

INNOVATIVE HOUSING POLICY TOOLS FOR LOCAL GOVERNMENTS IN SHRINKING COMMUNITIES WITH A LARGE SHARE OF PRIVATELY OWNED APARTMENTS: A CASE STUDY OF VALGA, ESTONIA

Jiří TINTĚRA

Jiří TINTĚRA

PhD candidate, Tartu College,
Tallinn University of Technology, Tartu, Estonia
Tel.: 00372-56-831.218
E-mail: jiri.tintera@ttu.ee

Abstract

Shrinking communities face a myriad number of problems. The physical manifestation of urban shrinkage can best be noted in abandoned or underutilized properties, an oversupply or deteriorating housing stock and inadequate aging infrastructure. These physical manifestations lead to psychological impacts of poor perception of a community, lack of a sense of place, lethargic residents who lack the financial means or motivation to improve their living conditions. Planning for the regeneration and rightsizing of shrinking communities calls for intervention by government sectors. Valga is a small town in Estonia where housing vacancies, low quality of residential premises and the shortage of quality apartments are the result of decades of depopulation. As a result of housing privatization after the collapse of the Soviet Union, a large majority of the dwellings are privately owned. Housing demolitions and revitalization are a key part of the small town's strategy to deal with shrinkage. This paper addresses the question: in an area of urban shrinkage, what kind of housing policy can local government create in the conditions of prevailing private ownership of residential premises?

Drawing on a qualitative case study of the town of Valga, the findings show that housing policy plays an important role in urban recovery for a shrinking community and the leadership capacity of local government in this process is critical. Ownership constrains in housing policy can be overcome but the lack of municipal finance and human resources together with insufficient legislation and missing cooperation with the private sector impedes the process.

Keywords: ownership constrains, housing redevelopment, demolition, shrinking cities, urban brownfields, post-soviet country.

1. Introduction

Urban shrinkage is a frequently occurring phenomenon in older regions across the globe. Once prosperous industrial or trade centers are now reeling with a loss of population, outdated infrastructure, an oversupply of inadequate housing and financially strapped municipal governments unable to respond to this downward trend (Ryberg-Webster, 2016). Scholars (Elzerman and Bontje, 2015; Miota, 2015; Prada-Trigo, 2015; Sánchez-Moral, Méndez and Prada-Trigo, 2015; Sousa and Pinho, 2015) stress the need to develop coherent housing rehabilitation policies as one of the basic tools to deal with urban shrinkage. Impact of shrinkage on housing depends on the actual institutional settings and market conditions in a particular location. Wiechmann and Pallagst (2012) describe different local strategies to deal with housing in shrinking communities in Germany with a high rental housing sector and in the USA with prevailing owner-occupation of apartments. Similar to other type of revitalization urban brownfields, ownership constraints represent one of the main barriers to housing redevelopment (Adams, De Sousa and Tiesdell, 2010). Private ownership of problematic (abandoned, underused or low quality) residential houses weaken the position of municipalities as an active player in the residential market and is often used, often as an excuse, for the absence of housing policy in shrinking communities.

Due to the large-scale privatization of apartments after the collapse of the Soviet Union, a large majority of apartment buildings in Estonia are owned by the private sector. In Valga, a small town in South Estonia, the sustained decline in population has resulted in a high rate of housing vacancies. Thus, the overarching research question for this study is: in an area of urban shrinkage, what kind of housing policy can local government develop considering the prevailing private ownership of apartments? This paper seeks to answer two main questions: (1) What role can housing policy play in dealing with shrinkage?; (2) What are the tools for local government to overcome ownership constraints in housing demolitions and redevelopment?

This paper uses Valga as a case study to examine the complexity of housing policy within shrinking cities where a large majority of homes are privately owned. Firstly, the paper briefly sets the context of urban shrinkage and instruments of housing policies in Estonia and then gives a deeper overview of the drivers and consequences of urban shrinkage on housing in Valga. A set of applicable lessons and recommendations for local governments in dealing with housing in shrinking communities is then drawn from the example of Valga.

2. Causes and consequences of urban shrinkage

The term 'urban shrinkage' generally applies to a city or region that is experiencing a decline in population due to reasons such as demographic composition (aging residents, low birth rates etc.) and lack of jobs or economic prospects (Reckien and Martinez-Fenandez, 2011; Martinez-Fernandez *et al.*, 2012; Kotilainen, Eisto and Vatanen, 2015; Bernt, 2014; Sousa and Pinho, 2015; Wiechmann and Bontje, 2015). Shrinkage in

Eastern Europe is more specifically the result of a combination of post-socialist and post-Fordist transformation including deindustrialization, suburbanization, post-Soviet re-composition and demographics factors (Wiechmann and Pallagst, 2012). The causes and consequences of urban shrinkage are well documented in scholarly literature. Initial attention to this phenomenon came from scholars in the US and Western Europe who discussed urban shrinkage from different points of view such as economic (Bogataj, McDonnell and Bogataj, 2016) and social aspects (Hollander and Németh, 2011; Großmann *et al.*, 2015; Ročak *et al.*, 2016), impacts of depopulation on land use (Kroll and Haase, 2010) and the issue of urban governance of shrinking cities (Wiechmann, 2008; Rhodes and Russo, 2013). In recent years, Eastern European researchers have also discussed the issues at length (Leetmaa *et al.*, 2015; Pužulis and Kūle, 2016; Stryjakiewicz and Jaroszewska, 2016). While most of the research examines the causes and consequences of shrinkage in larger cities, a few authors have shed light on small cities and rural areas (Leetmaa *et al.*, 2015; Pužulis and Kūle, 2016; Wirth *et al.*, 2016).

Housing vacancies and urban brownfields are amongst the most prominent symptoms of shrinkage (Wiechmann and Pallagst, 2012; Haase *et al.*, 2016). The overcapacity of houses and the outdated state of maintenance cause a decrease in real estate values (Elzerman and Bontje, 2015; Bernt, Colini and Foerste, 2017). As Mallach (2011) states, housing markets often cease to function in shrinking cities and the unequivocal trajectory of supply and demand for housing points to long-term vacancy. One of the main reasons for vacancy is a market gap between the costs of restoration and the post-restoration market value of the property, which discourage the private sector to invest in housing redevelopment (Mallach, 2011). Similarly, the private sector is not interested in building new apartment buildings. The outcome is a largely low quality of residential premises and the shortage of quality apartments. The quality of basic amenities is one of the important factors in deciding whether the building is in use or abandoned (Prada-Trigo, 2015). When the quality of basic amenities in an apartment building drops, those who can afford to move out relocate. Apartment owners with the lowest income remain in the building, but they cannot afford to pay for maintenance and the building becomes uninhabitable (Prada-Trigo, 2015).

In addition to the lack of modern amenities inside apartment buildings, housing vacancies and abandonment create a negative image of the community. Residents lack any sense of place attachment and become ambivalent to improving their quality of life. The psychological link between citizens and their place of residence has a significant effect on their activity in their communities (Reckien and Martinez-Fernandez, 2011; Miota, 2015; Wiechmann and Bontje, 2016).

The consequences of shrinkage on the residential sector depend on specific institutional settings and market conditions in the community. Bernt, Colini and Foerste (2017) describe different outcomes of depopulation on housing sector in the US and UK on one hand, and Germany on the other. In the US and UK owner-occupation, high mortgage debt and liberalized markets are a norm. In the context of Germany, the rental sector is predominantly high within the housing market (Großmann *et al.*, 2015).

German scholars often tend to focus largely on vacant housing, the US on poverty, segregation and crime (Bernt, 2014). Due to the large-scale privatization of apartments after the collapse of the Soviet Union, owner occupied housing is prevalent in Estonia similarly to the most of the post-soviet and post-communist countries in Eastern Europe. Current research on housing, within the context of shrinkage, focus dominantly on US or Western Europe countries (Wiechmann and Pallagst, 2012; Großmann *et al.*, 2015; Miota, 2015), where the legal and economic framework differs from conditions in Eastern Europe. This paper aims to present a set of innovative housing policy tools that can be used spatially by local governments in Eastern Europe.

3. Housing revitalization as a tool to deal with shrinkage

Shrinking regions need a positive narrative for a future perspective. The aim of urban policy is to create a future perspective for inhabitants (Elzerman and Bontje, 2015). Urban development should be a matter of achieving maximum quality of life for the maximum number of people (Sousa and Pinho, 2015). Housing policy plays an important role in achieving this goal and is acknowledged among the scholars. Sánchez-Moral, Méndez and Prada-Trigo (2015) see housing together with social cohesion as the noteworthy elements of recovery from shrinkage. Sousa and Pinho (2015) set housing policy consisting of demolition and reconstruction as one of the five most important approaches to deal with the consequences of shrinkage. For Elzerman and Bontje (2015) a suitable policy response to shrinkage consists of the acceptance of shrinkage, developing a long-term vision, engaging the inhabitants in the process and fostering intensive regional collaboration and restructuring the housing market. Miota (2015) sees the reactivation of housing market through massive housing demolition and housing diversification, renovation of public space as a tool for improvement of residential attractiveness.

In a dysfunctional housing market where private investments in residential buildings are absent, the local government needs to play an active role in retrofitting the housing stock. The leadership capacity of local government in dealing with the consequences of shrinkage is crucial (Leetmaa *et al.*, 2015; Sánchez-Moral, Méndez and Prada-Trigo, 2015). The goal of urban policy should be a smaller, but nonetheless viable city (Kotilainen, Eisto and Vatanen, 2015). These rightsizing strategies require demolitions as a way to stabilize the value of properties by the reduction of housing oversupply. If there is no effective market demand and no realistic prospect of reuse, buildings need to be demolished (Mallach, 2011). Hackworth (2016), however, points out that demolition itself, if not accompanied by some other form of intervention, is not able to revive a neighborhood; that demolition is a signal that the area has been left for dead, which may actually accelerate the process of disinvestment, and that connection between physical deterioration and social disorder can be overestimated. In spite of those arguments demolitions need to remain as one viable tool of physical intervention in the urban space of shrinking cities.

4. Material and methods

Valga can be used as strategic example to explore the housing policy tools for local governments in shrinking communities due to its long-lasting struggle with population loss leading to property disinvestment and vacancy, current elaboration process of the Comprehensive Plan that aims to adapt urban space to a shrinking population (first Comprehensive Plan in Estonia with such a goal) and municipality reputation within Estonia as an example of local government developing innovative housing policy.

To describe the population changes in Valga, statistical data from Statistics Estonia were used. In addition to this, the property inventory of the town territory was completed in 2014. For each of the 3,038 plots in Valga, their actual use and/or vacancy were visually determined. The plots were classified as usable or not usable. A usable plot is a plot which has/had been developed or is designated for development in the Comprehensive Plan. If there was a structure on the plot, the type of building and prevalent construction materials were specified; the type of use was determined for each vacant plot:

- greenfield: previously not developed land designated for development in the Comprehensive Plan;
- underused area: previously developed mostly industrial land from where structures have been removed;
- gap: solitary un-built land in compact residential areas; and
- brownfield: land with vacant or underused structures.

The author of this article has assisted local government since 2013 in the elaboration of previously mentioned documents (property inventory, Comprehensive plan, etc.) as an urban space specialist. Field observation, interviews and knowledge of local planning policy gain during the period facilitated a deeper understanding of Valga town's built environment, historic resources and property conditions.

5. Urban shrinkage and housing policy in Estonia

The speed of population loss in Estonia is comparable to other Eastern countries of the EU but slower than the other Baltic states. Estonian population has been decreasing for decades due to out-migration (mostly to Finland), urbanization and low birth rates. The three biggest cities (Tallinn, Tartu and Pärnu) and their neighboring municipalities account for a large majority of the population, while communities outside those regions are shrinking at varying degrees, depending on their size and location. Smaller communities, further away from the Estonian capital of Tallinn, are likely to shrink more quickly than the average (Tintera *et al.*, 2014).

During the Soviet occupation most of the apartment buildings in Estonia were owned by the public sector or building cooperatives. Similar to other Eastern European countries, housing stock went through the process of large scale privatization after the collapse of the Soviet Union; as a result, 98.2% of all dwelling were privately owned in 2011, while 85% of households lived in their own apartment or house and

15% rented it. For comparison 63.8% of the Estonian population lives in apartments (Eglit, 2017). Apartment buildings have been privatized mostly by apartment unit and the owners have been forced to create Co-operative Housing Associations to maintain the building as a whole. Each apartment unit can be separately mortgaged or become a part of an insolvent estate, the owners may live abroad. This situation, where the majority of housing in Estonia is privately owned, is different from that in most Western Europe countries (Großmann *et al.*, 2015; Haase *et al.*, 2016). This phenomenon of private, often absentee, ownership limits local government's ability to act in case of vacancy.

The role of local governments is to ensure living space for those who cannot afford to acquire it themselves. But apart from social housing, municipalities are not legally obligated to assist private owners to maintain residential buildings (Eglit, 2017). The Reconstruction grant of state financing institution KredEx gives some assistance for Co-operative Housing Associations for building reconstruction. The grant may cover up to 40% of the total project cost depending on the level of energy saving achieved with reconstruction. The rest of the investment needed must be financed through a mortgage from the banking sector where the building itself is used as collateral. Due to the low real-estate value of the apartment buildings in shrinking cities, the owners have difficulties with financing the investment.

State assistance for local governments to deal with the housing stock in shrinking cities is fairly limited in Estonia. The Estonian government has shown a certain interest in the issue, however. Several already-functioning actions can be pointed out. From 2013 site owners have had the possibility to apply for a grant from the government agency Environmental Investment Centre (EIC) for the 'demolition of structures damaging the landscape' within their property. Since this measure is applicable only to old industrial, military and agricultural facilities, it can be a tool for the demolition of only a small part of housing stock previously related to those functions. Demolition support by state financing institution KredEx, for public-owned residential premises, has been enabled only since 2016. In this case the building has to be completely owned by the local government. Since 2017, local governments can apply for investment support for housing fund development from KredEx. The grant may cover up to 50% of the total project cost and is designated for municipal rental apartment building construction or reconstruction.

6. Consequences of shrinkage in Valga

Estonian Valga forms a twin town with Latvian Valka; both towns descend from the town of Walk which was split between Estonia and Latvia when both states emancipated from the Russian empire in 1918. With its 12,334 residents (2018) the Valga town places 12th out of a total of 47 Estonian cities. Valka has 4,592 citizens and the town is ranked as the 32nd biggest out of 76 Latvian cities. The population in Walk saw a first period of fast population growth in the 19th century due to rapid industrialization, predominantly because of its strategic location along the rail network connect-

ing the city to the Russian Empire. During this period the population increased from 2,473 people in 1867 to 14,179 people in 1919 (Tammekann, Luha and Kant, 1932). When Estonia and Latvia regained their independence in 1918, the town was divided into two (Estonian Valga and Latvian Valka) and exports to Russia dropped considerably. While the population continued to grow in the years following the end of World War I, this trend turned sharply during the Great Depression. Due to the global economic collapse, the population of Valga decreased from 14,746 in 1929 to 10,842 in 1934 (Tammekann, Luha and Kant, 1932) and depopulation continued until World War II. During the war Estonia was occupied and incorporated into the Soviet Union. Population growth restarted for a second time in the 1960s and 1970s when, due to the establishment of a military base and the opening of the Soviet market, Valga once again became an important industrial and military town. Population increased from 13,354 residents in 1959, to 18,474 in 1979 (Statistics Estonia, 2017a). After Estonian and Latvian independencies in 1991, the Soviet army left and the town's industry collapsed. As a result, the town lost 3,172 people between 1989 and 2000 and since then the depopulation has continued at a similar pace as in other towns in the region. The Population and Housing Censuses issued in 2000 and 2011 showed Valga with a 14.4% loss in its population (Statistics Estonia, 2013).

The drivers of urban shrinkage in Valga are similarly to other Eastern European cities, characterized by deindustrialization, post-Soviet re-composition and demographics factors (Wiechmann and Pallagst, 2012). The economic downturn has been accompanied by job losses and out-migration, mainly to Tallinn or abroad.

Although the population has decreased by a third since the beginning of the 80s, the size of the urban territory has not changed significantly. Vacancy, property abandonment and overbuilt infrastructure are the outcomes of the decline visible in the urban space. The results (Figure 1) of the land use inventory conducted by the town government show that 2,226 (80%) from 2,781 usable plots are in use. Considering the area of a vacant or underused plot, which is on average bigger than the area of a plot in use, only 72% of the usable area within the town territory is currently in use. Vacancy rates were also determined for different type of structures. From 1,779 single family or duplex homes in Valga, 124 are empty and 45 underused. In the case of apartment buildings, 45 of the 379 have been completely abandoned, and 34 are less than half-occupied. Vacant or underused apartment buildings are mostly from the first period of Valga's growth. These buildings, typically two-story wooden buildings, usually without central heating, bathrooms or sewerage, can be found in various neighborhoods but most of them are located in the center of the town. Therefore, their vacancy is more perceptible than the vacancy of other types of structures. Four- and five-story brick or panel apartment buildings from the second period of growth shows a lower rate of vacancy as they offer a better living standard.

From the 12,261 inhabitants of Valga enumerated during the 2011 Population and Housing Censuses 8,556 (70%) live in apartments and only 1,053 (8.6%) rented their dwelling (Egilit, 2017). While the rate of population living in apartments corresponds

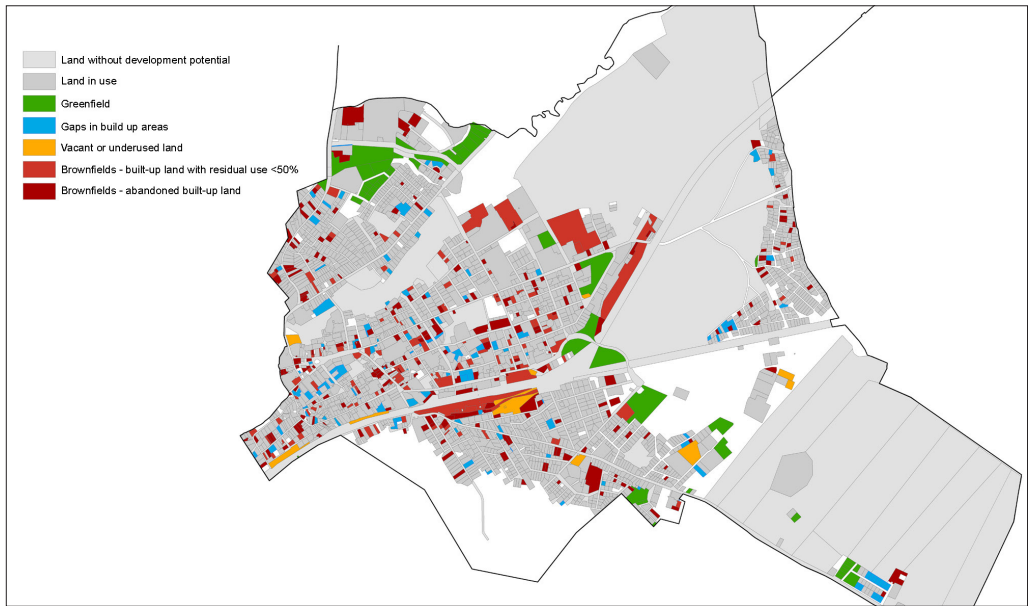


Figure 1: Land use inventory in Valga

Source: Author

to the general rate in Estonia, the share of people renting their dwelling is almost two times smaller than the average. The reason can be found both in affordable purchase of own dwelling in Valga and missing interest of the private sector to invest in quality rental housing. Similar to other regions in Estonia, private ownership of housing dominates. Only 84 (1.3%) of the 6,663 residential premises in Valga are owned by the public sector (Eglit, 2017).

The surplus of vacant residential premises on the market decreases their real estate value; while the average price of an apartment realized in 2016 in Estonia exceeded 1,000 euros per square meter, then in Valga it was less than 150 euros (Statistics Estonia, 2017b). The apartments in problematic residential buildings dating from first period of growth, described above, are generally offered at auction by a law enforcement officer for a few hundred euros per flat and they often remain unsold. Low real estate prices do not motivate owners to sell their apartments and they cannot use them as collateral for loan agreements either. The private sector is not interested in investing in renovating properties or building new residential buildings. Hence, residential premises are predominantly of low quality and only one apartment building has been erected since 1991.

7. Housing policy of Valga municipality

The housing policy of Valga's municipal authorities follows a general urban regeneration policy attempting to adapt the town to the needs and expectations of its current 12,500 residents. A new Comprehensive Plan for Valga offers a legal framework

for intervention in urban space taking into account the declining population. The aim of the Plan is to adapt Valga's urban space into a compact, high-quality environment, with an emphasis on the revitalization of the city center, renovation of residential buildings and brownfields redevelopment. The development of the city would be directed towards a denser and more concentrated urban area (Valga town government, 2016). The plan is currently the only Comprehensive Plan in Estonia which aims to follow the principle of planning for shrinkage (Wiechmann and Bontje, 2016). The housing policy of local government includes housing demolitions, housing revitalization and investment in urban space in the city center.

7.1. Housing demolitions

Valga's government is proceeding with housing demolitions in accordance with the living standards that the buildings offer. When the quality of basic amenities in a residential building drops, those who can afford it move out. The remaining low-income owners cannot afford to pay for maintenance and the building becomes uninhabitable. When this happens, they turn to local government with a request for help. The local administration offers the residents either social housing or an opportunity to exchange their dwelling for another in a more sustainable building. People living in partly occupied apartment buildings are generally happy to accept the exchange. The building remains empty and if there is no realistic prospect of reuse, the municipality starts to prepare the house for its demolition.

Before demolition, the local administration will try to acquire the whole building as this enables them to apply for the demolition support for public-owned residential premises from the state financing institution KredEx. However, unsuccessful acquisition of all the apartment units does not mean that the vacant structure cannot be demolished, but, the demolition costs need to be financed from the municipal budget. Seven residential buildings have been demolished in Valga during the last three years. The sites of the demolished buildings have been converted to low-cost temporary public green areas. Residents would even welcome more rapid demolition works, however, the delay is a result of complicated ownership issues when dealing with the abandoned buildings.

7.2. Housing revitalization

However, not all vacant residential buildings can be demolished. Valga town center is declared, on the national level, as Heritage Conservation Area and the possibility to remove structures within it is strictly limited (Tintera *et al.*, 2018). Moreover, the abandoned buildings outside the town center have often also significant historic and architectural value and play an important role in the urban landscape. In order to preserve at least some of these buildings, new use must be found for them.

To save some of the valuable vacant residential buildings, Valga's administration is trying to transform them to municipal rental apartment houses. Despite the significant surplus of residential premises in the town, the need for quality rental apart-

ments exists. Both, public institutions (city government, hospital, schools, etc.) and private entrepreneurs have struggled with the lack of specialized workers for a long time. But the predominantly low quality of residential premises and the lack of decent dwellings make attracting specialists to Valga very difficult. The public sector must intervene in the free market, at least temporarily, to improve the situation.

As an example, an apartment building with 16 units is currently being transformed to a municipal rental residential building. This structure lies within the town center and has significant architectural and historical value and has been declared a heritage monument. The municipality purchased it in 2017 and applied for the newly instituted investment support from KredEx. The grant was issued and it covers 50% of the total project cost. The revitalization of the building is scheduled to be completed in 2019. These rental units will be primarily offered to the employees of educational institutions in Valga. The municipality has just started another application to finance the second residential building into a social housing.

7.3. Investment in urban space in the city center

Despite the important role of local administration in housing revitalization, the majority of the residential buildings need to stay in private hands and the public sector cannot directly invest in their renovation. However, the town government owns the public space between these buildings. Two large projects are currently underway in central Valga. The construction of a new town square on the brownfield area in the city center between the three oldest streets of Valga was in August 2018. The second project is linking Valga and Valka city centers with a pedestrian street between Jaani Church in Valga and Lugaži Church in Valka and creates a new central square of Valka town. The length of the new pedestrian street will be 650m. The town government hopes that despite requiring a lot of resources, investment in urban space in the city center is an effective way to improve the residential attractiveness of the area and raise the property value of buildings in the area.

8. Strategy to overcome ownership constrains

Ownership constrains are the first obstacles to overcome before both the demolition and housing revitalization process starts. Within private ownership status two types of residential buildings can be distinguished:

- Buildings privately owned or co-owned as a whole. These are typically single family or duplex homes. But in addition to these, there are also apartment buildings, which were already empty before the privatization of housing stock in the beginning of the 90s. Due to this they have not been legally divided to apartment units and they have been returned to pre-war owners or sold as a whole;
- Apartment buildings privatized by apartment units.

8.1. Buildings privately owned or co-owned as a whole

The negotiation strategy of local administration depends on the type of private ownership of vacant residential building. In the case of owned or co-owned buildings, the local government offers to owner(s) one of the following options: take-over, authorization agreement or purchase of the property.

Take-over of the property is for free. Many owners of buildings that have been empty for long periods are no longer interested in their property and low or negative real estate value of building does not allow them to revitalize it. Vacant building deteriorates and becomes unsafe for its surroundings. Local government is obliged to ask the owners to eliminate the danger and this requires investments. If owners do not see the reason to invest, government offers them a take-over of the property. An individual house was taken-over in this way and demolished in 2017.

Authorization agreement is used where owners see a future perspective for their property; the owners are aware of the low actual value of the building, but they believe that the situation will change in the future. In this case, the municipality offers them a bilateral agreement which transfers the building rights of the plot to the government for 15 years. Then the town administration demolishes the existing buildings covering all relevant costs. During this period, the town maintains the plot and exempts the owner from property tax. At the end of the period, the owner can decide if he or she wants to restart to use the plot or to extend the agreement. The former dormitory for railway workers was acquired this way and it was demolished in 2015.

The purchase of the property is usually used in the case of residential buildings which are a part of an insolvent estate. Current Estonian legislation does not allow the law enforcement officer to give away property for free. Law enforcement officers are obliged to organize an auction of indebted property and there is no success, to repeat it regularly while continuing to reduce the price. When the price becomes acceptable, the government purchases the property. In 2015, the municipality used this method to demolish a former apartment building.

8.2. Apartment buildings privatized by apartment units

In the case of buildings split into apartment units, negotiations are generally more complicated as buildings often have tens of owners, apartments are often mortgaged, indebted and some owners live abroad. In the beginning, the municipality contacts all owners and proposes to take over their apartments. If some of them are not willing to do so or some apartments are mortgaged or indebted, the town government follows the next steps:

- orders a technical expert analysis of the building that declares it unsuitable to inhabit;
- withdraws the right of use from the building; and
- orders a real estate value evaluation of the building.

The value of an apartment without the right to use is zero, and generally the value of the plot does not exceed the demolition costs of the building so the value of the

property is negative. Local administration continues to ask the owners to eliminate the danger of the building on its surrounding. Then, when it is not done and the house is still unsafe, it demands the removal of the entire building. As the last step, the municipality announces that if the building is not demolished by a particular date, it will implement immediate substitutive enforcement without a precept of the demolition of a dangerous building. The apartment owner is then left with two options: they can gift their apartment to the town administration or participate proportionately in covering the demolition costs. Then demolition is executed. If the owners do not question the process, the reimbursement of the demolition costs is not implemented. Three apartment buildings have been removed during the last three years following the above described procedure (Figure 2).

The revitalization of a residential building requires the acquirement of all its apartment units. As such, the municipality is in a weaker position in this acquisition process. For example, in the case of one building transformation to municipal rental flats some apartments were exchanged for apartments in other houses and some of them were purchases for a market price. Local administration can purchase apartments only when the building has extraordinary architectural or historical value. Otherwise, it would deform the real-estate market in Valga, as the owners will wait for the municipality to acquire their valueless residential premises.



Figure 2: E. Enno 2 apartment building before demolition

Source: Author

9. Barriers of faster housing demolition and revitalization

Although Valga's municipal authorities are able to overcome the ownership constraints in most cases, the speed of the process is not satisfying. During the last three years, local administration has demolished up to three residential buildings a year. If we presume, that all vacant and half of underused apartment buildings need to be finally demolished, it would take more than 20 years to accomplish the goal at that

pace. This does not include the single family and duplex homes. The main barriers inhibiting the process of demolition are:

- lack of human resources within the town administration. Buildings split into apartment units often have several owners and each of them needs to be contacted repeatedly. These time-consuming negotiations require considerable human resources within the municipality;
- limited subsidies for demolition. Existing subsidies can be issued only to structures completely owned by local government, which limits largely the use of the tool; and
- lack of insolvency legislation. Current Estonian legislation does not allow a law enforcement officer to write off mortgage from a property even if the chance to realize the property on the market is non-existent. Such mortgages burden the property for decades and limit the possibility to dispose with them.

The main barriers to faster housing revitalization are:

- the private sector's limited possibilities to finance or co-finance revitalization. Low real-estate value of the properties does not enable owners to use the property as collateral for loan agreements and investment in housing does not bring profit; and
- the current system of heritage protection. The requirements for preservation works raise the cost of revitalization and limit the adaptation of structures for new functions. Tintera *et al.* (2018) refer to the challenges of heritage protection within shrinking cities.

10. Conclusions

While the current local government is not responsible for the shrinking population in Valga, it attempts to use urban housing policy to right-size the infrastructure and housing supply to serve better its residents and improve the quality of life for its citizens. Valga's housing policy includes both residential building demolition and revitalization. The prevailing private ownership of vacant and underused residential premises has necessitated local government to employ a multitude of tools and tactics for negotiations with proprietors. Housing demolitions have turned out to be easier to perform than revitalizations due to the lower costs and the ability to demolish a building on safety grounds, without actually acquiring all the apartments in a building. Valga's housing policy has overcome most ownership constraints but its application is too time consuming.

In order to speed-up housing demolition and/or revitalization, local administration would need assistance from state institutions. The main barriers for faster movement in this domain are the lack of human resources for negotiations and the fiscal distress of local government. New subsidy tools prove that Estonian state has started to accept its role in the housing sector, however, all the subsidy tools focus on the indirect investments in housing and do not provide financial assistance for local governments in

the application of policy. Insolvency legislation needs to be adopted in the absence of real estate value in shrinking communities; if a debt substantially exceeds the value of collateral for mortgage and there is no realistic expectation for the change in market values in the nearest future, there ought to be a possibility to cancel the debt and the dispossession of the property should be allowed. The private sector, in shrinking communities, is waiting for the state guarantees of commercial loans to be able to invest in housing. All this requires the development of specific state housing policy for shrinking regions, which presumes the acceptance of shrinking phenomenon at the state level.

Most of the post-soviet and post-communist countries in Eastern Europe experienced, as a result of the collapse of the Soviet Union, similar ownership transformation and the large-scale privatization of apartment stock and institutional settings as well as residential market conditions similar to those in Estonia. As such, Valga can be used as a strategic example for the local governments in Eastern European shrinking communities. Valga proves that prevailing private ownership of residential structures cannot be used as an excuse for the absence of a housing policy in shrinking communities. If government acts actively and adapts strategies on individual case-by-case basis, it is possible to overcome most of the obstacles. Residents generally respond well to the active housing policy of Valga's government and both demolition and revitalization activities have been positively covered in the local press. As only a small part of the vacant or abandoned housing stock has been removed to date and the first housing revitalization processes have just begun, it is difficult to fully evaluate the impacts of this proactive housing policy. If real-estate prices increase, urban space is more attractive and the quality of life for Valga residents improves, then Valga's municipality housing policy will be evaluated as successful.

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