Report from Bonn by Rainer Apel

A grim future for German housing

Neue Heimat collapse leads to massive deregulation in construction branch.

The largest producer of private homes and social housing in the Federal Republic of Germany, Neue Heimat, is facing Chapter 11 bankruptcy. The firm, which has built 500,000 units in the social housing sector since 1945, has an accumulated debt burden of $7 billion (17-18 billion deutschemarks), with old debt service of $700 million still to pay in addition.

Neue Heimat was run down by three main factors: the collapse of homebuilding in Germany since 1979, criminal mismanagement, and the policy of fiscal austerity in public budgets. The drastic rise of interest after late 1979 strangled construction credit, and also the federal and state budgets for social housing—the main source of credit for Neue Heimat. The original policy of Neue Heimat, a non-profit complex owned by the organized labor movement, was to build homes for low-income families.

Most of the homes Neue Heimat built were subsidized by the federal and the state governments and municipalities, which kept initial rents cheap. It was expected that in the course of the 1960s and 1970s, living standards would rise and enable the families to buy the homes they lived in. The sale of the first generation of homes would cover part of the costs for building the second and third generation of homes. The rest would be funded by the labor movement and public budgets, with financial help from the private banks.

The first dramatic economic recession of 1966-67 put an abrupt end to these plans. To make money, Neue Heimat went into risky real estate speculation, and began to shift its construction activities to the boom centers outside of Germany. Huge hotel complexes, whole suburbs, recreation centers, and other gigantic projects were built throughout the world, with a growing trend toward short-term borrowing. This was the period when the management of Neue Heimat resorted more and more to dirty business practices—which worked as long as the credit line was there.

The post-1979 economic recession and the government's shift to drastic fiscal austerity put an end to this period. Neither could Neue Heimat's plans to sell homes be realized, nor was cheap, short-term credit available any longer. Declining living standards of low-income households in Germany created an ever-growing need for public budget subsidizing of the rents in the social housing sector. Under the dictate of fiscal austerity, public orders for new social housing were cut drastically, rendering the Neue Heimat construction apparatus obsolete.

By early 1982, the Neue Heimat bubble collapsed. The impossibility of refinancing the old debts and the new short-term debts of Neue Heimat made the illegal practices and corruption of the concern's management public. The president, Albert Vietor, had ridden Neue Heimat into a financial hole of several billion dollars and impending bankruptcy by spring 1982. Vietor was fired, but a full probe of the affair was prevented by a joint effort of the creditor banks, the labor unions, and the governments. The German Federation of Labor (DGB) pumped $700 million into the Neue Heimat, a new management was installed, and an emergency scheme for debt rescheduling until the end of 1986 was imposed.

The crisis-management policy was to "get rid of the unprofitable sectors," which meant to start mass sales of homes, to refinance the old debts and pay the debt service. Real estate owned by Neue Heimat was kept as collateral for the banks. With no economic recovery, but deepening recession, the number of potential purchasers of homes declined, however, and predictably, only 60,000 of the originally planned 100,000 homes were sold.

As a matter of fact, many of those 60,000 were sold to sub-companies of the labor unions, with the aim of keeping the main burden on the union members, from whose dues this transaction was paid. This sales policy led straight into the current collapse: It is obvious that on the basis of these sales, Neue Heimat will not be able to pay the debts due by the end of 1986. A new crisis-management team has been installed, to go for crash sales of the remaining 300,000 homes in Neue Heimat's possession, plus other properties. The head of the new team is Andreas Meyer-Preschany, formerly of Dresdner Bank, who "cured" the bankrupt AEG Corporation by firing 60,000 of that company's 120,000 workers between 1982 and 1985.

The intended "cure" of this $7 billion debt problem called Neue Heimat will inevitably lead to a general price deregulation, and depreciate the speculative bubble in real estate. This operation will also put a brutal end to 40 years of social housing in postwar Germany, with all the rents going up.