regarding consumer goods in order to accumulate a certain amount of savings are also better able to raise the financial instalments for the payment of interest and the redemption of their loans.

THE BAUSPARKASSEN MARKET

Up to now 34 Bausparkassen are working in Germany. 21 Bausparkassen are privately organized. They are legally independent and nationwide. In addition to these there are 13 Landesbausparkassen, which are public law entities and generally a department of a Landesbank, operating in a regional area. The private institutions are dominating this market with a market share of 75 %.

* The high rates of inflation prevailing in many developing countries are by no means an obstacle to the process of contractual saving. Ways and means can be found which prevent the saver from having to run after the prices with his saving instalments. ■