The Model of *Neighbourhood Improvement Districts* in Hamburg

New strategies for private sector involvement in area development

Stefan Kreutz / HafenCity Universität Hamburg

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Contact

HafenCity Universität Hamburg / Department Stadtplanung
Institut für Städtebau und Quartiersentwicklung
Dipl.-Ing. Stefan Kreutz
Mail stefan.kreutz@hcu-hamburg.de
Phone ++ 49 40 428 78 2245
Fax ++ 49 40 428 78 2472
Web http://www.hcu-hamburg.de
http://www.urban-improvement-districts.de
Abstract
The Free and Hanseatic City of Hamburg, Germany’s second largest city with approx. 1.8 million inhabitants is planning to introduce a new legal instrument for a stronger private sector involvement and investment in area development: Neighbourhood Improvement Districts (NID). The Ministry of Urban Development entrusted the HafenCity University / Department of town planning with a research in fundamental questions about this strategy and international experience of comparable instruments and strategies. The political and public debate about this new instrument will take place in autumn 2007. It is envisaged to pass the requisite legal framework in autumn 2007.

Since 2005 Hamburg already offers a statutory basis for Business Improvement Districts (BID) in commercial areas. Two BIDs are already working under this scheme, some more are in preparation. The City Council is planning to transfer the BID idea, now - e.g. to housing areas or mixed function areas.

In addition to the public sector driven area-development instruments and strategies on the Federal and the Laender-Level (e.g. urban regeneration) NID could offer the opportunity to involve private proprietors in the development of private and public spaces in neighbourhoods. One central characteristic of both the BID and the NID instrument is, that “free riders“ will be included in the process and forced to pay for the envisaged measures.

In BID and NID public and private sector in urban development will have to take new functions as e.g. discussed in the debate about “urban governance”. The future role of the public sector will evolve to a more enabling and controlling function. The private sector will have to be more active and responsible. One important issue in this context will be to guarantee a proper participation of the local community in the process and the legitimacy of the measures.

The discussion about BID and NID is a fairly new issue in Germany. It’s also about a paradigm-change from the strong public sector (Etatism) to a more managing and enabling public sector. A stronger private sector involvement is seen as a risk by many, e.g. because of a feared dominance of economical criteria in urban development and a lack of participation. At the same time BID and NID offer the chance for a new instrument in the “tool-kit” of urban regeneration.

The presentation at “The Vital City“ conference and this paper aim to explain the NID-model in Hamburg, to bring it into line with the wider policy framework in Germany and to reflect on the underlying pros and cons of the strategy to support private initiatives in urban development.

Keywords
Private Initiatives in Urban Development; Business Improvement Districts; Neighbourhood Improvement Districts; Governance; Public Realm
Introduction

This paper reflects on a research project in progress that started at the end of 2006 when the Ministry of Urban Development and the Environment (Behörde für Stadtentwicklung und Umwelt) in Hamburg first discussed the idea of transferring the BID model introduced in 2004 to residential areas. Analogous to the Business Improvement District, the proposed new instrument for private initiatives in urban development was to be called the Housing Improvement District (HID). To avoid misunderstandings in the English speaking debate the author will use the term of Neighbourhood Improvement Districts (NID) instead of HID. This is meant to clarify the focus of the Hamburg model on joint private activities for area-based neighbourhood developments in residential areas and not on Housing improvements in its original sense of physical improvements on single buildings. The term NID is also already established in practice in some US-states (Kreutz/Wickel, 2007) and NIDs were discussed in governmental proposals in the UK (OPDM, 2005).

In early 2007 the Department of Urban Planning at the HafenCity Universität Hamburg (Institute of Urban Design and Neighbourhood Planning / Section project management) got a research assignment from the Ministry of Urban Development and the Environment with three tasks: An advisory study on specific questions regarding the proposed legislative introduction of Neighbourhood Improvement Districts in Hamburg (Kreutz, Krüger, Wickel, 2007), a desktop-research on international references for BID-like models in residential areas (Kreutz, Wickel, 2007) and thirdly the scientific concomitant research of the designated pilot project for a Neighbourhood Improvement District in the Steilshoop estate.

Members of the research team are Thomas Krüger (Professor for project-management), Martin Wickel (Professor for law and administration) and the author of this paper as a research associate. The presentation at the EURA Conference “The Vital City” (Workshop “Strategies for Viable and Vital Neighbourhoods”) in Glasgow and this paper are mainly based on the findings of our advisory study, the first results from our work with the pilot project in Steilshoop and the debates on BIDs and NIDs in Germany on different levels.

Aims of this paper are to describe and reflect the outline of this legal instrument for joint proprietor activities in area development and their joint private financing, to make some critical remarks about the risks and potentials of this model and to raise questions for further research and future debates.

Policy framework

Since January 2007 a new paragraph (§ 171f BauGB) in the Federal Building Code in Germany (Baugesetzbuch) is in place regarding “Private Initiatives in Urban Development” (Private Initiativen zur Stadtentwicklung). On the basis of this paragraph the 16 German Bundeslaender now have the authority to introduce laws enabling private initiatives for area-based urban regeneration and development. The new legislation is aimed to “strengthen and develop areas in city centres, district centres, residential neighbourhoods and business parks as well as other areas with importance for urban development” (Deutscher Bundestag, 2006) [translation by the author]. The specific design of the regulations regarding the operational details of the development and implementation of these private initiatives was delegated to
the responsibility of the Laender, e.g. ballot-procedures, management of the initiatives, steering of the planning and implementation process and time frame.

The promotion of private initiative in urban development can be seen as a result of the recent wider German policy agenda since the late 1990s, especially marked by the reforms of the two federal Schroeder governments from 1998 to 2005 under the headline “Agenda 2010”. Private initiatives are becoming more and more important in very different spheres of the German society. From the growing necessity for individual private initiatives to secure health insurance and pensions “on top” of a steadily decreasing public service and provision, to the growing relevance of public private partnerships – mainly for infrastructure developments but also for other projects in urban development, to the sale and privatisation of public assets and companies, the German state is cooperating with private interests in many new ways. Against this background the proposed new NID legislation mentioned can be seen as part of a general policy-turn to less public providing and more private responsibility. The Christian-democratic government of the Hamburg city-state is following the trends on the federal level in several different ways, e.g. through the sale of public hospitals and public real properties. So there is a broad political consensus from the Social-democrats to the Christian-democrats regarding this way forward.

Regarding the model of Urban Improvement Districts – as our research-team summarily call BIDs, NIDs and the like with common features like joint financing from private proprietors, certain ballot-procedures, underlying legislation and integration of free riders – not only politicians from different political parties and the Chambers of Commerce favour this development. Shortly after the introduction of the new paragraph in the Federal Building Code stakeholders from the real estate and housing sectors welcomed the opportunity to get directly involved in neighbourhood development and quickly called for corresponding laws to introduce Neighbourhood Improvement Districts in the Bundeslaender. Especially the associations of public and cooperative housing companies are clearly expressing a demand for this legal instrument (GdW 2007, VdW 2007). So the coalition of proponents for Neighbourhood Improvement Districts is broad in Germany and not purely neo-liberal as one could expect.

A second relevant development for the assessment of Neighbourhood Improvement Districts are the large-scale transitions of ownership which have been taking place on the German housing-market since the early 2000s. Public housing (both parts of the stock and whole companies) either from the state, the Laender or the local authorities is “for sale” or has already been sold in many parts of the country (BMVBS/BBR, 2007). Investors from all over the world are buying now in Germany; especially US-American and British funds like Cerberus Capital Management LP, Fortress Investment Group LLC or Terra Firma Capital Partners are getting into the German housing market with the purchase of huge stocks. This transition is leading to a growing uncertainty on the local housing markets - not only for the affected tenants but also for local politicians and urban planners. The transfer of formerly public owned housing to private investors is causing a growing fragmentation of ownership and an accompanying loss of public influence on the area-based development of residential areas and implementation of social housing policies.

So the importance of private activities and private investments is growing rapidly in Germany. The former post-war welfare-state is history today. And right now the federal government is enabling the Laender to promote private initiatives in urban development – that is obviously not a coincidence, but should be seen as part of a wider political and ideological change.
Business Improvement Districts in Hamburg

The Free and Hanseatic City of Hamburg, as a city-state one of the 16 German Lander, was the first government to introduce a BID law in Germany. The Gesetz zur Stärkung von Einzelhandels- und Dienstleistungszentren (GSED), intended to improve shopping and service areas through private initiatives, went into effect in January 2005. Only two BIDs have been created since then: The first one (BID Sachsentor) in the centre of the district of Hamburg-Bergedorf (www.bid-1.de) and the second one (BID Neuer Wall) in the exclusive and expensive shopping street Neuer Wall (www.bid-neuerwall.de) in the City Centre of Hamburg.

Each of these BIDs is very different in terms of location, budget and tasks. The BID Sachsentor has a modest budget of 150,000 Euro for three years, meanwhile the BID Neuer Wall can spend nearly six million Euro over five years. Both budgets are completely privately financed. BID Neuer Wall realised a complete new streetscaping to reflect the exclusiveness of the place and the resident companies, street cleaning services were enhanced and a private service and security team was implemented. The BID Sachsentor is concentrating more on small-scale marketing and cleaning activities, making the project quite similar to traditional Town Centre Management programs. So the BID Sachsentor doesn’t really reflect the wider possibilities of BID-activities in the public realm.

The BID law in Hamburg has a set of specific attributes that shall be briefly described here. In short the BIDs are a self-taxing funding mechanism funded by real-estate proprietors – and not by local businesses like in the UK BID model. The proposal for a BID needs the backing of only 15 % of the proprietors in the proposed BID area. If the implementation and financing plan for the BID is accepted by the public administration, a proprietor ballot will be held. If less than 30 % of the affected proprietors reject the proposal, the BID will be designated by a public statute and all proprietors within the borders of the BID-area have to pay an additional statutory levy. BIDs are limited to a clearly defined area and to a maximum duration of five years. For an extended duration a new ballot has to be hold.

Responsible for the proposal and for the implementation is a dedicated BID body (Aufgabenträger), which can either be an agency, company or a single person. The BID body receives the levy from the proprietors via the public tax authority and its management is under control of the Chamber of Commerce. The cooperation between local authority and BID body is regulated by public law and fixed in a contract between these two parties. The local authority supports the initial phase of a BID to come and audits the BID proposals to be sure they are in line with general public interest before the ballot is held. Once the BID is in place, the local authority has almost no more formal influence on its activities.

The private funds are primarily used for purchasing supplemental services (e.g. maintenance, sanitation, security and promotion) and for realising capital improvements in the BID area (e.g. street furniture, lightning, different material) beyond those services already provided by the city. It is important to stress that all BID-activities have to be supplemental to the public standard; they are not supposed to substitute for public services. This question will be discussed in greater detail below.
The Model of Neighbourhood Improvement Districts

Since the end of 2006, the Ministry of Urban Development and the Environment in Hamburg has been working on the idea of transferring the BID instrument to other areas, mainly to residential areas. From the beginning it was clear that a specific NID law should be developed rather than just an amendment or extension of the existing BID law. At the same time it was clear that the new law should be very similar to the established BID law; the administration only wanted slight amendments to it. The public servants’ overall aim was to keep the law as flexible as possible and not “over regulate”, in an attempt to allow flexible tailor-made practical solutions for each specific local situation. The Ministry is hoping that this will help stimulate private initiatives for the development of residential areas.

On this basis, the aims for the new instrument are formulated in the proposal for a NID law called **Gesetz zur Stärkung von Wohnquartieren durch private Initiative**, which was presented by the government of Hamburg, the Senate, in mid-September 2007 under the headline “Strong neighbourhoods through private initiatives”: “In addition to the public programmes for urban regeneration, residential property owners will receive the opportunity to develop and realise joint activities in private initiatives to stabilise and raise the attractiveness of residential areas. The initiative for a NID, the stipulation of aims and activities as well as the definition of the affected area lie in the responsibility of the proprietors. The public sector will merely accompany and support these private initiatives [through law, specific statute and tax-collection]” (FHH, 2007) [translation by the author].

The NID-areas are called “Innovation Neighbourhoods” (**Innovationsquartiere**) in the proposal, equivalent to the “Innovation Areas” (**Innovationsgebiete**) in the BID law. The NID-process can be divided in four main steps:

1) Initiative from the private sector and first preparations;
2) Development of an Implementation and Financing Plan (**Maßnahmen- und Finanzierungsplan**) and public consultation;
3) Formal application for a NID, audit by the responsible public administration, proprietor ballot, and finally
4) Implementation of the NID and realisation of the NID activities.

The following activities and improvements are eligible in a NID: Development of concepts for area development; realisation of services like additional cleaning, security or resident-related services; capital improvements like the enhancement of technical infrastructures, landscaping and improvement in the public realm; Image-campaigns and public events; joint activities of the proprietors, like joint procurement or purchasing (FHH, 2007). Activities in the public realm have to be additional or supplementary to the public services, i.e. “on top” of the public standard.

The main difference from the BID law in Hamburg is the required positive quorum for the NID proposal in the ballot. In the NID law, the quorum was raised from 15 % to 30 % of both all affected proprietors and all plot areas in the affected area. The allowed maximum negative vote (veto) was left at 30 %. Once the ballot over the NID proposal is successful, the levy becomes mandatory and all owners in the area have to pay. Most of the other regulations for the implementation and management of a NID were transferred almost 1:1 from the BID-law. From our point of view this doesn’t sufficiently reflect the fundamental differences between
commercial and residential areas, mainly regarding the abilities and potentials of the differing stakeholders in both areas (Kreutz, Krüger, Wickel, 2007). While businesspeople are familiar with private investments and are prepared to be flexible, individual private tenants are by law specially safeguarded in their home, which includes not only the flat but also the surrounding neighbourhood. The place where people live is the centre of one’s life and not a marketplace. But the question of participation within the NID-process is quiet open and not defined in the proposed law.

After the decision of the Senate and the presentation of the proposal for the NID law, a political and public debate on this instrument will now take place in Hamburg. Nonetheless it can be expected that Hamburg’s parliament (Bürgerschaft) will pass the HID law at the end of 2007, due to the clear majority of the ruling conservative party.

The pilot project Steilshoop

In parallel to the development of the draft NID law it was decided to choose the estate of Steilshoop as a pilot project for Hamburg’s – and obviously even Europe’s – first Neighbourhood Improvement District. The estate was built between 1969 and 1975. 14,300 inhabitants live in 6,380 dwellings in 21 large building rings with a shopping centre in the middle of the estate. Steilshoop was a formally designated regeneration area (Sanierungsgebiet) from 1987 to 1999. In this time more than 13 million Euros of public funds were invested in the physical improvement of the estate. Shortly after the end of this programme problems began to occur again, mainly regarding the negative citywide image of the estate and the condition of the public realm in the centre of the estate.

A severe change took place in the ownership-structure when the largest proprietor in Steilshoop, the former public GAGFAH, was sold to Fortress Investment Group LLC in mid 2004. Since October 2006 the now private GAFAG Group with a large housing-stock (167,000 dwellings / September 2007) all over Germany is now a joint stock corporation and listed on the stock exchange in Luxemburg. So the issue of shareholder value interest moved into a third of the housing-stock in Steilshoop. Regarding the ballot-procedures for a NID, the GAGFAH group alone has enough dwellings in Steilshoop to veto any proposal. At the same time over 20 per cent of the housing-stock in Steilshoop (Kreutz, Krüger, Wickel, 2007) is council housing owned by the communal housing association SAGA GWG. So a strong public voice is at home in Steilshoop, too.

When a couple of Steilshoop’s large proprietors started an image improvement initiative in 2006, the public administration came in with the idea of creating a NID pilot project and proposed public co-funding of possible activities in the public realm. A NID initiative board was set up, including representatives of each of the largest proprietors (representing almost 70 % of the housing stock), the District Administration from the district of Wandsbek and the Ministry of Urban Development and the Environment. So far, the board has mainly discussed ideas for marketing and image improvement, enhanced cleaning and maintenance of adjacent public and private space in the central area of Steilshoop, improved services and security within the area and the future development of the shopping centre. And an architectural competition for a redesign of the central pedestrian area is partly co-financed from the proprietors.
Our research team has been accompanying the HID process in Steilshoop for nine months now. From this point of view, a couple of initial comments about the nature of the process and its obstacles can be made (Kreutz, Krüger, Wickel, 2007). So far, only the larger housing associations and the cooperatives, which were already independently active in Steilshoop, are involved in the debates over a NID to come in Steilshoop. The large group of small “amateur” landlords representing almost a third of the stock in Steilshoop, e.g. owner-occupiers, private landlords and smaller private housing companies, is not integrated at all. Nevertheless, even the interests of the involved proprietors differ very much and a consensus on aims and activities is difficult to achieve so far, mainly regarding the implicit possible future obligation to pay for the proposed activities. Other difficulties in the process are caused by the fragmented decision making powers on both the private and the public sides of the table and frequent personal changes of board-members. This aspect illustrates how essential it is to have responsible partners on board who are able to make decisions on behalf of their companies or administrations, especially regarding financial commitments. That the largest landlord in Steilshoop, the stock corporation GAGFAH, has a veto-majority due to his large housing stock doesn’t make the initialising process easier.

Regarding the suggested tasks of an eventual NID in Steilshoop it has to be said that public defaults in the past caused some of the problems in the area today, especially regarding the mismanagement and neglect of public space. Combined with the fact of a very low vacancy rate in the estate at the moment, this is leading to a more reserved commitment of the involved proprietors up to today.

In general the process in Steilshoop is not typical for a NID development because the initiative came from the Ministry and not from the proprietors. So it’s not a genuine private initiative but more a public administration strategy to convince private proprietors to set up a NID. At the same time a lack of professional process management is obvious in the Steilshoop process, leading to sometimes inefficient debates and a lack of final and binding decisions. But this question of an efficient process management, especially in the initial phase, is of general relevance in all BID and HID processes. On the basis of our experience in Hamburg so far an improvement in process management is clearly recommended. The BID experience shows that the initial processes of a BID to come are lasting up to two years on average.

In summary it can be said that the final outcome of the process is open at the moment and it’s not clear whether, when or if Hamburg’s first NID will be established in Steilshoop. Maybe the proposal of the NID law now available will help the process and the future decisions.
Remarks and questions for further research

Reflecting the practical experience and the theoretical debates (Ward, 2007; Hoyt and Gopal-Agge, 2007; Minton, 2006; Ward, 2006; Hartley, 2004; Hoyt, 2003; Houstoun, 2003; Glasze, 2001) mainly on the BID-model, main arguments of proponents and opponents in the debates on Urban Improvement Districts so far can be summarised as following:

<table>
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<tr>
<th>Urban Improvement Districts</th>
<th>e.g. Business Improvement Districts, Neighbourhood Improvement Districts</th>
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<td><strong>Arguments of proponents</strong></td>
<td><strong>Arguments of opponents</strong></td>
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<tr>
<td>• involvement of free riders</td>
<td>• withdrawal of public activity</td>
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<td>• leverage of private investment for area development</td>
<td>• privatisation of public space</td>
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<td>• strengthening private initiatives</td>
<td>• erosion of democratic accountability</td>
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<td>• stronger obligation of local proprietors as natural agents of urban change</td>
<td>• lack of tenant participation</td>
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<td>• new perspectives for an integrated neighbourhood management</td>
<td>• only profitable developments</td>
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<td>• leading to growing disparities</td>
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<td>• worst case scenario: &quot;gated communities&quot; vs. even more neglected neighbourhoods</td>
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Although this paper is reflecting on a model for private initiatives in area development which is not yet in place and where almost no practical experience exists – at least not in Europe –, a couple of critical issues regarding the model are obvious. At the same time, it has to be said that the new model has potential to improve the quality of area-regeneration and development through cross-sectoral efforts and activities in the long run. From this point of view I will make a couple of critical remarks and raise some questions for further discussion and research.

First of all it is important to say that Urban Improvement Districts have no direct influence on private spaces or private buildings and housing stock without explicit permission of the affected owner. A HID or a BID will therefore quiet often have to focus on environmental and capital improvements in the public space. This will lead to a new private interest in and private influence on the public realm – and the consequences are not yet clear, but critical observer see a fundamental change of the qualities of the public realm (Minton, 2006; Glasze, 2001). Will the public administration delegate the rights of disposal to private proprietors or will cooperative efforts of public and private stakeholders help to really improve public spaces in a sense of long-lasting sustainable development? Will exclusive policy arrangements between the public administration and the private proprietors in a NID create exclusive spatial developments or will joint activities create a new quality of public space?

NID-activities on behalf of private proprietors have to be “on top” of the standard public services – but this public standard is not clearly defined. Therefore, public services could con-
ceivably be reduced once a NID is in place. This could lead to proper standards in areas with private initiatives and deficient standards in areas without. To avoid such a development, public services have to be defined and fixed as a guaranteed standard.

The second critical issue regarding the type of activities of a NID is the one of a not yet existing upper limit: Which sort of HID-activities might be "over the top"? What is against the aims of the overall development of the city and the general public interest, e.g. because the activities are relocating problems to other areas adjacent to a NID area or because they will enforce the segregation within the city? Will the NID-model support growing polarisation within the city in the sense of making good places better and neglected places even worse? The existing public influence on this kind of private initiatives for a NID or BID is formally established in the proposed and in the already existing legislation – but mainly in the initial preparation phase. The implementation is organised on the basis of a public-private contract between the local authority and the NID or BID body.

Urban Improvement Districts can not be a substitute to the existing legal instruments and informal concepts for area-based development in Germany (Kreutz, Krüger 2007). A NID will never be able to replace the legal instrument of formally designated regeneration areas (Sanierungsgebiete) and other public-led initiatives in neighbourhoods with severe structural, physical and social deficits. But a private-led NID could be a good way for public administrations to begin weaning formerly troubled areas from public money and initiative. The management of achieved results in a regeneration project could be transferred to the responsibility of a NID once the public initiative is coming to an end. This would allow the proprietors in the area to act as the natural agents of urban change, because they should have the strongest commitment to the area and to their housing stock. As a vision such a combination of public-led “top down” instruments first and private initiatives “bottom up” later could lead to forms of integrated area-development with a longer perspective and sustainable results. This could help to mainstream public initiatives and strategies in the long run.

In this context the question of the overall aim of NIDs is important. The BID model had the shopping centre management as a role model and transferred its structures and instruments to the town centre. But what is the intended role model for a NID? What kind of neighbourhoods should a NID secure or create? What kind of “Innovation Neighbourhoods” will result of the aim “to stabilise and raise the attractiveness of residential areas” (FHH, 2007) in practice? “Gated communities” style for the better off in owner-occupied houses, proper and economic feasible estates for the middle class in both rented and owner-occupied accommodation or sustainable neighbourhoods in all sorts of areas managed by all relevant stakeholders, i.e. in partnership of public sector, proprietors and tenants?

In theory the NID instrument could be applied to all sorts of neighbourhoods. From upscale neighbourhoods with owner-occupied houses, to gentrifying neighbourhoods, to areas with a stable stock of rented accommodation, to neglected and deprived areas. But as you need active and solvent proprietors for an initiative, presumably the implementation of a NID, it can be expected more in owner-occupied neighbourhoods or stable areas with profitable rent-flows and active proprietors than in deprived neighbourhoods. This conclusion also reflects the challenge that it will be difficult for a single NID to integrate all different types of proprietors from the private “amateur” landlord to the housing company listed on the stock exchange on a joint strategy, although free-riders and opponents can be forced into the private financing initiative NID up to a certain amount.
Conclusions

The policy transfer from Northern America to Germany and from commercial areas (BID) to residential areas (NID) raises many questions and concerns regarding the future of urban development in Hamburg (Ward, 2005; Hartley, 2004; Hoyt, 2003). It’s a long way from Bloor West Village in Toronto, the declared birthplace of the first BID back in the 1960s, to the powerful and longstanding BIDs in NYC today finally to the estate of Steilshoop, where the first NID in Europe could be established in the near future. The transfer of the underlying legislative, economical and ideological model from the North American policy and planning culture to a European welfare state in transition and from the development and upgrading of commercial districts for purely economical interest to the improvement of a residential area with careful respect to the local community therefore needs more effort than just a “copy and paste” solution. Successfully establishing the NID model in Hamburg and elsewhere requires a specific and careful adaptation, especially regarding the role of the public sector and the participation opportunities for the community within the NID-process.

Whether Urban Improvement Districts mark a paradigm change in urban development in Germany from public-private-partnership towards more urban governance (Lloyd and Peel, 2007) or whether they are more an example of an ongoing “rolling back the state” strategy with other means is an issue that would need a more detailed analysis. Right now the way forward is still open and the direction is not clear yet, but there is some evidence that it is going more into the second direction.

So at the end one central question remains for the moment: Are Neighbourhood Improvement Districts the dusk of public-led integrated urban development replaced by selective private initiatives or the dawn of new strategies for a sustainable and integrated neighbourhood management with strong private involvement by proprietors and residents? Only the second way could lead to the creation of real “Innovation Neighbourhoods”.

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