

The Uneven Development of Berlin's Housing Provision

Institutional Investment and Its Consequences on the City and Its Tenants¹

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INTRODUCTION

Following reunification, the decision to re-establish Berlin as Germany's capital created expectations that the city could become another nodal point for the European or global economy. Anticipating Berlin (re-)acquisition of world city status, developers, expecting a growing demand for office and commercial space, considered the city an excellent investment opportunity (Cochrane and Jonas 1999). This created, in the early 1990s, what Strom (2001: 7) called a "gold rush mentality." At the same time, Berlin's government invested heavily into the construction and modernization of the city's housing stock, especially in East Berlin. The government promoted the construction of both new social and private housing with subsidies and tax deductions. The growth expectations for Berlin, however, were exaggerated, and the city soon struggled with increasing financial difficulties due to political, economic, and demographic changes. In 1995, Berlin had a debt of around 23 billion Euros that was rapidly increasing (Senatsverwaltung für Finanzen 2010).

Within this context, the government radically changed its housing provision strategy. Housing in Berlin was traditionally provided by either small private landlords or by non-profit housing companies that worked under the principle of the "common public interest" (*Gemeinnützigkeit*). These companies were owned by churches, unionized companies, housing co-operatives, and in large part by the state. The portfolio of Berlin's state-owned housing companies con-

1 | Source: Uffer, S. (2013) Wohnungsprivatisierung in Berlin. Investitionsstrategien und ihre Konsequenzen für die Stadt und ihre Bewohner. In Holm, A. (ed.) *Reclaim Berlin. Soziale Kämpfe in der neoliberalen Stadt*. Assoziation A, Berlin/Hamburg, forthcoming.

sisted predominantly of modernist housing estates built in the 1920s and 1930s and of post-war developments built from the 1950s onwards. The state-owned housing companies however also acquired some late 19th-century block developments in order to renovate them. After reunification, the housing stock built under the German Democratic Republic (GDR) regime was passed into the ownership of newly created state-owned housing companies, rapidly expanding the state-owned housing stock. In 1991, after reunification, Berlin owned a total of 19 housing companies, and through them 28 percent of Berlin's 1.72 million housing units (Senatsverwaltung für Stadtentwicklung 2002). Starting in 1995, Berlin's government began to privatize the state-owned housing stock, reducing it to 15.8 percent by the end of 2008 (Investitionsbank Berlin 2010).

Exacerbated by the state's withdrawal from housing provision (e.g. abandonment of social housing construction, reduction of housing allowance), the privatization of state-owned housing had significant consequences on Berlin's urban development, its housing, and its tenants. This chapter investigates these consequences by asking how the privatization led to increasing socio-spatial inequality. First, the chapter argues that the government's privatization strategy favored the entrance of institutional investors over alternative housing providers. Second, it shows how these investors have re-shaped Berlin's housing market by selectively upgrading some inner-city neighborhoods on the one hand and contributed to a deteriorating housing quality for socially disadvantaged tenants on the other.

PRIVATIZATION OF STATE-OWNED HOUSING AND THE ENTRANCE OF INSTITUTIONAL INVESTORS

When Berlin's government started to privatize its state-owned housing stock in the mid-1990s, it instructed the state-owned housing companies to sell 15 percent of its stock, preferably to its tenants. This however turned out to be more difficult than expected. In former East Berlin, privatization happened relatively quickly; 80 percent of the privatized units went to institutional investors and only a few were sold to existing tenants. In former West Berlin by contrast, privatization went slowly, but 75 percent of the privatized units were sold to existing tenants (Senatsverwaltung für Stadtentwicklung 2002). Since the emphasis of the privatization process was on generating the highest possible income in the shortest possible amount of time, the government accelerated the privatization process between 1998 and 2007 when it sold two of its housing companies owning approximately 40,000 and 60,000 units respectively. In addition, state-owned housing companies sold entire housing estates en bloc.

Thus, in contrast to privatization processes in other European countries, where privatization predominantly promoted the increase in owner-occupa-

tion, such as the right-to-buy policy in the UK (Murie 1976), or the promotion of home ownership in the Netherlands (Aalbers 2004), Berlin's privatization process happened foremost en bloc. This affected who was willing and able to buy the housing stock. The en bloc selling promoted institutional investors as purchasers for several reasons. Only institutional investors have the financial capacity to provide the necessary equity for en bloc purchases. The fact that the government wanted to make the highest profit possible reinforced the institutional investors' position vis-à-vis other possible purchasers, since they could bid higher than other forms of ownership with lower access to capital such as, for example, housing co-operatives. At the same time, institutional investors are particularly interested in buying an entire housing company or an entire estate. On the one hand, buying entire housing companies or housing estates, they could negotiate discount prices for the individual housing units (see also Holm 2010). On the other hand, it was an opportunity to increase management efficiency through economies of scale. Institutional investors do not have an interest in buying a single apartment, because it would not be worth the effort. Being able to buy a housing estate, institutional investors saw an opportunity to efficiently modernize and manage the housing units.

The entrance of institutional investors into Berlin's housing market was also triggered by changes in global financial markets. After the stock market crash in 2000, most central banks in developed countries drastically decreased interest rates, flooding "their economies with more financial liquidity, in order to prevent recessions" (Downs 2009: 8). In this financial environment, real estate increasingly became a target for financial investors for two main reasons: First, the profitability of real estate is "greatest when interest rates are low and money can be borrowed easily" (Downs 2009: 8) which was the case at the time. Second, because financial investors suffered "from excessive exposure to the volatile technology market" in the late 1990s (Falzon et al. 2003: 68), they increasingly turned towards the supposedly "safe harbor" of real estate (Winograd 2004: 200; see also Rottke 2004). The en bloc privatization in Berlin happened exactly at a time when financial investors entered real estate markets, matching these investors' demand. The combination of the effects of local regulation and global accumulation strategies created the perfect storm. The process of privatization was therefore accelerated by the global economic conditions at the time. The specific conditions of the local housing market, however, influenced the way financial investors operated in Berlin's housing market.

INSTITUTIONAL INVESTORS IN BERLIN'S HOUSING MARKET

In Berlin's housing market, institutional investment has primarily taken place via real estate private equity funds. The hybrid of real estate and private equity

presents a good investment opportunity since it combines the relative stability of real estate with the “opportunity for high degrees of value creation” in private equity (Falzon et al. 2003: 78). Investment banks, investment houses or other real estate players create and manage funds by collecting money from institutional investors (Linneman 2004). Investment banks often also contribute equity to the fund in order to stimulate the confidence of institutional investors (Rottke 2004). With credit capital from a bank, these funds then invest directly in real estate like housing estates or indirectly through shareholding of housing companies.

A central strategy for investors is to enter the market at the right time, when there is an expectation to increase yields by upward rents on the capital investment. This means that the optimal entry point occurs when prices are lowest and are due to rise, using inequalities in the real estate market cycle (Rottke 2004). Investors speculated on Berlin as a rising housing market despite the general macro-economic situation not being very favorable at the beginning of the 2000s with a stagnating economy including high unemployment rates and little purchasing power. In 2004, 17.7 percent of Berlin’s population was still unemployed (Amt für Statistik Berlin-Brandenburg 2009). The income of Berlin’s population, an average of 15,000 Euros per person per year, is significantly lower than in other German cities (Investitionsbank Berlin 2009).² Moreover, income levels have not increased significantly over the last ten years.

This speculation on a rising market was propelled by several factors: First, low rent levels combined with a relatively high fluctuation rate of 9.4 percent in 2003 (Senatsverwaltung für Stadtentwicklung 2005) was considered interesting; it was an opportunity to increase rent levels through modernization. Second, the extreme predominance of a rental market created hopes for the potential increase in owner-occupation through the re-selling of single housing units. And third, because there was no new construction,³ the expectation was that the supply could not keep up with the anticipated demand. The expected rise in demand for housing was, however, not the only factor motivating investors.

While at the end of the 1990s, investment was still made primarily by German investment firms, Berlin’s housing market experienced a veritable hype from 2004 onwards when one of the world’s leading investment firms entered the market and created a herd-like movement of international investment

2 | Hamburg 24,000 Euros; Munich 22,000 Euros; Germany 18,000 Euros (Investitionsbank Berlin 2009).

3 | While from the early until the mid-1990s, approximately 12,000 housing units were built a year, only approximately 3,600 housing units a year were built between 2005 and 2008. This is approximately 0.2 percent of Berlin’s housing stock with 1.89 million dwellings (Investitionsbank Berlin 2010).

firms. The investment hype fostered self-reinforced speculation to make capital gains because the demand for buying real estate was higher than the offer. For these investors, the demand for the use of housing did not play a significant role. More importantly, it was the availability of cheap credit capital that fostered the increase in price speculation. Specific housing market conditions such as vacancy rates were therefore mostly irrelevant. The projected return was therefore simply a speculation on the increase of value due to an increasing demand for investment.

STRATEGIES OF INVESTORS AND THEIR CONSEQUENCES ON BERLIN'S HOUSING MARKET

The real estate industry (see, for example, Rottke 2004; Falzon et al. 2003) theoretically distinguishes different types of real estate private equity funds based on the target return coupled with the degree of risk involved. In reality, the different investment strategies are not as easily distinguishable. Fund managers adjusted their strategies according to the prevailing market situation. In order to understand the various consequences that different investment strategies had on Berlin's housing provision, the following section distinguishes between two different strategies that could be observed among funds operating in Berlin's housing market during 2008 and 2009: funds with a value added strategy and funds with an opportunistic strategy.

THE VALUE ADDED STRATEGY

Funds with a value added strategy are generally following a middle range risk strategy, financing their investment with up to 70 percent equity. Pursuing yearly returns of 10-15 percent of equity invested, value added investment funds optimize their rental income through the appreciation of property with development potential to rent or sell the property at a higher price (Brueggeman and Fisher 2008). Property has development potential if the incoming cash flow (i.e. rent, government subsidies) is greater than the funding costs (i.e. interest rates on borrowing) and management costs; or if the potential profit when selling the housing is judged to be high enough. The determining factors for this evaluation are the location and the quality of the housing, the tenure structure and the credit conditions (Whitehead 1999).

Funds, which bought housing in Berlin with the aim to create added value, cherry-picked housing estates with development potential. This was perfectly logical and sensible from their point of view and Berlin's housing market offered the conditions to do so. Value added investment funds selected good qual-

ity housing estates in attractive locations for their investment, predominantly in late 19th-century block developments and housing estates from the 1920s and 1930s. The rent gap between the existing rent level and the possible rent increase after modernization or refurbishment shaped the investment decision. A principal of an investment firm described the selection process for investment:

“We look where in the city we invest. We look if it is centrally located, how good the infrastructure is, and if there is a potential for increasing the rent level. We only invest in the property if we know that we can realize higher rents afterwards.” (Principal of an investment firm)

In the cases where the investment fund bought an entire state-owned housing company, it inevitably also acquired housing with less or no development potential. In these cases, the value added funds divested the housing units without development potential. The portfolio manager of a privatized company confirmed this selective portfolio strategy, illustrating the influence of the physical outcome and the rent levels for the different types of housing:

“We clearly invest in a way to make capital improvements. This means, we increase the rent levels, we lower the vacancy rates and we invest where we see potential for appreciation and divest where there is no potential for appreciation.” (Portfolio manager of a private housing company)

The value added funds therefore sold post-war high-rise developments in disadvantaged or unpopular areas where investment costs were often deemed too high for making capital improvements. The value added strategy had also consequences on the management and exchange of housing.

Reducing Management Costs

In order to increase cash flow from rental income, value added investment funds optimize management of the housing by creating efficiency models. This can be achieved by reorganizing the management, such as through more flexible working contracts for the employees within the housing company and reducing tenant services. This is evident in cases where funds bought an entire housing company and “also own the claim on the creativity and execution skills of the people at the company” (Linneman 2004: 115; Rottke 2004), meaning that the fund has the ability to take over the team, restructure it, or make it redundant.

Restructuring of personnel could especially be observed when the second state-owned housing company was privatized in 2004. Shortly after its privatization, the housing company had undergone major restructuring of personnel;

the new board of directors exchanged managers and a new wage model was introduced, promoting flexible work hours (Holm 2010). The same mechanism also took place in the cases where the state-owned housing companies privatized an estate and the state-owned housing company transferred the management team for the particular estate along with the estate.

The reduction of personnel within the housing companies created a deterioration vis-à-vis customer liaison and support. Traditionally, tenants had a direct link to the state-owned housing company that was on-site with a service center. The privatized housing companies have centralized the service centers or reduced their business hours. Increasingly, the tenant organization received complaints from tenants.

“The reduction of access for tenants has been taken negatively by tenants. It has to be said that the state-owned housing companies were also not optimal in their management. However, the service has definitely deteriorated [with the privatization]. That is obvious, because the housing company has reduced the personnel and has rented out the former service centers to generate more income through commercial rents.” (Deputy managing director of an umbrella tenant organization)

The reduction of services also affected the privatized companies' commitment to support the neighborhood and its activities. While state-owned housing companies had a long tradition of supporting and initiating neighborhood activities, privatized companies often no longer felt responsible for going beyond their core business of managing housing. The pressure to reduce costs became very apparent. This mechanism is strengthened because while state-owned housing companies were traditionally anchored in specific neighborhoods, privatized housing companies often re-sold a majority of their housing units in an area and therefore no longer felt responsible to support the area. The consequence of the diversification of owners in a neighborhood is therefore an increasing lack of responsiveness on the part of the owners. The head of public relations of a privatized company confirmed the reduced commitment due to the smaller housing stock in the area:

“We do invest in public infrastructure such as playgrounds and parks within the housing development. We do that of course not with a philanthropic aim, but with the aim to improve the neighborhood and therefore create positive effects. However, and this is what we are criticized for at the moment, we do it within the dimension we feel responsible for. And because we are no longer owning 15,000 units in the area, but only 2,000 units, our commitment is reduced accordingly.” (Head of public relations of a private housing company)

Increasing Rent Levels

In order to make the investment profitable and achieve their target returns, value added investment funds increased rent levels and attracted a clientele with a higher socio-economic status after modernizing the housing. The head of public relations of a housing company confirmed this:

“We invest in the housing stock and furnish dwellings with attributes that increase the quality of the housing, either through energy saving means or through the improvement of kitchen, bathrooms, floors, outdoor façade, etc. in order to newly place them on the market, mostly in a higher segment.” (Head of public relations of a private housing company)

The possibility to increase rent levels however greatly depends on the housing and rent regulation. Two points are important to understand here: First, rent regulations only apply to existing tenant agreements. While vacancy rates were already relatively high due to the substandard housing conditions in the old housing stock, investors created even higher vacancy rates by announcing modernization projects. Tenants often did not want to bear lengthy renovation periods so they moved out before it started. This suited investors well because they were not tied to any rent regulations for new tenancy agreements, therefore allowed to increase rent levels reflecting market conditions. A portfolio manager confirmed the benefit of high vacancy rates during renovation:

“Best is of course, if the whole estate is emptied. We had a vacancy rate between 30 and 50 percent. And of course, we would have preferred to boot out everyone, but that is of course not possible. Then you have to deal with the retired and the alcoholics, which makes the situation more complex.” (Director of a real estate fund at a bank)

The second point of rent regulation, which is important here, is that investors can partly transfer modernization costs onto the rent. This means that even if a tenant decided to bear the renovation period and was therefore protected by existing rent regulation, the regulatory conditions allow investors to partially transfer modernization costs onto rent levels. This created an incentive to modernize the housing to a high standard. Tenants living in these substandard housing units were however often socially disadvantaged and not able to bear the higher rent levels after modernization. A district parliamentarian and urban development consultant summarized the effects on the existing tenants when modernization was announced in the neighborhood of a 1930s row development:

"It was already feared and it also happened that after privatization, modernization of the estate was announced. [...] It was clear that the now privately owned housing company wanted to renovate the entire estate and exchange the tenants because the existing tenant structure was not what the company wanted. It wanted to have a clientele that is able to pay higher rents and it wanted to restructure two-room apartments into big family homes also with the possibility to sell it afterwards as owner-occupied housing units. That was catastrophic for the existing tenants, because a high percentage of elderly people lived there. [...] A similar high percentage of people on social welfare lived in these estates. They were not able to bear the higher rent levels." (Urban planner, member of a district parliament and head of the district's urban planning commission)

The modernization and increasing rent levels generated two processes of tenant dislocation: On the one hand, the value added investors' appreciation of the housing stock in better locations created a direct displacement of existing tenants. On the other hand, it also produced an "exclusionary displacement" (Marcuse 1986: 156) whereas households voluntarily vacated, but the barriers for new tenants to move into the neighborhood were heightened. The barriers were however not only heightened through increasing rent levels, but also through particular allocation strategies.

Excluding Low Income Households

Value added investment funds upgraded their housing stock not only physically, but also socially. They intentionally excluded disadvantaged households with a selective allocation strategy. A portfolio manager confirmed this strategy:

"We have clearly an allocation strategy, you can't call it racist, but we do not rent out to a single alcoholic for example. I have two letting teams and they have clear instructions which profile they should rent out to. We want to have families with children. We are also lobbying for a kindergarten nearby. And we have kicked out the pub at the corner of the housing estate." (Director of a real estate fund at a bank)

Similarly to the exclusion of the poor, immigrants were often not welcomed in the upgraded housing stock because it could deter German middle class families from moving into the area for such reasons as the schooling of their children. This mechanism was also confirmed indirectly in an interview:

"The new investors take into account the demand in regards to the German groups who wish to live in homogeneous neighborhoods. The investors have tried to create these neighborhoods, for example in the row developments. Only middle class households that are traditionally anchored and things like that. This minimizes conflicts and creates in the investor's view a stabilized tenant structure which the investor's housing company

also advertises. They argue that they are contributing to an important stability for the neighborhood and therefore the city. It however means nothing else than that they displace the problems to other neighborhoods, mostly to those in the outskirts.” (Deputy managing director of an association for housing and urban development)

Value added investment funds have upgraded the housing stock, a task that most of the indebted state-owned housing companies were no longer able to provide without state subsidies. The privatization process therefore fostered the state’s anticipated modernization of the housing stock, however only in the market segment where investors saw potential for higher rents to achieve their target return. Housing in the lower market segment, for which demand was not high enough to make investment profitable was divested or neglected.

Under the existing market conditions, value added investment funds invested in the 19th-century block developments and the Twenties and Thirties row developments in well-situated areas. It is then also the modernized housing in better locations that was most affected by higher rent levels and dislocation of tenants. The anticipated modernization legitimated the exclusion of the poor and vulnerable tenants. The modernization therefore was not for the benefit of the existing tenants, but only for the wealthier ones in future.

THE OPPORTUNISTIC STRATEGY

Compared to value added funds, opportunistic investment funds target higher returns within a relatively short time span. In order to achieve their target return of 20 percent or more, opportunistic funds’ main yield strategy is financial leveraging (Rottke 2004). Financial leveraging is the profit that occurs when the interest rate is lower than the return on the total investment in a property. Thus, “[i]f the return on the total investment invested in a property is greater than the rate of interest on the debt, the return on equity is magnified” (Brueggeman and Fisher 2008: 348). If this is the case, investing with high credit capital and low equity is advantageous because it increases the return on equity. This has the effect that profit is to a great part not resulting from a particular investment project, but from the degree of credit capital on the investment (Rottke 2004).

Opportunistic investment funds’ primary objective is to buy cheap and resell at a higher price as soon as possible to make profit on the credit capital. Winograd (2004: 205) summarizes the opportunistic strategy: “buy as much as they could, leverage it as much as they could, and wait for markets to recover.” As soon as the investment target is achieved, the housing is re-sold to another investor. These funds are more specialized in the trading aspect of real estate than in the management side. Often, they do not have in-house real estate ex-

expertise, but are solely financial engineers. This has consequences for the housing and its tenants.

In Berlin at the beginning of the 2000s, the availability of housing at low prices combined with easy credit promoted investment from opportunistic funds. They bought housing estates from state-owned housing companies, but also from value added investment funds that divested the housing units without development potential. They did not analyze the specific housing conditions: Location, the quality, or regulatory issues were neglected at purchase.

“For opportunistic investors, things like preservation orders, rent regulations or difficulties with existing tenants are negligible details. They almost never appear in Excel-Spreadsheets. Investors did not look at these details, they saw the cheap housing and the cheap money and they wanted to enter the Berlin market.” (Director of a real estate fund at a bank)

Linneman (2004: 126) explains this neglect of the housing conditions: “In fact, even a property with little or no residual value can still be extremely valuable.” While credit was easily available and demand for investment high, opportunistic funds could count on the ‘bigger fool’, another investor that buys at an even higher price. The investment therefore was pure financial speculation, based on the assumption that the investment hype will continue.

Opportunistic investment funds bought post-war high-rise developments in the outskirts of Berlin, because it was cheap in comparison to older and more centrally located housing. These post-war high-rise developments were often still locked into the social housing subsidies, which meant that rent levels could only be raised according to pre-determined levels. Upgrading for higher rent levels was therefore not profitable. Opportunistic funds were therefore determined to minimize costs in order to increase the leverage effect.

Neglecting Maintenance

In some post-war developments, opportunistic investment funds did not make necessary repairs as they waited for the opportunity to resell. Instead, they cut caretaker jobs replacing them with cheaper cleaning personnel. The opportunistic investment funds allowed already problematic housing estates to further deteriorate. A district counselor confirmed this process for one of the cases analyzed:

“The estate has been rundown. The caretaker jobs were cut. The investor’s policy is a different one than the one of the state-owned housing company that owned the estate before.” (District counselor for social welfare, housing and environment)

They also reduced customer service to a higher extent than the value added investment funds. In contrast to the efficient management of value added investment funds, opportunistic investment funds were less dependent on rental income due to their short-term strategy. The effects in regards to the maintenance and services were therefore more dramatic compared to the ones of value added investment. This is in stark contradiction with the state's intention to trigger renovation of the housing which could not be stemmed by the state-owned housing companies.

The deterioration of the housing estate affected the everyday life of the residents. Living in a run down estate became increasingly unpleasant, especially when garbage was no longer collected and staircases no longer cleaned.

"When the estate was privatized the lack of cleaning of the estate became unbearable. It was so dirty in the communal areas outside and inside the estate. For weeks there was no cleaning, so that the tenants started to ask why they still pay rent. Now, the property manager emphasizes the fact that he newly employed these cleaners. However, these are not real caretakers." (Project director of a neighborhood management team)

This neglect however, generated higher vacancy rates, which had to be reduced, especially once the market collapsed due to the financial crisis in 2008 and opportunistic funds could no longer sell the properties. Rent levels were therefore lowered and letting strategies were aggressively targeting low-income households.

Reducing Vacancy Rates

Due to the neglect towards the condition of the housing estate, vacancy rates rose. When the credit market however collapsed after 2008, investors had to seek ways of serving their credit line and the reduction of vacancy rates became crucial to the new strategy. The managing director of the responsible property management firm confirmed that the investment fund sought a rapid re-sell but had to reorient its strategy due to the crisis:

"Because of the banking crisis at the moment, the plan to re-sell has been modified, because the price that the investor aimed for is not achievable. No investor is currently able to get the credit for paying such a price. This is why the investor decided to go for a longer-term strategy. That means we have to ensure that the credit line can be served and therefore we need to have the estate fully rented in order to deal with the current situation." (Managing director of a property management firm)

Since the estates were poorly maintained, opportunistic investors ran into difficulties attracting new tenants and achieve a full occupancy rate. They were also

not able to increase their income streams through higher rent levels due to the depressed situation in these lower market segments. Opportunistic investors therefore created what Holm (2010) calls “discount housing.” Because they had to reduce vacancy rates in order to increase their income streams, they also accepted lower rent levels. The director of a property management company confirmed their attempt to reduce vacancy rates, even accepting lower rent levels:

“We aim at a vacancy rate of five percent. This is however very difficult. We have to work hard for it and we have to move away from a strategy with high rents. We say, we want to rent out the apartment to generate a rental income stream and if we can't get 5 Euros, we have to accept 4.80 Euros [per square meter and month].” (Managing director of a property management firm)

This shows how rent levels depend on specific market dynamics and the type of housing within this market. Privatization of state-owned housing does not necessarily foster increased rent levels in the privatized housing stock. The particular way in which opportunistic investment funds financed their investments contrasts with an expectation that private-led housing contributes to higher rents. The analysis shows that opportunistic funds also provide housing for the socially disadvantaged. However, they are motivated by the possibility of decreasing vacancy rates and not by any social responsibilities they feel towards their tenants.

Attracting Low-income Households

Opportunistic investment funds increasingly also applied letting strategies specifically targeting low-income households to lower their vacancy rates. The fund hired an external agency in order to reach higher occupancy rates. The letting agency, paid on the basis of the amount of housing units rented, pursued an aggressive letting strategy, advertising the apartment specifically to people with a poor credit history and promised new tenants three month's rent free and a voucher of 200 Euros redeemable at a home improvement store (Du Chesne Immobilien GmbH 2009). A district head of a tenant association heavily criticized this strategy:

“Other owners get also better-off tenants, but they are committed to get the better-off ones. It is simpler to get the apartments filled by advertising it with strategies like handing out 250 Euro vouchers for Media Market.⁴ This is how they get the apartments full. However, this is not sustainable because as fast as these people move in, the better-off ones become angry and move out just as fast.” (District head of a tenant association)

4 | A famous media chain store in Germany.

The tenants who moved into the housing estate were those who did not have access to other market segments. Often, these tenants received benefit payment. The job center, in charge of benefits for people on social welfare, guarantees rent payment and therefore created further incentives for the opportunistic fund to rent to tenants on welfare. Often, the tenants who had no access to other market segments were also immigrants:

“In the last year, thanks to the letting agency, we had an increased influx of Roma. They were not in one apartment but in four apartments and that was enough. This year, there is an increased influx of Arab families, many among them very religious. We have a mosque nearby, which is observed by the Federal Office for the Protection of the Constitution. These are all things that cause distress.” (Project director of a neighborhood management team)

The influx of different nationalities and ethnic groups also affected the everyday life of other tenants, creating conflicts within the estate because of their different degrees of integration into German society:

“It is dirtier and louder in the estate, there is a complete indifference towards it. All problems we had before [privatization], but not to such an extent. And the arrival of the Roma families last year created conflicts because they released a wave of grudges among other immigrants because they do not speak German. And in comparison to the Turkish people who move here and who have to show that they attend a language course [because they are non-EU citizens], the Roma [as EU citizens] do not have to do this. They rented an apartment and thirty people lived in it. The staircase was used as a toilet and they drank without limits.” (Project director of a neighborhood management team)

The concentration of the more vulnerable tenants in certain areas of the city is a common phenomenon (van Kempen and Priemus 2002). Particularly in the cases observed in Berlin is that the concentration of the socially disadvantaged is not solely generated through their displacement from inner city housing. Concentration is actively created through the opportunistic investment funds' specific investment, management, and exchange strategies.

CONCLUSION

This chapter investigated the privatization of Berlin's state-owned housing stock and its consequences for Berlin's housing provision. The government's privatization of state-owned housing companies and housing estates happened pre-dominantly en bloc. The process fostered the entrance of institutional in-

vestors who followed diverging investment strategies, therefore creating greater social and spatial inequalities.

Value added funds selectively upgraded housing with development potential in order to place the housing units in a higher market segment. The increased rent levels coupled with a very selective allocation strategy followed by added value funds created enclaves of neighborhoods occupied by tenants with a high socio-economic status. This selective investment in housing with development potential and the divestment or abandonment of housing without potential starkly contrasts with an expectation that housing companies invest in all types of housing equally.

In contrast to value added funds, opportunistic investment funds depended on financial leveraging to achieve their target return. They purchased the cheapest, often problematic, housing estates, financed them with high debt rates and re-sold them as quickly as possible for a higher price. In a market situation, where demand was only increasing for housing in the better neighborhoods, the opportunistic funds' applied aggressive letting strategies with the imperative to serve their credit lines through decreasing vacancy rates. This fostered a concentration of socially disadvantaged tenants that have no access in the housing stock to better neighborhoods.

The government's en bloc privatization with the aim to make the highest profit possible favored institutional investment funds as purchasers of the former state-owned housing. Alternative forms of ownership, such as co-operatives or owner-occupation were largely neglected. A balanced development was tipped in favor of attracting capital and against tenants, especially the more vulnerable ones. This was expected. The outcomes of this privatization process were however profoundly unequal.

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