

Neighbourhood Improvement Districts in Germany – A new Form of Urban Governance for the Improvement of Residential Areas

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SUMMARY

Over the past years a noticeable increase of involvement by the private sector and by the citizenry has been observed in urban development in Germany. Public private partnerships (PPP), in the form of urban initiatives such as business improvement districts (BID), for example, are the most common forms. Due to the success of these co-operations between the public and private sector, the government ratified a new “Act Facilitating Planning Projects for Inner Urban Development” in 2007 to implement these private initiatives also in residential areas.

These so-called neighbourhood improvement districts (NID) are defined as a residential area in which property owners make a collective contribution to stabilize and improve their residential district. NIDs typically include capital improvements like housing, park and public space enhancements and provide services such as supplementary safety and security or the development of a marketing concept for the district.

The article describes the current NID debate in the Federal Republic of Germany and outlines the improvements and services a NID is specifically enabled to undertake under German Law. In addition, the article exemplifies the trends and expectations associated with the establishment of NIDs in Germany by addressing the following questions: how NID activities affect the local real estate market and whether their strategies promote sustainable urban development in residential areas in the long term.

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1. INTRODUCTION

Similar to business improvement districts (BIDs) in business areas, neighbourhood improvement districts (NIDs) are seen as a means to support and encourage private initiatives in urban development within residential areas.

The “Act Facilitating Planning Projects for Inner Urban Development” (*Gesetz zur Erleichterung von Planungsvorhaben für die Innenentwicklung der Städte*), which came into force on January 1st, 2007, implemented the intention to reduce land consumption and speed up important planning projects. The goal is to simplify and accelerate the planning processes through changes to building and planning law to support planning initiatives, especially in the areas of employment, housing, and infrastructure development.

A new section 171f in the Federal Building Code has been added to promote private initiative in urban development. In accordance with state law and without limiting other measures under the Federal Building Code, it allows the public sector to encourage and subsidize the designation of areas for site-specific projects. It pursues a concept in agreement with publicly articulated planning goals to strengthen or develop inner-city areas, neighbourhood centers, residential areas, and commercial centers, as well as other areas of importance for urban development or urban regeneration (Krautzberger 2008: 340).

Within residential inner-city development (improvement, conservation, deconstruction) NIDs can be used as a special form of urban governance (Schuppert, 2007: 77) by which private participation can be made obligatory. This instrument has become necessary due to the fact that several cities are not capable of taking over the financial burden of urban development.

2. PRIVATE INITIATIVES IN URBAN DEVELOPMENT

The Federal Building Code's new section 171f provides for the support of private inner-city development initiatives in designated areas in which location-specific measures, for which the private individuals are made responsible, are carried out. These measures must conform with the city's development goals (development and improvement of: the inner-city, community centers, residential areas, commercial and industrial areas, important urban development areas). The new law leaves space at the Federal State level to define its definitions and its contents of the development goals. Another specification mentions that the financing mechanism and levels of the obligatory private-sector contribution will also be determined by the Federal States.

All in all, this law supports a new form of public private partnership as seen in urban development in other countries (USA, Great Britain, South Africa; cf. Houstoun 2003) and in several Federal States in Germany (Friesecke, 2006a: 56; Huber, 2007: 466; Wiezorek, 2004). Federal State laws for business improvement districts have existed in Bremen, Hamburg, Hesse, Saarland and Schleswig-Holstein since the end of 2004. The realization of these location-related initiatives private public partnerships in urban development is planned in other Federal states (cf. <http://www.urban-improvement-districts.de/>). These initiatives are not only designed for business areas, but also for community centers, residential areas, commercial and industrial areas and (mixed use) areas (cf. table 1). In contrast to BIDs, however, these property owner initiatives are still under construction.

Term	Type of areas	Main actors
Business Improvement District (BID)	City center, business area	Property and business owners, retailers
Neighbourhood Improvement District (NID), in Germany: Housing Improvement District (HID)	Residential area	Property owners, tenants
Working Area Improvement District (WID)	Commercial and industrial area	Property owners, industrialists, manufacturer

Table 1: Different denotations for private initiatives in urban development.

In Germany, the term housing improvement district (HID) is used instead of neighbourhood improvement district, because the concept <housing> is more readily understood in German terminology. At the same time, in order to avoid misunderstandings in the English speaking debate the paper uses the term NID for initiatives in residential districts (see also Kreutz 2007: 3).

3. NEIGHBOURHOOD IMPROVEMENT DISTRICTS

The use of the BID method has been so successful in Germany that it started a discussion about using this management strategy for residential areas. This possibility has become more accepted due to the fact that new instruments for inner city development have become necessary. This leaves the question if NIDs are the right vehicle to stabilize and improve residential districts in accordance with urban development goals.

To answer this question one must examine the objectives, the fields of action, the prescribed activities as well as the financing mechanism proposed for the NID. These generally diverge from those of a BID. This becomes obvious when examining the main groups and stakeholders involved. In the case of BIDs, the local authority works with retailers and service providers; in the case of NIDs, on the other hand, the local authority works with property owners and tenants. These differences may become a problem in the implementation phase of a NID. Property owners and tenants may have a greater conflict of interest than retailers in a BID would. Similar to retailers, property owners would generally seek economic benefits, such as an increase in land value and an increase in rental fees. Tenants, however, tend not share these interests (Krüger, Wickel, Kreutz, 2007: 14; Kreutz, 2008: 14).

Housing cannot only be seen as an economic good it is also a social good. It is the main living space of the inhabitants, and it must fulfill certain requirements, such as access to sufficient green space and to social infrastructure as well as a pleasant living environment. Consequently, NIDs present a more complex range of activities as well as the need of more complex intervention measures than a BID since their task is solely to improve the economic environment.

Site-related measures (in the case of NIDs) carried out under private responsibility; therefore, need to be in accordance with the local authority's urban development goals so that the problems in one district will not merely be shifted into another district (Kersten, 2007: 125). NIDs also must not impact the general public services provided by the local authority. The measures of a NID must only be seen as an enhancement to other urban development measures. For example, they can fill gaps in municipal services or compensate for what they do poorly (Levy, 2001). The problem arises when private initiative replaces some of the local authority's responsibilities. This opens up the question whether a privatization of the local authority responsibilities in general is permitted – a still ongoing debate in Germany. NID measures and projects can be used to carry out a variety of planning functions and often cover more than one field of action (see table 2). One must make note of the fact that every member of the property owners group would have to profit from the measures if obligated to co-finance it (Schuppert, 2007: 43).

Building and housing environment	Public spaces
<ul style="list-style-type: none"> ▪ Construction of new buildings (e.g. local authority center) ▪ Demolition of buildings ▪ Change of use of buildings and apartments ▪ Temporary use of fallow areas ▪ <i>Facility management</i> ▪ <i>Vacancy management</i> ▪ <i>Storefront improvement programs</i> 	<ul style="list-style-type: none"> ▪ Park and public space enhancements, e.g. planting trees/shrubbery/flowers ▪ Establishment of playground areas/sports facilities ▪ <i>Supplementary street/sidewalk cleaning, removal of graffiti from buildings</i> ▪ <i>Deployment of security personnel for public safety</i> ▪ <i>Illumination of individual buildings</i> ▪ <i>Pedestrian-scale lighting</i>
Transportation and parking	Local economy
<ul style="list-style-type: none"> ▪ Traffic management including traffic calming ▪ Management of the public parking system ▪ <i>Promotion of existing public transport</i> ▪ <i>Establishment of additional parking lots</i> ▪ <i>Noise protection planning (in case of street noise)</i> 	<ul style="list-style-type: none"> ▪ <i>Employment incentives</i> ▪ <i>Establishment of new businesses</i> ▪ <i>Strengthening indigenous concerns</i>
Social services	District marketing and communication
<ul style="list-style-type: none"> ▪ Establishment and operation of social facilities ▪ <i>Establishment of additional programs for different target groups (e.g. youth, seniors)</i> 	<ul style="list-style-type: none"> ▪ <i>Development of a marketing and communication concept</i> ▪ <i>Image enhancement, district public relations</i> ▪ <i>Festival and special event programming</i>

Table 2: Possible areas of activity of a NID (the texts in italic highlight the services, the others the measures changing the built environment), cf. Lockemann, 2007: 82.

Realization of NID activities demands the establishment of effective coordination and efficient management, e.g. by a special district management organization for the defined district (cf. section 4). The overall objective is to boost the district's image, local profile and neighbourhood identification. Under certain conditions it seems to make sense if the district management organization operates as a real estate agent similar to some BIDs in the US:

“The most ambitious BIDs have acted as property developers, buying and repairing empty or abandoned buildings and vacant sites within their area and selling and leasing them on favourable terms both to BID members and those interested in relocating to the city centre” (Symes and Steel, 2003, 305).

4. NEIGHBOURHOOD IMPROVEMENT DISTRICTS IN HAMBURG

As a pioneer in Germany, the city of Hamburg established a “Law to Strengthen Residential Districts through Private Initiative” (*Gesetz zur Stärkung von Wohnquartieren durch private Initiativen*), which came into force on January 1, 2008 (Bürgerschaft Hamburg, 2007). The law states that a NID is a temporary organization and lasts for a pre-determined period of time - five years at the most - after which the members vote to retain the NID.

The establishment of an individual NID often comes from the impulse of the property owners. These property owners need to establish a steering committee that has the ambition to work with the local authority. The committee needs to develop goals, measures and possible financing strategies for the improvement of the residential area. The next step includes a revision of the strategy and the first consultation with the local authority (Gorgol, 2007: 78). After these steps a decision process begins. The NID needs the support of 30% of the property owners; whereas the tenants of the districts have no right to vote. The positive vote of the property owners must represent more than 30% of the number of properties situated in the NID area, at the same time their area must represent at least 30% of the total NID area. The allowed maximum negative vote (veto) was also 30%. The main reason for the unequal treatment of property owners and tenants in this case is that the NID levy only applies to the property owners, because the perceived benefits of a NID will be higher for owners than for tenants. Beyond it, there exists a rule whereby it is not allowed to shift the levy to the tenants in terms of higher rents (Schuppert 2007: 51).

There is a great difference to the business improvement districts in Hamburg, where the positive vote must represent only 15% of the property owners. If the proposition fulfills all requirements it will be publicly presented for a month before the senate passes an enabling law for a designated residential area. The committee then needs to sign a contract with the local authority delineating all the planned goals and measures. It is important that the contract define who is responsible for each task and how the financing will be divided.

The NID in Hamburg is completely privately financed by a special tax (Kersten, 2007: 127; Schuppert, 2007: 43) based on the value of the properties. The tax is a product of the

municipal rate fixed by the local authority and the assessed value of the property (under the terms of the German Valuation Law).

After a positive NID vote, a specially founded or even existing district management organization (e.g. in form of a for-profit limited liability company or registered association) is obligated to provide the defined NID services and implement the defined measures under the terms of a contract between itself and the local authority. The NID levy is collected and administrated by the local authority but then entirely turned over to the district management organization. Its function is to organize and carry out the prescribed physical and organizational improvements.

It is advisable to establish a steering committee right from the NID planning stage, particularly with regard to the participation of all stakeholders affected by the budgeted NID activities. Furthermore, the committee could give advice to the district management organization during the operational phase and monitor that the completion of activities are within the given timeline or in compliance with regulations.

Figure 1 gives a review of the organizational structure of the intended NID in Hamburg.

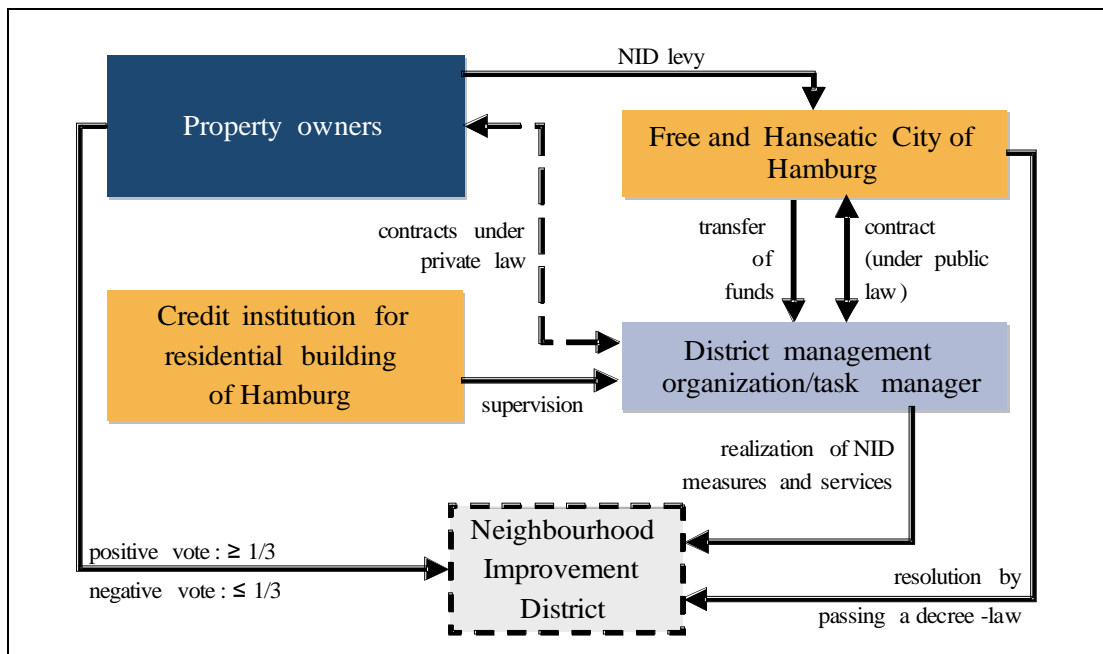


Figure 1: Organizational structure for a NID in Hamburg.

Beyond Hamburg, there are other states contemplating the implementation of a NID model at Federal State level.

5. ASSESSMENT OF NID EFFICIENCY

What is the efficiency of a NID? In short, NIDs allow the private sector to provide additional and enhanced services that improve the residential environment in the district. Due to the fact that many Federal States and municipalities in Germany have a very critical opinion of the formation of NIDs and the implementation of special services (cf. Bartholomäi 2006, Schutz/Köller 2007), the following table 3 enumerates the most important arguments in form of a SWOT matrix (SWOT = strengths, weaknesses, opportunities, and threats).

Strengths	Weaknesses
<ul style="list-style-type: none"> ▪ Supporting the long-term sustainability of a geographically defined residential area ▪ Providing additional services that improve the district environment ▪ Developing partnerships between the public and private sector, strengthening private initiatives ▪ Predictable and reliable funding source for supplemental services and programs ▪ No free-rider problem 	<ul style="list-style-type: none"> ▪ Lack of practical experience in Germany ▪ Mandatory district assessment as an unbalanced impact obligating all members of the property owners group and imposing no extra obligation on the other members (lack of tenant participation) ▪ Great efforts to mobilize the property owners ▪ Long foundation process (approx. two years)
Opportunities	Threats
<ul style="list-style-type: none"> ▪ Encouraging corporate social responsibility ▪ Attracting inward investment: helping to decrease vacancy rates and to increase the value of the properties ▪ Making the district more competitive with surrounding residential areas 	<ul style="list-style-type: none"> ▪ Exorbitant expectations of the property owners ▪ Step by step privatization of public tasks ▪ Strengthening “strong districts” with property owners that are able to pay the NID levy in debit of “weak districts” ▪ Relocating problem areas to other districts ▪ Arising expenses even if the vote for a NID failures

Table 3: SWOT analysis of a NID.

The table shows that NIDs for many reasons should be viewed as an important instrument to finance inner city development (Friesecke 2007: 13; 2007: 245):

1. NIDs are compatible with constitutional law (Schutz/Köller, 2007: 649).
2. They can be used for all areas with mainly residential usage.
3. They provide enhanced services that improve the district environment.
4. Everybody that profits from the measures also has to co-finance (no free-riders).
5. Financing systems help make the measures easy to plan for.
6. The measures are less expensive if completed in a group than if completed separately.
7. NIDs encourage corporate social responsibility.

Difficulties can occur due to the complex ownership structure creating different interest groups as well as due to the complex implementation process of the NIDs. Property owners who are not willing to co-finance can also go to court and delay the process. In badly

maintained areas the question remains if the property owners are capable of or willing to invest in these areas.

A further restraint is the fact that all measures have to be financed *before* realization. This could be a reason to use other methods – e.g. so-called urban redevelopment measures (*Städtebauliche Sanierungsmaßnahme* under the Federal Building Code, section 136), where you have to pay for the improvements and service measures afterwards (similar to a Tax Increment Financing District TIF). In the meantime, there are considerations to combine both instruments to encourage redevelopment or improvements in areas suffering from disinvestment (Ruther-Mehlis and Weber 2005, Friesecke 2006b).

To summarize the short analysis of the new and necessary form of urban governance (cf. section 6), neighbourhood improvement districts are not a solution for every local authority. The flexibility of a NID allows each district to develop its own improvement program based on its own needs, but it may not be an (economically) reasonable road to success everywhere. To monitor what NID services are working and what projects may need changing or adapting, key performance indicators could be an important method of promoting NIDs successes (cf. in terms of BID performance measures: ATCM 2005: 33; Caruso/Weber 2006).

6. CONCLUDING REMARKS

Organizationally and legally, a NID might be described as a hybrid between traditional local government and a new form of urban governance (see table 4 and Kersten, 2007: 128). In Hamburg the initiative for the NID came from the property owners (private initiative), but during the process the local authority often retained the final decision-making power. Property owners that were against the measure were still obligated to co-finance. This form of organization is less a partnership and more a monitored and controlled form of self-organization (Schuppert, 2007: 16). The local authority still keeps its control function. So the new form of urban governance includes the state, but transcends it by taking in the private sector and civil society (Einig et al 2005, I). The state creates a conducive legal environment for implementing NIDs, while the private sector plans and realizes the improvement measures.

Mandatory elements cooperative tasks
✓ Legal foundation („NID law“)	✓ Establishment through residents ‘ initiatives
✓ NID levy for all property owners	✓ Privately directed organization
✓ Statutory conclusion of a contract under public law between city and task manager	✓ Solutions by mutual agreement : - concept of measures - financing plan - choice of the task manager
✓ Supervision of the task manager by the state	
✓ Establishment of a NID for a limited period	

Table 4: NIDs as a special form of urban governance.

In closing, NIDs are not a remedy for all “urban illnesses” and undesirable urban developments. But due to the far-reaching processes of economic and demographic change, they mark a paradigm shift in urban development and can play a significant role in the residential revitalization process. NIDs represent a fundamental basis for future urban planning policy with strong private sector involvement as a contradiction to the previously state-dominated instruments and strategies.

Future (German) NIDs should deal especially with urban shrinkage and the neglect of the urban environment to improve the attractiveness of the district and the city.

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BIOGRAPHICAL NOTES

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