

Remo Dalla Longa  
Editor

# Urban Models and Public-Private Partnership

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Remo Dalla Longa

# Contents

1	Introduction .....	1
	Remo Dalla Longa	
2	Urban Models .....	7
	Remo Dalla Longa	
3	Urban Models in Italy: Partnership Forms, Territorial Contexts, Tools, Results .....	47
	Stefano Stanghellini and Sergio Copiello	
4	Large-Scale Restructuring Processes in the Urban Space of Budapest .....	131
	Gábor Locsmánci	
5	PPP in Urban Development in Germany Illustrated Using Two Pilot Projects in Leipzig .....	213
	Silke Weidner, Jens Gerhardt, Jan Schaaf, and Nadja Riedel	
6	Conclusion .....	265
	Remo Dalla Longa	



# Chapter 5

## PPP in Urban Development in Germany

### Illustrated Using Two Pilot Projects in Leipzig

Silke Weidner, Jens Gerhardt, Jan Schaaf, and Nadja Riedel

#### 5.1 Introduction

Cooperative types of action by public and private players going beyond the legally formalized planning processes have been gaining in importance for some time now at all levels of urban development in Germany. New cooperation in the form of bilateral and trilateral collaboration represents a way of consolidating and expanding the scope for carrying out urgent tasks of urban regeneration. Aware of these possibilities, the City of Leipzig began tapping this potential by specifically involving three groups of players – the public sector, the private sector, and the general public – into the process of urban development and steering their interaction.

The City of Leipzig's initiation of the two pilot projects IQ-OST and GRÜNDERZEIT ERLEBEN was an important step toward public–private partnerships. The projects amalgamate resources. Furthermore, they are by no means limited to the granting of subsidies. IQ-OST and GRÜNDERZEIT ERLEBEN constitute PPP projects on existing property – and the high involvement of local players in both cases provides an excellent basis for trilateral cooperation.

The aim of these mostly privately financed projects is to be primarily achieved by combining classical (formal and informal) instruments with methods of cooperation and planning applied in urban development and new trilateral instruments of cooperation among those involved from the three main groups of players. The two

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213

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213



pilot projects are intended to be two new sources of inspiration for the quarter which could speed up the enhancement of Leipziger Osten. The idea is for the creative and financial input (both already carried out and yet to come) by the public sector to be refinanced in the long term through the savings made as the district becomes stabilized and requires less support.

What the two pilot projects have in common is that they are still both in the conceptual phase – meaning there is still plenty of scope for shaping their final implementation. On behalf of the Leipzig Office for Urban Regeneration and Residential Development (ASW), the Institute of Urban Development and Construction Management (ISB) of the University of Leipzig – acting in a consultative capacity – is assisting part of the development of the two pilot projects outlined below. The project process is described using the principles of the CoUrbIT model, to which the references shown in Fig. 5.1 corresponding to the structures of the pilot projects in Leipzig apply.

In the case of Leipzig, the need to reinterpret urban functions in the district under consideration resulted in the need for extensive intervention, which is to be applied in a public–private partnership using partly experimental instruments.

This chapter begins by outlining the current situation regarding the application of PPPs to the fields of urban development in Germany in order to help the reader understand the Leipzig approach. Reference is made to existing PPP models in construction and how they can be transferred to the scale of an entire quarter. As this transformation is still in its early stages, no tried-and-tested PPP urban

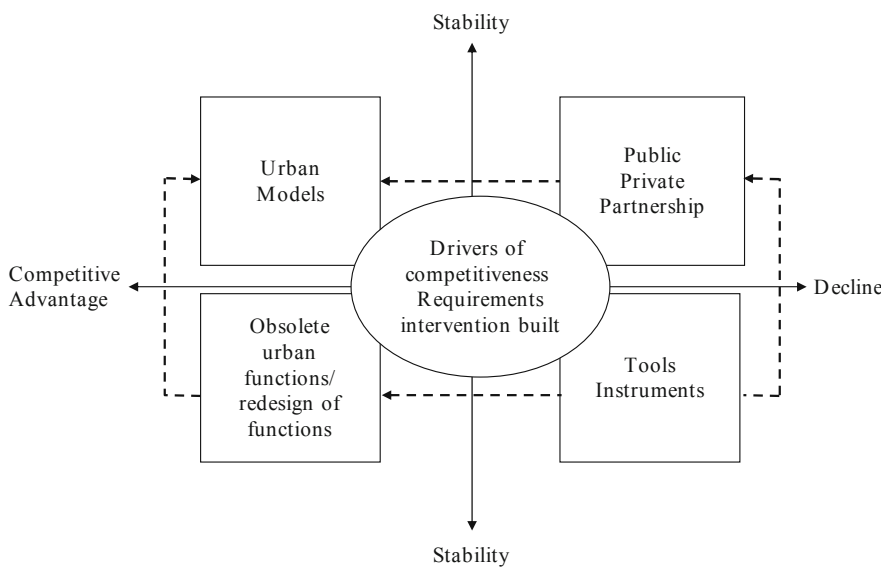


Fig. 5.1 CoUrbIT model applied to the pilot projects in Leipzig (source: Dalla Longa, 2010)

development strategies specific to Germany could be used, and this prompted us to produce our own Urban Development Guideline.

To give the reader a better grasp of the pilot projects, they are assigned to the intervention models of the Bocconi University. Accordingly, the next section of the chapter describes their spatial, historical, economic, social, and legal context, including connection with the infrastructure and related support schemes. For this purpose, the position of the projects within the region as a whole, in Leipzig and then in the district in question is defined. A detailed explanation of the ideas behind the projects is followed by a description of how the projects have proceeded so far and the next steps planned.

The experience obtained from the Leipzig pilot projects is assessed in the conclusion. In the outlook, the project steps carried out are compared with existing forms of PPPs in urban development and briefly discussed.

## 5.2 PPPs in Urban Development in Germany

Cities in Europe – and hence also Germany – find themselves confronted by investment requirements arising on the one hand from a string of demographic, economic, social and environmentally specific challenges and on the other hand from the key role which has evolved among (or been assigned to) cities in the development of knowledge-based, competitive economies. As in many other European countries, urban renewal has been transformed since the 1990s from the original and exclusive improvement of the building stock to a more complex, more extensive policy of urban development. This new type of urban development policy is expressed in terms such as the “new deal for communities” and the “social city,” and refers to more complex forms of urban development combining traditional investment strategies with economic measures and intensified investment in human capital (cf. European Investment Bank, July 2003, p. 7).

Such investment needs are generally met through the development of long-term, strategic, integrated urban planning. However, financing the resulting clutch of investments is almost always difficult, while investment requirements do not necessarily generate demand for investment because the possibilities, capabilities, and intentions of the individual players (public and private) decide whether progress can be made with urban development projects and whether applications for funding can be successfully achieved by means of strategic investment planning (cf. Department of Communities and Local Government, London) (Mai 2007, p. 4). According to research, the necessary ability to respond on the part of public and private developers fluctuates considerably, the role of municipal administrations as direct investors generally dwindling owing to their precarious financial positions and the rising importance of quasiregional administrative bodies. In this connection, mention should also be made of the inability to embrace reform in Germany compared with other (including European) countries. Its self-imposed role as a “society of

consent,” the federal system, the lack of experience of privatization and outsourcing, a banking system low on innovation, and orientation towards overall strategies have all placed pragmatism on the back foot in Germany. Hence, although the goals are in theory clear, radical changes in terms of attitude and behavior require the use of new, more sophisticated instruments (cf. McCleary 2005, p. 15).

Apart from the known hard exogenous factors, neoliberal ideas, and practices in research and economic policy have for some time been pressing for more dynamism and change in the public sector (cf. Eichhorn 2002, p. 6).

The public private partnership (PPP) – a specific form of social and political public-sector control and task fulfillment – is justified in this context by the general framework and the specific (conducive) political conditions, and is one of the main aspects in the international discussion of administrative reform (cf. Budaus et al. 1996, p. 3).

Then again, the idea behind PPPs is by no means new. In fact PPPs have developed over a period of about 70 years, originating with probably the best known example of initial local cooperation in Pittsburgh in the 1940s (cf. Budaus et al. 1997, p. 19). The PPP was therefore actually first applied to urban renewal.

Although cooperation between the public sector (determination of the aims and fields of activity) and private developers (carrying out schemes) has certainly already been tried out and practiced in connection with urban development schemes, the role of private players has tended to be limited regarding integrated urban development planning and activities in Germany. This can mainly be attributed to the fact that until recently urban development was regarded as the exclusive responsibility of the public sector, the public administration assuming the role of sole planner wielding the classical instruments of development planning and little else (cf. Jakubowski and Herz 2005, p. 1).

Recently, however, the growing demands placed on local authorities coupled with dwindling control capacities and wherewithal have resulted in more attention being paid to encouraging private partners to take part in the initiation and running of long-term projects, increasing the importance of cooperative forms of action at all levels of urban development. Nevertheless, PPPs have by no means become as established in this field as in other areas in Germany such as transport and construction (cf. BMVBS/BBR Hg. Jan 2008, p. 13). This is doubtless because the basic idea behind PPPs goes beyond the usual necessary basic agreements between public (financial outlay etc) and private investors, the choice of private contractors and the transfer of public tasks to private developers in urban development (cf. Kahnert 1992, p. 20).

One important starting point is the greater participation of investors alongside traditional public financial backers. Whereas private investors are already frequently involved in financing public construction and transport infrastructure projects, this is not the case in urban development – mainly due to the lack of financial returns to be expected from large projects. Initial approaches encouraging the investment of private capital in urban development are, however, now taking place – for example the involvement of local retailers in the management of shopping streets.

Due to the limited experience of PPPs in German urban development, it would make sense to address areas where PPPs have undergone a longer period of

development and reliable findings have been produced. Therefore, the role of PPPs in public construction in Germany is briefly examined below.

### 5.2.1 Structures and Models of PPPs in Public Construction and Their Adaptation to Urban Development

As far as the development and use of PPPs are concerned, Germany is something of a late developer. To catch up, over the past decade numerous attempts have been made to create the necessary legal and structural framework. Following PPP initiatives in the German state of North Rhine-Westphalia, in July 2004 the German Ministry of Transport, Construction and Urban Development set up a PPP Government Task Force to promote the standardisation of the PPP process in public construction by clarifying basic issues, shouldering coordination, and initiating and monitoring PPP pilot projects and knowledge management (cf. Littwin 2008, pp. 29–30). Taking a view spanning the entire life cycle, PPPs are regarded as a way of extensively transferring responsibilities such as the planning, construction, financing, operation and exploitation of public buildings from the public to the private sector (cf. Kratzenberg 2004, p. 147). The resulting PPP procurement process comprises the following five phases:

- 1 Needs assessment and identification of measures
- 1 Preparation and conception
- 1 Tender and award
- 1 Implementation and contract management
- 1 Exploitation

During the needs assessment phase, the requirement for action and/or investment prompted or motivated by legal requirements or (local) political demands is gauged by the public project organizer. One essential element is the PPP suitability test, which establishes whether a PPP will in principle be more efficient than conventional procurement.

Once the legal aspects concerning public procurement in relation to the project have been clarified and the frequently functional award documents and PPP contracts have been drawn up, the contract is usually awarded following negotiation. Conclusive proof of the feasibility of the PPP project based on budgetary law serves as a basis for the award and signing of the contract (cf. e.g., Alfen 2005, pp. 29–30).

Another way of structuring the PPP process is to adopt a three-phase model, with phase 1 comprising the conception, tender and contract award, phase 2 project realization (planning and construction), and phase 3 beginning with start-up. A modified PPP process meeting the requirements of urban development is described in more detail later in the chapter.

The brief outline of the PPP procurement process in public-sector construction shows clearly that in this field, cooperation between the public and private sectors is

reflected more in a client–contractor relationship than continuous cooperation. Unlike urban development projects, in public construction the project process is relatively transparent and can thus be properly planned. Urban development projects are as a rule determined by an informal preliminary phase and a formal phase, both increasingly requiring moderation processes which in turn are difficult to generalize and hence to institutionalize. Furthermore, the constellation of players is different since the private partner is not necessarily responding to the needs of the public sector (private sector building for the public sector); in fact the exact opposite may arise in urban development projects.

A similar situation applies to the contractual structure of a PPP model, which is mainly determined by the client (i.e., the public sector). Depending on the current and needs-based initial situation of the public client, PPP contract models can be divided into the following types:

- 1 PPP purchaser model
- 1 PPP FM leasing model
- 1 PPP letting model
- 1 PPP owner model
- 1 PPP contracting model
- 1 PPP concession model
- 1 PPP company model

The PPP purchaser model is a suitable option if the public client definitely plans to acquire ownership of the building no later than the completion of the operating phase. If the public client wishes to rent the building only during the operating phase and merely wants to secure the possibility of acquisition through a purchase option (because the subsequent usability of the buildings, fixtures and fittings by the client or a third party is uncertain), the PPP FM leasing model or the PPP letting model can be used. If the main emphasis is on the refurbishment or (partial) construction of buildings or facilities owned by the public client, the PPP owner model or the PPP contracting model should be applied. If construction or operations are likely to be refinanced by fees paid by future (third-party) users of the building, the PPP concession model is the one to choose. If the public client requires close involvement in the decisions taken by the private contractor and therefore joined a project company for the construction and operation of the building, the PPP company model is required (cf. Alfen and Fischer 2005, p. 29).

The main types used at the national and regional level in Germany are the PPP letting and PPP owner models. Among local authorities, apart from these two types, the PPP contracting model is frequently used. The PPP company model (i.e., the establishment of a public–private company) is barely used at present at either the national, regional or local level (cf. Grabow 2005, pp. 26, 29, 46–49).

The above classification of PPP models largely based on legal differences is symbolic of the difficulty of structuring the variety of form of PPPs; it all depends on the specific problem at hand, the tasks and fields of cooperation, the legal framework, and the initiating and active players. The same can be said of the

modification and transfer of PPP findings from public construction to urban development. In this respect, it would very probably make more sense to differentiate between PPPs by the type of cooperative activities and the intensity of cooperation. This could best be done in a preliminary stage in order to generate a spirit of cooperation and/or a climate of partnership as well as to institutionalize the initial committees (conference, working parties and cooperation rounds). Other structuring characteristics could include the cooperative drafting of models, goals, plans, and strategies as well as liaison regarding coordinated programs to be jointly performed (and possibly also jointly financed). Ultimately, a PPP can also be structured in urban development via the binding coordination of measures and individual projects as well as cooperation in project implementation to new, cooperatively borne institutions for the independent realization of joint projects (cf. Kestermann 1992, p. 15). The ideal case is doubtless to endeavor to create a horizontal and vertical network of cooperation among projects and institutions (cf. Girmscheid, 2004, p. 127).

PPPs can in theory be applied to a wide variety of fields (economic development, urban development, improving the urban quality of life, promoting training and qualifications, social responsibilities, etc). Due to the complex problem situations, integrated strategic approaches are frequently applied – including in the realm of urban development. As far as urban development is concerned, many (informal and formal) forms of cooperation are conceivable and are practiced. However, at institutional levels, the PPP company model appears especially relevant. It should be observed that such cooperation needs to combine the policy dimension (aims, main ideas, measures and the provision of resources) with the operational dimension (pursuit and realization of the agreed aims) such that the mutual advantages can be achieved for all the players involved (cf. Kestermann 1992, p. 17).

Then again, empirical findings also indicate that the profitability and operational efficiency of public–private companies is about the same as that of public corporations, meaning that this form of PPP will not necessarily result in improvement. Interpreted in economic terms, this can be attributed to the particularly serious conflict of aims in private–public companies and the resulting higher operational inefficiency – although this is not to say that eliminating this potential conflict is impossible (cf. Mehlenkamp 2006, p. 39).

Thanks to the autonomy enshrined in Article 295 of the EC Treaty, local authorities and councils are free to decide the manner in which they wish to deliver their services, including the structures they wish to use. Consequently, the interest of private-sector players in carrying out investment can be aroused or encouraged by creating a corresponding (urban development) framework or launching publicly initiated projects (cf. Kahnert 1992, p. 23). Experience from the Anglo-American countries in particular demonstrates that in order to attract private investors, three conditions are required: the assumption of risk by the public sector, the guarantee of rapid implementation, and the guarantee of other public investments in the district concerned.

## 5.2.2 Idealized Project Sequence

Deliberations concerning the ways in which the two pilot projects could be continued were preceded by considerations regarding the idealized course of a PPP project in the field of urban development. A PPP Urban Development Guideline was compiled in order to make the “soft” project developments in the case of the pilot projects less context-dependent and to give them a generalized basis. This approach was taken because currently small-scale urban development projects are structured even in the first phases in a manner which closely reflects the location in question and are not examined in advance on an abstract level.

### 5.2.2.1 PPP Urban Development Guideline

The Institute of Urban Development and Construction Management’s PPP Urban Development Guideline was based on the structure of the core processes of classical project development containing (cf. Gondring 2004, p. 270) the following phases (which may overlap):

1. Forging the project idea
2. Location and market analysis
3. Utilization concept
4. Economic feasibility study
5. Building regulations study
6. Financial examination
7. Implementation
8. Marketing

Furthermore, the construction Guideline drawn up by the Federal Minister of Transport, Building and Urban Affairs (BMVBS) Task Force was consulted when developing this idealized project sequence (cf. BMVBS 2007, p. 5) (Fig. 5.2).

One useful idea contained in the PPP procurement process phases was that of a PPP suitability test before starting an extensive feasibility study, to see whether a particular project is suitable for organization as a public–private partnership and can hence be recommended to proceed.

The PPP Urban Development Guideline recommends the following development phases:

1. Identifying needs and measures
2. Conceptual phase
3. Preparation
4. Implementation

The crucial point in the structure is the PPP suitability test, because whether the project is to go ahead depends on the results. As described above, the test should be carried out early on in order to minimize or justify the spending of public resources.

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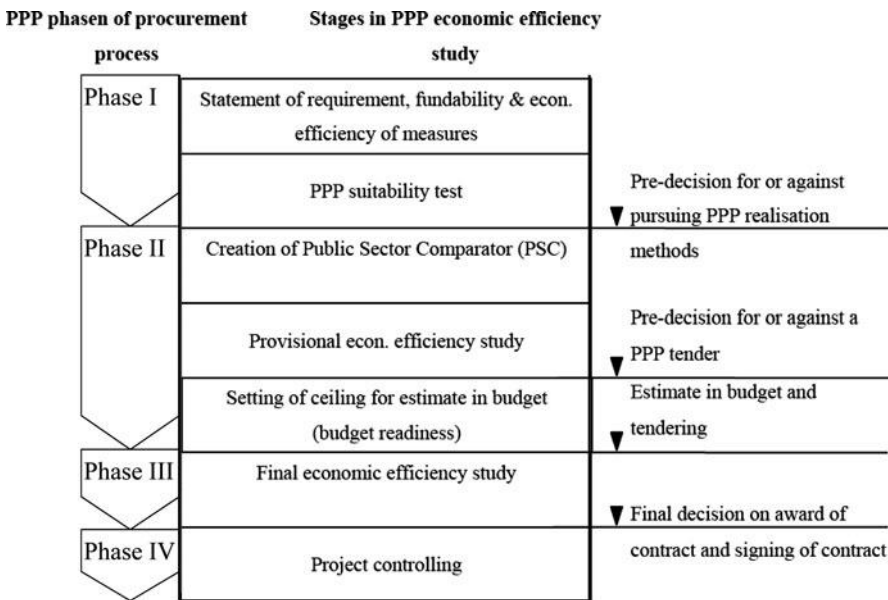


Fig. 5.2 PPP procurement process phases by BMVBS’s PPP Task Force (source: BMVBS 2007, p. 5)

The exact conception of the PPP suitability test is an item of research that has still to be carried out. An initial outline of the PPP suitability test is presented in Sect. 5.2.2.2.

Determining the sustainability of public investments was integrated as a new module of the feasibility study phase. This is commonly used in practice as a controlling instrument after the completion of a project and/or as an argumentation instrument when applying for funding to be continued. In the PPP Urban Development Guidelines, the determination of the sustainability of public investment is defined as a condition for further project development.

Considering the project’s sustainability ought also to help establish whether the project aims and the expenditure required in order to reach them are in proportion with each other. Intervention will be required if the positive impact of the project has been overestimated and the push effects desired for the quarter are not anticipated.

Regarding the players (who could also carry out development phases or parts thereof), it can be forecast that in the phase of identifying needs and measures, bottom-up processes will increasingly be encouraged. These processes should support the generation of a project idea. The aim would be for the local players concerned to identify with the project idea and to comment on it from their own specific angle. Both aspects provide the basis for activating these players to implement this idea during further development. In addition, local players’ stance on the project represents one of the most influential criteria deciding whether urban development projects can be carried out.

To ensure a project structure that has been devised can be sustainable, bottom-up strategies should be interwoven into the entire course of the project. As noted above,

the success of development hinges on the attitude of local players. However, the participation model described must also be examined in terms of conflicts of interest among local players. Conflicting aims may for example occur if an actor involved in participation will later be available as a potential implementing party. The bottom-up process must not be allowed to create a competitive advantage for those involved which could infiltrate the subsequent tendering phase. In order to prevent this, the local authority reserves the right to take top-down decisions (e.g., by holding competitions whose outcome is not controlled without the local authority) (Fig. 5.3).

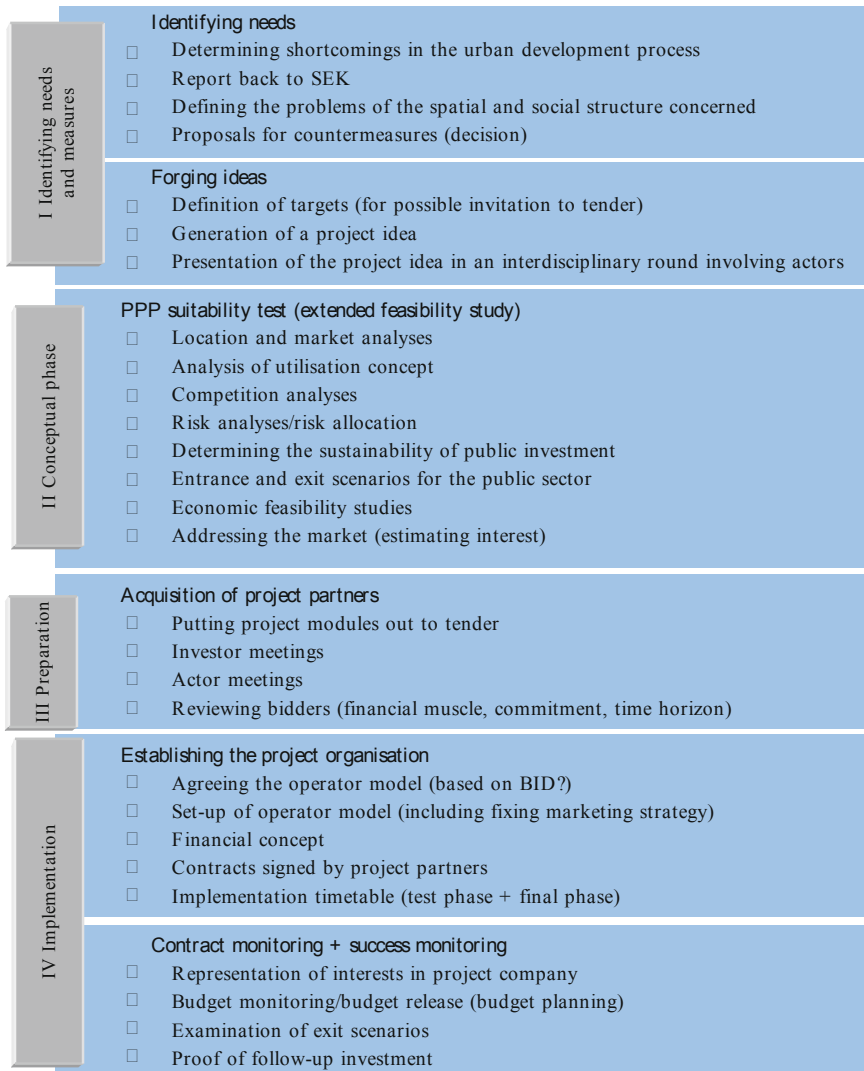


Fig. 5.3 PPP urban development guidelines (Institute of Urban Development and Construction Management) (source: by the authors)

Test Criteria		Advantageous		Disadvantageous	
Financial support from public sector	Public subsidy for investor/project developer	Yes	●		No
	Public subsidy for operator/user	Yes	●	●	No
	Depreciation opportunities	Yes		●	No
	Influence that can be exerted over project development through financial support	Large influence		●	Little influence
Competition	Marketability of the project without financial support from public sector	Yes		●	No
	Marketability of the project following ces-sation of financial support from public sector	Yes		●	No
Risk	Share of investment by City of Leipzig (subsidy, own contribution)	Low	●		High
	Commitment to project by public sector	Mid-term		●	Long-term

Fig. 5.4 Example polarity profile for PPP suitability (source: by the authors)

### 5.2.2.2 Example of a PPP Suitability Test

An initial impression of a project’s PPP suitability is provided by the polarity profile, in which advantageous and disadvantageous criteria for the development of a PPP are compared. The diagram addresses the following areas:

- Control possibilities for the project through subsidies and grants
- The marketability of the project
- Risk

The test criteria in which the three areas are divided are accompanied by states which are regarded as advantageous or disadvantageous for a PPP urban development project. In the case of the example in Fig. 5.4, the negative characteristics clearly predominate, meaning continuation of the project would have to be sharply queried.

## 5.3 The Leipzig Pilot Projects

To prepare the detailed explanation of the pilot projects in Leipzig, first of all the macrolocation (the city of Leipzig) and then the microlocation (the quarter in which the projects are based) are described. Reference is also made to the historical phase of socialism in eastern Germany, which played a key role in the evolution of Leipzig’s structure and is the reason for the process of restructuring currently

Test Criteria		Advantageous		Disadvantageous	
Financial support from public sector	Public subsidy for investor/project developer	Yes	●		No
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Risk	Share of investment by City of Leipzig (subsidy, own contribution)	Low	●		High
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- The marketability of the project
- Risk

The test criteria in which the three areas are divided are accompanied by states which are regarded as advantageous or disadvantageous for a PPP urban development project. In the case of the example in Fig. 5.4, the negative characteristics clearly predominate, meaning continuation of the project would have to be sharply queried.

## 5.3 The Leipzig Pilot Projects

To prepare the detailed explanation of the pilot projects in Leipzig, first of all the macrolocation (the city of Leipzig) and then the microlocation (the quarter in which the projects are based) are described. Reference is also made to the historical phase of socialism in eastern Germany, which played a key role in the evolution of Leipzig’s structure and is the reason for the process of restructuring currently

underway. Knowledge of these three levels is essential in order to understand the factors prompting development and the content of the pilot project.

### 5.3.1 Leipzig: The Macrolocation of the Pilot Projects

Leipzig has a more than 506,000 inhabitants. With the population continuously dwindling after World War II and declining especially dramatically in the 1990s, Leipzig is now one of the few cities in eastern Germany where the number of inhabitants is actually rising again and which can look forward to stable population growth (cf. Statistical office of Free State of Saxony 2007) (Fig. 5.5).

Following the upheaval caused by German reunification, deindustrialization and the processes of globalization, Leipzig has managed to consolidate and build up its economy. In its efforts to engage in regional and even broader networking, Leipzig has joined forces with the large Saxon conurbations of Dresden and Chemnitz/Zwickau to form the European metropolitan region known as Sachsendreieck (“Saxon Triangle”) and also has close ties to the neighboring city of Halle. Both these factors have helped make the regional economy one of the strongest in eastern Germany (cf. Seidel 1998). Leipzig concentrates in particular on five economic clusters: healthcare, biotechnology and the life sciences;

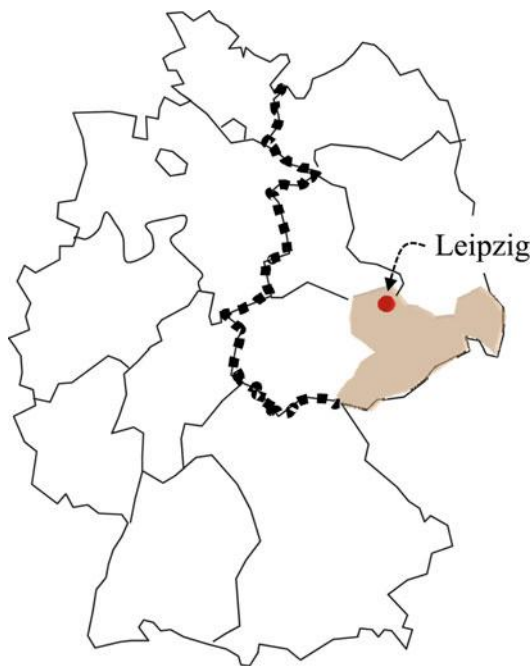


Fig. 5.5 Position of Leipzig in Germany; the dotted line show the border of East Germany before the October 1990 (source: by the authors)

automotive construction and components; the media and telecoms; energy and the environment; and business services and enabling technologies (including logistics).

### 5.3.2 The Process of Restructuring in Leipzig

The current processes of urban renewal throughout Leipzig correspond to the restructuring of urban structures. The term “restructuring” is derived from the model put forward by the CoUrbIT, Bocconi University in Milan, (Dalla Longa 2007, 2009, 2010) in which urban development measures (open interventions) are defined and categorized in terms of their social, economic and physical dimensions (Fig. 5.6).

Restructuring measures prove necessary when the physical urban structure is no longer able to meet its inhabitants’ requirements. The reasons for these changes are not necessarily inadequate urban functions but usually serious social, economic and political upheaval. Restructuring processes are therefore mainly encountered in Eastern European cities following the break-up of the previous communist structures like the transition of the market economy in place of the planned economy the housing market was highly influenced by.

The poor physical urban structure (poor regarding for example its degree of refurbishment and the standard of housing and commercial space) leads to the

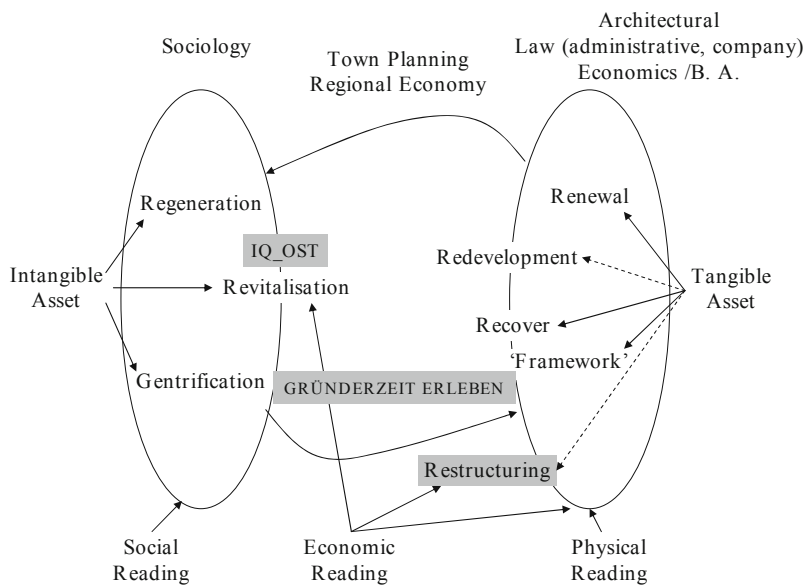


Fig. 5.6 Position of Leipzig within the urban intervention models (Dalla Longa, 2010 and in this book Chap. 2, source: by the authors)

migration of the population to other districts containing residential areas with a more acceptable standard owing to recent developments. However, since these housing areas are frequently located outside the core city, this triggers suburbanization processes. The vacant inner-city areas will then need to be further developed as part of restructuring schemes and raised to current standards in order to be able to hold their own on the market. Generally speaking, a combination of social, economic and physical interventions aimed at the complete revision (usually in the form of modernization) of the city or certain urban districts is required. Apart from the improvement of the existing building stock, the urban areas are redefined in terms of their microeconomic and social functions. Given the huge amount of capital needed for such measures, the combination of private and public capital or other forms of cooperation are frequently required.

Restructuring measures can include elements of redevelopment (i.e., the adaptation of functions and the use of the physical building stock) and recovery (adaptation of buildings in the form of refurbishment and modernization) as well as regeneration and revitalization, as will be seen using the example of the pilot projects in Leipzig.

The need for restructuring measures in Leipzig triggered the social and economic changes precipitating the above-mentioned system upheaval. The lack of housing in East Germany meant that there was high demand to rent dwellings well below the usual standards (i.e., with no indoor WC or bathroom). In particular, the maintenance and modernization of inner-city “Gründerzeit” (fin-de-siècle) housing had largely been neglected and was in a miserable condition by the time of German reunification.

In Leipzig, transformation took the form of both the departure of large sections of the population and new housing estates on the outskirts and in the surroundings. These new residential areas were more attractive than the existing inner-city dwellings because they were of a much higher standard and because ownership was much more straightforward. Vacancies rocketed in the areas of unrefurbished inner-city Gründerzeit housing, parts of which had already been uninhabitable in the East German era (at the time of reunification, about 103,000 homes were in need of refurbishment while some 25,000 were vacant and uninhabitable).

Extensive refurbishment and modernization schemes were essential in order to reduce vacancies and improve districts. Investment by mainly private owners and developers was supported by means of subsidies and special tax breaks etc. The improvement of the housing environment as well as roads and footpaths, etc. was initiated by the public sector.

The process of restructuring in Leipzig is not yet complete. Whereas some areas (e.g., the Waldstrasse district) have now been almost completely refurbished and have high occupancy rates, in other areas (e.g., Leipziger Osten/east Leipzig), the lower quality of Gründerzeit housing has led to problems in both the degree of refurbishment and the high number of vacancies (Table 5.1).

Table 5.1 Position of Leipzig in the urbane intervention models (source: by the authors)

	Restructuring	Leipzig
Focus	Complete revision/reorientation of urban concerns owing to rapid social and economic changes	Renewal of above all vacant Gründerzeit city-center districts owing to low demand following massive construction in the suburbs and outside Leipzig
Absent/obsolete urban functions	Does not necessarily depend on inadequate urban functions	Insufficient standard of housing in inner-city quarters
District character	Entire city or significant areas within a city	Gründerzeit housing distributed throughout the core area
Intervention/measures	E.g., demolition, new construction	Refurbishment and modernization of buildings; some cases of demolition followed by new buildings; improvement of the housing environment; assistance in the form of subsidies, special tax breaks, etc.

### 5.3.3 Informal Planning Instruments and Priorities of Urban Restructuring

Since the mid 1990s, Leipzig has pursued an integrated form of urban development planning which steers processes of urban development in a strategic manner geared towards implementation.

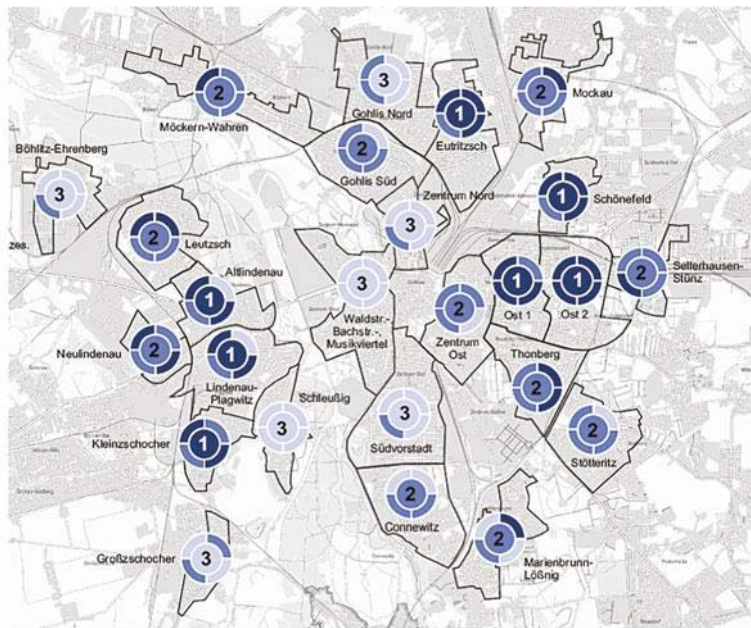
All formal instruments are used to steer growth, urban sprawl and new construction in the city. As Leipzig is fractionally shrinking, informal instruments are gaining importance. The main one is the Housing Construction and Urban Regeneration Development Plan (STEP W+S) (drafted by the Office for Urban Regeneration and Residential Development together with the City Planning Office and approved by the city council in 2000 and 2003). STEP W+S is of direct importance to the work of the municipality but not legally binding on owners or investors (para. 2: abs. int. doc. City of Leipzig/ASW).

In STEP W+S adopted in the year 2000, priorities of future activities throughout the city are listed and prioritized. The districts are then categorized by the development strategy that needs to be applied in each of them (cf. Stadt Leipzig, Stadtentwicklungsplan, p. 82). STEP W+S<sup>0</sup> is intended to bring about unified action on the part of the administration and the focusing of investments, including the consistent coordination of support schemes. In the next step, models and measures precisely geared to the needs of individual districts are defined in the sectoral urban development plans.

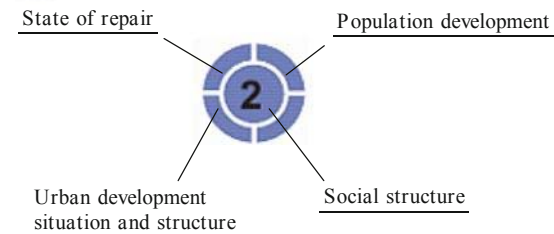
The classification of districts by problem intensity was carried out in accordance with the density and accumulation of restructuring and preservation priorities within a small area as well as the overlap with social problems and potential demolition. Because diverse problems are concentrated in Leipziger Osten (east Leipzig), resulting in a weaker position compared with other districts in the city, its



problem intensity was rated as very high (cf. Stadt Leipzig, Stadtentwicklungsplan, p. 89). Based on the differences, Leipzig can be divided into the following support areas along with the programs to be implemented there. The weighting of problem intensities is shown in Fig. 5.7.



- 1** High problem intensity/serious need for action
- 2** Medium problem intensity (or restricted to individual area)/need for action either medium or restricted to certain individual areas
- 3** Low to moderate problem intensity/relatively low need for action



- High
- Medium
- Low

Fig. 5.7 Weighting (specific method of City of Leipzig) of districts by the need for urban development (STEP W+S/Leipzig) (cf. Stadt Leipzig 2000, p. 82)

### 5.3.4 Leipziger Osten (East Leipzig): Microlocation of the Pilot Projects

#### 5.3.4.1 The Emergence of the Microlocation as the Reason for the Restructuring Process

Leipziger Osten, where the pilot projects GRÜNDERZEIT ERLEBEN and IQ-OST are based, was designated in the year 2000 a support area within the national and regional government program “Stadtteile mit besonderem Entwicklungsbedarf – die Soziale Stadt” (Districts with a Particular Development Need – the Social City). Leipziger Osten primarily comprises the districts of Neustadt-Neuschönefeld and Volksmarsdorf along with parts of Reudnitz and Anger-Crottendorf.

Neustadt-Neuschönefeld and Volksmarsdorf arose in the second half of the nineteenth century in connection with the initial expansion of Leipzig and its rapidly growing population following industrialization. The districts are characterized by the dense multistory perimeter development commonly used for housing at this time. Compared to other housing projects in Leipzig dating back to the same era, the focus here was clearly on functionality rather than prestige. Accordingly, the tenants comprised socially weak groups and railway workers. The dense construction and the intensive use of land also meant that very little space was left for common areas like parks and gardens. Apart from essential institutions such as schools, kindergartens, hospitals and poor houses, hardly any other public buildings were erected in Leipziger Osten (cf. Briel and Kirschner 1999).

The neighborhood is furthermore characterized by gaps in the once dense housing stock and numerous dilapidated buildings requiring demolition. A handful of the resulting infill sites had prefabricated housing built on them before German reunification. One significant part of the area is Eisenbahnstrasse, the central traffic axis, which passes through all the districts in the east. The importance of Eisenbahnstrasse as the main shopping street in Leipziger Osten greatly declined after reunification. At the same time, pollution rose from the growing volume of traffic on this arterial road, and this had a negative impact on housing in the vicinity.

#### 5.3.4.2 Hard Location Factors of the Microlocation

Compared with Leipzig as a whole, Leipziger Osten is beset by far more far-reaching structural problems. The main reason for this is the concentration of socially weak sections of the population – both Germans and immigrants. The proportion of foreigners as well as the level of unemployment and poverty are much higher here than anywhere else in the city (cf. Stadt Leipzig 2006, pp. 5, 59, 62). Then again, all three parameters in the area vary between the districts of Volksmarsdorf and Neustadt-Neuschönefeld (see Fig. 5.8: Statistical survey of Leipziger Osten and Leipzig as a whole).

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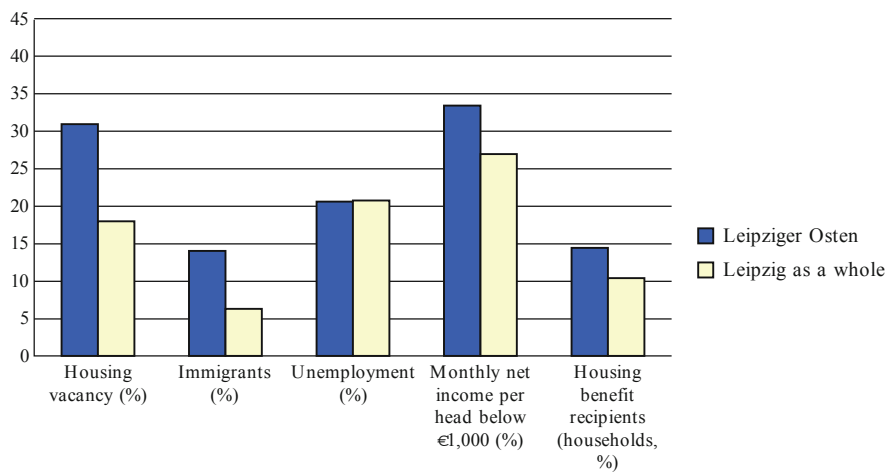


Fig. 5.8 Statistical survey of Leipziger Osten compared with Leipzig as a whole (cf. Stadt Leipzig 2006, pp. 5, 59, 62) (source: by the authors)

Despite the massive development of the infrastructure (such as the improvement and restructuring of Eisenbahnstrasse) and investments in green areas and open spaces, the situation within the district has only been marginally improved. The main publicly financed schemes over the past few years are the extensive improvement of Eisenbahnstrasse and the restructuring of the main traffic axis in the district as well as the conversion of gaps between buildings into green spaces and the thorough redevelopment of Rabet Park. The good public transport service and the existing road network as well as the proximity to the city center are all positive aspects that are beneficial to Leipziger Osten owing to its position (Fig. 5.8).

#### 5.3.4.3 Soft Location Factors of the Microlocation

Owing to its comparatively negative statistics, Leipziger Osten does not enjoy a high reputation among the people of Leipzig. More than anywhere else in Leipzig, it is regarded as a problem district with high crime, a higher concentration of poverty, and unattractive housing. Ever since it was built, it has been afflicted by its image as a socially weak area of workers' housing – which is a severe obstacle to any attempts to enhance the district and only compounds the problem. Additionally, the degree of social intermixing is much lower there than elsewhere in Leipzig. This in turn increases the negative effects of long-term unemployment, poverty, and the district's image – which ultimately is partly shaped by the local residents.

The area's appearance is dominated by simple, narrow housing and merely a very few green spaces. It is only in recent times that public money has been spent on trying to eliminate this deficit, although the resulting mid-term and long-term

impact on the image of Leipziger Osten cannot yet be predicted. But one thing seems certain: merely improving the infrastructure is unlikely to eliminate the problematic situation.

#### 5.3.4.4 Urban Development Instruments (Conceptual District Plan; Integrated Action Plan)

The basic instrument of urban development in Leipziger Osten is the Conceptual District Plan (KSP LeO) for the Leipziger Osten district (cf. Stadt Leipzig 2002, p. 11). This informal plan with a time horizon of about 20 years provides a model for district development and lays down short-, medium- and long-term priorities, partly in order to give investors planning confidence. The Conceptual District Plan was drawn up in 2002 and defines the tenets contained in the Housing Construction and Urban Regeneration Development Plan for Leipzig as a whole with respect to Leipziger Osten.

To complement the Conceptual District Plan for Leipziger Osten, in 2003 the Integrated Action Plan for Leipziger Osten was produced. The Action Plan interlinks the initial measures contained in the model to create an overall strategy using areas of action, includes and develops other measures in the catalog, and defines those in charge of measures and the financial instruments to be used (cf. Kaufmann 2003, p. 4). This integrated approach fronts the task of combining and implementing spatial, economic, social and ecological aspects of urban development into a strategy of district enhancement in a spirit of cooperation with all the players involved (Fig. 5.9).

#### 5.3.4.5 Available Instruments of Support

Leipziger Osten is a priority area of urban regeneration where diverse subsidy programs are used and combined. A study area was declared and incorporated into



Fig. 5.9 Detail from the Conceptual District Plan for Leipziger Osten 2020 (source: cf. Leipzig 2002, pp. 38–39)

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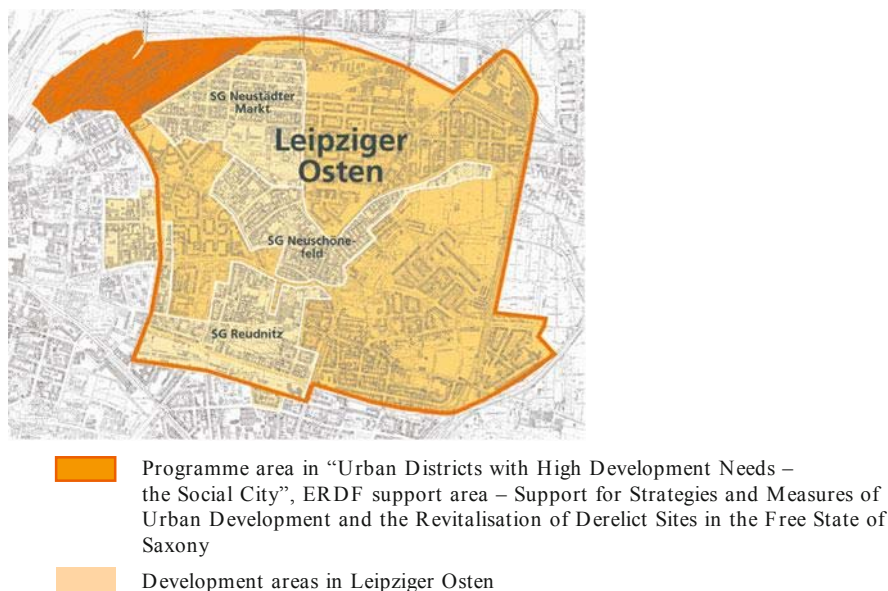


Fig. 5.10 Designated development areas in Leipziger Osten (source: cf. Leipzig 2002, p. 17)

the Social City grant program, which is actually just one of the many financial instruments applied in the area and which could also potentially be used in connection with the pilot projects IQ-OST and GRÜNDERZEIT ERLEBEN.

Below the subsidy programs which would qualify for use in the various instances of project development are listed (Table 5.2).

In 2000–2006, more than €19 m in subsidies were invested in the Leipziger Osten program area. This funding came from various national support programs as well as from the European Commission (ERDF). A wide range of projects was supported such as urban renewal projects, economic and employment projects, social projects and participation projects (Fig. 5.10).

Urban renewal projects	€10.5 m
Economic and employment projects	€7.5 m
Social projects	€1.15 m
Information, participation, management	€0.62 m

## 5.4 Pilot Project: International Quarter (IQ-OST)

### 5.4.1 The Integrated Urban Intervention Model of IQ-OST

The other weak economic basis of Leipziger Osten (east Leipzig) are, in addition at unemployment, the retail sector that is consisting of just small units and with limited ranges of goods. The lower level of education (due for example to language



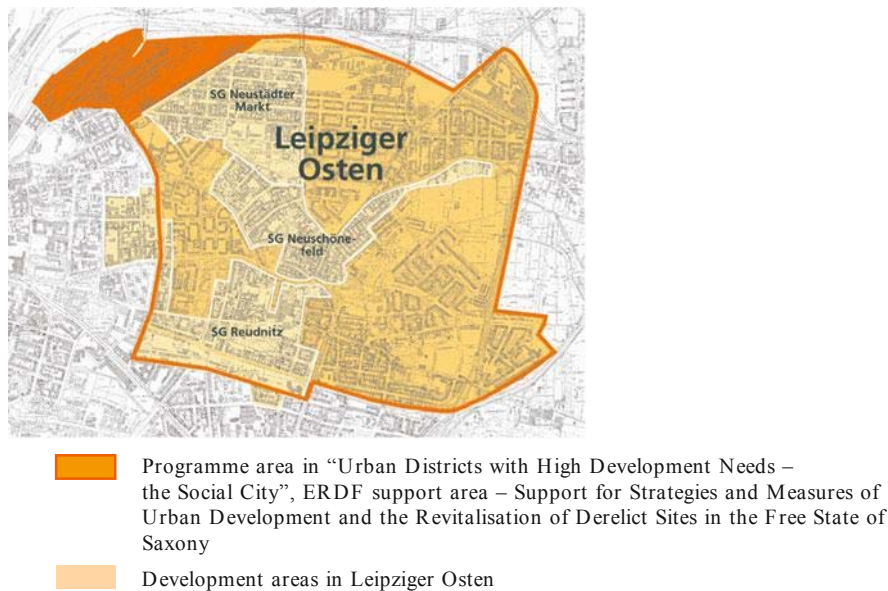


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Table 5.2 Programs available for IQ-Ost and GRÜNDERZEIT ERLEBEN (source: by the authors)

Program	Subject	Program organizer	Source of financing
Social City	Investment projects in the areas of citizen involvement, urban district life, local businesses, labor and employment, district centers, social, cultural and education infrastructure, housing, housing environment and ecology, and local quarter management	(1), (2)	1/3 Federal Government 1/3 Free State of Saxony 1/3 local authority
ERDF (European Regional Development Fund)	Advancement of arrangements concerning the development of regional competitiveness in the areas of education and science, industrial economy, infrastructure as well as environment and ecology, against the background of the ambition to decrease economic, social and socioeconomic as soon as ecological disparities between the European regions	EU	Volume of cofinancing by EFRE: Objective-1-regions: up to 80% Objective-2-regions: up to 60% Other regions: up to 50%
Urban Development Refurbishment and Development Schemes	Urban development and regeneration measures to eliminate urban development shortcomings in a formally defined redevelopment area pursuant to the Construction Code, special urban development legislation	(1), (2)	1/3 Federal Government 1/3 Free State of Saxony 1/3 local authority
Urban Restructuring in Eastern Germany (Engl. tr. of: Stadtbau Ost)	Overall measures on the basis of urban development programs in defined support areas	(1), (2)	
(a) Regeneration measure	Enhancement of urban districts	(1), (2)	1/3 Federal Government 2/3 Free State of Saxony and local authority
(b) Demolition funding	Demolition of vacant housing not required in the long term	(1), (2)	1/3 Federal Government 2/3 Free State of Saxony and local authority

(1) Federal Government

(2) Regional Government

difficulties) also impacts on economic development in the district. In addition, initial segregation tendencies are apparent between German inhabitants and those with a background of migration as well as between sections of the population who are unemployed and those in work. The poor structural condition of many of the mostly narrow buildings also prevents positive development, giving Leipziger Osten a negative image throughout the city.

The idea behind the IQ-OST project, which is dealt with in more detail in Sect. 5.4.2, is to improve both the economic structures and the district's image. The concentration of businesses with an international ownership structure should encourage the involvement of local residents and also make the project unique within Leipzig as a whole. However, improvement will entail the establishment of a different range of goods on sale in retail outlets and changes to the narrow building stock. These measures will have to be supported and reinforced by marketing and communication activities. In terms of these aims and the measures considered, the project IQ-OST coincides with GRÜNDERZEIT ERLEBEN (cf. Sect. 5.5).

We can consider IQ-OST as an microintervention of urban restructuring (Dalla Longa, 2009) with the influence of other different urban models as revitalization and others.

The aims of these measures (urban revitalization) are to establish a dynamic economic structure and to make the quarter as a whole and the project area more attractive. This can be done by interventions in the building stock (refurbishment, modernization) as well as with focused marketing and communication strategies. Revitalization measures are often geared towards cultural or tourism themes (Table 5.3).

Table 5.3 IQ-OST and revitalization (source: by the authors)

	Revitalization	IQ-OST (International quarter)
Focus	Promotion of economic aspects in the quarter	Economic and image aspects
Absent/obsolete urban functions	Economic deficits, e.g., attractive retail, unemployment, low number of business start-ups	Weak economic basis, poor retail structure, high unemployment
District character	Area with low economic dynamism	Initial segregation tendencies owing to the economic problems, the district's negative image, narrow building structure
Intervention/measures	Creating a new attraction and a new urban demand by means of specific selective measures and initiatives, e.g., communication projects, marketing measures, quarter marketing	Promotion of retail by means of the new retail types and different range; integration of local residents; improvement of the district's image throughout Leipzig and at a regional level; establishment of a new tourist attraction

Categorizing the project IQ-OST solely in terms of its economic aims would be too one-sided. In addition to improving the economic basis, the project also focuses on the social problems apparent, particularly segregation. The relatively low levels of education and employment compared with the rest of the city are to be improved by means of for instance integration and education measures as well as the involvement of the local population. In addition, the interventions will help improve the quarter’s image. Consequently, the project can also be classified as a regeneration scheme (Table 5.4).

The following diagram shows the position of the project IQ-OST within the urban intervention models between revitalization and regeneration.

### 5.4.2 Potential Project Partners of the IQ-OST

Both the public and private sector are involved in the project IQ-OST. As they are at some point typical or unique for urban development processes in Leipzig, the potential players are described. Table 5.5 gives an overview of the potential project partners.

Table 5.4 IQ-OST and regeneration (source: by the authors)

	Regeneration	IQ-OST (International Quarter)
Focus	Social aspects	Social problems
Absent/ obsolete urban functions	Difficult social situation: segregation, high proportion of foreigners, high unemployment and crime	Disadvantaged German and foreign population; segregation tendencies; low level of education
District character	Poor areas, out-of-the-way suburbs, frequent agglomeration of different problem areas	Segregation tendencies owing to the economic problems, the district’s negative image, cramped building structure
Intervention/ measures	Immaterial intervention, combination of different policies, involvement of local residents; also for example changes to building structure in order to respond to social circumstances	Integration program, integration of foreign residents into the labor market, improvement of the quarter’s image

Table 5.5 Possible project partners (source: by the authors)

Public sector	Private sector
City of Leipzig	Individual owners
Leipzig Local Authority (ASW)	Project developers
LWB	Investors
District Management	Operators
Quarter Management	Users/Tenants
Investors	
Operators	
Users/Tenants	

#### 5.4.2.1 City of Leipzig

The council is made up of 70 councilors belonging to different political parties and alliances depending on the results of the local elections. The council is chaired by the mayor. Fundamental responsibility for municipal self-administration falls to the council, whose job it is to decide on important issues of weighty political, economic (the distribution of the budget) and social importance (e.g., the drafting, modification, and repeal of zoning plans).

#### 5.4.2.2 Leipzig Local Authority and the ASW

The local authority acts on behalf of Leipzig City Council. It comprises all the departments and their organizational units that administer local affairs. The local authority structure is made up of a series of departments; the ASW belongs to the Department for Urban Development and Construction (Department VI).

Acting on the basis of the urban development plan, the ASW submits proposals to Leipzig City Council regarding the demarcation of support areas and the level of the related financial contribution to be provided by the local authority which is required in connection with EU, national and regional programs in order to receive the funding applied for.

The ASW is in charge of implementing support programs. Funding is used for certain purposes on the basis of integrated action strategies drawn up in cooperation with local players for the individual support areas. One key measure by the ASW in this connection is the implementation of district or quarter management, which is arranged for by the ASW.

#### 5.4.2.3 Leipziger Osten District Management

In line with the aims of the Social City grant program, a system of district management was also set up for the Leipziger Osten area in the year 2000.

The Social City financial support program was launched in 1999 in Germany in order to counter the increasing social and spatial division in towns and cities. The program's aims include for example:

- <sup>1</sup> To stabilize and improve physical housing and living conditions as well as the economic basis in the urban districts concerned
- <sup>1</sup> To boost life opportunities by passing on abilities, skills and knowledge
- <sup>1</sup> To strengthen each area's image, those living and working or otherwise engaged in the area, and identification with the quarter

In Leipzig, the ASW is in overall charge of the implementation of the Social City program. By setting up a district management team, the ASW performed a central measure ensuring good public involvement and the coordination of the various players and local authority departments. In fact the urban district management team

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is regarded as a key instrument of integrated district development as it also functions as the link between the local authority and the local players in the district.

The tasks of the district management team include the steering of the flow of financial support, while on a conceptual level it elaborates and updates areas of activity in connection with district development and assigns responsibilities and support instruments to measures and tasks. Furthermore the district management organizes and moderates the Forum Leipziger Osten, the neighborhood platform. The district management team consists of staff of the ASW along with an appointed urban and environmental planner. The district management team is hence directly integrated into the ASW and immediately subject to its directives. The aim of the district management team is to reduce the disadvantageous distance between the administration and local players, to encourage cooperation and participation, and to set up the necessary related structures.

In the 2000–2006 program period, a total of €620,000 was available for the system of district management which was used to finance all the activities and tasks of the district management team.

#### 5.4.2.4 Quarter Management Volksmarsdorf

In 1999, the City of Leipzig approved the establishment of a quarter management team by the ASW in Volksmarsdorf to activate the district and hence local players which operates on the local scale of the urban quarter and is in charge of the highly operational tasks of the concrete preparation and implementation of projects connected to subsidy programs for Leipziger Osten as well as their networking. Project-related involvement on the part of local residents also takes place under the guidance of the quarter management.

One special aspect in Leipzig is that beneath the level of the district management team, a quarter management (QM) team was also introduced for the areas of Volksmarsdorf und Neuschönefeld. The reasons were the above-average size of the Leipziger Osten program area compared with other program areas in Germany and to ensure more direct communication and involvement on the part of local residents.

The QM team is directly tasked and financed by the district management team. The QM team is organized by a local consulting agency, which deploys one quarter manager for each area and also runs a quarter office/citizens' office. The primary aim of QM is to activate local residents. It is e.g., designed to:

- <sup>1</sup> Make the housing environment more attractive and improve the district's image
- <sup>1</sup> Soothe conflict among residents which could otherwise lead to more social separation
- <sup>1</sup> Support local businesspeople and improve the mix of different businesses

The needs and viewpoints of residents and other players in the area provide the starting point for the content of all activities. Their expectations and ideas must be taken up, systematized, and weighted. Any conflicts emerging need to be



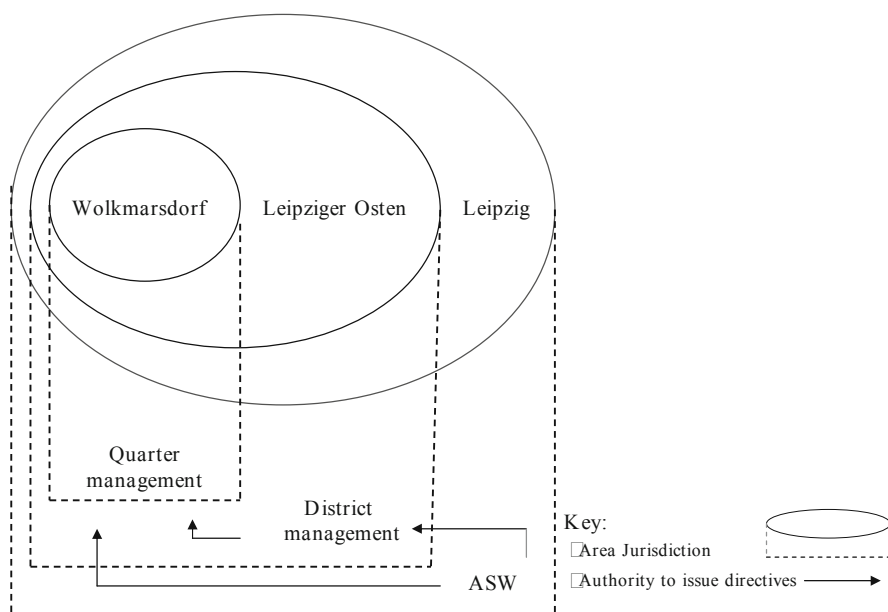


Fig. 5.11 Jurisdiction of the administration as well as the district and quarter management in Leipziger Osten (source: by the authors)

negotiated, with the different interest groups in the area being treated equally. The district and quarter management teams pave the way for the two pilot projects. However, they are not explicitly tasked by the ASW with the concrete implementation of project content (Fig. 5.11).

#### 5.4.2.5 LWB

LWB (Leipziger Wohnungs- und Baugesellschaft mbH) is a municipal housing association whose mission is to provide a broad section of the population of Leipzig with affordable housing. In 2004, LWB was the biggest owner of housing stock in Leipzig with a market share of 20%.

LWB is a municipal owner-owned enterprise and a wholly owned subsidiary of the City of Leipzig. It has no legal personality, constitutes a separate asset, and in organizational and financial terms is disincorporated from the local administration. LWB is not covered by the City of Leipzig’s budget. Although as the owner of LWB, the City of Leipzig acts as the company’s guarantor, LWB still operates as a private-sector company.

The majority of the buildings belonging to IQ-OST (7 out of 12) are owned by LWB, which makes the overall development of the block easier: the homogeneous ownership structure allows quicker liaison, which in turn should accelerate project development for IQ-OST.

Hitherto, the ASW has prepared project development for IQ-OST in cooperation with LWB. However, LWB has not yet received a political commission to implement IQ-OST, something which could only be achieved through a resolution passed by Leipzig City Council. Nevertheless, the ASW backs cooperation with LWB, which in the ASW's view is a more workable basis for project development than a political resolution compelling LWB to carry out project development (l. pa. 1: abs. int. doc. City of Leipzig/ASW).

#### 5.4.2.6 Individual Owners

As mentioned above in connection with LWB, individual property owners are in the minority in Block 99. The owners are known to the ASW, are mostly owner-occupiers, and can therefore be involved in negotiations concerning the restructuring of the block.

#### 5.4.2.7 Project Developer

Another potential partner for the IQ-OST project is the project developer, whose core business is within the value creation chain of the property sector (cf. Schulte and Bone-Winkel 2002, p. 447). Project developer subtypes vary in terms of the characteristics of risk and process involvement as outlined below.

#### 5.4.2.8 Investors

The investor in the developed real estate is its long-term owner. The aims pursued by the investor are similar to those of the investor developer; indeed, the two may be one and the same. As in the case of the investment developer, the investor may of course also be an owner-occupier.

#### 5.4.2.9 Operator

The operator is in charge of marketing and managing IQ-OST in the start-up phase. Block management in which the various areas of responsibility are institutionalized could cover, e.g., the following range of services:

- <sup>1</sup> Marketing management
- <sup>1</sup> Technical management
- <sup>1</sup> Infrastructure management
- <sup>1</sup> Commercial management

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#### 5.4.2.10 Users/Tenants

Depending on how the IQ-OST project is finally carried out, the intention could be one of three options: the creation of ownership among the block's users, solely letting premises, or a combination of the two. Ultimately, the groups of users who are to be addressed as a result depend on the definition of the project idea. In coordinating discussions hosted by the ASW, the following potential users are currently specified:

- 1 Small business: providers of high-quality multicultural services
- 1 Retail: multicultural retailers
- 1 Small business: exhibition areas
- 1 Offices
- 1 Residential

#### 5.4.3 Project Idea

One of the main characteristics of IQ-OST is the fact that the structure of goods and services available has become geared to the relatively high proportion of inhabitants with a background of immigration. This large number of people with a foreign background is unique in Leipzig and harbors potential for strengthening the local economy. The idea behind the project is therefore to concentrate this form of multiethnic diversity within a new international retail and service center in a *Grönderzeit* block, which to a certain degree already exist in the area or could in addition be attracted there from other parts of the city or even the surrounding region.

The City of Leipzig regards IQ-OST as a driving force for the sustainable stabilization of the quarter and by taking part in the project intends to spark economic benefits which will eventually result in the need for public-sector support for the area being greatly reduced. This accounts for the City of Leipzig's interest in entering into partnership with the private sector for the project.

The *Grönderzeit* block (Block 99) planned for the development is to be used for retail, small businesses and services reflecting non-German cultural areas. Given the interest in incorporating residential functions into the building (including for the business proprietors), this was not ruled out as an option before the examination of the project.

The *Grönderzeit* block – the architectural framework for the project – is on the main shopping street (Eisenbahnstrasse) in LEIPZIGER OSTEN. It comprises 12 five-storey buildings containing flats and shops with different owners. They are beset by an alarmingly high rate of vacancies. During the further development of the project, the architectural framework was adapted. It was suspected that the rear of the block on Ludwigstrasse could not be successfully developed because of its less attractiveness to occasional customers. Therefore the project now concentrates on the buildings alongside Eisenbahnstrasse.

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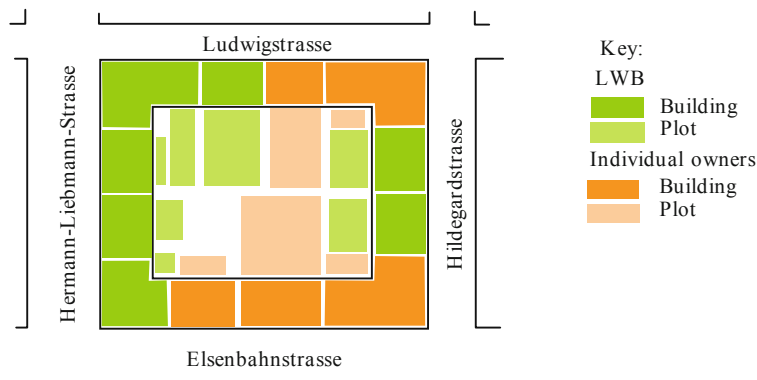


Fig. 5.12 Ownership structure of Block 99 (source: by the authors); view of Block 99 (source: ASW); view of the courtyard of Bloc 99 (source: ASW)

One important tack taken by the project is to develop the inner courtyard into a shared area accessible from the surrounding roads via open passageways. It is intended to hold IQ-OST marketing events in the courtyard and to partly put it to commercial use (e.g., as al fresco areas for restaurants) (Fig. 5.12).

#### 5.4.4 Project Progress

The progress of the IQ-OST project involved several steps based on the idealized PPP Urban Development Guidelines explained elsewhere in expand the chapter title. It should be pointed out that the guidelines were still being developed by the University of Leipzig when the City of Leipzig was already involved in the conceptual and preparatory phase for parts of the pilot project. Consequently, the PPP suitability test contained in the guidelines could not be carried out before the two phases mentioned (possibly resulting in their abandonment).

Therefore the development of the project was as follows: first the needs and measures of Leipziger Osten were identified. This step was followed by conceptual work which included the proposal of a project structure with the establishment of



three different variants, the assessing of the variants and finally the recommendation of the preferred variant.

#### 5.4.4.1 Identifying Needs and Measures

In order to identify the needs of and possible measures for Leipziger Osten, several analyses were carried out which dealt with different aspects (Table 5.6).

The project idea was first addressed in conjunction with players from the borough (e.g., quarter and district management as well as local associations) in June 2006 when a draft program was compiled. The preliminary investigations and the description of this program were condensed in an exposé which contained three variants for project implementation, each comprising a different arrangement of the planned uses – housing, retail, services, small businesses, restaurants and bars – on the individual areas making up the Grönderzeit block.

In connection with the EU project CoUrbIT, in the first step case studies of public–private partnerships in Germany in all sorts of areas not necessarily related to the pilot project in Leipzig were examined in order to recommend three of the examples given by Bocconi University in Milan for further consideration (cf. ISB, 10 case studies). In the second step, the University of Leipzig examined successful PPP case studies throughout Europe which were thematically related to the Leipzig pilot projects. Using a scoreboard system (cf. ISB, Progress Report, p. 2), six of these projects were systematically selected and talks were held with the main players of the case studies. The reports of the discussion partners and the detailed consideration of the various case studies provided important impetus which was incorporated into the project development variants.

Table 5.6 Overview of the conceptual basis for IQ-OST and GRÖNDERZEIT ERLEBEN (source: by the authors)

Activity	Date	Content
Resolution on Housing Construction and Urban Regeneration Development Plan	10/2000	Urban development concept paper for Leipzig
Resolution on Conceptual District Plan for Leipziger Osten	09/2002	Urban development concept paper for Leipziger Osten
Analysis of businesses on Eisenbahnstrasse	07/2003	Survey of Eisenbahnstrasse: Core catchment Potential spending power Shops Retail turnover Turnover forecast
Integrated action plan	2003	Overall strategy using action areas for Leipziger Osten

#### 5.4.4.2 Conceptual Work

To continue the project process in June 2006 the ASW commissioned a study within the EU project CoUrbIT to determine the economic sustainability of the approach with respect to the necessary turnover and the potential spending power in IQ-OST. The study concluded that ethnic retail would in theory be economically sustainable (i.e., sufficient necessary turnover and potential spending commitment) as long as regular joint advertising attracted regular customers and enabled the center to become well-known enough in the catchment area (cf. Bauer, M./ Behling, M, Geschäftsloge Eisenbahnstraße – Wirtschaftliche Tätigkeit, p. 8). The potential analysis described is the first of a number of modules in the feasibility study for IQ-OST.

During the conceptual work for IQ-OST, the University of Leipzig was appointed by the ASW to submit proposals for a number of different suitable project and management structures. These were then examined and evaluated by both institutions and one variant was recommended. This work was carried out in four steps:

1. Development of initial variants
2. Identifying the players
3. Assessing the three variants
4. Recommendation of a preferred variant

Initially, three variants were worked out and possible players were identified. Furthermore, the project developments of the different variants were illustrated by using two different diagram types. One of them visualized possible partners in a project variant and the relationships between them. Possible contractual relationships could for example concern the following aspects: rent, financial support tied to conditions, sale or an authorisation agreement, e.g., for the transfer of courtyard space. Additionally, relationships between the possible partners may also consist of support, e.g., in the form of marketing, area management, consulting or funding acquisition. The diagrams did not reflect tasks and instructions passed on internally without being contractually agreed (Fig. 5.13).

The second type of diagram illustrated the project development variant over time. Therefore the milestones of the respective project development variants were fixed on an abstract timeline starting with the preparatory phase (for the division of phases in the PPP guidelines) (Fig. 5.14).

The third stage of the recommendation process was the assessment of the three variants. The variants were first evaluated on the basis of the cost effectiveness of the planned investments required for the refurbishment, conversion (adaptation) and operation of the property in IQ-OST assuming implementation. The individual variants were then considered in the light of the results and examined in terms of their PPP suitability. To support the decision process, an approximate economic feasibility study was carried out as the economic feasibility of the project is a crucial point for finding investors and owner-occupiers willing to participate.

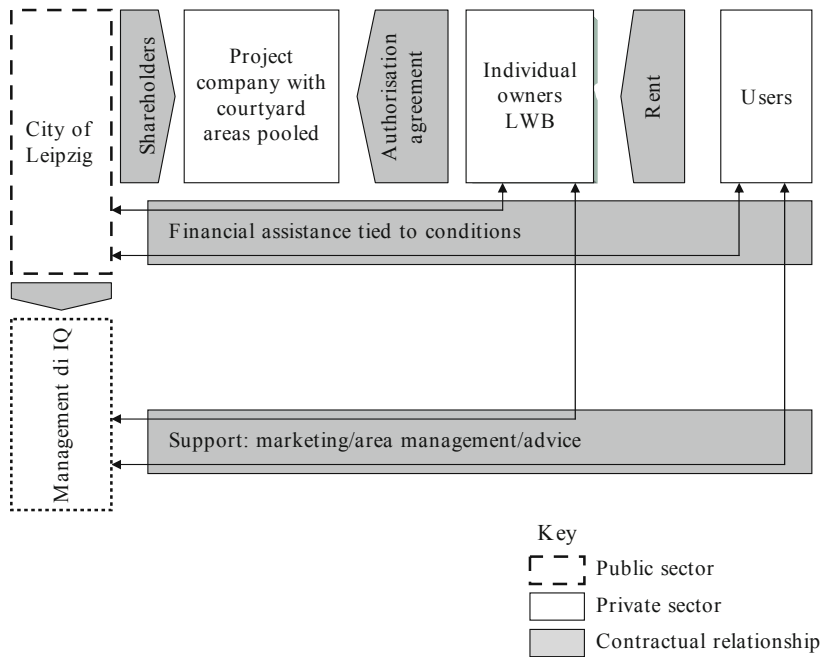


Fig. 5.13 Project partners in Variant 2 (source: by the authors)

Given the poor structural condition and high vacancy rates of most of the buildings in IQ-OST, refurbishment would first of all be needed so that the buildings could be let on the market.

In the economic feasibility study, the building work required and the rent that could then be earned were compared by using the example of a building on Hildegardstrasse. The distribution of space (living space, small business and retail space) within the building reflected one variant in the exposé. A period of 20 years was considered. (Market wisdom dictates that an investment must pay for itself within this period at the latest if it is to be undertaken by an investor.) A dynamic income and expenditure study was carried out based on the income and expenditure occurring at different times and being discountable with respect to the time of the initial investment by applying the principle of discounting. An optimistic letting rate was assumed which was higher than that encountered in the rest of the area but could be justified by the synergy effects of the IQ-OST project, such as the redevelopment of the courtyard and its joint management and utilization.

However, this was offset by the refurbishment costs. In addition to these one-off costs, running costs (including maintenance) – as a percentage of the construction and refurbishment costs – were also taken into account over the whole period considered.

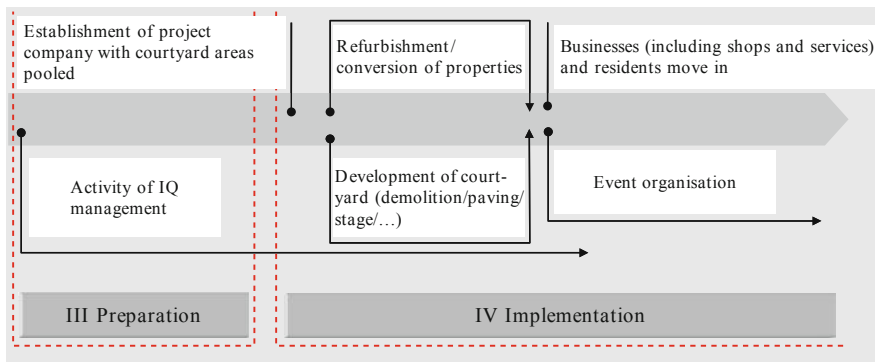


Fig. 5.14 Example of diagram “Time schedule” (source: by the authors)

One further assumption was that the City of Leipzig would be willing to fund the project as both an incentive and in return for a commitment to participate in the scheme for possible investors. Although this would not be enough to enable conventional refurbishment, rejecting the project out of hand as unfeasible would have been overhasty at this stage. Instead, solutions need to be found for each property and each owner so that refurbishment can proceed, e.g., partial refurbishment for the time being and more work being carried out personally by the owners.

As the shared inner courtyard was considered as a key element – at least in the alternative of using a block as an architectural framework for IQ-OST – its development also had to be taken into account. Arranging and making the courtyard usable and then managing it could optionally be shouldered by the City of Leipzig for a fixed time period. A simple redevelopment of the courtyard was assumed.

One-off development costs of around €428,000 were estimated which had to be accompanied by annual expenditure on maintenance and management. Additionally management (for marketing, website, etc.) and organizational costs had to be taken into account as well. The annual total costs hence amount to €32,160. In total, the expenditure to be borne by the City of Leipzig in the support period 2008–2013 totalled €620,760; after 2013, the owners/users of Block 99 would be responsible for the running costs themselves.

After comparing the polarity profiles and the summary of the appraisals, formal courtyard management was chosen as the preferred variant. Securing cooperation on the part of owners and users in the initial phase by means of a formal obligation would be especially important for the sustainability of IQ-OST.

The various development possibilities of a concrete public–private partnership in connection with the project were the second reason for opting for the formal solution for the entire block. This variant would have enabled the City of Leipzig to be visibly involved in the project on behalf of citizens and in the initial phase it would be able to shoulder risks which had been obstacles to private-sector investment by redeveloping the courtyard in advance.

## 5.5 Pilot Project: Grönderzeit Erleben

### 5.5.1 Position of the Project Within the Urban Intervention Models

The project GRÖNDERZEIT ERLBEN is primarily designed to improve the local economic sector. Since the current retail sector is weak owing to the generally inadequate economic basis, new retail structures attracting customers from other areas that also trigger new economic impetus are to be established. This can help create jobs, encourage the establishment of new private enterprise, and ultimately also make the district better known elsewhere. The narrow building structure is explicitly used in order to emphasize the characteristics of Grönderzeit architecture. As shown in detail, the current, rather negative image could hence be considerably improved and a new Leipzig tourist attraction could be established. Furthermore, apart from its external image, the district's inhabitants would also receive an opportunity to identify more closely with their quarter. One important measure in connection with the project would be the initiation of marketing and communication strategies designed to generate external impact.

Owing to the economic characteristics mentioned, the project GRÖNDERZEIT ERLEBEN (like IQ-OST; cf. Sect. 5.4.1) could be classified within the context of urban intervention models of revitalization. (For a more detailed explanation of revitalization, see Sect. 5.4 and others sections) (Table 5.7).

As described above, one aim of GRÖNDERZEIT ERLEBEN is to develop a new tourist destination for Leipzig with appeal over a wide area. This would necessitate improving the building stock on Hedwigstrasse. To create the basis for the establishment of Grönderzeit uses, far-reaching structural alterations are

Table 5.7 GRÖNDERZEIT ERLEBEN and revitalization (source: by the authors)

	Revitalization	GRÖNDERZEIT ERLEBEN
Focus	Promotion of economic aspects in the quarter	Economic and image aspects
Absent/obsolete urban functions	Economic deficits, e.g., attractive retail, unemployment, low number of business start-ups	Weak economic basis, poor retail structure, high unemployment
District character	Area with low economic dynamism	Initial segregation tendencies owing to the economic problems, the district's negative image, narrow building structure
Intervention/measures	Creating a new attraction and a new urban demand by means of specific selective measures and initiatives, e.g., communication projects, marketing measures, quarter marketing	Promotion of retail by means of the new retail types and different range; integration of local residents; improvement of the district's image throughout Leipzig and at a regional level; establishment of a new tourist attraction

## 5.5 Pilot Project: Grönderzeit Erleben

### 5.5.1 Position of the Project Within the Urban Intervention Models

The project GRÖNDERZEIT ERLBEN is primarily designed to improve the local economic sector. Since the current retail sector is weak owing to the generally inadequate economic basis, new retail structures attracting customers from other areas that also trigger new economic impetus are to be established. This can help create jobs, encourage the establishment of new private enterprise, and ultimately also make the district better known elsewhere. The narrow building structure is explicitly used in order to emphasize the characteristics of Grönderzeit architecture. As shown in detail, the current, rather negative image could hence be considerably improved and a new Leipzig tourist attraction could be established. Furthermore, apart from its external image, the district's inhabitants would also receive an opportunity to identify more closely with their quarter. One important measure in connection with the project would be the initiation of marketing and communication strategies designed to generate external impact.

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District character	Area with low economic dynamism	Initial segregation tendencies owing to the economic problems, the district's negative image, narrow building structure
Intervention/measures	Creating a new attraction and a new urban demand by means of specific selective measures and initiatives, e.g., communication projects, marketing measures, quarter marketing	Promotion of retail by means of the new retail types and different range; integration of local residents; improvement of the district's image throughout Leipzig and at a regional level; establishment of a new tourist attraction

Table 5.8 GRÜNDERZEIT ERLEBEN and redevelopment (source: by the authors)

	Redevelopment	GRÜNDERZEIT ERLEBEN
Focus	Building condition	Building structure
Absent/ obsolete urban functions	Buildings in the district in poor condition and without adequate use	High need for refurbishment; flats with outdated standards and layouts; limited supply/shortage of suitable retail and commercial space
District character	Areas molded by industrial production; residential areas with few amenities	Initial segregation tendencies owing to the economic problems, the district's negative image, narrow building structure
Intervention/ measures	Redefining the functions of the area; improvement of the building structure	Refurbishment of buildings; adaptation of layouts; conversion of ground-floor use; combination of different properties

essential. Apart from refurbishing and modernizing the building stock, the housing areas on the ground floor would have to be converted into retail and commercial space. The upper stories would also have to be converted to a different use or have the layout of flats changed. The possibility of combining properties to provide sufficient room to accommodate new commercial operations would have to be considered.

This massive intervention into the building structure can be regarded as redevelopment. Redevelopment makes sense whenever the building structure in a district cannot be used adequately owing to its poor condition or the nonstandard design of the building stock. Redevelopment can also involve the in the form of refurbishment and redefining uses (Table 5.8).

It can be seen from the previous explanations that the project GRÜNDERZEIT ERLEBEN cannot be clearly categorized into the urban intervention models. Instead, the project contains elements of both *revitalization* and *redevelopment*.

### 5.5.2 Project Idea

The pilot project GRÜNDERZEIT ERLEBEN (Experiencing the Gründerzeit) provides for the establishment of demonstration workshops historically related to the Gründerzeit era along Hedwigstrasse, which leads into Eisenbahnstrasse (Fig. 5.15).

The idea is to redevelop Hedwigstrasse as a single unit to reflect the time at which it was created. By acting as a reminder of the Gründerzeit, it is a key element of the project. It is intended to foster the emergence of a collection of museums, arts and crafts, historical trades, the sale of traditional and handmade products, cafés and restaurants, demonstration workshops, and practical courses for the general public, all set in an atmosphere reflecting the Gründerzeit. The demonstration workshops and the modified street would make up an outdoor concept which to a



Fig. 5.15 Aerial view of Hedwigstrasse. In the box stippling IQ-OST

certain extent could be compared with the new shopping center type but which refrains from a purely indoor solution. The thematic density of the project would create a new tourist destination in Leipzig and help to secure the long-term attractiveness of the city for both residents and visitors.

The GRÜNDERZEIT ERLEBEN project idea arose from observing development trends in the area, discussion with local players at the Leipziger Osten Forum and its study groups, as well as working in various workshops (including the Neighborhood Workshop during the EU project Re Urban Mobil). The idea was largely prompted by the combination of the following three background aspects:

1. The Gründerzeit – the era that shaped Leipzig more than any other
2. The tradition of craftsmanship in Leipzig
3. The acute need for action in Leipziger Osten

### 5.5.3 Potential Project Partners of Gründerzeit Erleben

The players assumed for the project development of GRÜNDERZEIT ERLEBEN are of the same type as those considered for IQ-OST (Sect. 5.4). The only deviations concern the specific profile of investors, individual owners, users and tenants. Therefore they are not explained further. Still, one potential project partner should be mentioned. As the Gründerzeit is an era that shaped not only Leipziger Osten but also the city as a whole, it is of overall importance for Leipzig itself. Therefore the development of Gründerzeit-related projects is taking place in several quarters in Leipzig. In order to coordinate and harmonize the different projects and provide a broader basis for the marketing of the Gründerzeit theme, a foundation at the city



level was established in which the different players of the various projects are grouped to promote synergy.

#### 5.5.4 Progress

The two pilot projects IQ-OST and GRÜNDERZEIT ERLEBEN are very close together, being divided by just the width of one block. This means that the measures enhancing IQ-OST as described in Sect 5.4 would also have a positive impact on GRÜNDERZEIT ERLEBEN. To avoid unnecessary repetition when recording the progress so far in the GRÜNDERZEIT ERLEBEN project, only those steps are described which are solely connected to GRÜNDERZEIT ERLEBEN.

Similar to the description of IQ-OST, first of all the project phases for GRÜNDERZEIT ERLEBEN refer to the idealized PPP Urban Development Guidelines explained in Sect. 5.2.2.1. Once again, it should be born in mind that the guidelines were still being worked on by the University of Leipzig when the City of Leipzig was already involved in parts of the conceptual and preparatory phase of the pilot project. This explains why the PPP suitability test featured in the guidelines was not applied before the phases mentioned, which might have led to their abandonment.

##### 5.5.4.1 Identifying Needs and Measures

Similar to IQ-OST the identification of needs and measures of the GRÜNDERZEIT ERLEBEN project was done within various workshops with different experts. Furthermore, the conceptual basis of IQ-OST as illustrated in Federal Government, (2) Regional Government.

That can also be applied to the project GRÜNDERZEIT ERLEBEN. At the beginning of the GRÜNDERZEIT ERLEBEN project, the ASW held a workshop for local experts (February 2006) in which the viability of the project was discussed for the first time among the diverse group of players. The workshop was attended by a wide range of possible players or participants of the project, including representatives of the Museum of City History, Leipzig Chamber of Skilled Crafts and Trades, the local residents' association, Leipzig Chamber of Industry and Commerce, an architects' office, a consulting firm (e.g., for market and sales research), Aufbauwerk Leipzig (an organization with enormous expertise and experience regarding projects cofinanced by the EU) and the ASW. As a result of the meeting, it was agreed to pursue the project idea. Concrete user groups were set up and initial proposals put forward on how to "reenact" the Gründerzeit on Hedwigstrasse.

In a subsequent coordination meeting in April 2006, initial steps were agreed to launch project development. The meeting was attended by several players who had already participated in the first meeting. Some decisions were reached concerning

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for instance the character of the project, its size and its possible target groups. The meeting's results were summarized in a project draft, a marketing outline and a flyer all featuring a uniform corporate design. Later on the projects were presented to potential users and property owners on Hedwigstrasse. The positive reception of the project by both groups corroborated the decision to further develop GRÜNDERZEIT ERLEBEN.

Following this the project was pitched to a broad audience for the first time at the NEUSTÄDTER BREAKFAST.<sup>1</sup> This step was accompanied by the launch of the project's website ([www.gruenderzeit-erleben.de](http://www.gruenderzeit-erleben.de)). Families, associations, societies, local businesses, and other visitors were invited to attend the breakfast to discuss the proposals. The sequel to NEUSTÄDTER BREAKFAST was held in July 2007 under the motto "GRÜNDERZEIT ERLEBEN."

#### 5.5.4.2 Conceptual Work

On the basis of this initial conceptual outline, the ASW commissioned two feasibility studies on the project designed to examine the possibilities of implementing it from different angles. Therefore a feasibility study regarding the local craft potential and an economic feasibility study were drawn up. The first was drawn up by the Chamber of Skilled Crafts and Trades and identified a sufficient number of potential craft businesses in the Leipzig area expressly interested in becoming involved in the GRÜNDERZEIT ERLEBEN project. In addition, the chamber conducted research into existing demonstration workshop projects which could act as a model for Leipzig.

The second feasibility study, which was carried out by a local consulting firm, addressed the economic feasibility of the project and included aspects such as the number of actual customers required annually. According to the results, about 400,000 visitors annually would be necessary to successfully run the project. The study underlined that the number of visitors needed would be a serious challenge, as some of the other popular sights in Leipzig have less visitors. However, it also stated that the number could be achieved assuming certain conditions were met. These included for example the creation of an outstanding tourist attraction in connection with the implementation of GRÜNDERZEIT ERLEBEN or the achievement of the necessary concentration of different craftspeople whose work is a source of fascinating information and entertainment to visitors.

As described for IQ-OST, the proposal for a project structure for GRÜNDERZEIT ERLEBEN recommended a series of four stages (development of initial variant, identification of the players, assessment of the variants and recommendation of one). These included consideration of a project structure in Development

<sup>1</sup>The NEUSTÄDTER BREAKFAST was held outdoors around Heilig-Kreuz-Kirche (Church of the Holy Cross) on Neustädter Markt and Hedwigstrasse.

Phase I of the identification of measures and needs, which were subjected to the PPP suitability test and helped the University of Leipzig recommend a preferred variant.

Similar to IQ-OST, the appraisal of the variants took the form of assessing the economics of refurbishing, converting (adapting) and operating the properties for the GRÜNDERZEIT ERLEBEN project. As in Sect. 5.4, the conclusions were then taken into account in the evaluation of the individual variants, which were then studied in more detail in the PPP suitability test.

The background to the economic feasibility study for the GRÜNDERZEIT ERLEBEN project was similar to that of IQ-OST because the building structure, the degree of refurbishment and the estimated vacancies are comparable.

Refurbishing the buildings was therefore again the first step for implementing the project. Identical initial values were used in the simple (dynamic) developer calculation.

Once again, alternatives to complete refurbishment also needed to be considered. One approach was to initially concentrate on refurbishing the ground floor so that it could be let in connection with the GRÜNDERZEIT ERLEBEN project. This tack would of course greatly reduce the refurbishment costs. Then again, owing to the low rents attainable (as in IQ-OST), even with 100% of the space let out the premises could not be profitably managed within the period considered. On the other hand, the results were more positive this time, meaning that providing financial assistance for the refurbishment of the ground floor zone would make sense.

In another project module, Hedwigstrasse would need to be improved by the City of Leipzig in order to create a uniform framework for GRÜNDERZEIT ERLEBEN.

Of all the variants, a single-phase anchor tenant model emerged as the preferred variant for GRÜNDERZEIT ERLEBEN. The model is based on cooperation between the city of Leipzig and companies active throughout Germany to jointly develop GRÜNDERZEIT ERLEBEN. The greater financial scope would enable the entire Hedwigstrasse to be converted and opened in one step. Key elements of the variant include the establishment of flagship stores of project partners (retailers) set up during the Gründerzeit as anchor tenants as well as the City of Leipzig setting up a management team and being a shareholder in the project company.

The institutionalization of project implementation and the fact that the project risk and project results would be easy to calculate were the advantages of this variant. Since decisive investments would only have to be carried out once a project company had been founded, the model remains flexible and switching to a different variant could be possible.

The preferred variant was subsequently presented to several possible investors in the GRÜNDERZEIT ERLEBEN project. However, a final decision on investment has not yet been reached. Furthermore, another feasibility study was carried out. Several suggestions for changing the proposed project structure and the establishment of a new one were made. The proposals included the establishment of several associations such as for the refurbishment and maintenance of the building stock, for the management of the GRÜNDERZEIT buildings, and a Hedwigstraße

residents' and tenants' association in order to promote their interests. However, proposals on how to finance and organize/steer these associations are still required.

## 5.6 PPP-Relevant Deductions from the Leipzig Pilot Projects

Seen from a German angle, the administration in Leipzig is adopting a new tack by wishing to involve the private sector as a creative, powerful partner in the identification and implementation of urban development tasks. This understanding of the joint adaptation of the city to the changing framework has been realized experimentally in the pilot project in Leipzig. Given the model status of IQ-OST and GRÜNDERZEIT ERLEBEN, it would be a good idea to take stock provisionally of the two projects.

Below, therefore, the findings regarding public–private cooperative urban development from the Leipzig pilot projects are summarized and raised to a more abstract – yet not generalized – level. The process of the pilot projects described above, the players involved in them, and the instruments they used are examined for useful findings.

### 5.6.1 Process and Players

The main challenges of a PPP urban development process are its optimum control and exact timetabling. After all, questions of providing resources, players' obligation, identification with project aims and hence the success of a project all depend on the process durations and responsibilities. With this in mind, below variables are combined that can raise planning certainty in connection with the application of a PPP to an urban development measure by specifying the timeframe and responsibilities. The findings are directly derived from the experience of the pilot projects.

#### 5.6.1.1 Culture of Participation

The structure of a PPP urban development project is greatly influenced by the constellation of players working together within it as partners. The fact that the constellation of players for this type of project is much more complex compared with a PPP construction project was explained in detail in Sect. 5.2. Moreover, in the “stakeholder approach,” even those players who are merely affected can directly or indirectly influence the course of measures. Against this background, it is important to encourage those concerned to play a more active role merely by virtue of the above-mentioned fact that projects are initiated by the city's administration which, to a large extent, are to be borne by the private sector.

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PPP urban development can be divided into the forms of cooperation of informal and formal partnership. Informal partnership predominates in Phases I and II (using the phases specified in the ISB PPP Urban Development Guideline) and boils down to participation. This begs the question of the form, extent and time of such participation, which is broken down into the involvement of bodies both inside and outside the administration.

Reflecting the integrated approach to planning agreed in Leipzig and contained in the corresponding planning documents, as far as internal bodies in the administration are concerned, the various departments relevant to the PPP project should be named and approached. This tack uniting different public bodies and consulting their expertise ought to eliminate any administrative conflicts between different departments stemming from different strategies. Furthermore, it would serve to ring-fence and assess the content of the project. Applied to the GRÜNDERZEIT ERLEBEN pilot project, reference can be made here to the necessity of integrating it into Leipzig's marketing strategy as well as the economic sector and the education sector. The locally based project idea, which in the case of GRÜNDERZEIT ERLEBEN is designed to have an impact over a much wider area, requires the development of a city-wide strategy for the marketing of Leipzig's Granderzeit architecture in order to reach the project's envisaged target group of tourists. However, conceptual and image work on this scale is beyond the scope of the original project framework. This additional dimension became apparent to those involved during the course of the project and provides an opportunity to intensify public-public partnership □ in this case between the urban development and tourism sectors.

The reasons for integrating the private sector early on in the project were explained at length in Sec. 5.2. The acceptance of the private sector as a crucial project partner ought to be apparent from the initiation of the second form of participation outside the administration. The first question that needs to be raised is whether sufficient motivation exists for private players to take part in the PPP project development process. Possible incentive structures (which still need to be systematically examined) include financial compensation, offering binding scope for their own ideas, and discernible information lead from which participants would hope to gain an advantage regarding the acquisition and implementation of sections of the PPP project.

Using inside information is recommended as an incentive. This legitimate information lead could ensure an advantage during the subsequent contract award procedure for those involved in the preparatory phase.

If the project is sufficiently attractive for the private sector, prompting cooperation, this commitment could eventually secure the institutionalization of the participation procedure. The aims of ensuring this continuity in participation are:

- To maintain the transparency of project steps
- To have the project steps reinsured through the private sector
- To build up relationships of trust and loyalty



Judging by the experience of the pilot projects in Leipzig, the final point on this list is particularly important. Apart from the subsequent operators of IQ-OST and GRÜNDERZEIT ERLEBEN, individual owners, and willing investors need to be regularly integrated into the creation of the structural framework for both projects in order to encourage their identification with the projects' content and potential.

The neutral moderation and monitoring of the PPP process provides an important basis for a culture of participation. The monitor should be assigned the role of revealing and negotiating the interests of both project partner types in order to prevent shifts in interest diverging from the project goal. The moderator's tasks should enable the moderator to achieve a position that is independent from both partners. (For example, an urban development/investment fund manager, with consideration of the scope of competence.) With both district and quarter management in Leipziger Osten being appointed directly by Leipzig City Council, this begs the question of whether the authorities specified can live up to the role of neutral moderation.

#### 5.6.1.2 Tightening Project Delimitation in Terms of Content and Area

The shifting project delimitations in terms of content and area during the process are significant for the pilot projects in Leipzig. The reasons are located in their formation phases, which differ considerably from traditional project development.

The global aim of traditional project development is to earn an attractive return while the cause may be an existing project idea or the availability of a property or free capital. Right from the start, this form of project development has a clear market orientation stringently adhered to by the initiating player.

By contrast, urban development schemes have the global aim of contributing to the stabilization or improvement of a city quarter. The poor state of a quarter prompts the local administration to come up with an idea for a project that will counteract the district's undesirable dynamic. In Leipzig's case, as outlined above, the aim was to have the pilot projects developed to a large extent by the private sector.

As stated, the ideas for urban development projects frequently do not arise from the market's demand situation but are instead derived from the existing problems and potentials of the area concerned. Project initiators and developers are usually different bodies. Returns on capital are regarded by the public initiator as a subgoal necessary to achieve the described global aim at the level of the district. It can therefore be concluded that PPP urban development projects started by the public sector can only achieve adequate market proximity step by step in dialog with the private sector. The process implied here is reflected in the fact that when projects responds to the market, their content and spatial catchment area may change sharply. One way of shortening the process would be to involve the private sector at the brainstorming stage. In the PPP Urban Development Guideline (ISB), an

ideas competition is proposed in which the economic feasibility of solutions has to be outlined as a way of involving the private sector early on.

### 5.6.1.3 Local Authority Self-Commitment

By integrating the private sector at the early stage of identifying needs and measures, the administration takes on the responsibility of offering participants a reasonable planning horizon. Players who have been activated can inject important insight and experience into the PPP urban development project – a contribution whose value will fade if the project is substantially delayed. Such uncertainty will prompt players to lose interest and withdraw from the process and must therefore be avoided.

One way of preventing delays is for the administration to enter into more self-commitment within decision corridors agreed beforehand. The findings from commissioned studies into project development such as competition and profitability analyses as elements of a feasibility study should result in a firm decision being taken to continue or abandon the project. This assumes that the studies deliver the information necessary for a decision to be taken – which must be ensured by means of the contractual agreements with those appointed to carry them out.

## 5.6.2 Instruments

The instruments used so far in the Leipzig pilot projects include integrated planning documents and action plans to assess the situation in the quarter (Housing Construction and Urban Regeneration Development Plan, Conceptual District Plan, Integrated Action Plan for Leipziger Osten), elements of feasibility studies to determine how workable the project ideas were, and marketing measures.

In addition, it needs to be underlined that when contracting assessments of this type, possible bias (perhaps due to internal interests) must be ruled out. For example, a conflict of interests will arise in the case of experts who can expect to be considered for follow-up contracts once a project has been given the thumbs-up, as this could influence the outcome of the study.

Another instrument that could be used is risk compensation. The incalculabilities during the course of a PPP urban development project mentioned above create a considerable potential risk, provision for which needs to be made by the private-sector partner in the form of additional capital. An actor may incur costs through keeping capital in reserve and might not invest in a project if this will make it unprofitable. In this case, the public sector must provide a risk buffer if it wants the project to continue. This insight will probably accelerate project implementation or at least counteract its delay since both variants are directly reflected in the level of risk compensation. Accordingly, risk buffering is not just an implementation instrument but also a contract management (controlling) instrument.

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The instruments used so far in the Leipzig pilot projects include integrated planning documents and action plans to assess the situation in the quarter (Housing Construction and Urban Regeneration Development Plan, Conceptual District Plan, Integrated Action Plan for Leipziger Osten), elements of feasibility studies to determine how workable the project ideas were, and marketing measures.

In addition, it needs to be underlined that when contracting assessments of this type, possible bias (perhaps due to internal interests) must be ruled out. For example, a conflict of interests will arise in the case of experts who can expect to be considered for follow-up contracts once a project has been given the thumbs-up, as this could influence the outcome of the study.

Another instrument that could be used is risk compensation. The incalculabilities during the course of a PPP urban development project mentioned above create a considerable potential risk, provision for which needs to be made by the private-sector partner in the form of additional capital. An actor may incur costs through keeping capital in reserve and might not invest in a project if this will make it unprofitable. In this case, the public sector must provide a risk buffer if it wants the project to continue. This insight will probably accelerate project implementation or at least counteract its delay since both variants are directly reflected in the level of risk compensation. Accordingly, risk buffering is not just an implementation instrument but also a contract management (controlling) instrument.

The assumption of risk shares is not limited to conventional financial instruments such as sureties and interest subsidies etc but can also take the form of reliable investment assurances by the local authority. As far as the example of the GRÜNDERZEIT ERLEBEN pilot project is concerned, the improvement of the amenities on Hedwigstrasse would be a possible investment assurance by the local authority.

Whether the risk to be shouldered can still be accepted as a reasonable burden on the local authority needs to be examined using the PPP suitability test. Its function is to identify how attractive the project is to the private sector and the resulting form of risk allocation. This instrument has been integrated as an element of the PPP Urban Development Guideline (ISB) but only used in certain sections, which explains why it needs to be examined in more detail.

## 5.7 Summary and Conclusion

PPPs are regarded in Germany as a modern organizational approach, and not just for the field of urban development – although it should be noted that fashion is also an important determining factor in the institutionalization of a PPP arrangement. The public–private companies preferred above all for urban development projects represent complex, complicated, conflict-ridden, and per se, inefficient organizational arrangements which only appear useful for very specific problem constellations. The question arises as to whether characteristics can be identified in which the gain in effectiveness of such an arrangement can compensate for its loss of efficiency (cf. Kirsch 1997, p. 339). A public–private institution should pursue a business policy geared to the stakeholder approach and build on the pillars of the economy, ecology and social affairs – and not focus more or less exclusively on the return on capital using traditional financial parameters.

Another important development requirement in connection with PPPs in urban development is the subsidization of urban development projects. In European urban development subsidization, however, a large number of methods are used to additionally subsidize selected projects, especially those involving national public funding (e.g., from central government, regional government or the local authority). This principle of subsidization arose because the funding provided was no longer sufficient to subsidize all projects and EU funds cannot be used in all cases since local authorities are often unable to stump up their own contribution. The dwindling funding contrasts with the constant or even rising need for investment in urban development. Another problem is the fact that subsidies are paid only once and not on a regular basis. Any added value arising from successful projects remains in the project and is not used to finance new projects.

One way of boosting the sustainability of urban development subsidization is hence the intensified involvement of investors unrelated to the project concerned alongside traditional public backers. Even if almost unlimited sums of credit capital and private equity are theoretically available to finance urban development

projects, this will not necessarily lead to the simple provision of capital. Thanks to the new EU initiative JESSICA (Joint European Support for Sustainable Investment in City Areas), therefore, the member states are to be given an opportunity to use revolving financial instruments in integrated urban development. This should increasingly prompt a switch towards market-orientated financial instruments in which part of the funding is not granted any more as a subsidy but rather in the form of loans or guarantees in order to ensure the sustainability of investments and in addition to generate capital from private investors and financial institutes by holding out the prospect of healthy returns.

There is hardly any experience of using these instruments in most European countries. In fact in many cases uncertainty reigns regarding the added value and concrete application of these instruments. The main exceptions are the UK and France, where for some time now these instruments have been employed to support urban development investments. It would clearly be logical to link these new financial instruments to the introduction of concrete PPP structures – an area which needs to be closely examined.

### Annex

Case Ia		
	PUBLIC	PRIVATE
PRE-DEVELOPMENT	X	
DEVELOPMENT		X
BUY		X
OPERATE		X
USE		X

Case IIa		
	PUBLIC	PRIVATE
PRE-DEVELOPMENT	X	
DEVELOPMENT		X
BUY		X
OPERATE		X
USE		X

Case IIIa		
	PUBLIC	PRIVATE
PRE-DEVELOPMENT	X	
DEVELOPMENT		X
BUY		X
OPERATE		X
USE		X

Case IVa		
	PUBLIC	PRIVATE
PRE-DEVELOPMENT	X	
DEVELOPMENT		X
BUY		X
OPERATE		X
USE		X

Case Ib		
	PUBLIC	PRIVATE
PRE-DEVELOPMENT	X	
DEVELOPMENT		X
BUY		X
OPERATE	X	
USE		X

Case IIb		
	PUBLIC	PRIVATE
PRE-DEVELOPMENT	X	
DEVELOPMENT		X
BUY		X
OPERATE	X	
USE		X

Case IIIb		
	PUBLIC	PRIVATE
PRE-DEVELOPMENT	X	
DEVELOPMENT	X	
BUY		X
OPERATE	X	
USE		X

Case IVb		
	PUBLIC	PRIVATE
PRE-DEVELOPMENT	X	
DEVELOPMENT		X
BUY		X
OPERATE	X	
USE		X

Case IIIc		
	PUBLIC	PRIVATE
PRE-DEVELOPMENT	X	
DEVELOPMENT	X	
BUY		X
OPERATE		X
USE		X

Fig. 5.A1 Overview of former development variants of International Quarter (IQ) (source: by the authors)

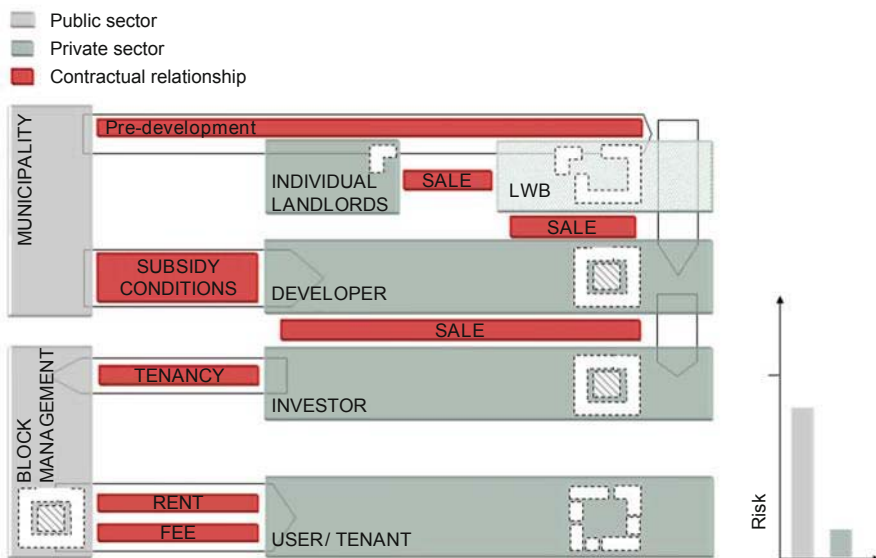


Fig. 5.A2 Former development variant Case Ib of International Quarter (IQ) (source: by the authors)

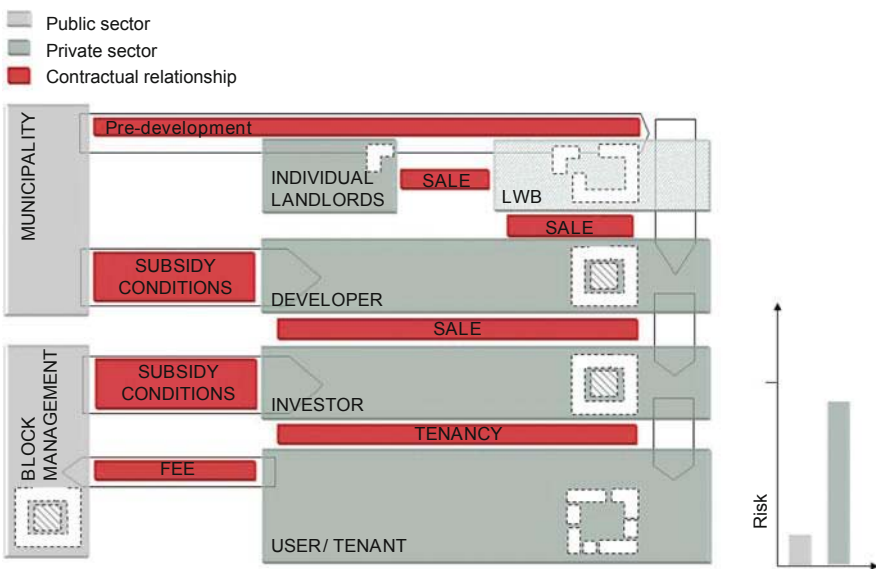


Fig. 5.A3 Former development variant Case Ic of International Quarter (IQ) (source: by the authors)

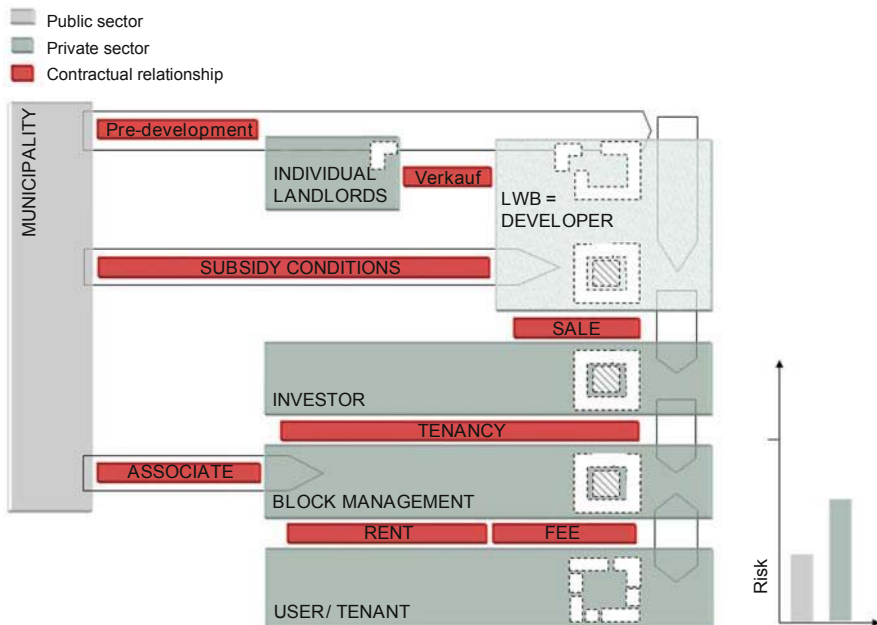


Fig. 5.A4 Former development variant Case IIa of International Quarter (IQ) (source: by the authors)

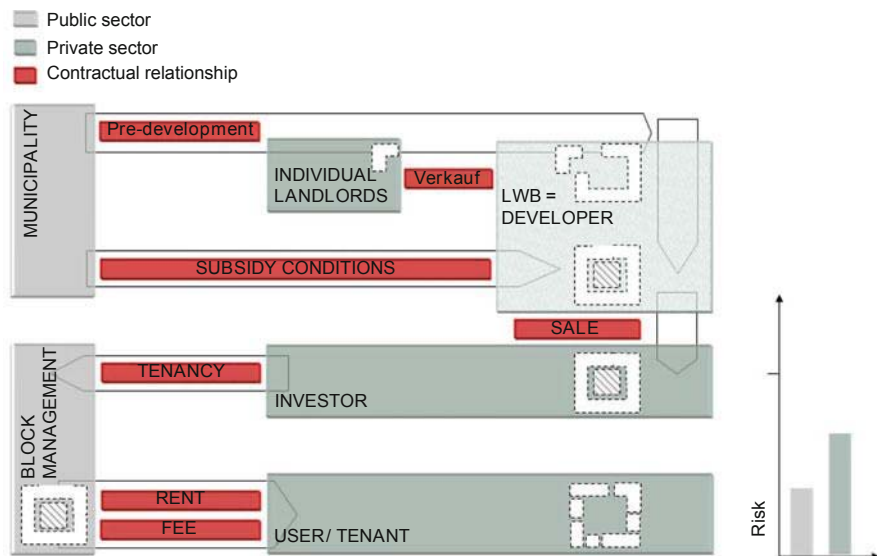


Fig. 5.A5 Former development variant Case IIb of International Quarter (IQ) (source: by the authors)

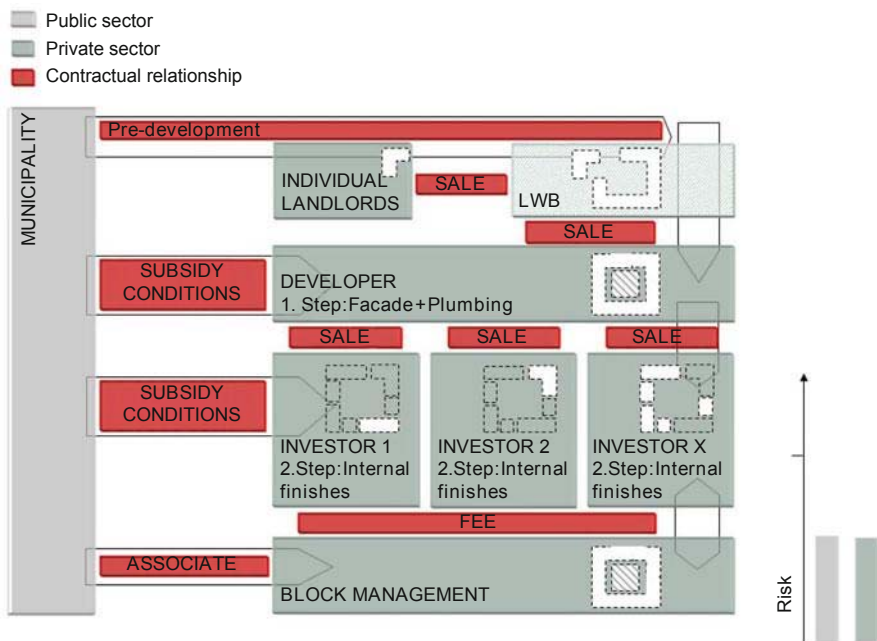


Fig. 5.A6 Former development variant Case IIIa of International Quarter (IQ) (source: by the authors)

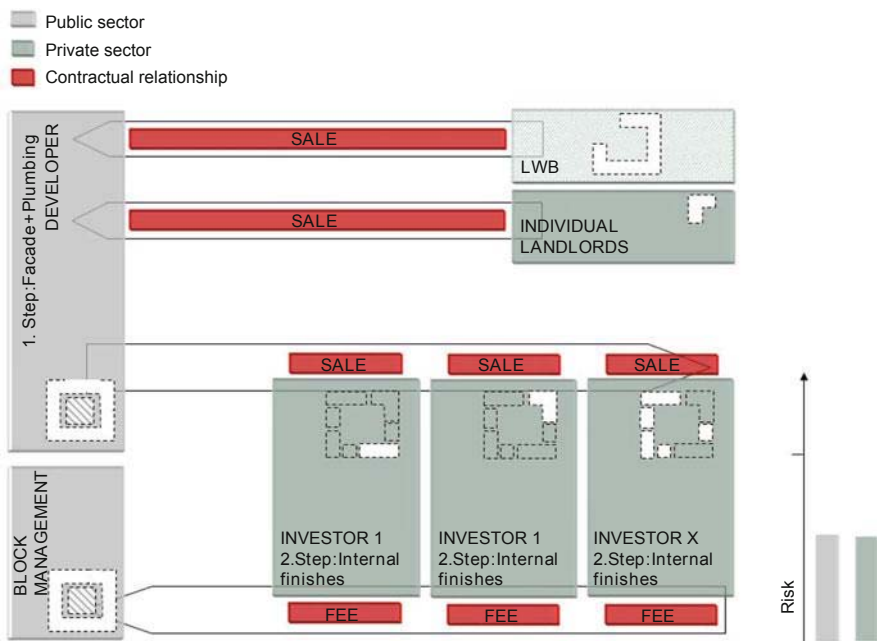


Fig. 5.A7 Former development variant Case IIIb of International Quarter (IQ) (source: by the authors)



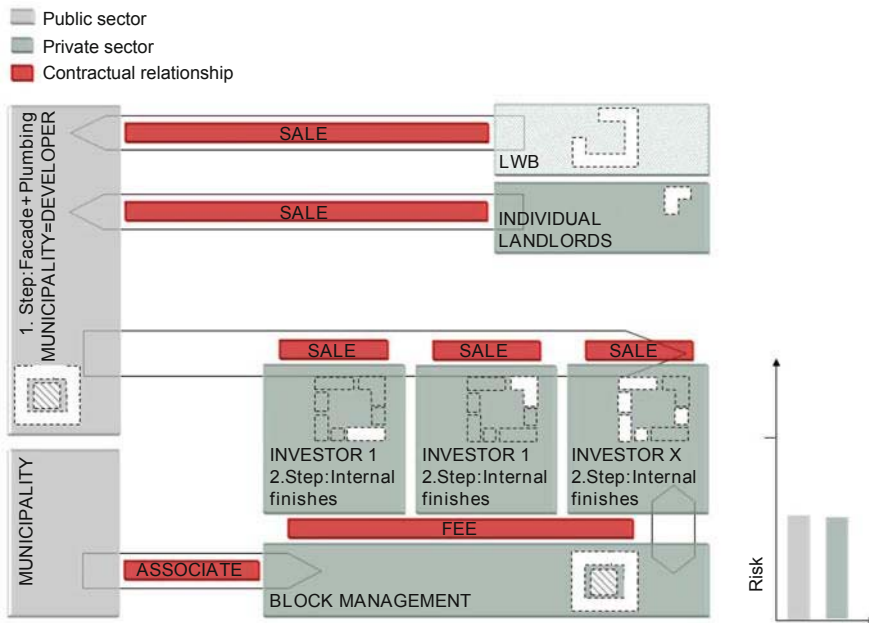


Fig. 5.A8 Former development variant Case IIIc of International Quarter (IQ) (source: by the authors)

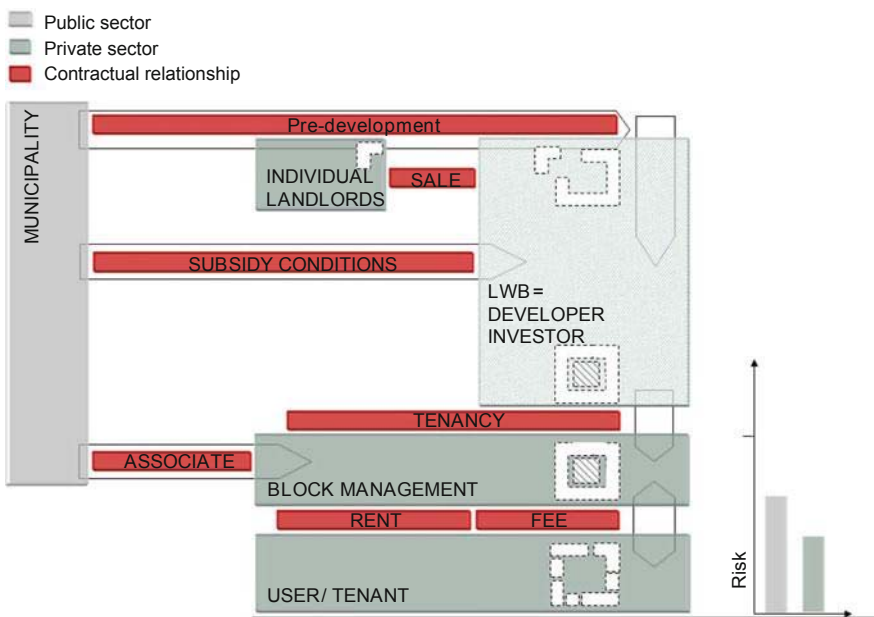


Fig. 5.A9 Former development variant Case VIa of International Quarter (IQ) (source: by the authors)

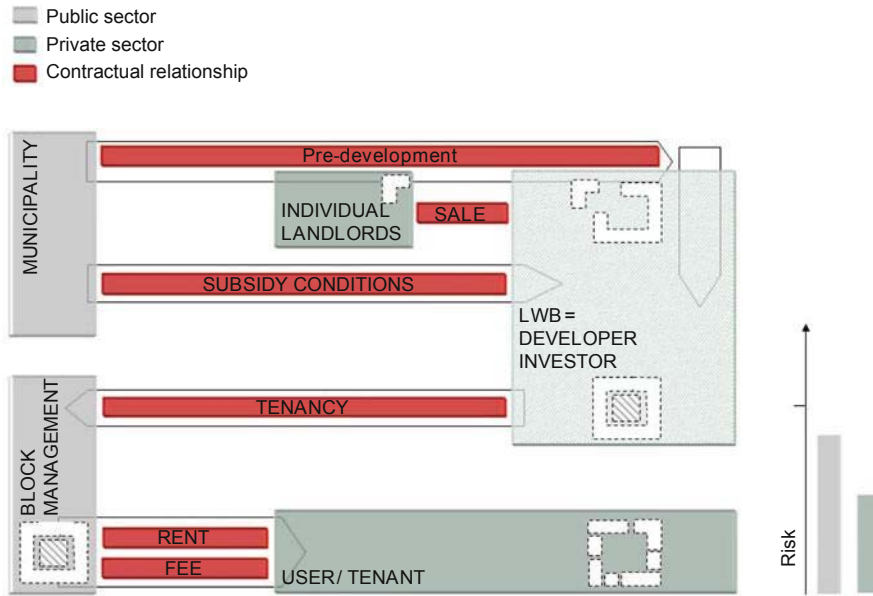


Fig. 5.A10 Former development variant Case VIIb of International Quarter (IQ) (source: by the authors)

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