

# **Large-scale restructuring processes in the urban space of Budapest**

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## Introduction

The all-embracing restructuring processes experienced in Hungarian cities, first of all in the capital city Budapest, are generally explained by the “mass privatisation” of the previously state – or co-operatively – owned agrarian land, of the state owned companies and the selling of the public housing stock to the sitting tenants after the political changes. This rough reasoning is completed by the stressing of the unprecedented speed of the conversion of public properties into private hands in contrast to the much slower similar processes in western cities. Even the best part of the Hungarian urban literature abstains from going beyond this level of interpretation. A more generalised argumentation calls the attention upon the effects of globalisation that forces cities to meet the “gambling rules” of the world-wide competition among central places, that is, to meet the homogenised expectations of the “world capital” also on local level. These latter views are often over-emphasised in popular discussions in Hungary by forgetting that the game has two players: even in the global space the public hand is, can be, in command of strong regulatory tools.

The Hungarian example of restructuring on both social-economic and urban-physical level well exemplifies the reciprocal character of the game. Whilst the country and its best located cities became an attractive terrain for the world capital after the collapse of their outmoded Fordist industrial plants, and because of the excessive shortages in the supply of up to date services, the public hand has been highly concerned in speeding up the processes of “imperative necessity”. This has been manifested itself both in the central governmental laws and generous subsidies to foreign investors and also in the behaviour of the local governments providing tax allowances and adopting submissive planning regulations in order to attract development onto their areas.

The outcome of privatisation and of this reciprocity of interests between capital and state, both central and local, was the provision of vast amount of cheap land around the cities and on the abandoned sites of manufacturing industries promoting green-field development, suburbanisation and also brown-field restructuring. Concerning housing the case is more complicated: alienation of the state owned stock to the sitting tenants in the inner part of cities has substantially counteracted restructuring pressures and resulted in specific gentrification trends. The three case studies presented later (chapter 5) – Ferencváros, Józsefváros and Erzsébetváros – should be seen as real exceptions. There the initiation of restructuring, “rehabilitation”, came from the side of the local, district, governments.

## 1. An overall gentrification process in Budapest after 1990

In order to give a comparative international background to the main urban processes in Hungary and Budapest it could be suggestive to remind the reader to some basic fields of research in the western urban literature. In the next parts of the paper concepts as rent gap, value gap and gentrification will be examined in international context. The rent gap and value gap theory will first be examined as they provide a useful conceptual background to the description of urban processes in Hungary and Budapest after 1990 when, after some dubious efforts to introduce “market relations” into state economy, vast amount of landed properties appeared on the scene of a real market economy.

### 1.1 Rent gap, value gap and gentrification in America and in Europe

According to Smith (Smith, 1979:545) the term of rent gap is defined as “the disparity between the potential ground rent level and the actual ground rent capitalised under the present land use.” The concept of value gap denotes a disparity between the “vacant possession value” of a property and its “tenanted investment value” (Hamnett and Randolph, 1986). As explained by Clark (Clark 1991:18) “the measure of the vacant possession value of a property is its sale price to a future owner occupier”. The rent gap theory has been an American concept where owner occupation of housing is less characteristic. According to it a rent gap arises when the neglect of a property leads to the decline of its value, measured in its capitalised ground rent. If the property, pursuant to its location (and/or its land use, zoning regulations) has a “better potential use” the rent gap arises and may result in a gentrification process if the residential use is continued. On the other hand the value gap theory originates from the UK and goes back to the widespread privatisation of the rental council housing stock. It was realised in Britain that a substantial increase in property values, that is a value gap, could be experienced after privatisation.

Both concepts are closely associated with the notion of gentrification. As explained by Smith (Smith, 2007) the most market-driven forms of gentrification were first experienced in the United States in the 1970s where “prior disinvestment ... create(d) urban neighbourhoods that (could) be profitably redeveloped”, predominantly in the centrally located parts of cities, as in Greenwich Village, Manhattan, New York City. This type of gentrification can be considered as its “classical” form because it arises largely through the operation of the market, that is, through actions of the property owners of the rental housing stock. These gentrification processes affected decaying lower status neighbourhoods that were colonised by middle and upper middle class people “leading to the displacement and eviction of existing people”. Since the first appearance of the concept of gentrification in the urban literature two basic themes have excited the interest of researchers and politicians.

Firstly, it is realised that gentrification has gradually been becoming a public strategy: fragmented processes in the housing market have shifted to deliberate development policies. Cities competing on the marketplace of the “new economy” are keen to attract the “creative classes” (intellectuals, artists, high-tech engineers etc.) into their gentrifying central neighbourhoods. They either pour direct subsidies into the market, like to artists in New York’s Lower East Side in the 1980s or support the process indirectly through large “regenerating” projects like the relocation of the Stock Exchange to New Jersey in 1998 (Smith 2002, 2007). In Europe the appearance of gentrification processes are inseparable from the large urban regeneration projects in many cases focused on the decaying central areas of the major “de-industrialised” cities like Liverpool in the UK or Rotterdam in the Netherlands (“... in the EU ‘regeneration’ has become little more than a gentrified word for gentrification.” – Smith, 2007).

At the same time European cities suffer from the fast decay of specific areas inhabited by the poorest segments of the urban society, especially by migrants. As these segregated areas are seen as the last resort also for those “evicted” from the gentrifying districts, official national and EU policies tend to side with the anti-gentrification struggles of left wing researchers, neighbourhood activists and civil organisations. However these policies are rather hypocritical. The declaration worded in the frame of a EU sponsored project for “An Integrated Revitalisation of Historic Centres” (Hist.Urban, 2008) devotes only one sentence to the social element of the program: “maintain or increase the population and ensure a balanced social structure”. The words “integrated” and “balanced” tend to hide the

complicated social effects of any urban regeneration, redevelopment programs. It should, however, be admitted that the EU has at least refrained from sponsoring projects with potential gentrification effects. (As will be discussed later, also Hungarian cities can get European money for urban programs only if they are directed to the “functional enrichment” of their centres or to “social renewal”, that is, the participatory management of the most segregated parts of cities.)

The second main sphere of research has been focused on the participants in the process of gentrification. An idealised model (Dangschat, 1988: 281) distinguishes between two characteristic groups, those of the “pioneers” and of the “gentrifiers”. In the first phase the pioneers, young, childless, well educated people, “invade” the neighbourhood, while lower status people – and other groups with lifestyles not compatible with that of the gentrifiers – gradually leave. In the second “succession” phase come the gentrifiers accompanied by the moving out of the pioneers from the neighbourhood together with the continued decline of the ratio of lower status people and of the “others”. No factual research in Budapest’s gentrifying districts proves the validity of this model but it will be demonstrated that the mass privatisation of the public rental housing stock has led to similar processes both in the inner city and in the large residential developments built between 1960 and 1990.

## **1.2 Rent gap, value gap and gentrification trends in Budapest after 1990**

In Budapest and in the large cities of Hungary the value gap theory has some relevance in the explanation of social trends in the privatised housing sector after 1990. Already under state socialism a limited market was in operation in the housing sector as well. After the 1970s in order to mobilise the housing stock it was permitted, although under strict limitations, even to “sell” a highly subsidised state owned rental flat in the “market” through changing it to a desired privately owned apartment or house. In the late 1980s the last socialistic government decided to withdraw a part of the subsidies by the lifting up of rental fees in the state sector. (The state owned sector was not a real “social housing sector” because the inner city rental building stock confiscated in the 1950s from its private owners and inhabited in large part by middle class people, also belonged to it.)

In many post-socialist countries housing was a “shock-absorber” in the first turbulent years of changes (Hegedüs & Tosics, 1998:151). In Hungary according to the 1993 Law on Housing tenants of the formerly state owned residential buildings were authorised to buy their flats with a cash payment not exceeding 15 per cent of their market price with a generous seller financing at a rate of 3 per cent. Until the end of the 2000s the share of owner occupation in Hungary increased from 70 percent to above 90 percent. Hungary was among the quickest among the post-socialist countries in privatisation and its magnitude highly overrides many of the European countries and also of its Central European counterparts (see Figure 2 later).

Seen in a pure theoretical manner, potentials to capitalise a value gap hidden in Hungary’s over-subsidised state housing sector became rather wide for the new owners after privatisation. As compared to the described western, British, rent value model the main difference is that in Hungary the beneficiaries of these potentials were not the property owners, that is, private owners of rental buildings, but the individual inhabitants, families owning their apartments in condominium form. There are many signs of the fact that Budapest and some bigger cities in Hungary have experienced an overall gentrification process since 1990. Adaptation of Budapest’s population to the new economy has been rather fast (Table 1): the rate of intellectuals increased by about one fourth in 11 years, until 2001, the year of the east national census. (This has been promoted also by the increased enrolment into higher educational institutions.) It is even more remarkable that this change has happened in a decade when Budapest lost about 250 thousand inhabitants owing to out-migration. Nevertheless, the capitol of Hungary was a real winner of the changes (Tosics, Szemző. Kőszeghy, Erdősi, 2001), as opposed to other regions, especially some peripheral rural areas and also cities that used to house heavy industry.

The relative increase of intellectuals, at a rate of as high as about one third even in some of the densely built, in many parts physically rather deteriorated, inner districts in Pest (6<sup>th</sup>, 7<sup>th</sup> and 9<sup>th</sup>. – Terézváros, Erzsébetváros and Ferencváros) well demonstrates the gentrification processes going on in the inner parts of Budapest. In the case of Ferencváros this can readily be explained by the redevelopment operations started in 1986, but in Erzsébetváros the similar actions got an impetus only after 2000.

Józsefváros's (8<sup>th</sup> district) low data goes back to its "stigmatised" nature because majority of the urban gipsy population is concentrated in some outer parts of it. (See about social renewal in chapter 8.) No comprehensive research has yet been done to survey background processes of the basic population movements in Budapest that, but both the specific human ecological structure of the metropolis and some well perceivable recent processes might provide "starting points" to the building up of a real "gentrification model" of Budapest.

**Table 1.**

**Rate of population above 25 with university/college degrees in Budapest's districts**

District	1990	2001	Change per cent/per cent	District	1990	2001	Change per cent/per cent
<b>I.</b>	35,2	42,6	21,0	<b>XIII.</b>	19,3	24,8	28,5
<b>II</b>	38,1	47,3	24,1	<b>XIV.</b>	19,2	26,3	37,0
<b>III.</b>	20,6	25,7	24,8	<b>XV.</b>	12,4	15,5	25,0
<b>IV</b>	13,9	19,1	37,4	<b>XVI.</b>	14,5	21,1	45,5
<b>V.</b>	28,2	32,1	13,8	<b>XVII.</b>	11,1	16,2	46,0
<b>VI.</b>	18,6	25,4	36,6	<b>XVIII.</b>	11,3	15,0	32,7
<b>VII.</b>	15,3	20,8	35,9	<b>XIX.</b>	13,4	17,3	29,1
<b>VIII.</b>	15,5	18,2	17,4	<b>XX.</b>	10,1	12,9	27,7
<b>IX.</b>	15,7	21,3	35,7	<b>XXI.</b>	9,7	12,6	29,9
<b>X.</b>	13,1	16,1	22,9	<b>XXII.</b>	14,7	21,7	47,6
<b>XI.</b>	28,0	33,7	20,4	<b>XXIII.*</b>		12,0	-
<b>XII.</b>	38,5	46,4	20,5	<b>Budapest</b>	19,1	23,8	24,6

Source: National Statistical Office, Hungary

\*In 1990 the XXIII. district was yet not an independent district.

Inner districts in Pest: V., VI., VII., VIII., IX., part of XIII. (residential)

Transitional zone (outside the densely built inner districts): part of XIII. (mixed), X. (mixed), XIV. (residential)

Outer districts in Pest: IV. (mixed), XV., XVI., XVII., XVIII., XIX., XXI., XXIII. (all residential)

Csepel Island. XX. (mixed)

Districts in Buda: I., II. (residential), III., XI., XII., XXII. (mixed)

(Mixed: industrial and residential in 1990)

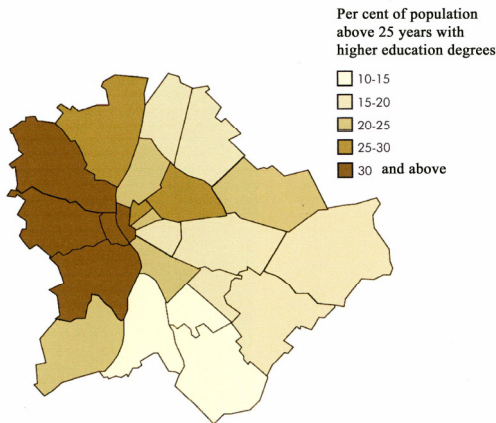
### 1.3 The human-ecological structure of Budapest

The spatial-sociological structure of Budapest is conceivable both by the concentric model of Burgess and by Hoyt's sector-model (Hoyt, 1939, 1968). The city's ecological structure only roughly corresponds to the concentric model of Burgess as Pest's CBD is surrounded by a densely built wide residential area followed by a formerly publicly owned zone called by some Hungarian researchers as "transitional belt" of mixed residential-industrial-commercial character (Ekler, Hegedűs, Tosics, 1980).. Outside this zone a ring of districts follows that grew in the second half of 19<sup>th</sup> century and in the first half of the 20<sup>th</sup> century. In this privately owned rural zone independent villages and towns were founded, which were annexed to Budapest in 1950 as its outer districts. Most of these settlements are inhabited even now by a lower middle class population. Behind them a second ring of suburban towns follows the fast growth of which started in the first part of the 20<sup>th</sup> century and is continued even now. The character of these suburban cities has been influenced by the large-scale morphological and environmental characteristics of the metropolitan region: the Danube, mountains and hills on the right bank side, flat land on the left bank side of the river.

Budapest's ecological structure and the changes within it can be better interpreted by Homer Hoyt's sector model. Hoyt's theory well explains the arrangement of the higher and lower status residential sectors in conformity with the spatial-morphological characteristics of the city, and with the locational patterns of industrialisation of Budapest in the second half of the 19<sup>th</sup> century. As in other western cities also in Budapest early manufacturing industrial developments followed the river and later the lines of the railways. In the end of the 19<sup>th</sup> century the first zoning plans marked out the south-eastern part of Pest (IX. district: southern Ferencváros) for a zone of "stinking industries". The concentration

of the most polluting industries in this part of the city greatly contributed to the development of the adjoining areas into lower status, workers districts (8<sup>th</sup>, 9<sup>th</sup> and 10<sup>th</sup> districts).

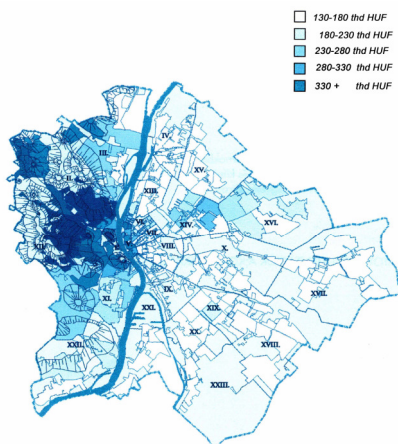
**Map 1**  
*Rate of intellectuals in Budapest's districts in 2001.*



Source: National Statistical Office

On the other hand higher status residential sectors grew in areas far removed from the industrial zones along some main transit roads towards East-West (Zugló: 14<sup>th</sup> district, 16<sup>th</sup> district), into South-West (Kelenföld, Lágymányos: 11<sup>th</sup> district) and to the west, the Buda Hills, the former vineyard of Buda, a specific high status “inner residential suburb” of Budapest. This star-like pattern of ecological sectors is intersected by the North-South axis of the Danube along which the conversion of the industrial uses to residential and commercial uses started as early as in the first part of the 20<sup>th</sup> century (South part of 13<sup>th</sup> district: Újlipótváros), a characteristic process continued up to recent times. This ecological structure of the city is well represented by the spatial distribution of the better educated people and of the housing prices in 2001 (Map 1 and 2).

**Map 2**  
*Housing prices in Budapest in 2001*



Source: Otthon Centrum 2003

#### 1.4 Start of a “western type” suburbanisation in Budapest after 1990

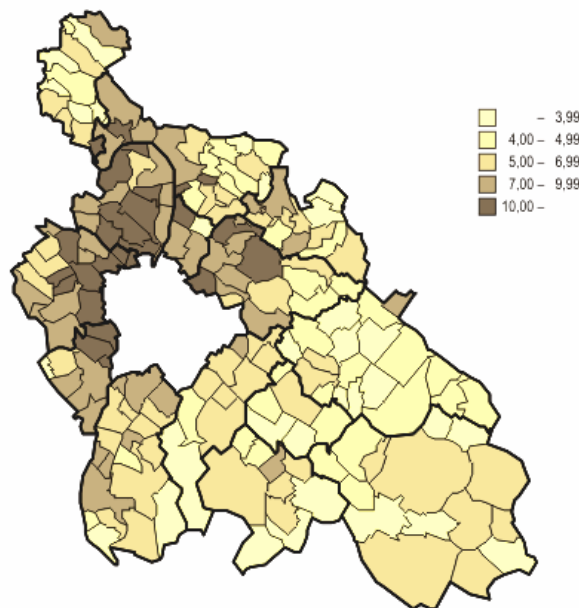
In the international urban literature suburbanisation is often seen as a corroborative of gentrification: processes of physical decay of inner city neighbourhoods are accelerated by the moving out of middle class people into suburban settlements, or into better parts of the cities, then increasing vacancy rate and the widening rent gap opens the space before the gentrifiers. In the metropolitan region of Budapest this reasoning is rather questionable as gentrification goes parallel to suburbanisation; and



no, or only very short “time-span” could be observed between the two/three phases of gentrification, discussed earlier. This specific phenomenon can be traced back to the “shocking” character of housing privatisation in the first part of the 1990s when most of the transactions from public to private ownership were completed in few years, in many cases immediately followed by private-private transactions. As far as suburbanisation is concerned, also a shocking change played an important part: the suburban settlements around Budapest became really autonomous municipalities able to perform their own “growth policies”.

Before the economic and political changes suburbanization in the metropolitan region of Budapest was rather dissimilar to that of the big cities of the West (Kok and Kovács, 1999). A great part of the population growth in Budapest happened in its “inner suburbs”, that is, in the formerly individual cities annexed to Budapest, in the prestigious Buda Hills and in the “grand residential ensembles” the majority of which were built also in these areas and in the transitional belt. At the same time extensive residential areas were also developing in these outer districts of Pest in the form of single family house districts, in many cases with self help construction. Parallel to this growth in the outer ring of the city the infrastructural development of the settlements in the suburban zone beyond the administrative border of Budapest was forcibly retarded by state policies in order to keep the “labour power” needed by the city and its large Fordist industrial plants within the boundary of the city. At the same time in the 1960s, and 1970s also an “immigration ban” was introduced by Budapest in order to keep immigration to the city on a manageable level.

**Map 3**  
**Managers among 100 employees in Pest County in 2001**



*Source: National Central Statistical Office*

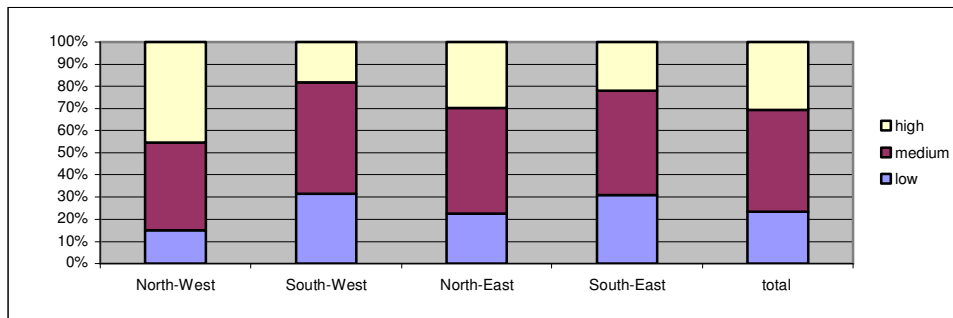
Owing to these two contradictory policies in the state-socialistic period the character of suburbanization in the ring of settlements around Budapest can be characterised as a kind of “rural suburbanization” (Korcelli, 1990). Until 1987 out-migration from Budapest to Pest county and in-migration from Pest County into the city was balanced. Until the first years of transition fast growth of the suburban ring was fed also by immigrants from remote areas of the country, not able to settle in Budapest but looking for acceptable housing opportunities close to the city. A great part of both out-migrants and immigrants were semi-skilled blue collar workers or employees in lower ranks of the state administration who generally built their homes in a self-help form.

A western type suburbanization got an impetus only after 1990 with a yearly 10 thousand plus on the side of the out-migrants (Kok and Kovács, 1999: 127). Since then the social composition of migrants has changed substantially, the share of higher status people in out-migration has grown fast. This

western type suburbanization has taken a rather specific “radial” shape (Map 3). By dividing the suburban zone into four radial sectors, a geographic study (Kok-Kovács, 1999: 136) revealed that the share of residents with greater household incomes is rather high in the North-West and in the North-East sectors of the zone, while their share is much lower in the other two sectors (Figure 1). It is rather interesting that these four sectors actually constitute a spatial continuation of the described ecological sectors within the city. The two “higher status” suburban sectors are located in an attractive environment (in and behind Buda Mountains, and towards the Gödöllő Hills). On the other hand the in some parts overpopulated southern zones on flat land are much less attractive for the more well-to-do.

**Figure 1**

**Share of population in the metropolitan belt according to household incomes**



Source: Kok-Kovács, 1999

### 1.5 Who are the “gentrifiers and those excluded from the advantages of gentrification?”

For want of comprehensive research only rather vague answers can be given to these questions. Although the traditionally low level of housing mobility (3-4 per cent mobility index) did not improve substantially in the 1990s some indirect data show that the filtration processes strengthened (Hegedüs, 1999:228); despite much smaller amount of new residential construction the number of housing transactions did not decrease. Also the growing share of vacancies (7-9 per cent) show that the number of transactions (1,4 yearly in the 1990s) caused by one newly built dwelling increased substantially.

Also day-to-day experiences in housing mobility trends in the 1990s in the inner parts of Budapest tend to prove the presence of an extensive gentrification process caused by privatisation. The various groups of households affected by the process can be classified as follows:

- those, who were able to buy and re-sell on market price their highly subsidised rental flats situated in the best parts of the city and who have been able to move into a better quality environment either within Budapest or in a suburban town,
- foreign managers, who are moving into the best quality residential buildings in the Central Business District of Budapest or into prestigious dwellings in the Buda Hills,
- young people (university/college students, Hungarian and foreign, starters without children) both from Budapest and the countryside, who were able to buy or rent a flat on an affordable price in the less prestigious inner parts (6<sup>th</sup>, 7<sup>th</sup>, 9<sup>th</sup> and also 8<sup>th</sup> district!) of the city,
- low or modest income households, elderly people who started to suffer high maintenance and service costs, the latter gradually raised onto market level, selling their flats to those capable to cover the high expenses, and who are forced to move into homes with less costs either within Budapest or outside of it.

A great part of the latter group can be classified as losers of the process. For them the “windfall” of the “value-gap money” meant a last resort to escape from Budapest’s the high living costs. In many cases these, for the most part less educated, people were able to find an acceptable home only in villages in the countryside without enough or adequate workplaces, consequently the only chance for them remained to run through their small remained wealth. A great part of people in this group moved from the multi-story great housing developments the market prices of which have remained relatively low and where the housing costs increased most because of the high price level of distant heating.

A special population group in Budapest are the gipsy households with relatively many children. The better-off gipsy families, who are able to cover the price of a privatised flat generally move into the East part of Pest (middle part of the 8<sup>th</sup> district, Józsefváros) and to Kőbánya (10<sup>th</sup> district) together with the growing Chinese population. Here a special trend is the emergence of a relatively closed “gipsy housing market sector” together with the gradual adaptation of some of these gipsy families to the “Hungarian” life-styles and cultural standards; a positive outcome of privatisation less stressed by researchers of gipsy life.

To sum up all these, in the 1990s up- and down-filtrations in Budapest’s housing sector have been the outcome of the all-embracing privatisation of the housing sector surpassing in measure even that in the UK under Ms. Thatcher. Other factors were of less significance. In the early 1990s new housing construction in Budapest dropped to a minimum (3000 per year: 15 per 10 000 p., it grew up in 2005 to about 7500: 43 per 10 000 p.), while construction in the metropolitan region of the city was two/three times higher than in Budapest. It should also be added that in the 1990s only very few new constructions were accomplished in the inner city. Thus we can conclude that the exclusionary trends experienced in this period were neither the outcome of new housing construction nor of large-scale urban redevelopment, “restructuring”, operations; the latter were actually localised to a part of Ferencváros. The majority of those who have been excluded were the less successful who belonged to the less educated, low income people who had to move from the city owing to its increasing living costs.

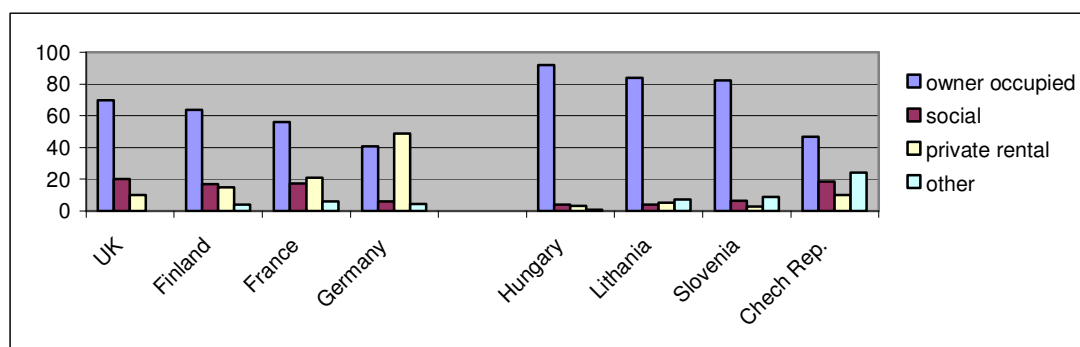
Recent fierce criticism against the exclusionary character of urban restructuring (see the Erzsébetváros case study later in chapter 7) is the consequence of the growing pressure exerted by the private development sector onto some local, district, governments (7<sup>th</sup>, 8<sup>th</sup>) in order to take possession of a part of the value gap “hidden” in those residential buildings that these districts kept in public ownership. It should also be added that since 2000 private developers, “speculators”, have been supported by generous state subsidies on new housing and, a serious error made by planners in Budapest, also by extremely submissive zoning regulations. These themes will be discussed in the coming chapters.

### 1.6 Restructuring of the housing sector, effects of subsidies on urban renewal after 2000

Rental residential buildings in the inner part of Budapest were confiscated from their private owners, in 1950. After 1990 this stock was first transferred to the local, district, governments then, according to the 1993 Housing Law sold to the sitting tenants. In the first decade after the political/economic changes the great majority of these flats were bought by the tenants, only less than 10 per cent remained in the hands of local governments. To this latter group belongs the worst quality stock inhabited by the most poor population strata, who were unable or unwilling to buy their flats and also the heritage buildings and those that were located in areas designated as “urban rehabilitation” action areas by official urban plans. The local, district, governments were allowed not to sell their flats in the official rehabilitation areas in order to be able to manage their “comprehensive” renewal projects. The housing tenure system of Hungary generated by the privatisation process substantially differs from both that of the western and some of the former CEE countries (Figure 2).

**Figure 2**

**Comparison of the housing tenure systems of selected European countries around 2000**



Source: Scanlon and Whitehead, 2004

In Budapest a great part of the about 9 per cent publicly owned rental stock represents a small “social residential sector” with rents regulated by the district governments. Most of the rehabilitation action areas (the three largest: Ferencváros, Józsefváros, Erzsébetváros, chapter 5) were selected before the changes in well accessible parts of the city, but with a great proportion of neglected buildings and with a relatively high share of substandard flats. This “less-than-medium” quality housing stock in the rehabilitation areas was originally inhabited by lower middle class population mixed with higher status people as well.

Already in the mid 1980s a gradual but definite withdrawal of the state from the residential sector was discernible. State building almost vanished to the early 1990s together with the gradual closing of the “channels” of public allotment of rental flats. The subsidies on new construction were also withdrawn, the former 3 per cent rate on housing loans was lifted up to market level together with some programs that assisted the indebted to be able to repay the much higher sums. As a result of these, accompanied with the economic recession in the first part of the 1990s, demand for new housing fell to a minimum. In the second part of the 1990s institutions (mortgage lending, saving banks) required by a western-type housing finance system were built up and also the private development and construction sector gained some strength. A definite change came in 2000 (Rózsavölgyi-Kovács, 2005) when the ruling government launched a new housing subsidy system. This new scheme allocated substantial funds for subsidising interest rates on long-term mortgage loans for the purchase and construction of new homes. Later the scheme was extended to purchasing, enlarging and modernising existing dwellings. These subsidies were coupled by a personal income tax reduction. Later, in 2003 and 2004, in the light of increasing central government budget deficits and under the worsening macroeconomic conditions, the next government tightened the conditions of these subsidies. In particular tax exemptions in personal income tax were substantially reduced.

Owing to the accelerated economic growth since the middle 1990s and as a result of the housing subsidies residential construction got an impetus after 2000. However, the architectural and locational characteristics of this revival of new housing construction have been rather unexpected in Budapest. Developers of the new “residential park, residential gardens” found the abandoned industrial sites of the city together with the some green-field areas around the single family, owner occupied outer zones. Locational preferences of the builders have been the strongest for the abandoned industrial zones along the Danube, both in the North and in the South part of the city (3<sup>rd</sup>, 13<sup>th</sup>, 9<sup>th</sup>, 11<sup>th</sup> districts). Smaller scale private residential construction programs are in progress also in some mixed-use districts, like in the typical workers district, Kőbánya (10<sup>th</sup> district) where smaller industrial plants were traditionally embedded in low-rise residential areas (chapter 4.5). At the same time residential construction in the inner city has remained insignificant in numbers. With the exception of the publicly initiated redevelopment/renewal project in Middle-Ferencváros (9<sup>th</sup> district) where the operations started in 1986 larger scale “demolish and build” programs started only in Józsefváros (8<sup>th</sup> district) and Inner-Erzsébetváros (7<sup>th</sup> district) only after 2000 (chapter 5). A relatively small amount of new residential constructions, part of the in 75 per cent central state sponsored affordable new housing scheme, have been accomplished on sites of demolished low-rise workers tenements in rather bad conditions.

In sum, the general effects of the subsidies focused on new construction have been rather contradictory (Hegedűs, 2004:225). As larger dwellings are underrepresented in the Hungarian housing stock it has been rather disadvantageous that the share of small dwellings remained high in the new private construction. (This was the case in state building under the state-socialistic period too.). The new state subsidy system strengthened suburbanisation trends: about 70 per cent of new housing has been built in the metropolitan zones of cities. But, as far as the subject of this paper is concerned, the most important negative effect has been the new scheme’s incapability to promote urban renewal. Moreover they tend to re-orientate resources from renewal to new housing. That’s why the city of Budapest, together with some districts, was obliged to introduce a specific support system of its own (chapter 3).

## **2. Other specific factors influencing restructuring processes in Budapest**

Three more factors should be examined in more detail that are playing a decisive role in the processes of gentrification:

- privatisation of the state owned companies and “restitution” in agrarian land to its former owners,
- the new decentralised local governmental system of Hungary and of Budapest,
- the new urban planning system of Hungary and Budapest.

### **2.1 Privatisation of the state owned companies and a partial restitution in agrarian land**

The privatisation of the formerly state owned companies started, following a short period of the so called “spontaneous privatisation” in the late 1980s, after the first free elections in 1990. Although in Budapest a substantial part of the manufacturing industries have continued operating after privatisation a great number of them went bankrupt with their premises left unused. Some industrial sectors, as the textile industry, vanished from Budapest once for all. Thus a huge amount of “development land” fell into the hands of the new owners. The oncoming laws regulating privatisation authorised local governments to apply for the 50 percent of the value of the land of the privatised companies in shares, “vouchers”, but only few of them used this potential to build up a land bank of their own. Already in the first years of the 1990s the growing amount of private development land gave way to a fast growth of the commercial, retail and office, sector in Budapest (chapter 6).

The local governments were also authorised to get possession of agrarian land within their built up areas but the most influential process was a partial compensation of the former owners of agrarian land that was confiscated from them after 1948. This compensation didn't take the form of a real restitution, the beneficiaries were provided with marketable shares. Also members of the former socialistic agrarian co-operatives were compensated. Also some big state farms, converted into self-managed limited companies, became highly interested in real estate development. A general outcome of these processes was a growing development pressure on the fringe of cities exercised also by the new landowners. Thus the compensation measures largely contributed to the speeding up of suburbanisation trends in the surrounding towns and villages and also gave way to large commercial developments (logistic centres, shopping centres etc) in the metropolitan region of Budapest, especially along the motorways and the main distributor roads.

### **2.2 The new decentralised local government system of Hungary and Budapest**

In the period of political and economic changes decentralisation was seen as a key dimension of the national transition from a command to a market economy. The general concept was that “the total level of public sector activity must be dramatically reduced, but at the same time the new sub-national governments must be allowed to build staff and institutional capacities.” (Bird-Ebel-Wallich, 1996:2) Even the smallest villages were provided with the status of autonomous local governments, together with the 22 (later 23) districts of Budapest. The central government of Hungary, however, was not keen to allow the local governments to develop into powerful political entities. Their financial independence was substantially restricted, the share of central government transfers remained high in their budgets, rate on the established local taxes were limited by the state. Later those local governments that had a high revenue potential from local taxes were “punished” by reduced central government transfers.

Budapest's situation is rather contradictory. Its local revenue collection potential is high, at the same time this potential highly differs among its districts. Thus the Municipality of Budapest is compelled to accomplish equalising/compensating measures among its districts in the same way as it is done by the central state among the more than 3200 Hungarian local governments. The Budapest City Hall is responsible only for the maintenance, development and operation of the principal infrastructure of the city, together with some public institutions. On the other hand most other urban development measures are initiated and executed by the districts. The Municipality of Budapest acts as a quasi “higher level”

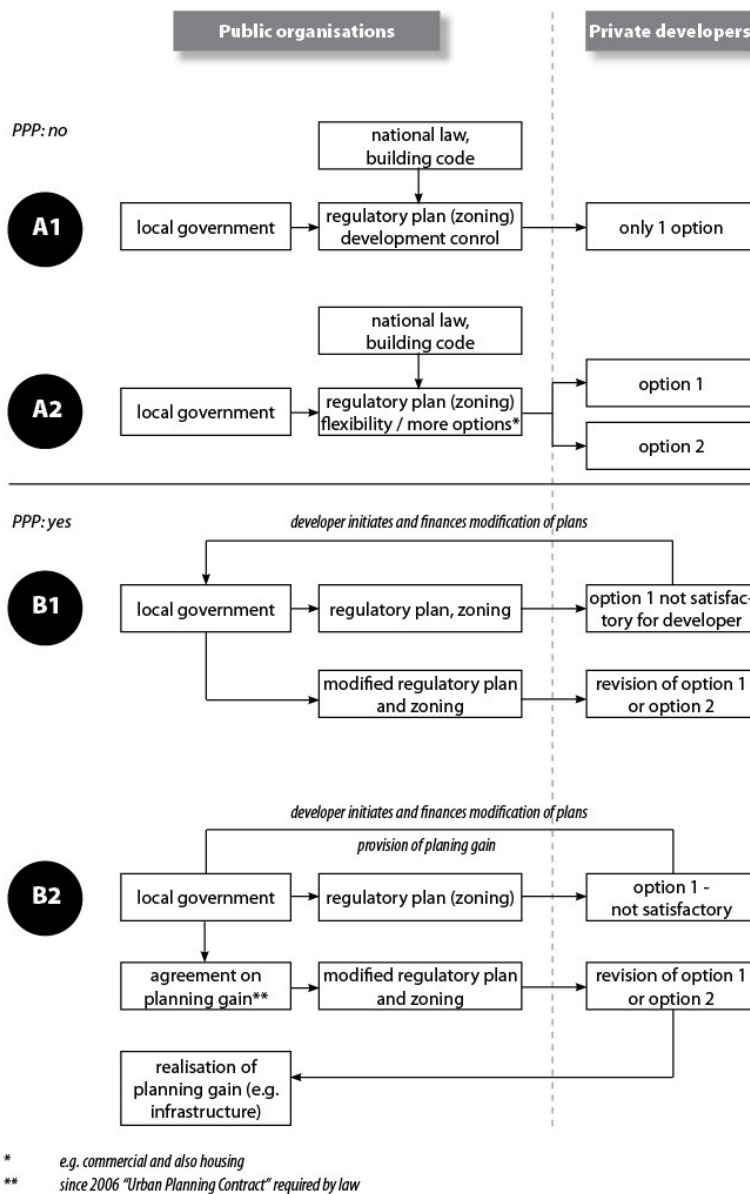
government only in few cases, as in subsidising urban renewal measures of the districts and renovation works in the privately owned condominiums.

### 2.3 The new Hungarian urban planning law and Budapest’s specific planning system

Also in urban planning the City Hall of Budapest plays a specific “intermediary” role. The 1997 Law on Formation and Protection of the Urban Environment (the new “planning law”) authorised Budapest to adopt a “Framework Regulatory Plan” and a “Framework Planning and Building Code” for the whole territory of the city. The same Law also enabled the districts to adopt their own plans and zoning regulations in accordance with the City’s plan and code. Budapest determined the basic land use categories and the maximum levels of building densities in the specific zones. The latter figures were specified as the highest acceptable dimensions in a hope that the districts would render them more “rigorous” corresponding to the local conditions.

**Figure 3**

**Public-private partnership relations in operation of the new Hungarian urban planning system**



Only in few cases this expectation of the law-makers of the City was fulfilled by the districts. Being in a competitive situation against each other most districts introduced the enabled highest density figures into their plans and regulations in order to attract private development onto their areas. After the late 1990s, when private development gathered momentum in Budapest this permissive behaviour of local planners started to be manifested in developments of awfully high densities both in the central city and in the outskirts. In some cases densities of the new developments outnumbered existing figures in the neighbourhood by one and a half or two. (For instance 5,5 sq metre/sq metre floor-space ratio in the central city or 1,5 ratio in the single family house districts.) People in the peripheral single family house neighbourhoods are becoming more and more hostile to multi-family condominium and “residential park” constructions, in the inner parts of Budapest some civil organisations (see Veto! later, chapter 7) started to intervene against high density commercial and residential developments. Although local officials becoming increasingly aware of the intolerable situation, reduction of the permitted density figures is rather problematic as the owners (developers) of building sites are entitled to compensation if “an urban planning decision changes the permitted use of a building site in a way that it reduces the value of the property”.

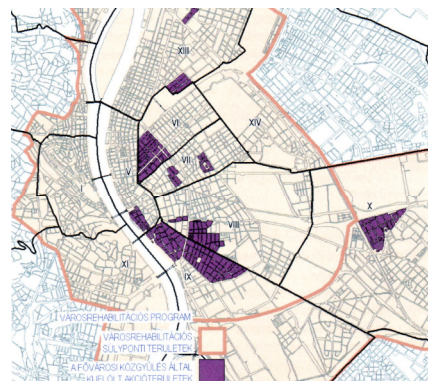
Regarding revisions of official urban plans the new Hungarian planning system is rather permissive too (Figure 3). Although private entities are not authorised to apply for the revision of a plan and its regulations it became a usual practice that the developers pay the costs of the working out, or revisions, of plans, in their own interest. In the process of negotiations with the entitled officials and bodies of the cities (mayor, chief architect, committees etc.) they might offer some “planning gains” to the local government mainly in the form of undertaking some public infrastructural developments that are needed for the realisation of the project. In many cases the negotiations end up in increased permitted building densities as a compensation for the “planning gains” dedicated to the local governments. As these negotiations are again and again open to the suspicion of bribery a 2006 revision of the Hungarian planning law introduced a new legal institution called “urban planning contract” included also in the German planning law (Baugesetzbuch) This legally verified system can also be considered as a basic model of public-private partnership operating within the official urban planning system. (See Figure 3)

### 3. The Urban Renewal Program of the Municipality of Budapest

In 1997 the Municipal Government of Budapest adopted its Urban Renewal Programme that introduced a system of subsidies in co-operation between the Municipality of Budapest and its districts. In order to concentrate resources, the Programme identified those large areas of the city where negative features have most seriously been accumulated, where a need for public intervention is most justified and urgent. The Program delineated the so called target areas of renewal as follows:

- the South-East industrial sector of the so-called transitional zone,
- the densely built inner city,
- clusters along the main radial roads,
- centres of the outer districts, those of the former “border cities”.

(Later the last two areas were deleted from the priority list.)

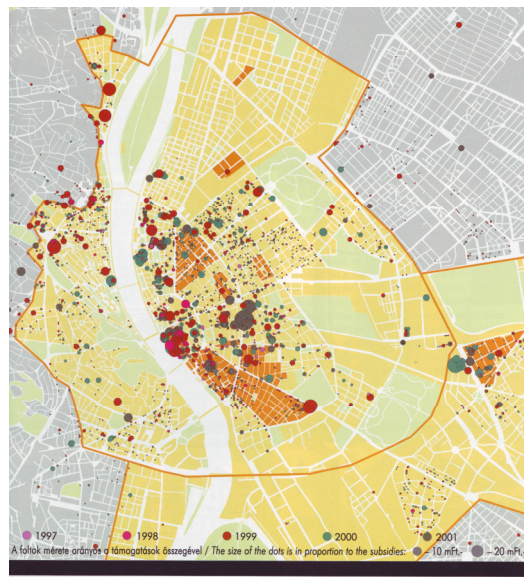


Target areas and action areas according to the 1997 Urban Rehabilitation Program

Furthermore, in order to further concentrate resources, the Program proposed to designate so-called urban renewal action areas within the target areas. Having recognised that the district municipalities should play an outstanding role in urban renewal, the Programme left the identification of action areas to their initiatives. Based on the proposals of the district, the Municipality of Budapest approved the designation of eleven action areas in the late 1990s (recently 21 action areas are in operation) which include areas of a size of only a few blocks as well as sizes with an area of a whole neighbourhood. The objectives of the Programme are:

- the renewal of buildings owned by the municipality and by private owners,
- the renewal of public areas and infrastructure,
- some major restructuring of infrastructure in the action areas.

The Municipality of Budapest agreed in the provision of support to renewal programmes of both the Districts and the private condominiums. The financial instrument of the Programme is the Urban Renewal Fund, which provides subsidies based on a yearly application procedure. At the beginning of its operation the main resources of the Fund consisted only of payments made by the district municipalities. Based on a legislative requirement included in the 1993 Housing Act, 50 per cent of the revenues collected in the course of the privatisation of rental flats had to be paid by the districts to a separate account of the Municipality of Budapest. This sum may be used only for the renovation of residential buildings owned by the municipalities. As privatisation progressed this resource have been diminished, the Municipality of Budapest started to supplement the money out of its own budget. Thus, now the Fund may support also renovation programmes of condominiums and complex urban renewal programmes in action areas (demolition, development of public areas and infrastructure, parking, landscaping etc.).



#### **Distribution of condominium subsidies up to 2001 within the target area and in action areas**

The Fund provides non-refundable cash subsidies and interest-free loans. The non-refundable cash subsidies of the Fund presume the use of a same amount of own resources in the case of district programmes. In the case of subsidies to condominiums the same amount is required from the districts. This rule is not applicable when the support is provided in the form of interest-free loan. The experiences with the utilisation of the Fund show that those districts that had detailed comprehensive programmes could receive considerable development support. Similarly, condominiums were able to receive significant amounts if also the district at hand operated a support system that provided non-refundable subsidies at significant amounts.

Until 2006 the Government of Budapest provided 5.553 million HUF to support the renovation of district owned rental buildings and the various renewal programs of the districts. By gradually increasing its own contribution until the same year the Fund spent 1.918,9 HUF to district programs



(1.017,4 million non-repayable subsidies, 902,4 million subsidised loan). Budapest also provided a large amount of support to condominiums and housing co-operatives: 5.931,7 million HUF (4.339,8 million non-repayable subsidy, 1.591,9 million loan). The total sum of subsidies amounted to 13.404,5 million HUF. In the first years the share of payments on complex, action area operations was high but later the proportion of payments to condominiums increased. The rationale behind this change is that until the end of the 1990s the privatisation procedure was over in most inner districts of Budapest. On the one hand the loss of the majority of public property severely impedes the realisation of complex renewal programs; on the other hand it explains the growing participation of condominiums in the Program. A survey conducted in 2006 (Ecorys, 2006) revealed that the greatest number of successful applications came from condominiums from the four inner districts (5<sup>th</sup>, 6<sup>th</sup>, 7<sup>th</sup> and 8<sup>th</sup>), which operate their own condominium support systems.

The growing share of subsidies to condominiums has some disadvantageous outcomes. The spatial concentration of the subsidised buildings is low, thus the support system can only slightly contribute to the complex regeneration of a contiguous area. Many of the applications refer to long-postponed small-scale renovations, unavoidable improvements, the proportion. It is a general experience that only condominiums in the more prestigious districts (5<sup>th</sup>, 11<sup>th</sup>, 13<sup>th</sup>) are able to undertake more comprehensive renovation programs. The social composition in condominiums might also hamper the taking part in the competitions for subsidies. This is caused primarily by the missing cooperation, in some cases also distrust, among the owner-occupiers, by the inactivity and the frequent “counter-interest” on side of the hired private building-managers and the social composition of the inhabitants with diverse economic backgrounds. A frequent consequence of all of these factors is the resistance of the community of inhabitants to enter into special programs that would help the most disadvantaged to participate in renovation programs. (A law authorises the condominium to take over their burden.)

Because of the low “rehabilitation efficiency” of condominium subsidies the view that the “dispersal of money without any concept”, providing “gift to private owners” are rather widespread even among experts. Others argue that, instead of giving subsidies to individual buildings, the regeneration process should be induced by the improvements of public spaces. In the urban structure of Budapest, however, the effectiveness of this solution is also low, especially along the narrow side streets. Despite all these shortcomings the system of condominium subsidies has proved to be a successful program because of its direct and useful impacts on the inhabitants and also because the potential for the large scale, comprehensive programs has been diminished after the end of “mass privatisation”.

The Budapest Government provides, in addition to the Rehabilitation Fund, also 100-150 million HUF subsidies per year to protected buildings in the framework of its Urban Heritage Support scheme. Another support scheme is the Strategic Fund that serves infrastructural improvements. The renewal of a municipally owned main distributor may also function as an “indirect subsidy” if it affects a part of a district where renewal operations are going on.

## **4. Main restructuring processes in the urban space of Budapest**

In this section a comprehensive overview of the spatial restructuring processes in Budapest will be given. The description will cover both large scale, spatially extensive conversions in land uses, spread over in some cases to a whole district or a large part of it, and also minor transformations as the appearance of streets with specific new commercial uses. The overwhelming majority of these transformations have been initiated by the private sector that owns the bulk of landed properties within the city and beyond its boundary. These private initiatives are in most cases supported by the districts competing against each other for new development.

### **4.1 Gradual conversion of the downtown of Budapest into a CBD**

Until as late as the 1980s the central part of Pest (V. district: Belváros /Downtown/ and Lipótváros) retained its relatively high status as a predominantly residential area. The Central Business District of Budapest was made up only with the Hungarian Parliament, the Ministries, the most important governmental offices and the headquarters of some big state companies. In the state-socialistic period

even a ban on new office developments was in force in order to keep out the traffic which they would have generated. The first new commercial projects that appeared in the Downtown were some Western hotel-chains at strategic points as the Danube or Kálvin Square in the 1980s.



### **Centre of Budapest (Downtown, Lipótváros with Erzsébetváros) and Március 15. Square**

Already in the early 1990s international companies started to raise demand for good quality office space for their employees, later for their headquarters. In these years the target area of office development was restricted to Pest's Downtown (5<sup>th</sup> district) and to some areas within the Grand Boulevard and in Central Buda. Nevertheless, the transformation of the centrally located areas of Pest into a real CBD is a rather multifold and slow process. As there are only few infill sites and since also here the majority of flats in the better quality multi-story buildings were bought by the sitting tenants, the conversions or new building on cleared sites can be carried out only after the "buying out" and compensating the individual owners of the condominiums. Another gradual process is that smaller local and foreign companies (private consultant firms, architectural studios, dentists, lawyers etc.) buy only single or next-door dwellings in condominiums, in some cases a total floor. (Their settling down in old buildings usually furthers renovation because of their capacities to pay higher sums into the common budget of the condominium.) As in the 1990s the demand for up-to-date quality rental office space fast increased the yearly production of new office space has increased from 20-30 thousand square metres in the first years after the changes up to 70 thousand in 1997. After 2000 the yearly production exceeded 180 thousand, in the last years it dropped to about 100-120 thousand. At present Budapest's good quality office space amounts to about one and half million square metres.

These processes have generally been promoted by the affected district governments, especially by the 5<sup>th</sup> district. There a successful public space improvement program at the leading catholic church of Budapest ("Basilika") gave an additional stimulus to the refurbishment activities and to a radical change of the cityscape with a growing number of first class restaurants and pubs. (Also the Central European University moved to this district after refurbishing and interconnecting two old residential buildings.) As seen in chapter 7 the extension of the CBD was the original plan in the 7<sup>th</sup> district as well but there the concept changed substantially in the late 1990s. Recently large-scale refurbishment operations are going on close to the traditional shopping street (Váci Street) of Budapest thanks to a good co-operation between the district government and some leading developers and investors.

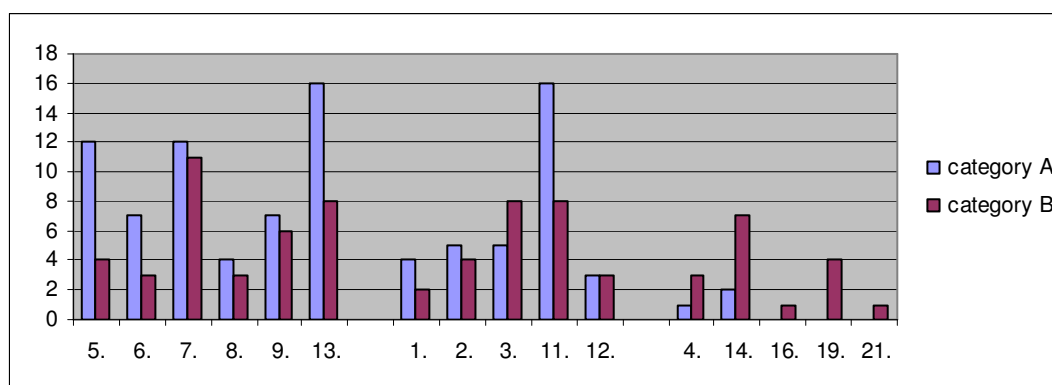
However, Figure 4 and Table 3 indicates that the strengthening of CBD functions has not been restricted to the traditional urban centre of Budapest: from the 94 new "A" category office developments only 54 is found in the central districts of Pest, while 33 is located in Buda. After 1990 conversion of some old industrial buildings to medium quality offices started along "outer" Váci street (13<sup>th</sup> district, chapter 4.2) together with new constructions on abandoned industrial sites. In the same period Inner Buda (1<sup>st</sup> and 2<sup>nd</sup> and also 11<sup>th</sup> district close to the principal motorways) started to provide attractive locations for high prestige developments.

**Table 3**  
**Location of „A” and „B” category offices in Budapest in 2007**

Area (districts)	Category “A”		Category “B”		“A”+“B”
	No	Per cent	No	Per cent	Per cent
<b>Inner Pest (V.,VI.,VII.,IX.,XIII.)</b>	54	57,4	34	43,1	50,9
<b>Buda (I., II., III.,XI., XII.)</b>	33	35,1	25	31,6	33,5
<b>Other areas</b>	7	7,5	20	25,3	15,6
<b>Budapest total</b>	94	100,0	79	100,0	100,0

Source: [www.irodahaz.info](http://www.irodahaz.info)

**Figure 5**  
**Number of high quality office spaces in Budapest’s districts in 2007**



Source: [www.irodahaz.info](http://www.irodahaz.info)

It is rather suggestive that these locations to a great extent correspond to the high status residential sectors of the city, described in section 2; namely, a substantial part of the main CBD functions tend to “move” along the ecological sectors of Budapest. This trend is supported also by the number of dwellings converted to offices. According to the 2001 national census 10713 of the 14008 dwellings (76,5 per cent) “used for other purposes” was found in the districts listed in Table 2. (The highest figures are shown by the 5<sup>th</sup>, 6<sup>th</sup>, 13<sup>th</sup>, 2<sup>nd</sup> and 11<sup>th</sup> districts.) As discussed, this specific feature of “CBD restructuring” of Budapest is explained by the few vacant lots and the cumbersome and costly operation of converting privatised condominiums, or their sites, into offices in the central city of Pest and also by the intention of the developers to build in environmentally attractive areas where the better trained people live.

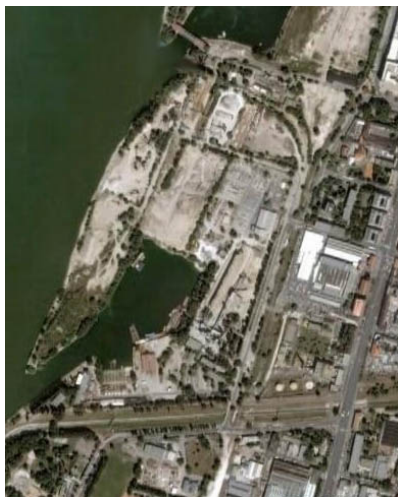
#### 4.2 Linear type radical restructuring processes along some main access roads

As shown in the former section, two districts, namely the 11<sup>th</sup> in South Buda and the 13<sup>th</sup> in North Pest, present a substantially high share in the processes of CBD restructuring. In these two districts transformation of land uses are influenced by a complex set of conditions. Both districts are adjacent to the river Danube, both are relatively close to the city centre. In the 13<sup>th</sup> district (Újlipótváros, Angyalföld) the Metro line No 3 was built under outer Váci street in the 1970s, the 11<sup>th</sup> district (Kelenföld, Lágymányos) is cut through by the two principal motorways, No 1 and No 7. In the 11<sup>th</sup> district three important distributor roads (one of them newly opened) lead to the southern parts of Buda and to the motorway No 0 (the outer ring). In both districts the 19<sup>th</sup> century industrial development followed the line of a principal road (outer Váci Street and Budafoki Street respectively) bordered with industrial plants along the river Danube that used to be serviced also by railway. Owing to their highly advantageous position these two areas became the scene of the first “brown-field restructuring” processes after 1990.

The 13<sup>th</sup> district of Budapest is made up of two distinct areas. Its South part includes Budapest’s most valuable high density residential area (Újlipótváros) built in the between war period. Its northern part (Angyalföld/Angels field) used to be a real workers district with 10 of the 18 most important

engineering industries of Budapest. Between 1990 and 1995 the number of closing-downs of industrial plants along outer Váci street was the highest in the city, the engineering industry almost vanished from the district. Conversion of industries into banks and offices came first followed by two shopping centres, one of them (West End Shopping Centre) adjacent to the high status residential areas of Újlipótváros. Patterns of conversions into new uses fall into three groups: (i.) large-scale investments on sites of the demolished industrial premises (banks, new offices and shopping centres), (ii.) refurbishment of premises (auto and furniture showrooms, restaurants etc.), (iii.) renovation of buildings (wholesale trade, warehousing). The few yet functioning industries are of middle size, majority of them employ 300-500 persons.

As property values started to increase, the restructuring process extended to the background areas and to the Danube bank where residential development was launched in substantial dimensions after 2000. While between 1990 and 2000 only a total of 2000 new dwellings were built in the 13<sup>th</sup> district, in 2006 and 2007 Újlipótváros and Angyalföld lead the housing construction statistics of Budapest with a yearly production of more than one thousand. Office developments are in progress close to the head of Árpád-bridge along the third ring road of Pest, high density residential construction is going on around a bay-head of the river (Foka öböl).



**Foka Bay in Angyalföld before development and the high-rise “Marina Park” overlooking the Danube**

The district’s development strategy includes supporting measures (Studio Metropolitana, 2001, 2007) as tax allowances (from company tax) to the newly settling companies, consideration of the interests of the investors at revisions of urban plans, a strong lobby activity for public infrastructural developments and – last but not least – indirect subsidies through high permitted densities. The district was the first to promote the erection of high-rise office buildings at the intersection of two important distributor roads. Because of its conservative development policy the City Hall of Budapest gave a red light to “skyscrapers” and high densities and poor architectural qualities are severely contested by the architectural community.

**Restructuring processes in the 11<sup>th</sup> district** are very similar to those in Újlipótváros and Angyalföld. Here the building of a new bridge (Lágymányosi bridge) and the opening of a new road (Szerémi street) in the early 1990s gave a new impetus to the land use conversions started in the early 1990s along Budafoki street that leads to South toward the principal national road No 6. North to the head of the bridge a new campus was built for the University of Sciences and for TU Budapest together with a “knowledge park” that attracted into its 13 hectare site leading international companies as IBM, Hewlett-Packard, Panasonic, Pantel, Axelero, Maxell. The shares of Infopark Ltd. are owned in 75 per cent by the state in 25 percent by the two universities. The park is developed in a PPP form, developers of the sites are provided with a 99 year lease, otherwise Infopark is operated as a rental office park. While the public-private partnership among the state, the universities, the developers and

investors has proved to be rather successful in the Infopark project, another PPP project close to the river is subject to severe political attacks (Case Study 1).

The new land uses that replaced industrial uses in Lágymányos are very similar to those in the 13<sup>th</sup> district with the only differences that no shopping centre was built here and up to recently no housing projects have been carried out along the river Danube. At the same time a great number of residential developments are in progress in the background areas along the stripes of land between Budafoki, Szerémi and Fehérvári streets. That is, also here the linear type restructuring process has extended to a much wider area.

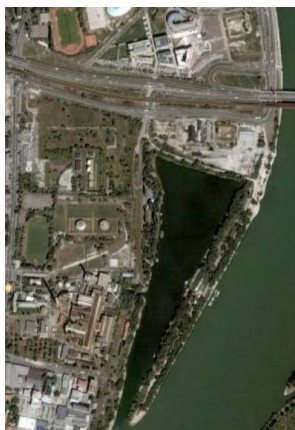
### **Case study 1**

#### ***A severely attacked public-private partnership project in Lágymányos***

*South to the head of Lágymányosi bridge a bay of the Danube (the land behind the 19<sup>th</sup> century embankment has not been filled up) used to function as a harbour of ships out of use. Along the narrow strip of land on the embankment a few low cost restaurants and pubs were operating, very popular among the youth. The district government, owner of embankment and of the water table in the bay founded a development company (Öböl Kft: Bay Ltd.) together with the owner of a neighbouring piece of land. The private partner, one of the most influential Hungarian real estate developer and investor, attracted other partners into the PPP company apportioning their pieces of land around the bay into the company. So the share of the local government had been continuously reduced, in the end it fell to only 1 per cent.*

*The development company demolished the old structures on the embankment, built new ones in the most up to date architectural flavour and produced a small park at the northern bank of the bay. In the meantime the official urban plan (“regulatory” plan) was modified by the local government in order to render the building of high-rise offices and residential buildings possible. Owing to the land improvement measures, even more to the lifted up development potentials of the site through the modification of the urban plan land values increased substantially. Being in majority position the company’s management decided to capitalise the “betterment” and sold the 75 percent of the shares of the company to a foreign (Portuguese) investor at an unexpectedly high price. The local government’s share in the gains remained minimal, thus the whole project, and also the leaders of the district, became subject to severe attacks. Based on the “suspect of unfaithful management of public property” a member of the opposition in the local government intends to bring the case to trial. Leaders of the district argue that their only intention was to improve the conditions around the bay, and that the local government did not want to act as a developer. Real estate experts draw the attention to the serious error made by the local officials, namely that the contract with the company didn’t include a clear measure about how the partners would share in the gains from the appreciation of land.*

*Source: unpublished research material to the Department of Regional Development and Building, Budapest University of Technology and Economics (Locsmándi – Szabó – Alföldi, 2008.)*



**Lágymányosi Bay the scene of Case Study 1 with Infopark North to Lágymányosi Bridge**

The linear pattern of *restructuring of land on the opposite, left, bank of the river Danube* was initiated by the Hungarian Government in the late 1990s (Millenium City Centre). Here an abandoned goods station is being converted into mixed residential/office uses. As “flagship projects” the building of the new National Theatre and a Palace of Culture gave a strong incentive to the developments along Soroksári Street leading to South Hungary. The government, as the owner of the Hungarian Railway Company, sold the total land of the station to the developer of the National Theatre, a leading Hungarian real estate developer. The building operations are going according to an urban plan adopted by the local government of the 9<sup>th</sup> district (Ferencváros) in 1991. Effects of land appreciation along the river are spreading beyond Soroksári Street where abandoned flour-mills are being converted into residential buildings (lofts) together with the construction of new “residential parks” and some offices.



**Restructuring of industrial areas in the South part of Budapest and the Millenium Centre with the new National Theatre North to Lágymányosi Bridge (3D model)**

The prestige of this mixed use area of Ferencváros is enhanced also by the high reputation of the district as the leader in urban renewal in many fields in Budapest (chapter 5). Similarly to the 13<sup>th</sup> and 11<sup>th</sup> districts, Ferencváros’s local government pursue a rather pro-active development policy too. Preparations for a new private residential development along the Soroksári branch of the river Danube are under way, but here the accessibility of the site should substantially be improved as a railway line separates it from the main road. (Ferencváros has also great abandoned industrial areas and railway sites the conversion of which to new uses is rather problematic because of their bad accessibility and background position, chapter 4.6.)

#### **4.3 Spatial effects of the restructuring of retail trade, the emergence of special-use streets**

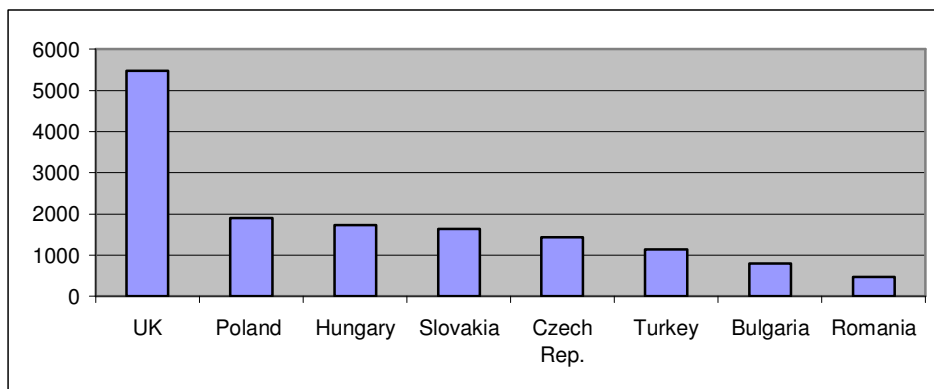
Under the state-socialistic era the development of retail trade was retarded in Hungary by the low, “regulated”, paying capacity of the population. In Budapest majority of the new retail space production was at the high-rise housing developments, only a few and small shopping centres were built in the “sub-centres” of the city, designated by the 1970 general plan of Budapest. In the inner city majority of the retail facilities were “inherited” from the end of the 19<sup>th</sup> century and the between-war period: the five market halls, department stores in the downtown and along the Rákóczi Street and the small shops in the relatively few traditional shopping streets, most of them operated by state or cooperatively owned retail chains.

In most transitional countries the transformation, “internationalization” of the retail sector led the process of privatisation (Kok, 2006) in the early 1990s. Three key elements of restructuring should be stressed: (i.) privatisation of the state and cooperative retail chains, (ii.) emergence of a private retail business, (iii.) entry of international retailers bringing in new products. Naturally the formation of the new retail landscape was promoted also by the liberalisation of prices. As compared to other CEE countries in Hungary substantial parts of the relatively well developed and politically strong cooperative retail sector was not included into the “small privatisation” process. By keeping them intact

they were sold to Hungarian and foreign investors or were bought out by their management. Contrary to other CEE countries the local presence remained relatively strong in Hungary.

Another important element was that a great part of the retail space remained rental property in the hand of the local (district) governments as shops in the residential condominiums were considered by the Constitutional Court, in contrast to housing, as having no real “social” implications. In Budapest these two factors were of prime importance in keeping the overall retail environment in the inner city relatively intact. Despite adverse processes the “defensive potential” of the shopping streets against the influx of hypermarkets and shopping centres remained relatively strong. The public ownership of rental retail spaces has also left some chances to the district governments to intervene into the transformations of their most important shopping streets (Case Study 3) through specific public-private partnership relations.

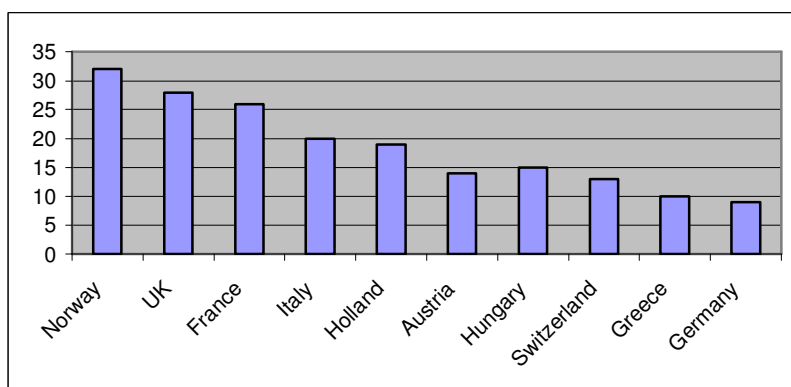
**Figure 5**  
*Spending capacity in selected countries – euro/per capita in 2004*



Source: Kok, 2006 (based on Mintel, 2005)

The fast growth of modern retail floor-spaces in Hungary started after the economic recovery in the mid 1990s parallel to those neighbouring countries (among others Poland, Slovakia, Czech Republic, Figure 5) where spending capacity of the population was relatively higher. It has been driven by two main factors: the relatively stagnant markets in Western Europe that “pushed retailers into international expansion” (Kok, 2006:116), and the extremely high shortage in modern retail spaces in these countries. In Hungary the first target area of international retail chains was Budapest both in hypermarket and shopping centre construction. (In 2005 about 60 per cent of all retail space in Hungary in shopping centres was operated in Budapest and around it.)

**Figure 6**  
*Shopping centres and hypermarkets share in retail turnover in selected European countries in 2001*



Source: Hungarian Central Statistical Office, 2002

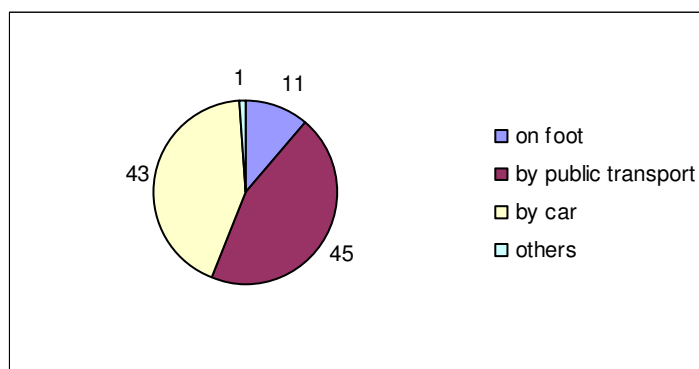
The fast growth of the up-to date retail facilities fundamentally altered the “shopping environment” of Budapest. It is remarkable that the locations of the various types of new shopping facilities have been

definitely influenced by the ecological structure of Budapest and of its metropolitan belt (chapter 1.3), at the same time patterns of location of the new facilities have had a substantial impact on the transformation of the previous retail landscape, especially on the “high street retail” within the city. A third, well observable interrelationship is that the character of retail functions along the traditional shopping streets has also been influenced by the spatial structure of the city (Map 4).

The majority of the new hypermarkets (Auchan, Cora, Tesco etc.), cash and carry, do-it-yourself facilities chose their locations at the outskirts and in the metropolitan belt of the city along the motorways and some main axial roads. Their operation is based on the weekly/monthly shopping by car. At the same time most of the largest shopping centres are situated at the edge of the relatively narrow densely built inner ring of Pest, in the “transitional zone” where they rely on both the high population concentration of the inner city and on the demand of the outer districts. Most of these malls are accessible by public transportation as well. In the inner city only one shopping centre was opened (West End City Centre) on an abandoned part of the Western Railway Station.

**Figure 7**

**How the shopping centres in Budapest are reached – per cents in 2002**



Source: National Central Statistical Office, 2002

Conversion of inner city blocks into shopping and entertainment environments, as done in some European cities (for instance in Graz, Austria) has been hindered by the privatisation of the public housing stock. The level of paying capacity of the population played a part as well: a great number of (smaller) centres were erected in the highest status districts on the Buda Hills (2<sup>nd</sup> and 12<sup>th</sup> districts) too. It is also remarkable that the high concentration of population was a location factor for new retail developments also in cases of some large socialistic housing developments. To sum up, the international retail industry well adapted itself to the specific spatial/sociological structure of the city while the impact of urban planning measures were extremely weak and came too late.

### Case study 2

#### **Regulation of shopping centres in the “Framework Urban Planning Code” of Budapest**

After an unsuccessful experiment to orientate large commercial developments into some of the so called “city gate areas” designated along the main access roads close to the border of the city in 1998 specific zoning regulations were introduced by the Municipal Government of Budapest in accordance with a central governmental statute on shopping centres. The governmental statute rendered the submission of an environmental and traffic related impact study compulsory as part of the application file for building permission if the size of the planned centre exceeded 20 thousand square metres.

In the Framework Building Code of Budapest regulations about shopping centres are differentiated according to large zones under the group of the so called “Zone of Specific Uses” that was introduced in order to fix the location of specific land uses (military, hospitals, large sporting and recreational areas etc.). However, the Framework Regulatory Plan does not fix the exact locations of the centres but determines those zones (inner zone, two transitional zones, outer zone) in which shopping centres the size of which does not exceed 20 or 30 thousand sq metres are permitted to be built. (That is, the regulations followed the ecological structure of the city.) According to the Framework Code no more shopping centres are permitted within the city that is accessible only from motorways. The Code also



*offers a 5 thousand sq metre “bonus” to the developers if the centre is built at a locations accessible by public transportation. As there is no metropolitan-wide code in force these regulations influence developments only within the boundary of Budapest, planning permissions for hypermarkets, outlet centres are issued by the suburban towns and villages according to their defensive or pro-active policies.*

*Source: Budapest’s Framework Urban Planning Code, § 49. Zone of Specific Uses*

While through its regulations the Municipality of Budapest was to some extent able to orientate shopping centres to the desired locations, most districts were unable to influence the market lead transformations of their “high streets”. In most cases the main shopping streets of Budapest just separate the neighbouring districts, competing against each other, so only few coordinated programs have been in progress in this field. The most observable transformation has been the weakening of the retail function of the two main shopping streets of Budapest: Kossuth Lajos/Rákóczi Street and Grand Boulevard.

The old department stores built in the late 19<sup>th</sup> century and in the early 20<sup>th</sup> century along *Rákóczi Street* were unable to meet the strong competition with the new centres. Their floor-spaces were subdivided into small, less than medium quality shops not frequented by the shoppers as only few parking places are found in the close vicinity of them. The restructuring of the wide street – by introducing parking, improving the shopping environment through lines of trees etc. – is rather problematic as it carries a great part of the East-West traffic of the city.

Transformations along *Grand-Boulevard* are more diverse as they reflect the “status” of the residential areas behind the street. The northern section of this radial street, together with its continuation in *Mártirok Street* in Buda, was able to enrich its shopping and culinary character as it runs between the City (Lipótváros, 5<sup>th</sup> district) and the high prestige residential areas of Újlipótváros (13<sup>th</sup> district) and under the elite residents of Rózsadomb (Rose Hill) in Buda. At the same time the southern section of the street reflects the low spending capacity of the inhabitants of Józsefváros and Ferencváros.

Another new phenomenon in the micro-space of Budapest is the concentration of specific retail functions along some streets and in certain parts of the city. These changes well correspond to the theory of “agglomeration economies”, namely that the special concentration of similar or closely interrelated economic activities enhances profitability of the single units. The most remarkable sign of this type of transformations is the appearance of “culinary streets and squares” (Ráday Street, Liszt Ferenc Square, Case Study 3) in the inner city of Budapest. The emergence of other “single use” streets, as a “fashion street” (Deák Ferenc Street in the Downtown) is observable just recently. In most cases these transformations are the positive outcome of private initiations supported by the local governments through public-private partnership arrangements. Along other high streets, as Király Street that runs along the border of 6<sup>th</sup> and 7<sup>th</sup> districts only few traces of similar processes can be detected, here the co-operation between the neighbouring districts was restricted to a badly designed traffic calming of the street.

### **Case study 3**

#### ***Emergence of a “culinary street” in Ferencváros: a real PPP project in Ráday Street***

*Ráday Street, the high street of Inner Ferencváros interconnects Kálvin Square, the “gate” to the Downtown of Pest and the main square (Bakács Square) with the district’s City Hall and a church of national architectural heritage. This square is in a central position between the inner part of Ferencváros and the site of the most successful urban rehabilitation project of Budapest. The Ráday Street revitalisation program started with an area wide traffic calming measure in Inner Ferencváros aiming at the exclusion of through traffic from Inner-Ferencváros. As part of this program, a short section of Ráday Street was converted into a pedestrian priority area. Only after the success of this experimental introductory project the transformation of the whole section of the street between Kálvin Square and Bakács Square was accomplished.*

*However, this physical intervention was accompanied by attractive cultural programs: every summer the district government organises musical and theatrical performances in Bakács Square in front of the church, it supported the settling down of a bookstore (Ráday House of Books) too. Later a civil*

organisation, called Ráday Arts Council, was set up with the leadership of the manager of the bookstore. After the privatisation of the former state owned pawn-office, whose central unit operated in a neighbouring street, also art galleries emerged in Ráday Street. The District Government exercised also some “fine” pressure on the tenants of the local government owned retail spaces by reminding them that the novation of leases would depend on the improved operation of the premises.

As a result of all these the composition of the tenants substantially changed, the majority of the previous uses not fitting to the improved environment vanished from Ráday Street. The street was converted into a “culinary street” fast surpassing in attractiveness the high street of Budapest, the Váci Street in the Downtown. An umbrella organisation called Ráday Soho Entertainment and Cultural Association was set up that adopted also an “ethical code” including the expected behaviour of the restaurant and coffee-house operators. In order to minimise disturbances to the inhabitants of the street the number of noisy cultural programs were limited to eight in summer week ends. The project became a real success story, with the only reservation made by people of the cultural community criticising that culinary functions tend to push art and culture into the background.

Source: unpublished research material to the Department of Regional Development and Building, Budapest University of Technology and Economics (Locsmáncsi – Szabó – Alföldi, 2008.)



#### Two new “culinary” places in Budapest: Ráday Street and Liszt Ferenc Square

Transformations of the character of other streets well reflect the changes in their wider area. In Lipótváros, where the strengthening of CBD functions is the most significant process (chapter 3.1) elite restaurants and pubs are opened serving employees of the old and new offices and the governmental officials too. On the other hand in the lower status residential areas the proliferation of small private shops, groceries, is observable that serve, together with the various Hungarian and international retails chains, the lower middle class people.

Along the outer sections of the main radial roads the functional transformations has fundamentally changed the traditional cityscape: single family houses, villas along the streets are being converted to private retail and commercial facilities together with similar new developments. The “architectural degradation” of these streets induced the consultant planners of the Development Strategy of Budapest to include the “rehabilitation” of the axial roads as a prime urban renewal program of the city. (This program was later abolished.)

#### 4.4 Some successful brown-field conversions within high status residential areas

In the course of industrialisation of Budapest it was a frequent process that some industrial sites that settled down and grew relatively early were later encircled by the spreading residential areas. If these industries were located along the main development axles of Budapest, their conversion to residential areas started as early as in the 1930s (for instance in Újlipótváros). As discussed in chapter 3.2 restructuring processes in these ecological sectors were speeded up after the economic/political changes.

A special case has been the fate of those larger industrial sites that settled down in Buda, where the conversion of the vineyard areas into summer residence and family villas districts started in the end of the 19<sup>th</sup> century when the filoxera disease exterminated viticulture. Under the socialistic era, despite

ambitious programs of relocation of industries from Budapest, most of these companies were able to keep their premises, moreover in some cases they were able even to grow. After 1990 these, in most cases heavily overbuilt, sites were the first that fell in the hands of ambitious western developers (Case Study 4).

One important distinctive feature of these developments is their much better architectural and environmental qualities than those of the high density residential parks built later according to the permissive zoning regulations. The case of MOM represents a successful partnership between the developers, the consultant planners, the architects and the local government that was interested in higher qualities too. In the case of Millenáris (Millenary) Park similar partnership relations between a state founded development company and the contracted private architects led to the creation of one of the few new parks of Budapest: It is also noteworthy that this site is among the few where old industrial structures were retained and refurbished.



**Millenáris (Millenary) Park and the mixed use MOM park in the XII. and II. district of Budapest**

#### **Case study 4**

##### ***Conversion of the site of one of Hungary's "flagship" industrial companies into a mixed office/residential park – MOM Park***

*In 1891 a small private company (Süss Institute of Precision Mechanical Instruments) resettled from Kolozsvár (Cluj, Romania/Transsilvania) to a then peripheral site in Buda adjacent to a cemetery that later was converted to a public park. Although since the end of the 19<sup>th</sup> century large scale developments took place in the area, Alkotás Street became one of Buda's main distributor roads, a hospital was built in the close neighbourhood of the site, the company started the spread along a side street as it became an important war factory in the years of the Great War. The company, bought by an Austrian bank in 1918 extended its field of operation to precision optical instruments together with other products as radios and the world known Eötvös pendulum. In 1931, in preparation for the next war, also Carl Zeiss Jena bought a share in the company. Called as Hungarian Optical Works (MOM) since 1934 the company ones more became heavily involved in military production in the Second World War. The company's operation was resettled to West Hungary (Sopron) in 1944, its machinery fell in Austrian than in American hands. In 1947 the shares owned by the Germans were given to the Soviets who, after managing MOM until 1952, gave the company back to the Hungarian state.*

*After this odyssey MOM became a leading state enterprise in a strong monopolistic position also among COMECON countries. Based on the large Soviet market its operation was extended to other cities in Hungary (Zalaegerszeg, Dunaújváros, Komló, Mátészalka) too, employing a total of about 8000. Meanwhile important improvements took place in the neighbourhood as well: a multi-level traffic junction was built together with a hotel that later was supplemented by a conference centre overlooking the park. Since the 1960s construction of good quality private villas and condominiums started in the background of Buda Hills for upper middle class families.*

*After 1990, as the Soviet market collapsed, MOM started to be split into limited companies. While some of its country branches were bought by international companies or privatised by their former managers most of its premises in Budapest remained unused or let out to smaller Hungarian or*

foreign companies. After liquidation of the company the site became to be managed by the State Privatisation Agency Ltd. (ÁPV Rt.) with the definite concept of marketing it as a property for real estate development. As the international interest for the precious site increased the fate of the industrial buildings built in the 1930s in good quality architecturally became a matter in question. Some first visitors of the site (for instance from the Netherlands) wanted to acquire the land in front of the premises in order to avoid the creation of underground parking lots prescribed by the national building code. Even an international student workshop was organised by TU Budapest: most of the students' schemes delineated public uses as university campuses with the refurbishment of most old structures

Finally in 1996 ÁPV RT. sold the site to a German investor, Bavarian House-building Ltd. Fortunately, no zoning regulations were in force for the area (the new Framework Urban Planning Code of Budapest was adopted as late as 1997), so the Bavarians contracted two leading architectural studios. The official urban plan followed the common intention of the developers and the architects: a mixed office and residential park was built in a "better than average" quality architecture supplemented by a medium size shopping centre.

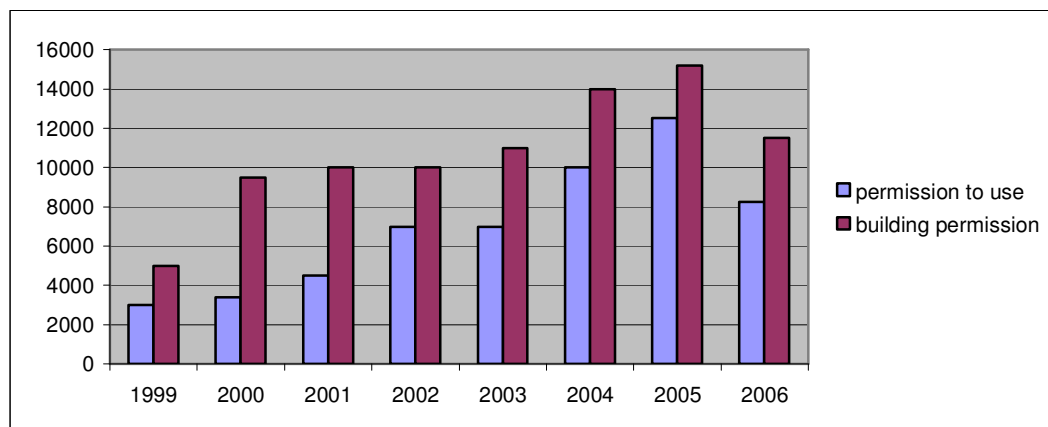
Source: International Student Workshop "Mammoth", TU Budapest, Department of Urban Planning

#### 4.5 Role of new housing in the restructuring of the city and its brown-fields after 2000

As discussed in chapter 1.6 the generous subsidies introduced by the central government of Hungary in 2000 gave an impulse to residential construction also in Budapest (Figure 8). Since the turn of the century the share of new housing built by private developers for sale also increased radically (about 70 percent in Hungary, 85 per cent in Budapest in 2006). This chapter focuses on the most important "restructuring effects" of housing after 2000.

**Figure 8**

**Housing construction in Budapest between 1999 and 2006 – No of units**



Source: National Central Statistical Office

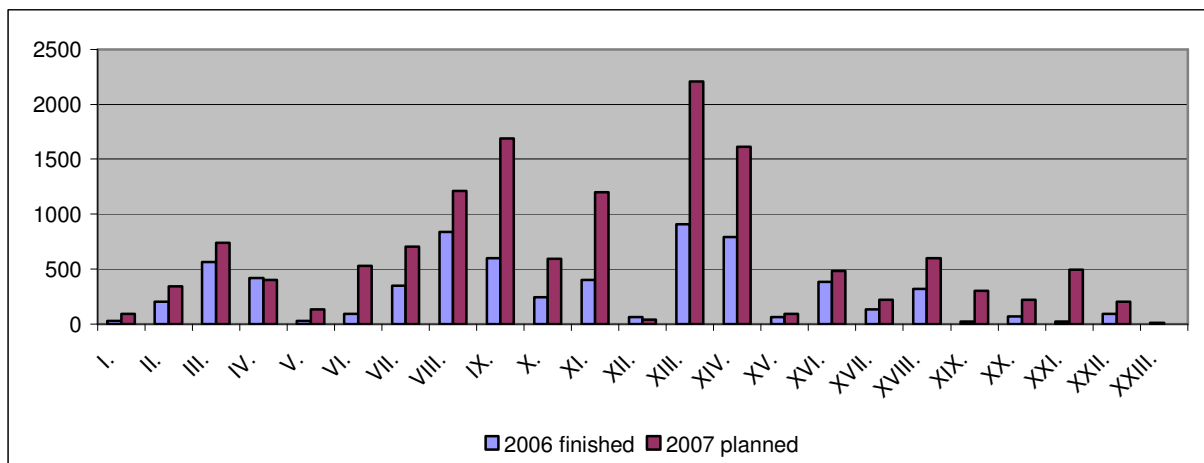
The most characteristic impact of the revival of housing construction has been the further spread and intensification of land-use transformations along the main "development axles" of Budapest, presented in chapter 3.2. Areas close to the Danube and to the centre of the city together with Zugló (14<sup>th</sup> district), Pest's high status district in the transitional zone, are scenes of large scale housing projects. Also Józsefváros (8<sup>th</sup> district) where the "Corvin Promenade" radical redevelopment project started in 1996 fast increases its share. New housing tends to contribute also to the lengthening of the development axles as in South Pest, along the Soroksári branch of the river Danube.

At the same time the revival of housing construction has not been able to contribute to the start of development in some large open areas that are designated for housing since the 1970s and where substantial infrastructural improvements (or filling up the area) are required (Mocsáros dűlő: 3<sup>rd</sup>

district, North-East Csepel: 21<sup>st</sup> district). The share of new housing in the local government initiated “comprehensive urban rehabilitation areas” (Ferencváros, Erzsébetváros) is decreasing. In the inner districts of Buda only Óbuda (3<sup>rd</sup> district) shows up higher figures as it is in the abundance of open land. In the hillside “garden city” residential areas (2<sup>nd</sup> and 12<sup>th</sup> districts) a “not in my backyard” policy of the local governments, backed by the house-owners, stand against even smaller multi-family condominium constructions.

The same attitudes are coming forward in some outer districts of Pest and Buda, where the private builders are emerging with smaller but relatively high density “residential park” developments (Figure 9, Map 4) occupying some vacant peripheral sites designated for housing in the 1997 Framework Urban Regulatory Plan of Budapest. Though their share in total numbers is not significant the appearance of residential building in larger, contiguous units in the periphery is a new phenomenon in Budapest after 1990. In spite of increasing objections of some local civil groups these peripheral developments are generally welcomed by the local governments as they bring new, young, better educated people into their ageing districts.

**Figure 9**  
**New housing construction in Budapest’s districts in 2006-2007 – No of units**



Source: Otthon Centrum, 2007

A general characteristic of all of the new private residential developments has been their steady reliance on the existing, “pre-produced”, locational advantageous of the sites, among which most important is the relatively cheap land. While in inner Buda and in inner Pest (within Grand Boulevard) land prices, measured in HUF per one square metre of built residential floor-space, amount to 160-250 thousand, in the restructuring brown-field sites and in Zugló this price is only 50-90 thousand and only 25-40 thousand in Kőbánya (10<sup>th</sup> district). These differences naturally reflect the variances in the permitted building densities: 4-5,5 m<sup>2</sup>/m<sup>2</sup> floor-space index in the inner city, also high, 1,0-1,5 m<sup>2</sup>/m<sup>2</sup> densities in the periphery, as compared to the much lower prevailing ones. Thus the low comparative land prices area partly the outcome of the generous “hidden subsidies” provided by the planning regulations.

Nevertheless, since 2000 one of the most striking and most advantageous new phenomenon in Budapest has been the appearance of new housing in some of its peripheral parts having large brown-field zones. Among them Kőbánya, the traditional workers-district deserves special attention as in this district most of those positive locational factors can be detected that may promote the conversion of industrial sites. The following short list of them (Case Study 5) will reflect to one of Budapest’s yet prevailing favourable structural characteristics. Although its large-scale “human ecological” structure of the city shows up significant variances (chapter 1.3), in the micro-scale factors such as local environmental values, closeness to public transformation, public services, even a large residential development in the neighbourhood built in the 1970s with a balanced sociological composition may act as positive locational factors.

## Case study 5

### **Positive locational factors in Kőbánya facilitating conversions of brown-field sites to housing after 2000**

Although Kőbánya's share in new housing is relatively low (Figure 10) a great number of smaller new residential projects started here after 2000.

Between Kőbányai Street and the second largest park of Pest (Népliget: Volks Park) abandoned industrial sites and a soccer field is being replaced by a residential park (Taraliget) despite heavy traffic and premises of the Hungarian State Railway Company (MÁV) along the opposite side of the road. Environmental values of the park counteract disturbances caused by traffic noise.

A high density residential park (Tavaspark: Lake Residential Park) is being built South-East to one of Budapest's largest modernist housing estates (Kőbánya Újhegy: New Hill) from the 1970s relying on a small lake and a developing new park with sporting facilities. Building density of the new park is almost the same as that of the old housing estate. Here the concentrated demand has played a definite role in the developer's decision to build.

Smaller residential developments are replacing old industrial premises in Ligettelek (Grove Site), a compact central residential area of Kőbánya, in an infill type building. The area is in next door to the traditional centre of the district. (This part used to be an official urban rehabilitation action area in the 1990s, where a private company was responsible for managing of conversions together with the property management company of the local government.)

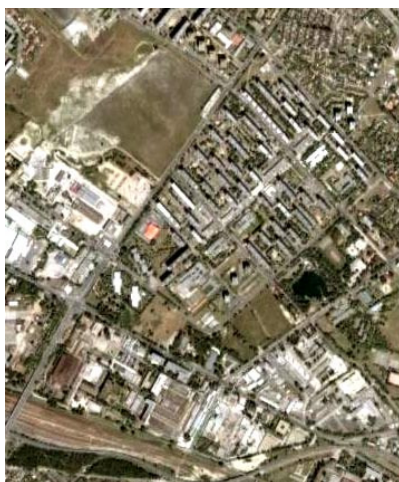
Similar infill building is going on in the South-East part of Kőbánya where the "garden city" like character of the existing residential area facilitates new developments.

Close to Üllői Street and a metro station four ten story blocks are renewed under a state initiated program ("Panel Program") of energy preservation and heat insulation. Neighbouring to these blocks a smaller residential development is going on by replacing sport facilities and some abandoned industrial sites. Here the project relies on the closeness of public transportation and on the services provided by the existing high density housing developments.

At an important traffic junction, close to the centre of Kőbánya, a "B" category office development induced the replacement of some low rise workers tenements by a dense residential park.

However, a warning signal is in Kőbánya that the many of the new private residential developments are progressing slowly, reflecting relatively low demand in this peripheral district of Budapest.

Source: District Development Strategy of Kőbánya, Talenta Ltd. 2007



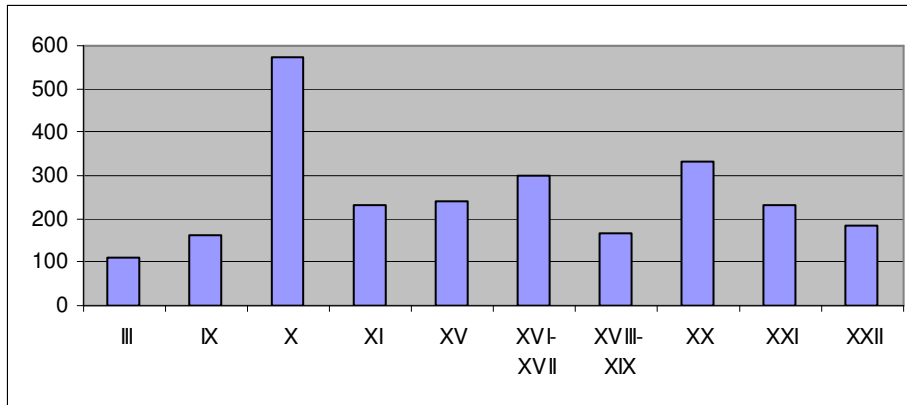
Rózsáliget (Rose Grove) "residential park" South-East to one of Budapest's largest housing estates (left photo) close to the terminal of Metro 3 built in the 1970s. South-West to the housing development good quality retail facilities were built.

#### 4.6 Brown-field areas with limited potentials for radical restructuring

In chapters 3.2, 3.4 and 3.5 those parts of Budapest were presented where good accessibility and advantageous ecological/environmental position of the industrial areas were instrumental in their radical restructuring or, at least, promoted the emergence of new housing. As discussed, another important factor that facilitated the conversion of them into new uses (residential, office etc.) was the relatively small size of the sites. On the other hand before 1990 more than half of the industrial sites in Budapest (about 2550 from 4550 hectares) was found in large, contiguous industrial zones (Studio Metropolitana – Ecorys, 2003, based on surveys for the 1989 general plan of Budapest).

**Figure 10**

**Largest contiguous industrial areas in Budapest's districts before 1990 (in hectares)**



*Peripheral districts: X. (Kőbánya), XV., XVI., XVII., XVIII., XIX., XX., XXI. (Csepel), XXII.*

*Source: Studio Metropolitana – Ecorys, 2003*

A great part of these areas are found in the more peripherally positioned zones of the city: in the transitional belt or in the outer zone (Figure 10). It is a rather specific phenomenon in Budapest that also within these large, peripheral situated areas substantial restructuring processes are observable. However, in contrast to the better positioned areas (districts 3<sup>rd</sup>, 9<sup>th</sup>, 11<sup>th</sup>), here these processes remain in the sphere of the manufacturing and service industry. Although no data is available for the size of the totally abandoned industrial sites in these zones, it is well observable that some economic activities are going on everywhere. A rough categorisation of the various processes, induced by the privatisation of Budapest's manufacturing industry, will follow.

In course of privatisation of the industrial sector even the few companies that remained intact retained only a part of their land and of their premises. There was only low demand for the abandoned parts by the incoming larger foreign developers and investors as they preferred cheap, better accessible sites for their green-field developments in the metropolitan area or in some peripheral parts of the city where development land was in substantial supply. In many cases the heavily polluted soil of the sites acted as a deterring factor too. Another frequent process was that the large companies were split into smaller limited companies, or their units were sold or let out to newly founded, small companies.

Due to these, in most cases non-traceable, processes many of the premises of the largest privatised industrial companies started to function as real "incubator" sites. In other cases the whole site was converted to a specific use much different from its original one. The best example for the incubator-type use is the former Csepel Iron Works in the 21<sup>st</sup> district, while along Kőbányai Street (8<sup>th</sup> district) the large site of Ganz Mechanic Works, together with a part of the abandoned Józsefvárosi Railway Station was converted into a whole-sale market by Chinese and other foreign merchants. The bright side of these conversions is the relatively cheap land and premises provided to the starters and the cheap prices for the lower middle class people of Budapest (together with the potentials to the emergence of a real "gipsy merchant class"). On the other hand in these large industrial estates the proliferation of owners and tenants led to a great number of organisational and technical difficulties that are not easy to be overcome (Case Study 6).

## Case study 6

### ***Transformations and urban planning complications on the site of the Csepel Iron Works – a specific public-private and private-private partnership***

*As early as in 1983 the Csepel Works Trust (holding) was split into seven share companies, their privatisation started in 1989. By the end of 1994 the premises fell into the hands of 230 single owners. Only a few bigger companies survived the transitional period, also new companies were founded from the original companies after the liquidation procedures; a great part of them were able to continue their operation in the previous economic profile but in much reduced volumes. There appeared also “small entrepreneurs” forced to venture upon their own enterprises as unemployment increased. In 1996 the share of the “newcomers” was about 30 percent.*

*Transformation of land ownership followed the privatisation of the companies later. In 1993 95 per cent of the site was yet in state ownership, even as late as in 1996 only 65-70 per cent of the land was in the hands of private enterprises. The sizes of individual properties differed from some hundreds to half million square metres. The local government of Csepel, after it sold most of its shares in land, remained only a minority owner, thus was unable to effectively intervene into the “unplanned subdivision” process. In the early 1990s no official urban plan was in force that would have orientated subdivision. Until 2001 the land of the dissolved Csepel Works was registered in the property cadastre as one building plot. Public roads were missing, public utilities were placed in a random, irregular way as previously needed by the Works. Public lighting was missing and, as the site was open to anybody, also security problems were common.*

*In order to be able to handle the awfully complicate situation the owners of the companies voluntarily established an “owner’s self-government”. The assistance from the public hand came in the late 1990s in the form of urban planning. A planner of the leading state owned urban planning studio (VÁTI) surveyed the site in all details, assisted the building up a strong partnership relation with the association of the owners. In the official regulatory plan the site was subdivided into larger “block-plots”, the lines of public and private roads were designated. By the turn of the century conditions in the site improved substantially. In 2001 the self-government was dissolved, the common ownership of land was terminated, private property rights registered.*

*At the same time another voluntary organisation, the Csepel Industrial Estate Association was founded with the aims of harmonising interests among the property owners, a dynamic development of the site in order to enhance land values, searching for outer monetary resources, representing the owners at local and state authorities, including the district government, cooperation in material security matters and in traffic management. The number of employees amounts to 8-10 thousands, including some modernised heavy industrial plants (for instance Csepel Metal Works with about 2000 employees), also other industrial sectors, as light and food industries, logistics, warehousing settled down in the site. The old offices of the Works are rented out. This successful industrial restructuring of the big socialistic “industrial giant” should, as a matter of course, be traced back to the economic recovery in Hungary in the second half of the 1990s, but the positive effects of the described complicated PPP relations, including public planning, may not be left out of consideration.*

*Source: Studio Metropolitana, 2002*

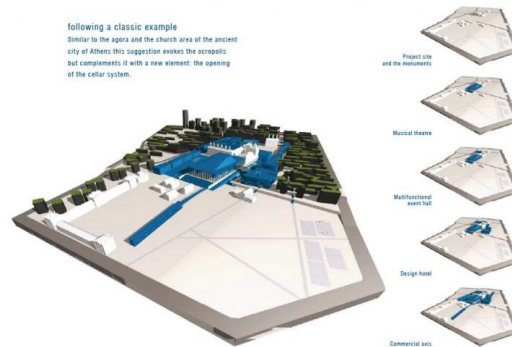
As shown by Figure 10 the largest contiguous industrial zone is found in Kőbánya. However, in contrast to Csepel this zone is made up of a great number of industrial plants of different sizes. As the district is criss-crossed by some prime railway lines, and because most of the industrial plants follow the railway-lines, the residential areas of Kőbánya on the hill of the former vineyards are enclosed by an almost uninterrupted industrial belt.

The deindustrialisation and privatisation processes affected the industrial companies of Kőbánya in diverse ways. Only a few of the larger companies remained intact including two pharmaceutical factories (Richter Gedeon Lt., Egis Ltd.) that were able even to increase their output and renew their premises too. Another “giant” of the state-socialistic food industry, the Globus Tinned Food Factory, after it lost the majority of its Eastern European market, assumes a speculative position of “wait and



see”. It holds its more than 10 hectare large site the only ten per cent area of which is actually used by the remained parts of the food factory.

A third great company, Dreher Breweries, also holds large amount of land that is sold in pieces to developers. The district government pursue a haphazard development policy: while its official urban plan designates almost all of the previous industrial sites for “zones of non-disturbing workplaces” Kőbánya welcomes all developers who are willing to convert the abandoned sites into “more urban” uses. Developers operating in housing have already discovered the district (chapter 3.5), even modern retail facilities were built next to one of Budapest’s largest prefab housing estates. But the district has been unsuccessful in building up effective public-private partnerships for the implementation of its planned “flagship” projects (Case Study 7).



The abandoned site of Dreher Brewery in Kőbánya and one of the architects’ sketches (Zoboky et al.)

### Case study 7

#### **Missing PPP – missing development: plans for the conversion of an abandoned site of Dreher Breweries**

*Kőbánya has been for long one of the main centres of the Hungarian brewery industry, but many of the plants were closed down in the privatisation process. At a site of one of the closed Dreher Breweries some buildings were put under heritage protection. The local government obtained the ownership of the site and wants to transform it, along with its surroundings, into a cultural complex and connect it with the centre of the district. The asset management department of the local government has been assigned with the general management of the project based on the official urban plan adopted by the district government.*

*There is a controversial relationship between the adopted regulatory plan and the desired cultural/entertainment character of the district’s development programme. The regulatory plan was prepared for a huge area around the site of the abandoned brewery. This large site has an undeveloped traffic system together with neglected open spaces under which a meshwork of kilometres long underground slots of the former stone quarries (Kőbánya means Stone Quarry in English) run, used recently as well tempered storage facilities. The consultant planners (local governments do not operate in-house planners in Hungary) did not made much effort to carefully examine the potentials of a complicated “flag-ship” project, instead they designated the lines of the minimally necessary public spaces and determined the permissible building densities at a rather high level (2,7 m<sup>2</sup>/m<sup>2</sup> floor-space ratio) in order to increase the attraction of the site for developers and investors. The “building plan” attached to the regulatory plan as a background material could only be regarded as an illustration, moreover the densities measurable from the ill-considered drawings were much below (about 1,5 m<sup>2</sup>/m<sup>2</sup>) the level permitted by the building regulations.*

*For the company responsible for the development of the area this regulatory plan, containing little and controversial information could only serve as a poor “background reference”. That’s why three well-known architectural studios were invited for a competition to define the functional and architectural image that could be the basis of a detailed development programme. The main goal of the drafts (an “Acropolis-concept” based on the hillside morphology of the site, “up and down”*

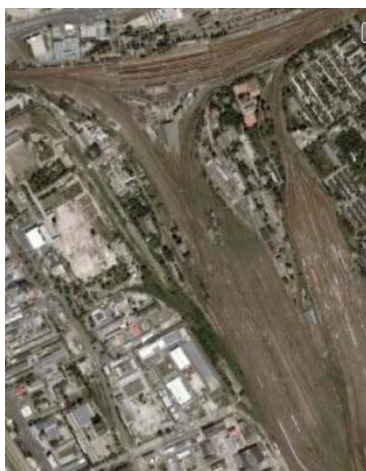
concept based on the partial opening of cellars originating from the quarrying era right under the site) was to put the concept under international spotlight. The company has taken part in international real estate development exhibitions in order to find investors. Despite the fact that the project was awarded with a price by the international jury up to recently only few investors have paid attention to the project in this less alluring area of Budapest. In the hope of success and as an indication of the strong commitment the local government purchased another site connected to the project area.

A serious difficulty in the preparation of the development programme is that the local government has no resources for the implementation of the only loosely outlined cultural-entertainment functions and it can not be foreseen what kind of partnership can be established with private investors. Another problem is that the asset management company of the district is not an organisation experienced in development-related issues; it is also engaged in other different tasks, acting as a “maid of all work” in various fields of property-related activities.

In such an uncertain situation the consultants working on the District Development Strategy of Kőbánya proposed the concept of some “introductory use”, in line with the character of the area. They drafted a potential project called “Dreherland”, which would, by the partial renovation of one of the heritage factory buildings and with the involvement of the major foreign breweries. This could put Kőbánya onto the “map of international tourism”, and later enhance the potential for other related investments.

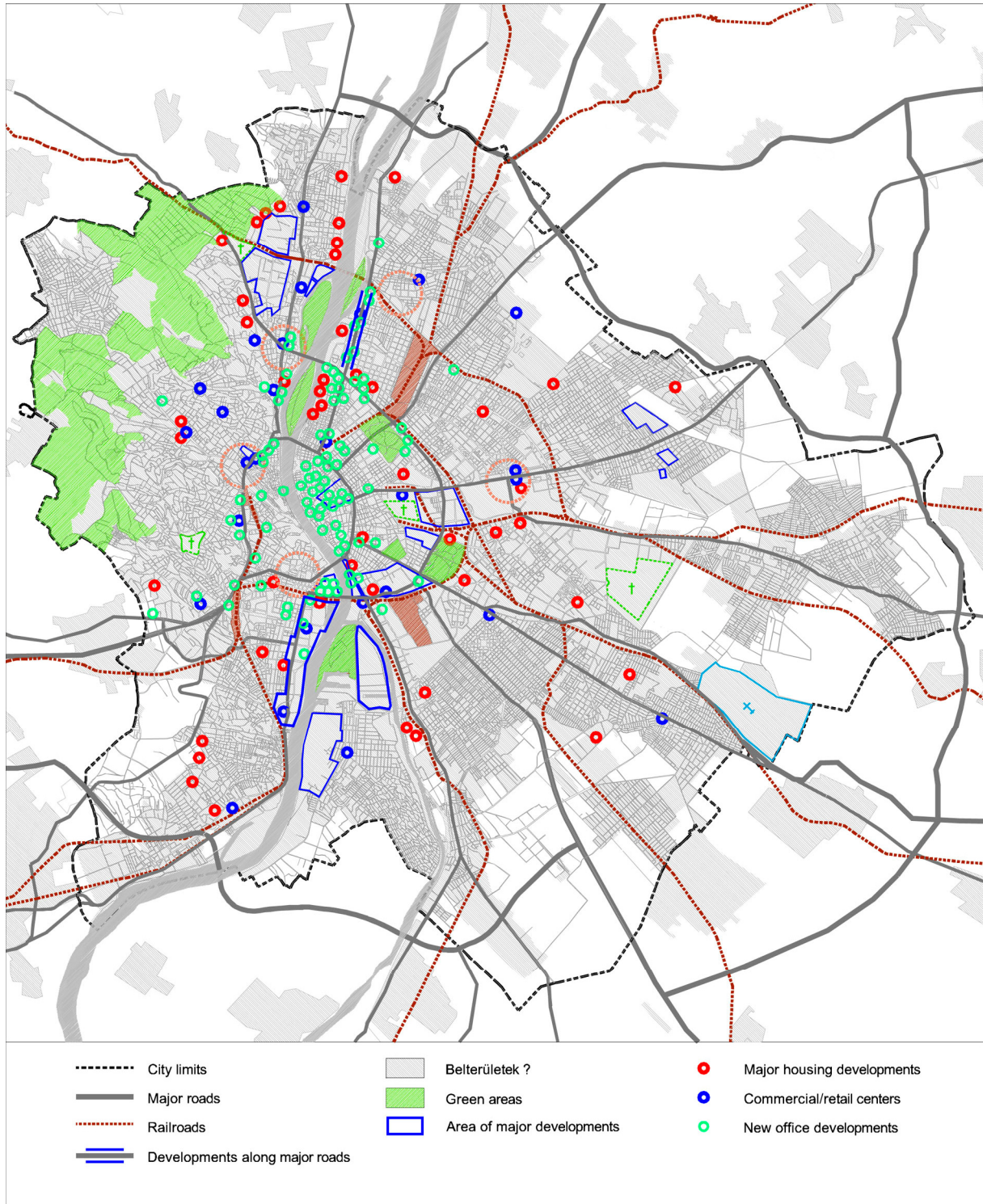
Source: District Development Strategy of Kőbánya, 2007. Talenta Ltd. (Tamás Meggyesi, Gábor Locsmándi, Zoltán Kutsch, Pál Baross, György Pinke)

The delay in the conversion of Dreher Breweries is explained partly by the missing PPP relations between the local company and the private development sector. Similar delays, however, are common also in cases when industrial lands are in private ownership. Speculative attitudes are common especially in cases when an investor was able to obtain the premises of an abandoned large industrial site in a peripheral location at a relatively low price. A frequent behaviour of them is that they clear the site, keep only those structures that are apt for some income-gaining activities (for instance warehousing, logistics), sponsor the amendment of the official regulatory plan (chapter 2.3) and wait until the site becomes ripe for development. By the adoption of the regulatory plan by the local government the development rights are secured for the owner, in some cases at a rather high level. The start of the intended development is delayed as long as a public infrastructural development improves the accessibility of the site, or the actions some neighbouring developers make the site more attractive. This come to pass mainly around the large, partly abandoned goods railway stations as is the case with an ambitious office project (“Office Campus” in the IX. district) the site of which is separated from the fast transforming southern development axis of Budapest by hard passable railway lines.



The site of the abandoned public slaughterhouse close to the Ferencváros Goods Railway station (left), and the Office Campus Project. (Only the architectural plans for the two offices indicated with red yet are accomplished.)

**Map 4**  
**Restructuring processes in Budapest after 1990**



## 5. The three local government initiated urban rehabilitation projects

In this chapter a short comparison of the three urban renewal projects will follow which, in contrast to most of the large-scale restructuring processes presented in the foregoing chapters, were initiated by the public hand, that is, by the Municipality of Budapest in co-operation with the District Governments. These three projects are found in Middle-Ferencváros (9<sup>th</sup> district), Middle-Józsefváros (8<sup>th</sup> district) and Inner-Erzsébetváros (7<sup>th</sup> district) in the densely built inner part of Pest. The Inner Erzsébetváros project will be presented in much detail in chapter 7, the description of the other two projects provides a comparative background for the management of urban renewal in the 7<sup>th</sup> district.

One of the most important parallelism among the three projects is that they were initiated before 1990, in the last years of the state socialistic era. Furthermore, the Erzsébetváros project goes back to the first years of the 1900s, to the idea of opening a new road through a densely built residential area (Madách Street/Promenade), a concept that was revived in 1988. While in Erzsébetváros, close to the Downtown, the concept of CBD extension prevailed until 2000, in Ferencváros and Józsefváros the principal goal of the intervention was the improvement, “rehabilitation”, of deteriorated, low status residential areas outside the Grand Boulevard. In the latter two areas urban plans from the 1970s calculated on an almost total demolition of the old housing stock built in the late 1800s, and with the replacement of it by multi-story modernist blocks.

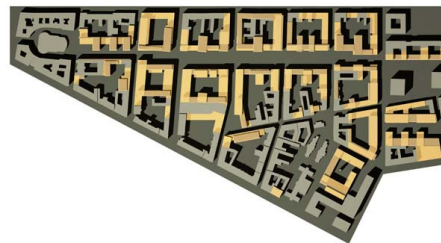
Concepts of softer ways of intervention came as late as in the 1980s. A “detailed urban plan” for Middle-Ferencváros was adopted by the Municipal Council of Budapest in 1983 (the planning was initiated by the District Council – the planner was the present writer) which, in line with the prevailing international trends, proposed the demolition of only the worst quality low rise workers tenements and the replacing them by multi-story residential buildings together with substantial environmental upgrading, as widening of the narrow streets, providing landscaped courtyards within the blocks. For Józsefváros an even more moderate concept was elaborated in the 1980s (the planner was the architect who in 2004 became one of the leading members of the civil organisation Veto!- Perczel, 2004). A narrow “green promenade” was planned through the long building blocks. Only few new construction was proposed here, the extremely conservationist plan calculated on the keeping and the renovation even of the oldest, bad quality low rise building stock – a concept that was revived by Veto! in 2004. The detailed background materials of the plan reflected also the intention of recapturing the traditional atmosphere of the site. In Inner-Erzsébetváros it was just before the political changes that the continuation of the opening of the new street (promenade) was put on the agenda.

After 1990 there was a common decision in the three districts not to sell the public residential stock to the sitting tenants, that is, to keep the stock in public ownership in order to secure the property base for the management of the planned operations. In Ferencváros the realisation of the project started in 1986 and continued, after a short period of interruption, in the early 1990s when the district founded a PPP company modelled on the French system of SEMs (SEM IX. Ltd.). In Józsefváros, after a long debate on the contents and methods of renewal, a public company was set up later, in 1996, in co-operation with the Municipal Government of Budapest (RÉV 8 Ltd. – Rehabilitation and Construction Company of the 8<sup>th</sup> district). In Erzsébetváros no development company was founded, thus there the management of the redevelopment is carried out by the leaders and members of the Council and the staff of the Office of the District Government based on the adopted regulatory plan(s) and other local by-laws. While in Ferencváros and Erzsébetváros no essential modifications in the original urban plans have been carried out, in Józsefváros the conservationist plan of the 1980s was abolished. A new plan was adopted in 2000, according to which a 70-80 metre wide part of the large site is being cleared in order to provide space for a 30 metre wide landscaped promenade (“Corvin Promenade”) lined with high-rise residential and office structures.

All the three projects are deemed as “exclusionary” as a great part of the lower status inhabitants of the publicly owned rental buildings should move. The basic difference, however is, that in Ferencváros and Józsefváros the vacating is performed by the staff of the local company in close cooperation with some committees and the office of the local government, in Erzsébetváros these activities are performed by private developers under contractual agreements with the District. Although there has been a continuous criticism against the exclusionary practices of the three districts this has been less

severe in Ferencváros where the District was able to secure large amount of resources also for the renewal of the old public rental buildings. (In the last 1990s about 60 per cent of the subsidies from the Rehabilitation Fund of Budapest flew into the Middle-Ferencváros action area.) A substantial part of the inhabitants could remain in their homes after the renovation as the rental fees were not lifted up on market level.

As in Ferencváros the renewal started earlier then in the other two districts, the environmental qualities of the whole area have been enhanced substantially. That's one of the reasons why after 2000, under the construction boom, Ferencváros has been able to enjoy a real competitive advantage and was not forced to lift up the permitted density figures in its building code at a high level. Even the regulatory plans and their management differ substantially among the three action areas. In Ferencváros a real "development plan" is in force in which also the viewpoints of realisation were reckoned with, including much detailed plans for the arrangement of the new buildings and of the common, landscaped courtyards. (As a real "planning innovation", the District keeps the land of the common courtyards in public ownership and provides an easement to developers for building garages under a part of these courtyards. As an offset, the developers' task is the landscaping.) In contrast to Ferencváros in Inner-Erzsébetváros the regulatory plan soon came under the influence of the developers (see chapter 7). A special case is Józsefváros where a rather simple plan was adopted, that fixed the line of buildings on both sides of the planned promenade; At the same time detailed architectural regulations were introduced in order to allow for the required diversity and, as is hoped by the architect manager of the company, for a good architectural and environmental quality. (The company, together with the developer organised a great number of urban design and architectural competitions, even postgraduate students of architecture from TU Budapest and Harvard University, Boston were involved.)



**The first plan for the rebuilding of Middle-Ferencváros from 1983 (G. Locsmándi) and the model of the regulatory plan for "Corvin Promenade" from 2000**

The most striking difference among the management of the three projects is the way how the districts sell, alienate, their properties to developers. In the early 1990s when there was a low demand for housing, and most of the state owned development companies went bankrupt, the District and its PPP company (SEM IX. Ltd.) had to rely on the few, new private construction companies that were able to operate in a profitable way. Thus in this early period no tendering procedure was used for the selection of purchasers. Later, as the success of the program attracted a growing number of developers, the District, in co-operation with its PPP company, introduced a very sophisticated tendering procedure (Case study 8).

#### **Case study 8**

##### ***Tendering and public procurement procedures in Ferencváros***

*The tender dossier consists of a much detailed technical specification (permitted floor-space, building height, the required infrastructure improvements etc.), a preliminary subdivision plat (in order to designate which part of the original building site remains public property) and also a preliminary contract. Naturally, this contract includes a building obligation with deadline. The minimum*

*acceptable purchase price is also determined. The jury consists of the chief architect of Erzsébetváros, the chief executive of SEM IX. Ltd. and also of committee members who well represent the various political sides in the local government. By the inclusion of politicians into the work of the jury political tensions in the Council are substantially reduced. The tendering procedure is open to everybody: the candidates can take part in the procedure also when their opponents are presenting their materials. Up to recently no decisions of the jury have been contested. Recently about 15-20 developers*

*The jury comes to a decision after the evaluation of a complex set of attributes, including the architectural qualities of the submitted tenders. As in the phase of tendering the applicants are required to submit only a rough plan of the building(s), the final plan(s) should be worked out after a consultation with the chief architect of the District. In this phase also minor changes in the layout of the structures may occur that might necessitate the revision of the preliminary subdivision plat. The final contract with the winner will be signed only after all of these specifications are made.*

*The company is empowered also to the accomplishment of preparatory activities concerning various public tasks in the responsibility of the District: planning, design, creation and improvement of public spaces and of infrastructure facilities including the inner landscaping. (The costs of the maintenance of the landscaped courtyards are charged on the purchasers of the dwellings according to the condominium contract.) These public capital investments, including the renovation of the public rental buildings, that remain intact, are effectuated through single public procurement procedures regulated in much detail in the Hungarian legislation based on EU common law. (The company doesn't have a planning and construction section, it employs only about 5 persons in full time.) Naturally all final decisions concerning material matters are made by the local government as SEM IX. Ltd. acts on the account of the District.*

*Source: consultations of the author with the chief executive of SEM IX. Ltd. engineer, Péter Jordán*

In Józsefváros alienation of the site of Corvin Promenade was made in one step. After an unsuccessful tender four parts of the site was sold through another tender to four developers who immediately resold their properties to a leading Hungarian developer. The purchase price covers the vacating of the public flats and the demolitions. Also here, as in Erzsébetváros, the developer was able to make the regulatory plan modified by the District, obviously toward higher permitted densities. This plan is functioning as a “legal framework” of the operations, the company’s influence on the proceedings has naturally been decreased. In Erzsébetváros the tendering procedure was made compulsory by a local by-law only after the emergence of the civil organisation, Veto!. Previously the main argumentation of the District’s officials was that they wanted to rely on “real developers” and to exclude “speculators”. Here the selling of public properties is closely interconnected with the vacation of the buildings as the selling price amounts to the compensation in cash that the developers pay for the tenants who should move from the area. (See about this in more detail in chapter 7.)

Finally, the legal position of the two development companies (SEM IX. Ltd and RÉV 8 Ltd.) and their relations to the districts governments should be analysed. Both are operating as “in-house” companies, that is, they perform the tasks of the local governments and their activities do not go beyond the responsibilities allocated to them by the contract with the local government. Their staff is paid by the Districts. Only the company of Ferencváros may be considered as an “institutional PPP” (Godaker ...), as in RÉV 8 Ltd. the other partner is the Municipality of Budapest.

### **Case study 9**

#### ***Financial and organisational set-up of SEM IX. Ltd. in Ferencváros***

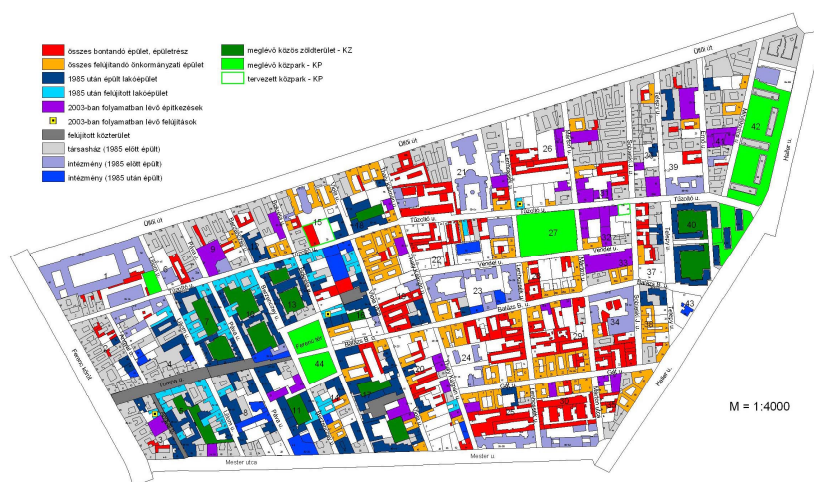
*At the time of foundation of SEM IX. Ltd. a French bank and the Hungarian bank (National Savings Bank) were minority shareholders in the company, later a Hungarian consultant firm (Városfejlesztés Kft. – Urban Development Ltd.) replaced the banks with a 30 per cent share. Only the shares of the partner are interest bearing, the subscribed capital of the closed limited company amounts to 57 million HUF.*

*According to the financial strategy of the company the proceeds from the alienation of public properties should cover the costs of the infrastructural improvements including landscaping and of the costs of demolitions. Positive earnings should be used by the local government exclusively (i.) for*

*building affordable price (social) flats for those who have to move from the demolished buildings, (ii.) for the renovation of buildings that remain intact according to the regulatory plan and (iii.) for the creation of public institutions as child care centres. (As discussed earlier, also Ferencváros has to depend on outer resources including subsidies from the Rehabilitation Fund of Budapest and from the EU, the latter used for public space renewal.)*

*The company's responsibility is the preparation of long-range strategies and detailed plans for the coming years. In the latter plans all projected activities (renovations, demolitions, infrastructure improvements, landscaping, properties to be alienated etc.) are presented with their expected costs and proceeds. The company should submit an annual report to the District Government too. The final authority in adopting these plans and reports is the Council of Ferencváros. The president of the administrative board is the chief executive, among its members one person represents the private partner and two persons are delegated by the local government. In the supervisory board five members are delegated by the local government, one member represents the partner.*

Source: <http://www.semix.hu/cegunkrol>



### Map of the report of SEM IX. Ltd. to the District in 2003 showing the actual results of rehabilitation in Middle-Ferencváros

*Meaning of the colours: red: public buildings to be demolished, orange: public buildings waiting for renewal, light blue: renewed public buildings, dark blue: accomplished new constructions, lilac: ongoing new constructions, light grey: condominiums (flats sold to the tenants), light lilac: public institutions, light green: existing parks, dark green: new landscaped courtyards in the renewed blocks. The map well shows, that in the middle part of the site a great number of district owned residential buildings are yet waiting for renewal. That's why in 2000 the District decided to "step over" this part of the action area and to give a new impetus to the operations by focusing on cleared building plots around a newly created park (block No 27).*

The most important lesson that can be drawn from the comparative survey of the three local government initiated large scale urban renewal projects is that all of them are of gentrifying and exclusionary character. Even if there are many real "winners" of the operations (for instance those in Ferencváros who are permitted to buy their renewed flats after 5 years, or those who were able to move into better quality dwellings), those who are less capable to safeguard their interests (for instance whose tenancy rights are not enough "clear") easily could fall into the group of the losers. The examples of Ferencváros and Józsefváros well show the advantages of the relying on a local development company: it can more easily adapt itself to the changing conditions of the development market. The management of the company is able to act in a position relatively apart from the bureaucratic behaviours and political battles in the local government. At the same time the local government provides a secure political background that in most cases is welcomed by the local people.

There is, however, another important experience of the survey that goes beyond the presented comparative analysis: there are no other areas in the inner parts of Budapest where projects similar to those of the three districts can be accomplished. Ferencváros, Józsefváros and Erzsébetváros should

remain exemptions as nowhere else in the city the Districts kept the majority of their rental housing stock in public ownership in a contiguous area. Furthermore, neither the new Urban Rehabilitation Program of Budapest, adopted in 2007, nor the EU will sponsor programs of exclusionary character. According to the new national and EU programs the functional and environmental improvement and city centres and the “social rehabilitation/regeneration” should be the new priorities (see about the latter in chapter 8). However, it is not yet known, how the extraordinarily vast amount of the deteriorated former rental stock in the inner part of Budapest will be renovated and how the “comprehensiveness” of the renewal operations, stressed by most politicians, could be effectuated in these areas.

## **6. Main private and semi-private actors in urban restructuring in Budapest**

The ten years time-span after the political and economic changes in 1990 proved to be sufficient in Hungary to the emergence of a real estate industry similar to that in Western countries. The three main groups of actors, developers, investors and the construction industry perform the same tasks. The developers are active in acquisition and consolidation of land, in financing and managing developments by using not higher than 20-30 percent own resources, and finally in selling the product to investors, including large institutional investors and also small final users, as home-buying families. While the developers' gains are the outcome of calculations about land prices, costs of short term bank loans, costs of planning and design, taxes and administrative expenses, the costs of the construction work and the expected final selling price, the investors actually buy a cash flow the annual yield of which seems to be favourably for a longer haul – for about 10-15 years –, as compared to other forms of investments. Construction companies also in Hungary are building contractors under contracts with developers.

In the Hungarian phrasing the word “speculator” is used, as elsewhere, for those actors who acquire a piece of property the development of which is not rewarding according to short term calculations and who keep the land in undeveloped form until the conditions are improved, either through actions of other developers in the neighbourhood or through other changes, as the improved planning permission conditions. This speculative behaviour has been promoted in Hungary and in other CEE countries by the privatisation in the course of which landed properties could be acquired on low, in some cases on extremely low, prices. Another specific Hungarian attitude is that in the view of the general public, and also for many politicians land consolidation (unifying parcels into one building site, getting planning permission etc.) is not regarded as a real “development activity”. As presented in chapter 1 this may lead to serious political tensions if the development of a public property is concerned (case study 1 and also Inner-Erzsébetváros) and the developer cops out of the project after consolidating the land and sells it to another developer.

### **6.1 Foreign and local private actors in real estate development after 1990<sup>1</sup>**

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<sup>1</sup> Chapter .6.1 and 6.2 was written in collaboration with real estate scientist Gábor Soóki Tóth



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The first real estate developers who emerged in Hungary in the late 1980s and in the early 1990s came from the neighbouring countries (mainly from Austria and Germany) into the office and hotel development sector. Only few of them belonged to the largest companies in their native country. Their general behaviour was to use a double management by employing Hungarian managers familiar to the local conditions or they founded joint venture companies with smaller private Hungarian firms. Most of them were successful in new office development and the refurbishment of old structures (for instance of the abandoned “workers hostel”) into lower grade hotels or youth hostels. The same was the case concerning the retail sector but here the existence of a successful Hungarian retail chain in co-operative ownership (SKÁLA Co-op) together with its ambitious founder fast promoted the emergence of one of Europe’s largest development company.

Nevertheless, the first large foreign private development companies appeared in Hungary as late as about 1995 after the consolidation of the Hungarian economy. These new-comers can be regarded as real and “classical” developers as they focus only on the management of projects. Even if their basic activity in their native countries was construction, or had a strong building division, they relied, and rely in most cases even now, on either their local construction arm or on Hungarian construction companies because of the lower manpower costs here. Whereas the first hotel and office complexes have been opened during 1991-1993 the first large scale Western-style retail developments (Duna Plaza, Polus Center and Europark) have opened during 1996 followed by the first large scale mixed use scheme West-End City Center – comprising a full scale shopping mall with cinemas and food court, a four star Hilton hotel and office towers – a few years later.

The fast transition towards a market economy that followed the political changes has furthered the entering of foreign operators and investors on the Hungarian retail market. The past decade has seen continuous product innovation, which started with the consolidation and upgrading of traditional retail shops and continued with the introduction of new formulas, like shopping centres and big boxes – for the most hypermarkets – and DIY brand stores. As the market saturated, the competition became stronger: location, operational efficiency (logistics, purchasing) and shop formula are the key factors in attracting customer spending. Most of these processes follows international developments, however, the speed of change is has been much faster. Traditional variety stores, and inner city department stores have lost out against shopping centres and hypermarkets, traditional shopping streets have suffered (especially in secondary locations).

Both the retail and the real estate development market has internationalised years before EU accession. The lifting of trade barriers that might have kept retailers away from expanding in the Central European countries has raised the interest towards the region. As the date of accession became within reach, several chains have reportedly been looking around and entered negotiations to secure locations, mostly in shopping centres or traditional inner city shopping street locations (some have already done so, like Footlocker or Douglas Parfumes). Some have entered following a developer with whom the chain has established cooperation in developed markets (e.g. C&A). DIY and furniture stores felt an urge to start an expansion when recognising the rise of real wages that has brought a clear shift towards durable goods. Ikea has decided on a second store and the expansion of its existing flagship, similarly Leiner/KIKA has upgraded its flagship store and expanded its network and Sconto has established itself. Several local players (catering for the lower end of the market) have also expanded during the past few years. Beside expanding networks an idea to create a “furniture/home décor” mall is on the agenda for some time. Home Center built by residential developer Interestate in District

XVII, along Pesti road was the first of this kind. The complex incorporates showrooms and a small office/conference facility. Material Center, a project in construction currently seem to have a similar concept, located at the already established furniture cluster along District XIII's Róbert Károly ringroad.

As a completely new concept Factory Outlet Centres (FOCs), a concept originated in the United States, were initiated recently. Two competing schemes are under construction in Budaörs and in Törökbálint, West to Budapest. Another one is planned in District XI (Lágymányos) on a former industrial site. The FOC concept is a leisure focused retail product (day trip destination). As a definition we may say that FOC is a professional concept of factory sales in an attractive setting that in many cases has a strong leisure-touristic character. In FOCs about 70% of the supply is made up by fashion and shoe & leather goods, since these products have high-trend sensitivity and therefore represent higher risk of over production. According to international experience 80% of visitors come to buy fashion and shoes in FOCs. FOCs have a drawing power over more than 100 km distance. The low frequency of average visits, 2-3 times per year, typical for FOCs require a strong drawing power over long distances.

In contrast with a vigorous international competition in the commercial real estate sector (office, retail, hotels and more recently warehousing and logistics) there was no significant interest in the housing sector until the late 1990s from foreign developers. Most foreign owned development companies are from Israel (Autóker Holding, Engel Group, Olimpia, SBI, SLProperties etc.), but large construction firms like Strabag or developers with a financing background like Raiffeisen Property have also entered the housing construction market. Bayerische Hausbau, a regional player from Germany has been the first developer to complete a mix-use development comprising residential, office and retail functions on the site of the former optical works in Budapest (the MOM Park development, case study 4). The Austrian company Real 4 You has turned its focus to housing after successfully completing a shopping centre project in Budapest.

The Hungarian side of the picture is also extremely varied. Many of those former state owned construction companies that used to be active in the implementation of residential, public and other commercial buildings were privatised partly or totally by their management. These companies with many building divisions carrying the heavy burden of employing hundreds of people were split up into a number of specialised subcontractors while the management retained the general contracting units. Besides management buyouts a number of leading foreign contractors were involved in the privatisation, primarily in the infrastructure building sector. These companies with help from capital injection and upgraded technology and know-how were able to sustain their primary role on the market. As most of the former development divisions of the local councils had been dissolved and their own development companies were privatised these companies cover a wide spectrum of activities in infrastructural development. Recently the large public works are managed by relatively small public development agencies, by strong private developers, or by strong "general contractors", employing a great number sub-contractor companies of varied size.

At the same time, also in the course of privatisation, smaller construction companies emerged on the scene. Most of them entered into the residential sector, especially after 2000. Their growth paths have been rather diverse. Some smaller, privatised, well managed companies, successful in construction, came over to the development side by retaining their construction divisions (case study 11) too. Others took the risk of fast growth by undertaking larger "residential park" projects with extremely high densities even on less attractive sites. Up to recently many of them remained successful, however, after the slowing down of the housing boom signals of break-downs are observable. Some of them are active in central state initiated PPP projects, as university buildings, student hostels and also prisons. However, taken the growing share of Hungarian companies in residential development as granted, most of the largest projects, for instance those along the Danube, are managed by foreign developers. Among them especially the Israeli, Spanish, Portuguese developers are active.

With the maturing of the market we may classify professional developers into three main categories: land developers, mainstream builders and niche players. Land development for residential use was in many cases initiated by local governments motivated by Central Government subsidies available for

the expanding of the utility network. As a reaction to demand for affordable building plots and since the voucher privatisation (restitution) of agricultural land has resulted an estate structure not in favour for agricultural exploitation, private investors and investment societies (e.g. Quaestor, Pilis-Invest, etc.) arranging a large pool of small investor money, entered the market by acquiring major land holdings. There are a number of private land development companies, who besides developing building plots are also involved in building as well (e.g. Simex, Hectar 68).

Except for OTP Ingatlan Rt., the real estate development arm of the National Saving Bank (OTP) all domestic developers in the housing sector are new companies, formed in the last 8-10 years or even more recently. Until the late 1990s entry into the market was difficult, due to lack of experience in the housing development business, the reluctance of banks to provide interim finance to start up enterprises, weak demand for new housing – especially during the early 1990s – and until 2000 the lack of affordable mortgage finance instruments. Some, however, have established their credentials during the early years of transition through a series of small scale projects. The chemistry of their success appears to be a mixture of competent management, strong relationship with the local government where they operate, innovative financing and marketing techniques.

In the Budapest area there are about 350 companies active on the housing development market. Among the largest players are OTP Ingatlan, Interestate, AL Holding, Balusztrád, Autóker Holding, Reax Invest, Mester Nívó, Trigránit to name a few. A number of these companies were founded by individuals with experience in the financial sector and/or with a legal background. Successful business owners in other sectors (e.g. IT, automobile trade or media) have been attracted to real estate, especially land development and housing construction. Among the mainstream players larger firms tend to become volume builders either by dominating a locational segment (e.g. Quadrat in the 9<sup>th</sup> district, Mester Nívó in the 4<sup>th</sup> district etc, Case Study 11) or by aiming at project size (most Israeli firms, local construction giant Vegyész, OTP Ingatlan, TriGránit, etc.). A special category is represented by developers catering for a special market segment. There are a handful of small scale investor/developers specialising in conversions (attic spaces, existing apartments, villas or old industrial buildings). The average scale of these projects is small, targeting the upper segments and concentrate on the historic city centre and the high prestige Buda districts.

### **Case study 11**

#### ***Success of a Hungarian construction company as a developer in Middle-Ferencváros***

*Before the political changes the National Saving Bank (OTP), financier and developer of the newly built dwellings in Middle-Ferencváros, was authorized to select the construction company. A big North-Hungarian state owned company was the "routine partner" of the bank. It had a branch-company in Budapest that was operating relatively successfully despite the worsening economic conditions of the late 1980 and early 1990s. This branch company started to gradually lose its ties to its mother-company, finally the management, together with its workers "bought themselves out", and the Quadrat Ltd. was founded in 1989. In 1993, at a next tender, Quadrat's offer was more favorable than that of the former mother-company, thus the new private company was chosen by OTP.*

*Quadrat started to build under the contract bound with OTP. Gradually, OTP's privileged position in residential building has been weakened, e.g. interest payment obligation was introduced on short-term loans raised by its development section. Poor quality marketing activities of the bank continued to reflect its monopoly situation, demand for the new apartments in the deteriorating area was relatively low, landscaping of the courtyards was yet missing, thus the selling of apartments went on desperately slowly. After the political changes OTP realized the expanding market in office development, decided to focus on commercial building and to withdraw from financing and building dwellings in Ferencváros.*

*For Quadrat, as a construction company, this meant losing the secure customer. In order to survive, the company decided to widen its scope of activities by undertaking tasks ordinarily performed by separate actors in market economies: investment, real estate development, building, marketing and selling at its own risk. Through good organization of all of these activities, e.g. marketing, was carried out on the site in nicely furnished new flats of different sizes, plans of the buildings and dwellings were continuously redesigned according to the customers' will, "customer pre-financing" was introduced,*

*the company was able to tide over hard times. Even more important was that through keeping "everything in one hand" outflow of profits could be evaded, and used for investments including the improvement of the company's technical infrastructure. (No interest payments have been done to the shareholders, including also the blew-collar workers of the company.) In this line also selling prices were kept on an affordable level under the circumstances of a narrowing housing market.*

*Quadrat's success was also backed by its fair business relations to the newly elected district, government. It was also an important factor that architectural and landscape design continued to be done by the same architects and landscape architects who, working already in private businesses, have gained experiences in the difficult business of designing in a built up environment. Also these helped Quadrat to fill in the "development gap" in the early 1990s, when the old socialist structures collapsed.*

*Source: Lecture of the writer at the Central European University, Budapest, based on interviews with Ms Varjas, manager of the company*

## 6.2 Large investors in the Budapest real estate market

There are no published data on how profitability has changed during recent years in the real estate development sector. However the growing number of firms and the increasing volume of construction show investor confidence in the sector. The times are over when initial investments could be recouped within 5 – 7 years, still profitability is attractive for developers and investors coming from Austria, Germany, Switzerland, the Benelux, Britain, the U.S. and Israel. The annual construction volumes in the sector discussed averaged around 100.000 sqm0 per annum. The construction industry has seen sustainable growth during past years and the short term trend is positive.

In the years following transition the investment market was immature and prime yields reportedly stood around 14-16%. Since the mid-1990s, prime yields have dropped significantly, and current estimates put them at around 8.5%-9%. These estimates should be treated with caution: there have been only a limited number of transactions and, as with rents, there is little transparency. The investment market so far has limited itself to Budapest. Decreasing yields in the Hungarian capital contrasts with the movement in rents over the past decade. It partly reflects growing stability and anticipation of an improved rental performance over coming years, due to expectations of economic growth following EU accession. However, market fundamentals suggest that real rental growth is unlikely in the short-term, and so it can be contributed more to the weight of money chasing a very scarce stock of good quality properties let on standard leases to blue chip covenants (Table 8) .

**Table 8**  
**Major transactions in Budapest between 2002 and 2004**

Address*	Investor	Nationality	Date	Size(sq m)	Price(€m)	Yield(%)
Science Park, District XI	Sachsenfonds GmbH (Landesbank Sachsen)	German	To be announced by Q4 2004	32.800	67,5	n.a.
IP West, District XI (forward purchase)	Europolis Invest	Austrian	Q4 2003	24 000	28,0	9,8
City Gate (50% interest)	Europolis Invest	Austrian	Q3 2003	22 000	40,0	
APV Headquarters (sale & leaseback)	OTP Real Estate Fund	Hungarian	Q3 2003	16 000	15,0	
East-West Business Center	Polonia Property Fund LP	Irish	Q1 2004	15 825	42,5	9,5
Obuda Gate, District II	Polonia Property Fund	Irish	Q4 2003	14 500	29,0	9,1
Hermína Towers	Private investor	n.a.	Q4 2003	11 250	22,0	10,0
Eurocenter Óbuda (shopping centre)	Manhattan Properties	Austrian.	Q4 2003	24.000	36	n.a.

Deli Point	Private investor	n.a.	2003	7.000	10,0	9,15
R70	CA Immo	Austrian	2003	17.000	30	10,0
Alkotás Center, District XII	Private individual	UK	Q4 2003	3 300	5,0	8,9
Retail portfolio of 4 stores in CZ and H	Pricoa	US	Q4 2003	36.000	51,6	Below 9
Electro World (2 stores)	Pricoa	US	Q4 2003	10.000	13,0	9,5
Globe 13 and Árpád Center	Immofinanz	Austrian	Q2 2002	20.000	40,0 – 42,0	9,35
Unilever building	Immorent (Erste)	Austrian	Q2 2002	n.a.	15 – 20	9 – 9,5
Compaq building	HVB	German	Q2 2002	n.a.	5 - 6	10,5 – 11
West End Business Center	PBW Fund	German	Q1 2002	31.000.	69	9
Kálmán Imre u.	Redevco	NL	Q1 2002	n.a.	9 - 10	9 – 9,5

Source: Colliers, DTZ \*if otherwise not indicated the list contains office projects

Investment activity in the Budapest market over the past year has been dominated by a few “vehicles” created specifically for investment in Central Europe. These include the Polonia Property Fund, controlled by Allied Irish Bank, with shares also held by the European Bank for Reconstruction & Development (EBRD) and Immoeast. The Fund acquired NCC’s Obuda Gate for around EUR29 million in Autumn 2003; the scheme was 85% let at the time of the sale and the deal reportedly involved a one-year rental guarantee on the vacant space. This was followed by the acquisition of Skanska’s East-West Business Center for EUR42 million in Q1 2004. Austria’s Europolis (Investcredit and EBRD) acquired the remaining 50% of City Gate in 2003, and was also involved in an AIG-Lincoln portfolio purchase. The latter deal totalled EUR150 million and included two logistics parks as well the forward purchase of the IP West office project; the overall yield on the deal was reported to be around 10%. German funds were active in the market in 2002, but much less so during 2003, although there has been some recent involvement from domestically-based investors (e.g. OTP, Europa Alap and Raiffeisen).

Other important transactions included the sale of the portfolio of Airport Business Park and and M1 Business Park by developer AIG/Lincoln at initial yields of 10%, the sale of Pharmapark (14.300 sqm) and Henkell & Schönlein (10.800 sqm). On the hotel scene in 2002 the 148 room Art Hotel in Budapest was reported to be sold at a reported yield of 8% to a Belgian based fund. The building is under 20 years lease to an international operator. In 2003 Immorent (a subsidiary of Austrian Erste Bank) has purchased five hotels from Accor Pannonia Hotels all of which have been leased back to Accor on a 20 years term. The transaction volume was reported to be some 88 million EUR.

During recent years German funds have shown the most interest (BfG, DESPA), in 2003 Austrian funds increased their activities and there is growing interest from Irish and overseas investors. There are three larger domestic funds of which OTP Inगतlan (portfolio value of 69 million EUR) and Raiffeisen (62 million EUR) are the most important, whereas Europa Alap started by local investors have been taken over by HVB recently.

### 6.3 Civil organizations in urban development: environmentalists and conservationists

As some environmentalist groups played an important role in the preparations for the political changes in the late 1980s, their role has remained relatively strong after 1990 too, as compared to other former state socialistic countries. As a great number of their members, intellectuals as architects, urban planners, engineers, sociologists, writers etc. joined to the new libertarian party, a leading personality of which has continuously been the mayor of Budapest since 1990, their relations to the development of the city processes became rather ambiguous later. In the first years after the changes an “anti-planning” attitude prevailed among the leaders members of the Municipal Government of Budapest. On the other hand, in the two-tier local government system of Budapest, the municipal government’s

principal task remained the development and maintenance of the main infrastructure including public transport, tasks that require strong public intervention also in physical planning. In this controversial situation, in which the “success” of the central government of the City is weighted principally along the implementation of public works a wide space for intervention by civil organisations has been opened.

In the early 1990s the leading attitude of the environmentalist groups was the advocacy of a balanced development of the city both from spatial and environmental standpoints. They have taken a strong line against any developments that would contribute to the further strengthening of the city centre. They soon confronted with some strong engineering lobbies, and in many cases were able to block the implementation of new distributor roads close to the city centre or those that would have penetrated environmentally sensitive areas (for instance the widening of the lower quay of the Danube on the Buda side). Later their policies became more comprehensive by putting their criticism into a more long-range and global context. By stressing energy conservation, recycling and general environmental awareness their intellectual standpoint and behaviour became very similar to those of the environmental groups active in the developed world: a general rejection of any expansion of space for car traffic, including also underground parking in central districts of the city, putting public transportation and cycling into the forefront. Their most recent achievement was the rejection of the cutting back of the size of the yet generous public transportation service of Budapest (recently the modal split is about 60 per cent) and that the preparatory work on the introduction of a “traffic-jam fee”, following examples of European cities, has just started.

On the other hand the “greens” have been less successful in the less comprehensive, smaller-scale matters. Only few achievements were made concerning the fostering of an environmentally more conscious residential construction, as the use of ground heat for heating and cooling residential buildings, the use of sun-collectors or the retaining rainwater within the residential neighbourhoods. This environment conscious way of building is in sharp contrast to the profit maximising private residential building fostered also by the very high densities permitted by the building code of Budapest. (Only few civil organisations are aware of the “secrets” of density calculations and their close relations to profitability of residential projects, see chapter 7.)

It is common in Hungary that in the civil organisations environmentalist attitudes go hand in hand with those of the conservationists. In some cases this overlapping of views and standpoints may lead to odd outcomes: for instance a recent strong rejection of the building of Metro-line No 4 in favour of the setting back and/or lengthening old tram lines in the narrow streets of Budapest. In other cases the national party politics might influence the behaviours of civil organisations. The number of “quasi civil organisations” closely interlocked with some parties is rather great in Hungary. It is a new phenomenon that the conservationist groups are acting in concert with social scientists who step up against any kind of exclusionary practices in urban renewal. On the other hand the contacts of most civil organisations, both environmentalists and conservationists, to local people have been rather contradictory. Their general behaviour has been to step up “in favour of local people”, and seeking for backing in the neighbourhood only after the first “imposing” actions had been made. (For these interrelationships see in more detail the behaviour of the conservationist civil organisation Veto! in chapter 7.)

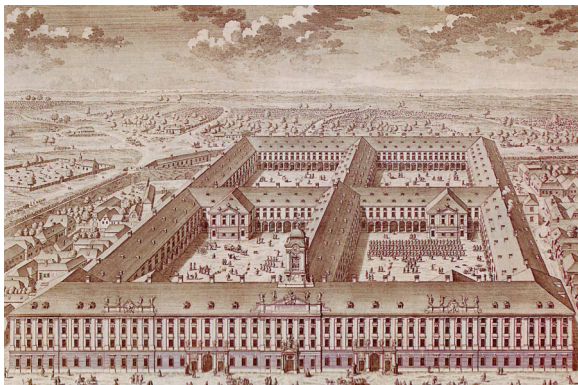
Finally, a specific conflict between conservationist groups and some groups of intellectuals arguing for an up to date and “alternative” cultural environment, including “contemporary architecture” in Budapest, is to be mentioned. While the general urban policy of Budapest has been rather libertarian, in this field its policy has gone after that of the conservationist general public. Building of skyscrapers is prohibited even now; the “full conservation” of the historic, 19<sup>th</sup> century cityscape is becoming a new policy just recently. The artists’ view about the development of Budapest in the last 18 years is a simple statement: “nothing really happened”.

## 7. Inner-Erzsébetváros, restructuring under the attack of Veto!

In this chapter those important changes in the urban renewal strategy of Budapest's 7<sup>th</sup> district, Erzsébetváros (Elisabeth-town) are summarised that best exemplify restructuring processes in the Hungarian capital after 1990, discussed in the earlier chapters. Based on the overview of urban and architectural literature, sociological surveys, central State Acts, local government decisions and statutes, regulatory plans and building codes, feasibility studies the chapter tries to comprehend all important factors that have influenced the behaviour of the district government, the people living in the area, of the, in many cases foreign, developers and investors, when a conservationist civil organisation, (Óvás!: Veto!), intervened against large scale demolitions, the exclusionary methods of urban renewal and for the saving of the endangered architectural heritage and, last but not least, for the revival of the neighbourhood as the "Old Jewish Quarter" of Budapest.

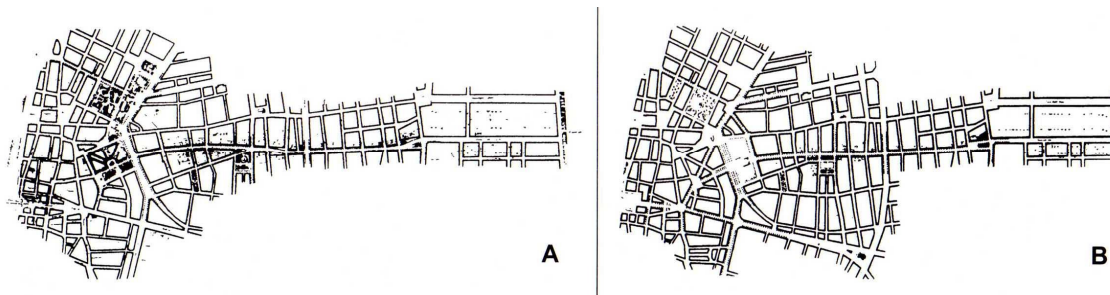
### 7.1. History of Inner-Erzsébetváros before 1990

Growth of Erzsébetváros started after the Turkish occupation of Hungary in the early 1700s as a horticultural area serving citizens of Pest with food. Three West-directed roads (Király, Dob and Dohány streets) provided the access to the large gardens. Later the Jewish community settled down here, close to the city walls, and built in the end of the 19<sup>th</sup> century three synagogues in first class architecture. Up to recently these are the major streets of Inner-Erzsébetváros together with a fourth one (Wesselényi Street) that was newly opened across the long building blocks in the last years of the 19th century. Gradually new, narrow streets started to be opened by the owners of the gardens along the borders of their parcels perpendicularly to the major streets. Subdivision of the originally agrarian lots went on both along the main and the side-streets. As a result of this "organic" development small building sites became characteristic along the side-streets, where the poorest population found simple single story rental homes. Király Street became the most important "suburban" commercial street of Pest to the early 19th century.



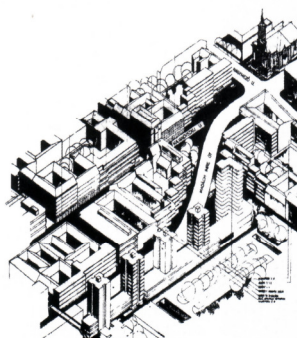
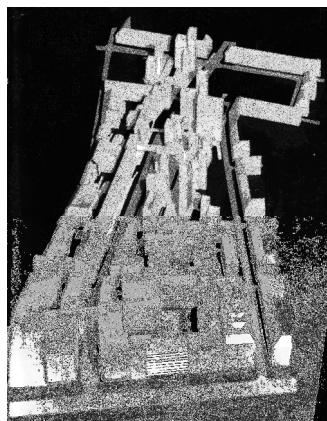
**Erzsébetváros seen from above the military hospital in the 18<sup>th</sup> century (now City Hall) and a map from 1872**

The present high density of the quarter is the result of the gradual rebuilding in the second half of the century. Two major interventions brought a new image to the area: the opening of a new avenue (Sugár út: "Radial Road", 1875-85 – Andrásy Street), and the Grand Boulevard (1880-95). These streets were cut through the original urban texture, and became the focal points of building activity: Inner-Erzsébetváros fall into a backward position behind the elegant Andrásy Street. That is why this is the only part of Pest, where numerous multi-story buildings from the classicist and "romantic" architectural period of the middle 1800s escaped demolition.



### Two plans of Madách (Erzsébet) Avenue from the between-war period

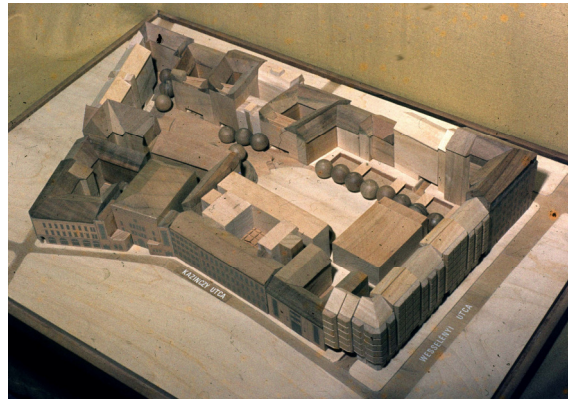
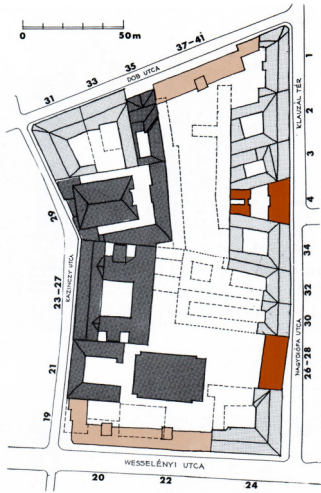
At the beginning of the 20<sup>th</sup> century a new axial road was planned to be opened through the densely built residential blocks, but only a short section of it was accomplished close to the City Hall in the late 1930s. After the 2<sup>nd</sup> World War, under the state-socialistic period, only a few development schemes were outlined for the continuation of the street (Madách Avenue) in the modernist flavour of that time. The dominant concept was the extension of the city centre to the East direction, thus the General Plan of Budapest in 1970 designated the area for public institutions including housing. None of these plans were implemented, but the program's negative effects are visible even now: in fact not any renovations were carried out in the state owned building stock. Later, immediately before the 1990 political changes a deputy mayor (an architect) of the District Council of Erzsébetváros came forward with the idea of reviving the Madách Avenue concept. This time the plan to accomplish the street was already accompanied with the concept of “stimulating the market” and assisting renewal.



### Two plans of Madách Avenue from the 1970s (TU Budapest and BUVÁTI)

The 7<sup>th</sup> district of Budapest was also the scene of the emergence of the idea of a more sensitive urban renewal in the late 1970s, in line with international trends, called “block rehabilitation”. Although this method of renewal broke with that of the former radical redevelopment projects, implemented mainly in the outer districts of Budapest, also plans of block rehabilitation included the demolition of those worst quality buildings – or the inner side-wings of them – that were classified as “not feasibly for renewal based on economic calculations”. At the same time an all-embracing renovation of the remaining stock and also the provision of landscaped inner courtyards were planned. In 1986 the municipal council of Budapest adopted a Rehabilitation Program that designated the action areas and set up a financial and institutional system too. Although block rehabilitation plans were in place in nearly all inner districts of Budapest, only few of these plans were implemented before the change of the political system in 1990.





### Plan and model of the renewed block No. 15

An early example of “block rehabilitation” in the 7<sup>th</sup> district is the so-called block No. 15 West to Klauzál Square, the main square of the area. Here the interior of the block was freed up, less valuable back-wings around the courtyards were demolished, a few new buildings were built, and the remaining parts of the buildings were modernised. The inhabitants were re-housed into other state owned rental flats. The initial plan intended to keep the housing stock in the state “social housing sector”, but the costs of the operation were too high compared to the budget limitations of state housing. Thus a great part of the flats were handed over to the Army in need of flats for its officials. Soon this method of rehabilitation was declared by the Municipal Council of Budapest as “unrealistic“, thus not to be followed in the future.

### 7.2 Inner Erzsébetváros, the “Old Jewish Quarter” of Pest

In Erzsébetváros, the first suburb of medieval Pest, used to be inhabited by a population of mixed origin, more than 30 per cent of which were Jewish even in the first half of the 20<sup>th</sup> century. A recently published historical-sociological survey (Ladányi, ) describes a rather suggestive picture about the changes in the locations of homes of Jewish people in Budapest’s urban structure in the last one and a half century.



The synagogue in Dohány Street and a photo from the early 1900s

In the first years of the 20<sup>th</sup> century about 60 per cent of Budapest’s Jewish population lived in Terézváros (Theresien City: the today’s 6<sup>th</sup> and 7<sup>th</sup> district). It is to be stressed, that in historic terms no real ghetto functioned in the three “founding cities” of Budapest (Buda, Óbuda and Pest) after the end of the Turkish occupation and in the period of the resettlement of Hungary in the 18<sup>th</sup> century. Later

the share of Jewish people grew fast in other “better” districts of Budapest, in particular in Lipótváros, owing to their fast improved education levels, growing participation in the Hungarian economy, thus the accumulation of a growing part of wealth in their hands. In the interwar period the most characteristic target area of out-migration from the “Old Jewish Quarter” became Újlipótváros where, along the Danube, new residential developments offered a good quality living environment. Only the Jewish population of Budapest survived Holocaust in substantial numbers. According to a 1948 survey 70 per cent of the Hungarian Jewish population lived in the capitol, compared to the 48 per cent of those who were classified as Jews in 1941 according to the two “Jew Acts” adopted by the parliament of that time. But since March 1944, after the occupation of Hungary by German troops, a great part of Inner-Erzsébetváros was converted to a “ghetto” into which a great part of Jewish families were forced to move.



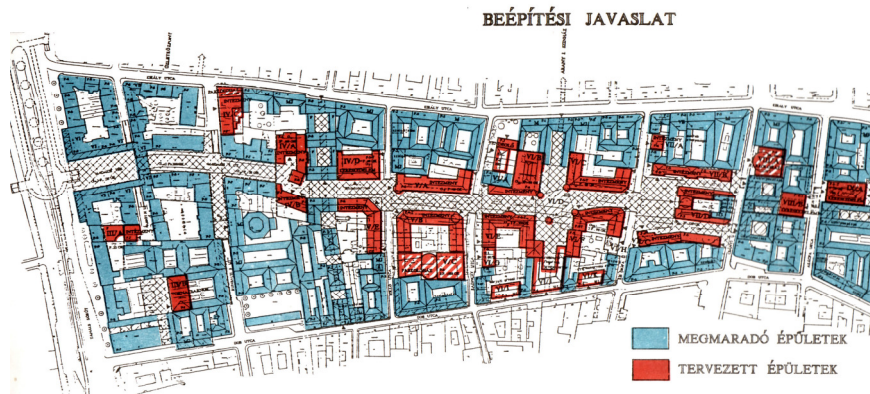
**The border of the “ghetto” in 1944 and 1945 into which the Jewish population was forced to move**

After the Second World War migration of Jewish people to other parts of the city has been even more accelerated, once again to the “higher status” districts. While in 1938 48,7 per cent of Jews lived in the four inner districts (5<sup>th</sup>, 6<sup>th</sup>, 7<sup>th</sup>, and 8<sup>th</sup>) and 13,3 per cent of them in Újlipótváros, that is about two third of them were inner-city residents, until 1999 in Erzsébetváros, where the greatest number of Jewish people had lived before the Second War this figure has fallen back to 6,3 per cent. Their share substantially decreased in the residential building stock with lower prestige (in the traditional closed “courtyard building”, especially in apartments in the rear wings). In Újlipótváros the share within the total increased to 18,4 per cent and also in some parts of the city that had formerly been known as “Christian districts” the sociological survey measured quite high figures (for instance in the 2<sup>nd</sup> District – in the Buda Hills: 23,9 per cent).

**7.3. A new-old concept of urban renewal in Erzsébetváros after the political changes: from Madách Street to Madách “Promenade”**

The 1990’s fundamentally changed the political, legal and economic environment of urban development and urban renewal also in Erzsébetváros. As discussed in earlier chapters, the introduction of the municipality system, the two-tier municipality structure in Budapest, the strengthening of civil and property rights, and the dominance of private development increased the number of new players in urban development. As the ownership of the state rental housing stock was transferred to the local governments also the new, democratically elected, government of Erzsébetváros had to face the question whether to sell its flats to the sitting tenants or keep at least a part of them in order to promote urban renewal by using its own property base.

As described earlier, the 1993 Housing Act made the “alienation”, compulsory if the tenants wanted to buy their flats except that (i.) the structure was listed as a national heritage, (ii.) the building’s condition was extremely bad („life threatening”) and (iii.) the area was covered by an official rehabilitation plan. In Inner-Erzsébetváros some buildings had already been listed as national heritage along Király Street, a great part of the building stock was out of repair, thus the District decided to fasten urban renewal operations. This intention of the government of Erzsébetváros was confirmed also by the revival of the old plan of Madách Street.



**The plan of Madách Promenade adopted in 1989 by the Municipal Council of Budapest**

In 1989, one year before the political changes, the Municipal Council of Budapest invited four state owned architectural studios for an urban design competition. The tender’s purpose was to collect ideas for a new plan of Madách Avenue. The competition was won by a team of TTI (Institute for Development of Planning and Design). The architect of the prize-winning entry proposed a pedestrian “promenade” the broken line of which was fitted to the border lines of the existing parcels, the scheme “enriched” with internal squares, open or covered. The whole design was kept in the traditionalist, “post-modern” architectural flavour of that period. At the same time the proposal, although a step back from the avenue concept, calculated with large scale demolitions. The official plan, based on the competition entry, was adopted by the Municipal Council of Budapest in 1989, just before the political changes.

The new Assembly of Representatives (Council) of the District supported the new scheme despite the fact that the Municipal Government of Budapest, especially one of the deputy mayors definitely opposed it. One of the new political parties persuaded the architect of the promenade to become a candidate at the local election who, after successfully becoming a member of the Council, was keen to keep a close eye on the realisation. It played also a role that in these years there was a plan of organising a World Fair in Budapest; the District wanted to attract a high share of the hoped real estate development boom onto its territory. Finally the Council of Erzsébetváros adopted the plan in March 1992.



**Maps showing buildings to be demolished and to be renewed according to the 1989 plan**

Then the realisation seemed to be rather easy: buildings in the large publicly owned territory in the middle part of the blocks were planned to be demolished and their sites subdivided for new building plots. These new plots were planned to be sold to developers, and the revenues from the transactions used for the renovation of the district owned buildings along Király Street and Dob Street. A Hungarian branch company of an internationally known firm was commissioned with the feasibility

study (Coopers & Lybrand). According to the adopted plan 25 buildings would have been completely or partly demolished with 382 flats together with 334 rental premises. On the 29 new building plots 20 office buildings, banks and other commercial developments were planned together with only six (!) residential buildings and 3 parking garages. It is very suggestive that a great part of reservations about the promenade concept made in the early 1990s are emerging even now (2007).

- Debates in the Council around privatisation became rather fierce. On the one hand, in fear of speculator consequences, the ongoing procedures were severely criticised arguing that as many properties should be kept in public hand as possible. Others proposed the selling the majority of the public flats to the tenants, and consequently argued for a radical shortening of the “non-alienation list”. (See about this list later.)
- Political analysts pointed out that the District Government tended to arrive at decisions under pressure, in a fear from a total bankruptcy caused by great mass of residential property, the upkeep and maintenance of which seemed to be unrealistic. In their view the Council voted for the plan in lack of the required information by following “sympathies, bargains and temporary alliances”, and that the members of the Council wanted to gain some “political capital” for the next election.
- Reservations of technical experts and planners were also strong. Those who put the concept into a wider context and were speculating about the development strategy of the whole city heavily criticised the concept of “city centre extension” because Budapest misses strong sub-centres. Serious traffic problems soon became apparent: the narrow streets would not be capable to accommodate the increased traffic flow.
- The Jewish tradition of the area was less accentuated that time, but an article reminded its readers of the forced ghetto from March 1944 to February 1945. The author also analysed the repressed historic consciousness under state socialism, the “unprocessed social trauma”, concluding that the plan of Madách Promenade “does not take into account the considerations of important relations to the history” of the site.
- Although there were only few reservations concerning the realisation of the project by the private development sector, the “monumental” size of the project attracted severe criticism. One paper warned that the area would be empty in the evenings, criticised the “island-like” character of the development, and said that the capital should be seen as only one of the necessary factors of success. It stressed that “less capital would be more”, the actors of a 30 billion HUF project would dictate, “colonize” and that their frightening with moving away from Erzsébetváros should not be accepted.

As the new promenade concept would have exercised serious impacts on the inhabitants, in a sociological survey 500 persons, well representing the composition of population, were asked to what extent they were informed about the plan and to what degree they agreed to it. Three variations were presented to the questioned people: (i.) the “elegant” plan of the promenade, (ii.) a “less grandiose” variation and (iii.) a “self-help” version, the latter referring to the option of “full privatisation”, in which the renewal of the buildings would have been the responsibility of the inhabitants after they had purchased their homes. As expected, the self-help version was supported by only 15 per cent of the questioned owing to their missing financial capacities. It was a bit unexpected, however, that 55,4 per cent of the questioned agreed to the promenade concept in full extent, partially agreed another 10,6 per cent, thus the project was backed by about the two third of the inhabitants. 72 per cent of the questioned knew the plan but they were less aware of its severe consequences (alienation ban, character of renewal and building operations etc.). The researchers commented these results in a way that the people could envisage the improvements in their situation only through a large scale, comprehensive intervention after half century neglect.

Despite the ambitious start of the Madách Promenade project only a “tower-like” office building was accomplished that blocked the realisation of the century long avenue concept for good and all. The further building operations were severely curtailed by the uncertainties about the ownership of a passage-building, called Gozsdu Courtyard, standing in the line of the promenade. Another important

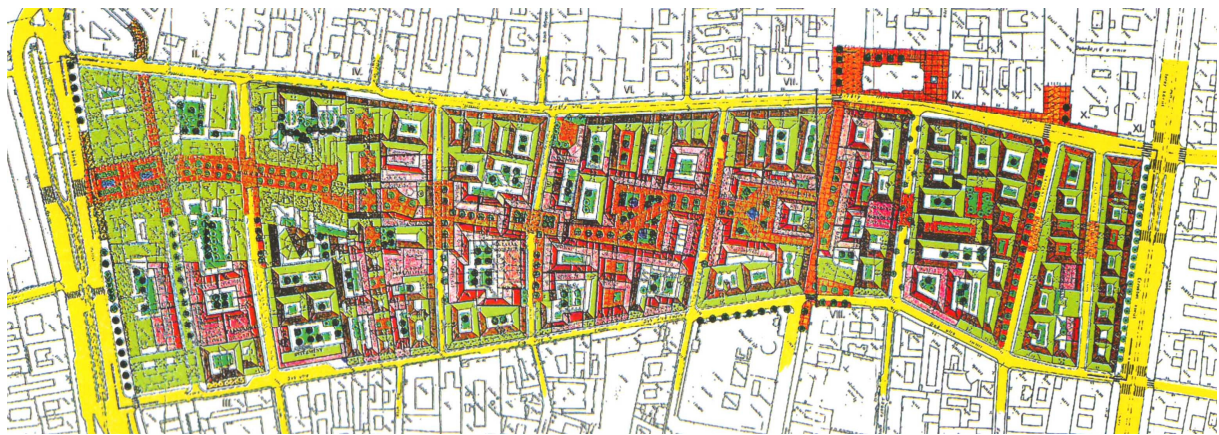
factor was that the next Council put much less energy into the implementation of the project. The intention to continue Madách Promenade was strengthened in the end of 1990s but under substantially changed real estate market conditions and according to a new regulatory plan.



**Gozsdu Courtyard as it is planned to be renewed**

#### **7.4. Madách Promenade reawakened in the late 1990s – planning confusions**

To working out of a new regulatory plan for Madách Promenade was induced in 1998 by a development proposal of a private investor for a single block that required basic amendments of the plan adopted in 1992. The adoption of the plan for only one block was refused by the District Government that immediately commissioned the consultant planner of the block with a plan for the whole promenade. The new plan retained the basic elements of the former one, but the promenade was planned as a less continuous spatial system. More stress was laid on the system of defensible squares, gardens, landscaped courtyards in the inner parts of the blocks. An important proposal was that the large scale restructuring of the blocks would have an end at the line of Csányi Street where the “axis” of the important Nagymező Street, perpendicular to the promenade and leading to Klauzál Square, would provide a natural border-line for the project.



**The second plan of Madách Promenade from 1998 (BFVT, Ferenc Pintér architect)**

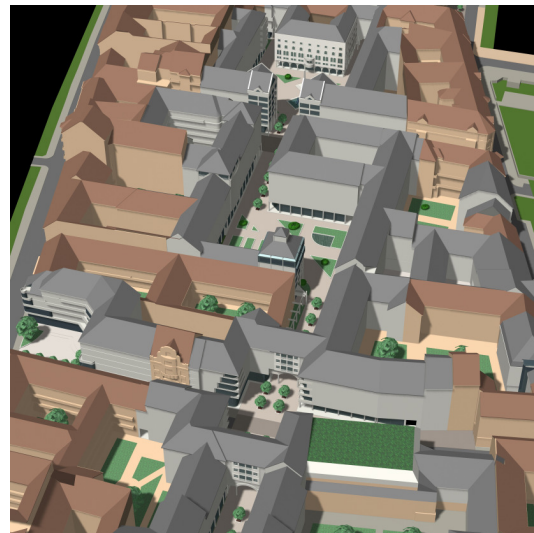
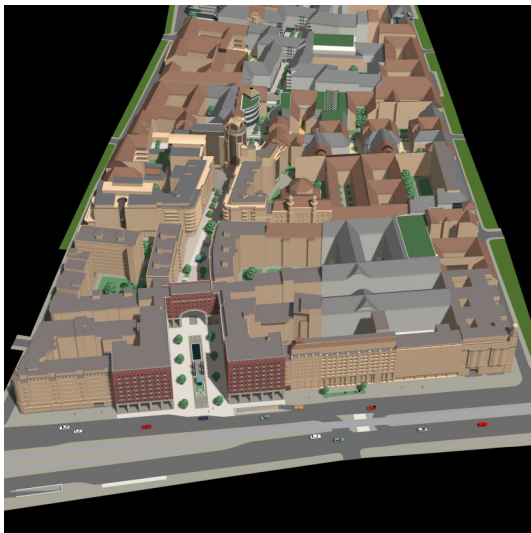
Real estate development trends substantially changed since the early 1990s also in Erzsébetváros. Owing to the widening of state housing subsidies described in chapter 1.6. demand for new residential development became dominant. Thus the former concept of city centre extension has been removed from the agenda. Development pressure was put on individual properties in the most advantageous locations. The inhabitants exercised another pressure on the District Government: a growing number of public flats were alienated, sold, to the tenants. Gradually the “property pool” of the District, required for an effective public management of the project almost vanished.

As described in chapter 2.3 the so called “normativity principle” (the same zoning regulations should be stipulated for building plots „in identical position”) was introduced by the new Hungarian urban planning law. It became an important legal requirement in the planning methodology but the use of

this principle caused serious confusion also in the process of planning of the new version of Madách Promenade. The District adopted a local building and planning code that, with some minor alterations, took over the regulations of the Framework Urban Planning Code” of Budapest, that includes very high permitted building densities for the centrally located “mixed-use” zones. (In these zones of Erzsébetváros densities as high as 5-5,5 m<sup>2</sup>/m<sup>2</sup> floor-space index is permitted, while in the densely built areas of Budapest this figure rarely exceeds 3,5.)

In this rather contradictory situation the consultant planner took the hard line of producing a realistic, environmentally acceptable regulatory plan. After a thorough survey of the site he worked out a scheme in which the size and placement of buildings was determined “plot-by-plot” according to the prevailing situations. This method of planning was inconsistent with the “normativity principle” and, at the same time, the possible building densities determined by plan were in most cases much lower than those permitted by the planning code too. This “double regulation” started to be contested by the private developers willing to build as much as was permitted by the planning code of the District.

It has not been in the interest of any parties to do away with this legal confusion, that is, to decrease the normatively permitted densities to an environmentally acceptable lower level. The District Government has up to recently been in a fear of losing investors who would choose another district, and also of the possible compensation requirements in cases of “down-zoning”. The private developers and investors, on the other hand, are aware of the fact that they are able to make better transactions if higher density figures refer to their properties – even if they do not want to build only to sell the acquired property.

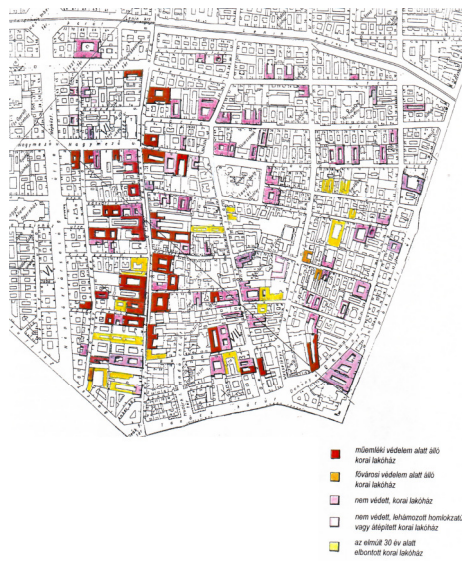


**Two computer models of the second plan of Madách Promenade showing high densities**

Meanwhile the problems concerning the ownership of Gozsdu Courtyard have been solved, thus a new cross-axis will be added to the promenade soon. In the same block and in Holló Street demolitions and building started, but a civil organisation intervened in 2004.

### **7.5 Emergence of the „Old Jewish Quarter” concept and the attack of Veto!**

In 2003 a rather influential paper was published by a conservationist architect (Percel, 2003) commissioned for by the Chief Architect’s Office of the Municipal Government of Budapest with the intention to survey architectural and environmental values in a part of Erzsébetváros that since the coming out of the paper is called as the “Old Jewish Quarter” of Pest. The paper covers facts of architectural and cultural history of the area, provides a classification of the yet intact oldest buildings together with their architects, their important former inhabitants and also the traditional crafts and trades characteristic to the site. The authors’ outspoken intention was to argue for the protection and renovation of as many of these buildings as possible, that is, against the demolition of them in order to keep the site’s characteristic image with architectural monuments going back to various architectural periods.



### Maps from the paper of VÁTI: oldest buildings and passages characteristic to Jewish past of the quarter

Another clearly visible intention of the paper was to protect and strengthen the Jewish heritage of the area. The three synagogues should be protected from the extremely dense building in their close vicinity, public spaces, public gardens are to be created along which the traditions of the site could be revived. The special passages that played an important role in the life of the religious Jewish people should be preserved and traffic calming should follow the renewal of the streets. At the same time the paper only touches serious problems as the deteriorated, outmoded conditions of the buildings, the extremely high costs of renovation, the relatively high share of lower status population in the area etc. The paper represents a radical conservationist attitude.

Shortly after the paper was published in June 2004 a civil organisation, called Óvás! (Veto!), submitted to the Office of Cultural Heritage (Kulturális Örökségvédelmi Hivatal - KÖH) a petition against the demolition of a building in Holló Street and applying for its listing as a heritage building. For one month this building had already been vacated by a private developer in order to clear its site and build a new residential building along Madách Promenade. After not getting an answer 20 persons went to the site, aiming to block the demolition. The demonstrators expressed their views, that the new buildings would fatally ruin the atmosphere of the site. Soon the Municipal Government of Budapest, the City Protection Association (Városvédő Egyesület) and also MAZSIHISZ (Association of the Hungarian Jewish Clerical Communities) assured Veto's initiative of their support.

In two weeks after the first action of Veto! Office of Cultural Heritage (KÖH) decided to put the Jewish Quarter under a "temporary territorial protection". According to this decision the Office would survey all buildings in a one year time and also starts the preparatory work for the protection of the most valuable properties. Experts of KÖH stressed that the goal was not the blocking of development, their prime task was the preservation of the "compact structure of the area together with its historic and architectural values, that is, preservation of the built heritage": The president of KÖH expressed in an interview that in the coming year the District and the developers should suspend all planned developments. After a month, in July 2004 Veto! organised another demonstrative walk, this time accompanied by open (tourist) buses, the protesters put signs on all buildings that were worth to be preserved according to their views. An organiser of the demonstration spoke about "forced population removal" of the tenants as it was been organised not by the local government but by private developers. According to her view the preservation initiative was backed by the inhabitants because they were deeply attached to their living environment.

The mayor of the District and his colleagues argued that parallel with the development of the site the preservation was also an important goal of them, and for that reason the District might modify the regulatory plan. But as state help was missing they would not be able to move forward without

external, that is private, sources. At least an urgent decision was required for a final list of buildings selected as heritage structures to arrive at a more secure position. The mayor also warned about a special problem that concerning heritage buildings the KÖH would be the leading building authority also in cases of applications for minor alterations in buildings. This would cause serious troubles to the inhabitants. What is more, the situation of people living in the most deteriorated buildings waiting for demolition would be rather insecure. According to the mayor the heritage decision would frighten away investors.

Immediately after the second attack of Veto! KÖH placed the five most endangered buildings under “provisional protection” by stressing that the decisions on final protection require longer preparatory work and should also be signed by the Minister. (That time the intention of KÖH was to place about seventy buildings under protection.) In response the District considered to bring a suit against KÖH with reference to the legal “case of damage”. In response to the news about the planned legal procedure Veto! expressed its intention to apply to the Constitutional Court of Hungary. According to their view, the local regulatory plan offended the 1997 Act on urban planning and building and also the 2001 Act on the Protection of Cultural Heritage. The mayor, in the hope of the success of the ongoing negotiations, finally stopped the threat with the court suit.



#### **A newly designated heritage building in Király Street and new construction in Holló Street**

In October 2004 the Municipal Government also joined to the discussion about Jewish Quarter. The mayor of Budapest and the chief architect proposed the adoption a development freeze order by the District in order to secure the working out of a new regulatory plan. They also mentioned that the District could successfully participate in a tender of Budapest, if the Jewish Quarter area would have been designated as an official “action area”. In this way the District were able to apply for the 1,4 billion rehabilitation fund of the city. According to the mayor of Erzsébetváros this would not help because the District was unable to cover the prescribed self-contribution. At the same time officials of the Municipal Government called the attention of the District to the fact that the precondition of the support from Budapest was to pay its dept into the municipal budget according to the regulations of the 1993 housing act. The mayor of Budapest also declared that they supported the civil initiatives because the archives, the ritual bath represented a “valuable asset” of the Jewish Community. The chief architect of Budapest expressed that the plan of Madách Promenade would be deleted from the development program of the City.

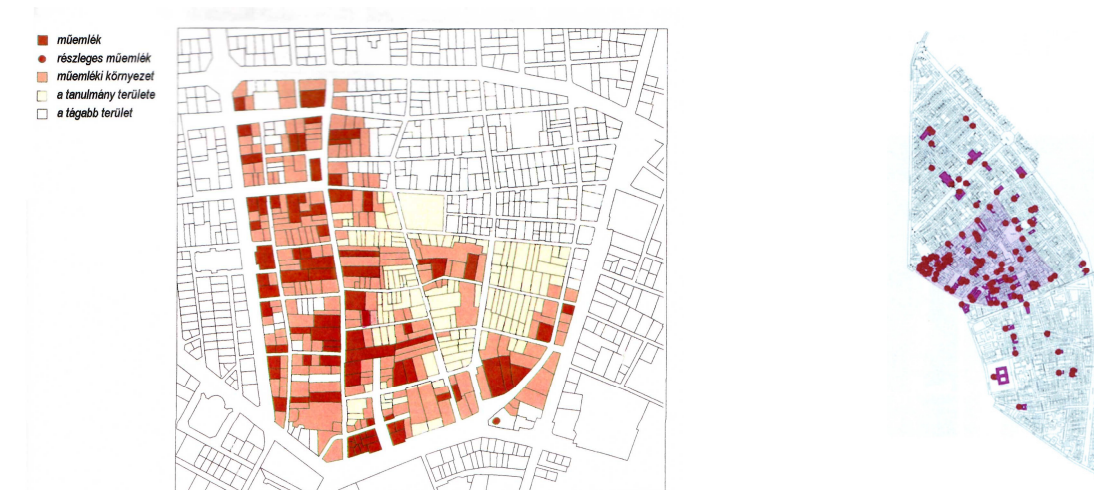
In November 2004 the mayor of Erzsébetváros had talks to the ambassador of Israel in the presence of the leaders of Mazsihisz. The ambassador talked about the similar problems in his country and that they had already been over the revisions of laws required by Erzsébetváros and Budapest too. At the same time he warned the Israeli investors, active in the area, to produce a really “habitable living environment”. The president of Mazsihisz promised the association’s effort to find partners to the



“creation of a new Jewish life” in the neighbourhood. A newspaper expressed the Jewish community’s fear of the characterless office and residential buildings among which the synagogues would stand as „huge question-marks”. At least within the “triangle” of the religious buildings a real Jewish life would have to be created. In this way an attractive place for tourism could be gained for the whole city.

### 7.6 New situation - new concepts after the multiplication of heritage buildings.

In February 2005 the Minister of National Cultural Heritage (NKÖM) decided on the placing under protection 51 buildings in Inner-Erzsébetváros. This number was added to the 40 “old heritage buildings” the majority of which stands along Király Street. (Until 2007 the total number of heritage buildings increased to 97, as later another 6 buildings were added to the heritage list.) These decisions resulted in a rather curious situation: now in Budapest the share of heritage buildings is the highest in Erzsébetváros exceeding also that of the really historic district of the city, the Civic Town on the Castle Hill with a much older (Renaissance and Baroque) building stock. The most important consequence of the multiplication of heritage buildings in Erzsébetváros is that almost hundred buildings fall under an “alienation ban” according to the 1993 Housing Law: they should remain public property, could be sold to the sitting tenants only after they were renovated. (Only 8 of the old and new heritage buildings were planned to be demolished according to the rehabilitation plans.)



**Maps showing heritage buildings (red) and heritage areas (orange) and the concentration of heritage buildings in Erzsébetváros (6<sup>th</sup>, 7<sup>th</sup>, 8<sup>th</sup> district) Source: Perczel, 2003**

A secretary of the Ministry expressed his view that instead of “thinking only in buildings” a more “culture-oriented model” of renewal was required. In May 2005 the mayor of Erzsébetváros talked about the improved prospects of the renewal of the synagogue in Rumbach Sebastyén Street in the hope of the participation of a Swiss foundation. But he also stressed that the heritage buildings could be sold to the sitting tenants, that is, transferred into condominium tenure, only after their renovation had been accomplished. (This option was claimed by Veto! previously.)

In February 2006 KÖH, after it have deemed some new demolition initiatives to be law-breaking, put another seven building under provisional protection. In a political-cultural journal an article, after summarising the turbulent processes until that time, wrote about the phenomenon of „state capture”, the situation in which groups possessing exorbitant power and wealth might hold the (local) state in captivity. According to the author the alienation procedure “enrich a group of lawyers and owners who can be associated with the property management company of the District”, because at the re-sales of properties they and the developers who vacate the sites are able to acquire the “betterment” value that appears between the cumulated market value of the vacated old flats and the potential “development value” of the cleared building sites.

In June 2007 the Minister of National Cultural Heritage appointed a professor of the Architectural Faculty of the Technical University to the new president of KÖH. He doesn’t agree to the activity of his predecessor, under the presidency of whom about 300 new heritage buildings were “inaugurated”

in 2005 and 2006. Instead of putting a great number of individual buildings under protection preservation management plans should be worked out on area-wide level. The provisions of these plans should be considered by the building authorities as well. It would also mean that in many cases not whole buildings would be protected but only some valuable parts of them, for instance their elevations. Moreover the unmanageable situation in Inner-Erzsébetváros induced the new management of KÖH to start a strong lobby activity at the Ministry of Finance in order to improve conditions of support the renovation of heritage areas and buildings.

According to the existing model it is KÖH's responsibility to cover the excess costs of works on heritage structures. These transactions would be effectuated through tenders organised by the National Cultural Fund but in most cases the owners of the heritage properties, the majority of them owners of dwellings, are not able to cover the part of costs required as self contribution. At the same time the state fund that would cover excess expenses was not at all disposed by the national to KÖH. Consequently the system has effectively been out of use. According to the Act on the Protection of Cultural Heritage adopted in 2001 also revenues from "heritage fines", tax allowances and also allowances from special fees can be used as fiscal measures. Proposals of KÖH, under negotiations, are based on these, yet not utilised, authorisations. Up to December 2007 two detailed proposal was accomplished.

One of the options proposes allowances due to subjects of personal income tax the other suggests allowances that could be given from VAT. According to the proposed personal income tax model the owner of the heritage building who is planning a renovation would pay for five years the 25 per cent (after five years only 5 per cent) of his/her income tax into a financial institution, appointed by the state, in order to cover the excess costs of the undertaking. To this sum a matching fund is proposed to be added by the State. In line with international practices the other model, the giving allowances from VAT seems to be more realistic. According to that model the 20 per cent rate of VAT could be reduced to 5 per cent in cases of more important heritage works similarly to the other sectors of cultural economy. In order to show the possible outcomes of this proposal also much detailed calculations were made.

It was taken as granted that the proposed tax allowances would enhance heritage renewal operations both in numbers and in their "depth". On the other hand the model calculates with an about 50 per cent decrease in the "demolish and build" way of urban renewal that leads to a loss in state revenues. But experts of KÖH argue that, as a positive outcome of the tax based state subsidies, a new real estate development segment could emerge in the protected areas accompanied with the increase of property values. The proposal of KÖH also mentions another positive but less quantifiable additional impacts of the state subsidies. Among them the most important positive result could be the increase in the rate of employment because of the higher labour intensity of heritage works, that these activities are exposed to the "critical public eye", thus the reduction of "black work", and the increase of income from tourism. (Up to July 2008 no success in the negotiations with the Ministry of Finance was reported by KÖH.)

### **7.7 Latest incidents concerning the renewal program of the "Old Jewish Quarter"**

In November 2007 Michel Polge, a French architect-urbanist, visited Budapest as the guest of KÖH (but invited by Veto!) in order to make investigations around the world heritage site of Andrassy Avenue (designated as World Heritage Site in 1992) and in its background zones including the Jewish Quarter. He is producing a report to the World Heritage Centre of UNESCO. At his visit Mr Polge expressed his view that the Jewish Quarter represented a very valuable cultural asset measurable also on international scale and warned that the attitude of investors thinking only in demolition was not reconcilable with the world heritage status. In accord with KÖH's intentions he stressed that adequate economic measures are required in order to "lead the activities of investors in the desired channel" but also the "playground" of the capital should be secured. He had talks with the national chief architect, the new chief architect of Budapest, in the Ministry, with the deputy mayor of Budapest and also with civil organisations.



### **Construction behind the Dohány Street synagogue attacked by Veto!**

Encouraged by the visit of Polge, Veto! started to protest against preservations that refer only to the elevation and the valuable parts of buildings following the new rules of KÖH together with regulations that allow the erection of additional floors above buildings and also high structures in their backyards. The civil organisation paid a special attention to the building activity on a site adjacent to the largest synagogue in Dohány Street owned and developed by the company of a former president of Mazsihisz. Building permission for this construction had been issued yet before the protection of the numerous buildings was declared, and the plan of the building was also accepted by the jury of KÖH. As the construction had not hurt building regulations Veto! declared that the regulations should be modified first and the area only renovations, modernisations should be permitted: “all substantial elements should be preserved”.

In December 2007 the president of KÖH together with the mayor of Erzsébetváros introduced a development freeze until April 2008 in the area. According to the president the 226 buildings of Inner-Erzsébetváros will “scrupulously” be surveyed, including those that are already under protection. The purpose of this work is, on the one hand, not to hinder renewal and building activities through individual protection measures and, on the other, to provide the investors with a new “catalogue” about “what they should calculate with”. KÖH is going to fix what is permitted what is not permitted in single buildings, thus the Office does not want to further „bother” any partners of the project. At the same time the mayor of Erzsébetváros said that the investors “would do everything to get the properties”. The new regulations, according to which only the street wings are to be preserved, and the inner wings are permitted to be demolished, is a great help.

### **7.8 Housing conditions and population movements in Inner-Erzsébetváros**

Housing conditions in Inner-Erzsébetváros are traditionally slightly worst than in the neighbouring areas with the similar, dense, old building stock. The 2001 census registered in Inner-Erzsébetváros 378 buildings including 9878 flats and inhabited by 17 758 persons. 84,6 per cent of the flats were actually inhabited, the other 14,6 per cent either vacant or used as second homes or for other purposes (offices etc.). The share of flats with full amenities (with toilette, bath and modern heating) is relatively low here: only 86,2 per cent, the share of the badly serviced flats (13,8 per cent) is substantially higher than the average figure for Budapest (9,8 per cent). The spatial distribution of these poor flats is uneven in the area, the worst stock is found in the line of Madách Promenade. Here the share of bad flats amounts to as high as one fifth of the total stock. It is also noteworthy that, compared to the neighbouring districts, the share of small flats with only one habitable room is higher while the share of large flats (with rooms 3 and more) is substantially lower.

Inner-Erzsébetváros has been losing population since the beginning of the 20<sup>th</sup> century owing to out-migration and also to the fact that more floor-space is used by a person. The trend of losing population was speeded up in the 1990s but the relative loss was a bit smaller than in the neighbouring districts. Substantial differences were registered also within the area at hand. The most significant losses up to 2001 were found in blocks close to the Downtown, along Károly Boulevard, where the quality of the residential stock is significantly better, (between 28 and 37 per cent losses by blocks), the lowest figures were registered along Király Street and around Klauzál Square (between 15 and 20

per cent by blocks). Social status of Inner-Erzsébetváros measured in the share of population with university and college degrees was lower in 1990 compared to the neighbouring areas and to the Budapest averages. It substantially improved until 2001 but even then the figure remained under the Budapest data. The presence of the many lower status people is shown by the relative high share of unemployed persons. The relative rejuvenation of the area is also noteworthy.

A sociological survey was carried out in 2005 when the renewal operations in Erzsébetváros have already gained an impetus, and after the intervention of Veto!. As the people questioned were selected from areas of the ongoing and planned rehabilitation programs (6<sup>th</sup> District blocks along Király Street, Madách Promenade, Jewish Quarter around the three synagogues, other parts of the district) the survey revealed the impacts of the operations on population movements by to the selected areas. The main finding of the survey was that the changes in the social status are partly the consequences of the impacts of the ongoing rehabilitation processes and also of the “rehabilitation expectances”. Both along the planned Madách Promenade and in the Jewish Quarter the share of the active population with university and collage degrees substantially increased between 2001 and 2005, while in other areas of Inner-Erzsébetváros this improvement remained insignificant.

**Table 4**  
**Indicators of social status of population in Inner-Erzsébetváros, 2001-2005 (per cent)**

	With university/college degrees		Unemployed	
	2001	2005	2001	2005
<b>Madách Promenade</b>	22,9	30,3	10,7	3,2
<b>Jewish Quarter</b>	23,6	29,9	8,1	3,9
<b>Inner-Erzsébetváros - rest</b>	21,9	22,1	8,3	2,9
<b>Budapest average</b>	24,0	28,0	6,0	5,4

*Source: G. Csanády – A. Csizmady – L. Kőszeghy – K. Tomay: Renewal in Inner-Erzsébetváros, Tér és Társadalom XX. évf. 2006. pp. 73-92*

Answers to one question of the sociologists indicate that the inhabitants of the Madách Promenade area and of the Jewish Quarter value the local social situation in a rather sensible and realistic manner. According to their estimation 36 per cent of the inhabitants belong to the group of “middle class people living at an acceptable, honest living standard”, 54 per cent is classified as “honestly working people with living under modest conditions”. Only 10 per cent of the inhabitants were valued as “poor, who have difficulties in keeping an acceptable subsistence level”, and less then 2 per cent were seen as “unbalanced poor people who has only themselves to blame”. According to the survey people living in Inner-Erzsébetváros can be classified into the following groups:

- old people, many of them living alone (widows) who moved to the area long time ago and are willing to remain,
- single persons and young couples without children who moved to the area 5-8 years ago and want to move after the birth of their children,
- couples in their middle years with young children whose adherence to the area – often together with their children – is relatively strong (school, friends, pubs etc.).

An important finding of the survey was that the mobility had speeded up significantly in Inner-Erzsébetváros in the last one and a half decade. 26,9 per cent of the population moved to the area between 1990 and 2001. Between 2002 and 2005 moved another 19,9 per cent, that is, almost the half of the inhabitants are “newcomers”. It is also remarkable that these population dynamics (including out-migration) were more significant in other parts of Inner-Erzsébetváros than in the area of Madách Promenade and in the Jewish Quarter.

**Table 5****Qualification of household members occupying current flat between 2001-2005 (per cent)**

	Madách Promenade	Jewish Quarter	Rest of Inner-Erzsébetváros	6 <sup>th</sup> District Király Street	Total
less than 8 year preliminary education	2,5	0,0	1,5	0,0	1,4
8 years preliminary education	8,3	6,5	6,2	1,9	6,3
finished vocational school + 4 years	9,1	10,0	14,9	18,5	12,7
final examination of a secondary school +4 years	43,8	51,2	50,5	68,5	51,0
university or college degree + 3-5 years	36,4	32,4	26,9	11,1	28,9
	100,0 (N=121)	100,0 (N=170)	100,0 (N=275)	100,0 (N=54)	100,0 (N=620)

Source: G. Csanády – A. Csizmady – L. Kőszeghy – K. Tomay: *Renewal in Inner-Erzsébetváros, Tér és Társadalom* XX. évf. 2006. p. 82

It is also noteworthy that between 2001 and 2005 migration trends have led to an improvement of the sociological composition of the population mainly in the two “rehabilitation areas”. While in the total Inner-Erzsébetváros the share of intellectuals among the newcomers was only 26.9 per cent, the same figure in the Madách Promenade area and the Jewish Quarter was much higher (36.4 per cent and 32.4 per cent respectively). These speeded up migration trends are fuelled also by the “rehabilitation pressure”, thus the share of those who want to move is also high. Their share is the lowest in the area of Madách Promenade (perhaps having confidence in the success of the rehabilitation) while the highest figure was found in the total Inner-Erzsébetváros area. Another important result of the survey was that a great part of the questioned people agreed to the conservationist strategy proposed by Veto!

**Table 6****Intention to move from Inner-Erzsébetváros by areas 2005 (per cent)**

	Madách Promenade	Jewish Quarter	Rest of Inner-Erzsébetváros	6 <sup>th</sup> District Király Street	Total
Yes, already decided	5,2	4,7	7,0	8,3	66,4
Not yet known when, but is willing to move	9,8	12,3	12,8	14,9	12,4
Would like to move but no possibilities to do it	10,3	19,0	21,9	12,5	17,4
No, no intention to move from the area	71,8	61,0	56,3	59,7	61,0
No intention but perhaps it should be necessary	2,8	3,0	2,0	4,5	2,7
	100 (N=387)	100 (N=300)	100 (N=810)	100 (N=288)	100 (N=1785)

Source: G. Csanády – A. Csizmady – L. Kőszeghy – K. Tomay: *Renewal in Inner-Erzsébetváros, Tér és Társadalom* XX. évf. 2006. p. 84

**Table 7****How the neighbourhood should be developed? (2005, per cent of answers)**

	Madách Promenade	Jewish Quarter	Rest of Inner-Erzsébetváros	6 <sup>th</sup> District Király Street	Total
to renew it in its present form	63,0	62,1	63,3	57,1	62,0
to renew it with new building as well	33,3	33,7	31,7	37,7	33,4
to demolish the whole, build a new quarter	3,7	4,2	5,0	5,2	4,6
	100,0 (N=381)	100,0 (N=285)	100,0 (N=795)	100,0 (N=289)	100,0 (N=1750)

Source: G. Csanády – A. Csizmady – L. Kőszeghy – K. Tomay: *Renewal in Inner-Erzsébetváros, Tér és Társadalom* XX. évf. 2006. p. 89

## 7.9 Management of renewal by the District Government of Erzsébetváros

As already mentioned in chapter 4 the District Government of Erzsébetváros has not founded a public or a PPP company for the management of its rehabilitation projects. Therefore the District should rely on its council members and on the experts of its Office whose work and decisions are based on the regulatory plans and planning codes worked out by consultant planners and also on other by-laws adopted by the Council. In order to strengthen the legally binding provisions of the regulatory plans and of the local planning code, Erzsébetváros introduced a specific method of management. The planning regulations are incorporated also into local governmental statutes regulating the management of the assets of the local government. Two such statutes were adopted in the end of 2000 in time when the new second regulatory plan for Madách Promenade was adopted. One of these statutes summarises the conditions of selling, alienation, of the District's rental flats to the sitting tenants, another statute refers to the general rules of the management of public assets. The two statutes are closely interrelated.

According to the first statute it is the responsibility of the Property Department to produce a list of buildings that (i.) are designated for conversion, modernisation and renewal, (ii.) are designated as heritage buildings and those that (iii.) are marked out for total or partial demolition or for their conversion to another use. To these buildings an "alienation ban" refers, meaning that according to the 1993 Housing Act these publicly owned buildings (or parts of them) do not fall under the obligation to sell them to the sitting tenants. The main function of the ban is to "secure" the rehabilitation operation against the creation of private condominiums that might heavily hinder the realisation of renewal projects.

The same statute also orders that these lists should immediately be revised in line with the modifications of the regulatory plans, that is, to secure the rights also of the affected tenants. It is the task of the District Development Committee to continuously follow changes and to determine whether it is yet reasonable to keep a building or its part in public ownership. The "alienation lists" also indicate "building-by-building" in what way the District wants to implement the renewal: through renovation, modernisation, conversion to new use, protection of national heritage buildings or through new construction after total or partial demolition.

For those buildings that are sold in "vacated condition" to developers another local government statute prevails that regulates the general management of the assets of the District. According to this statute the disposition above the assets may mean either alienation, including the handover of the ownership right to a company, a foundation or an association of local governments, or the transfer of rights of use (letting, leasing, concession etc.). The value of any asset should be fixed according to its market value. For real estate properties it is the Council that holds the property rights if their value is above 50 million HUF. If the value is less than 50 million the holder of the rights is the Economic Committee.

Up to recently in Inner-Erzsébetváros the usual practice has been that the less valuable, in many cases deteriorated, outmoded buildings, were officially declared as "life threatening" in order to produce vacant sites for new building after their demolition. Thereafter private developers have been searched for the "clearing" and the ongoing demolition of the buildings. In course of these procedures specific PPP relations are effectuated:

- The Council decides about the selling of a building in vacated position.
- The Council arrives at an optional contract with a buyer who takes charge of the "buying out" of the tenants either through providing them with flats or through compensating them in cash.
- It is the District that decides about the selling price based on value assessment but it is the potential buyer who negotiates and arrives at agreement with the tenants about the size of compensation.
- After arriving at an agreement with all tenants these agreements will be submitted to the District in order to terminate tenancy contracts.
- Moving out from the flats takes 60-90 days according to the preliminary contract.
- After the building became vacated the District arrives at a "final" contract with the buyer.

The agreement on the selling price is a crucial element of the system, but the expenditures of the developers are usually higher than the priced agreed with the District. The tenants living in flats in deteriorated buildings, but increasingly aware of the complications of the process, accept a compensation only if the received sum is sufficient to buy or rent another dwelling better situated and of better quality than the one they move out from. Thus, although the whole process is of “exclusionary” character, not all the affected are real losers. Apparently, the most endangered are the elderly and the less educated people. On the other hand it is worth while for the developers to pay a higher sum as they are provided with generous development potentials on the cleared building plots. Under the new circumstances it is hard to foresee to what degree the private actors would undertake more complicated and more costly renovation works on heritage buildings with less potential to build new structures.

Up to recently the District has managed its renewal, restructuring program almost exclusively through the described “sell-demolish-build” method, only few renovations were accomplished on its own rental buildings. Since April 2005 Erzsébetváros, in order to abate the strength of attacks and to adopt its operation to the new situation, introduced a new rule according to which before any decisions on contracts about alienation (sale) or lease of properties the market value of which exceeds 20 million HUF a tendering procedure should be effectuated. Another important new provision is that, in the presence of the great number of heritage buildings, at any decisions on alienation of properties the building and heritage rules should be complied with.

### 7.10. Subsidies to the condominiums – from Budapest and from the District

The Rehabilitation Fund of Budapest, presented in chapter 3, provides subsidies both to districts and private condominiums. Concerning these subsidies Erzsébetváros’s position is rather controversial. Despite the fact that it has remained indebted to the municipal budget according to the provisions of the 1993 Housing Act, the District successfully participated in two “action area” tenders (for instance blocks along Klauzál Street), but it didn’t utilise the awarded sum. At the same time Erzsébetváros operates a rather generous condominium subsidy scheme. In addition to condominium subsidies the local government operates also other “smaller” programs, the impact of which on the population is rather significant. Among these the program of building new flats in attic space of residential buildings, the program of “green courtyards” are successful. What is even more important: the condominium subsidy scheme operated by the District largely overruns that of Budapest (Table 8).

**Table 8**  
**Subsidies to condominiums from Budapest and from the District in 2006**

Support from	Condominium subsidies in Erzsébetváros				Subsidy per building	
	District Building	Inner part building	District thousand HUF	Inner part thousand HUF	District thousand HUF	Inner part thousand HUF
<b>District</b>	289	49	189.975	87.657	657	1.789
<b>Budapest</b>	172	58	65.710	23.749	382	409
<b>Total</b>	*	*	255.685	111.406	*	*

*Source: own calculations based on District documents*

*\* Correct data is not available because the buildings could apply for both Budapest and Districts subsidies. According to a deputy mayor more than the half of the buildings participated in both schemes.*

In 2006 inhabitants of 347 building applied for district subsidies. The District Development Committee distributed 189.975.140 HUF among 289 buildings. Relatively few applications from Inner-Erzsébetváros were accepted (49 buildings, 17,0 per cent) but the sum provided to them was rather high as compared to the total amount: 87.657.324 HUF (46,1 per cent). Only buildings in Inner-Erzsébetváros were provided with support for the renovation of their street elevations: 20.561.120 HUF total, an average of 2.937 million for the seven buildings. On the other hand in the same year the Preservation and Housing Committee of Municipality of the Municipality of Budapest gave only a total of 65.710.000 HUF to 172 buildings in Erzsébetváros. Among them 58 Inner-Erzsébetváros buildings (33,1 per cent) got a total of 23.749.000 HUF (36,1 per cent) indicating that concentration of Budapest subsidies was much less in the rehabilitation area than that of the District.

The effort to concentrate subsidies in Inner Erzsébetváros is backed by an important participatory activity too. A deputy mayor of the District and a member of the Council regularly organise meetings with inhabitants and managers of condominiums in order to help them in the preparations of applications and the management of their buildings. To sum up, the local government of Erzsébetváros supports the case of urban renewal from its own resources generously, despite confusions around Jewish Quarter, the great number of newly designated heritage buildings.

### 7.11 The third regulatory plan for Madách Promenade

Amid confusions after the intervention of Veto! and KÖH the District adopted a new regulatory plan for two blocks in the line of Madách Promenade in the last days of 2005. Although the promenade concept has been fiercely attacked some elements of it, in a rather restrained form, has “survived” in the new scheme as well. The main alteration was that the line of the promenade was continued in the block bordered by Kazinczy, Király, Kisdíófa and Dob streets (block No. 6) through a passage under a new building. This pedestrian passage enters into a landscaped common courtyard accessible from the majority of old and new buildings. On the other hand neither this new plan was able to solve the contradictions of the regulations, discussed earlier. The extremely high densities (remember: 4, 4,5, 5 m<sup>2</sup>/m<sup>2</sup> floor space indexes), fiercely criticised by the civil organisations, were decreased only in insignificant measure.

While these high permitted density figures were retained the planning code accompanying the plan introduced some old-new innovations. As discussed earlier, the local statute accompanying the 2000 (second) plan included individual provisions for all existing buildings. These regulations, contradicting to the normativity principle of the new Hungarian planning system, were omitted from the new plan and in the new District Building Code general, “normative”, provisions were introduced. This rule prescribes that all new buildings should be built according to the traditional plan of the rental buildings built around inner courtyards. This regulation is a definite step back to the way of building of rental tenements in the last decades of the 1800s years.



#### The third plan for Madách Promenade (Mű-hely Ltd. - Béla Nagy)

The about 10 meter deep parts of these 19<sup>th</sup> century buildings, overlooking the street and including bigger, better serviced flats, were built for “middle class” people, while the small flats around the closed or semi-closed courtyards, in most cases including only a kitchen and a habitable room, were built for the “proletariat” and the lower middle class. These wings in the backyards were built in “back-to-back” manner. Although the environmental conditions in these buildings are rather disadvantageous (missing sunshine, dark and badly ventilated rooms etc.) a positive feature of them is even now that they promote the living together of people of different social statuses. A recently observable positive feature is that because of their cheapness the small flats are favoured also by the better educated young starters; consequently this contributes to the slowing down trends of spatial segregation.



The stressing of the “normativity principle” that induced planners to revive an old pattern of building was not carried to the extremes. This strong principle has been favourably “derogated” in many fields in the view of producing an environmentally acceptable spatial structure and living environment: for instance the joining of two narrow parcels in order to get larger building plots, a definite effort to keep the height of buildings on an acceptable level. It is discernable that the plan yet stands against the general view of conservationists who are willing to “preserve everything”, even the old subdivision pattern that goes back to the horticultural period of the area in the 18<sup>th</sup> century, discussed in chapter 7.1.

In the new building code of the district, revised after the intervention of Veto! and KÖH and in harmony with the new plan, a specific regulation refers to the notion of “preservation through only by keeping the street elevation intact”. It is more important that the confusions around preservation issues and the controversial building regulations, discussed earlier, led the staff of the leading planning institute of Budapest (BFVT- the company a planner of which had worked on the second plan) and some municipal planning officials to revise the Framework Urban Planning Code of Budapest. According to these rules the height of buildings would be maximised according to the width of streets and no higher structures would be allowed in the backyards. Not surprisingly these regulations also go back to the late 1800s.

Despite positive innovations this plan has also been attacked by the civil organisations especially because the high permitted density figures were not been omitted. Its future, however, is uncertain because of the development frees that was introduced until April 2008. (As discussed, in this period KÖH is willing to arrive at decisions about the prescribed ways of preservation of all buildings in Inner-Erzsébetváros.) This might result in a thorough revision of the plan. A more positive outcome of this procedure could also be foreseen. If prescriptions of the KÖH will be less scrupulous than the former ones, a wider space could be opened before planners for introducing solutions that, instead of the former “restructuring” option, could really revitalise the area. Two important problems, however, could remain unsolved:

- the District manages only some tools of “development control”, it does not have its own “development plan” that can be managed by a development company,
- it is hard to be foreseen to what degree the private sector is willing to undertake less profitable tasks of renovation on heritage buildings.

In the end of 2007 when this paper was compiled the most important question remained unanswered: who will have the capacity to organise individual private development actions into an attractive “whole”.

### **7.12 An abandoned concept: working with a development company**

In June 2005 the mayor of Erzsébetváros commissioned four experts (participating in the Interreg III. CoUrbiT project, including the author) with the working out the operative model of a development company that would manage public properties in Inner-Erzsébetváros and also with a feasibility analysis referring to four building blocks, two of which are in the line of the planned Madách Promenade, the other two are located along Dob Street. The original idea of the leaders of the District was that a private development company, under a PPP contract, would take over the tasks of managing the retail floor-spaces owned by the local government and convert these floor-spaces into uses that fit to the character of the area. (Along Dob Street in the Jewish Quarter many of the shops were out of use.) According to the initial concept these floor-spaces, together with some well utilisable parts of the public residential buildings, would be apportioned into the company. Later the consultants to CoUrbiT proposed to set up a company with the majority ownership of the district government together with the inclusion of a private bank as a partner in the company, based on the successfully operating PPP company in Ferencváros (9<sup>th</sup> district, SEM IX. ZRt, chapter 5).

According to the experts main tasks and responsibilities of the company would have been the followings:

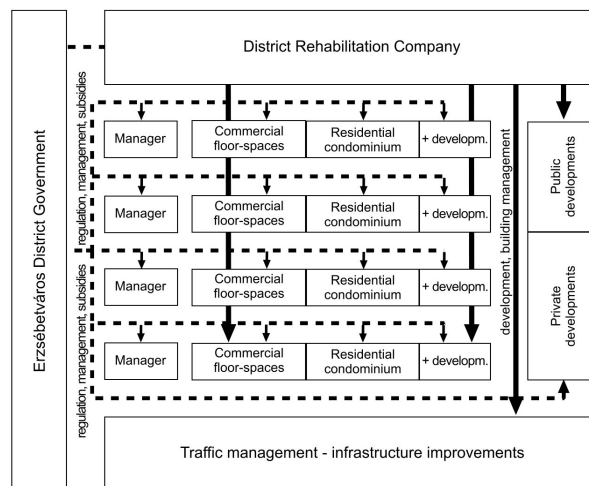
- management of the publicly owned commercial floor-spaces and the utilisable parts of the public rental buildings,
- management of the implementation of the required infrastructural improvements (public spaces, public utilities, parks etc.),
- setting free and selling publicly owned sites for private development,
- inducing and assisting the managers and inhabitants of the condominiums to effectively take part in the project

Main tasks and responsibilities of the District Government would have been the followings:

- revision of the regulatory plan, adoption of a comprehensive traffic calming plan
- financing infrastructural developments attached to traffic calming measures,
- provision of subsidies to condominiums for renewal and searching for additional (EU, Budapest etc.) subsidies for renewal of public rental buildings,
- handling re-housing tenants from public rental buildings.

The last task meant to put an end to the ongoing procedure that the vacating of the public rental buildings is done by the private developers. An important element of the delineated concept was that the increased proceeds from the management of the retail floor-spaces and from the utilisable parts of the residential buildings should have been used by the non-profit company for the – at least a partial – renovation of the publicly owned structures (Figure 8). In spite of a detailed program that was worked out for the setting up and the operation of the proposed PPP company, including the content of the contract between the District Government and company, the selection of the manager, the composition of the supervisory board, reporting requirements by the company to the District and also the schedule of the project, later the scheme was abandoned. It turned out that a great number of preliminary contracts with private were already in force.

**Figure 8**  
**Co-operative management of renewal by a PPP company and the District Government**



Under the CoUrbiT project also a detailed feasibility study was outlined focusing on a block in the line of Madách Promenade where the conditions for renewal were most complicated. The intention was to provide the District Government with a realistic alternative and with a detailed feasibility study that can be used in an “action area application procedure” under the newly adopted Hungarian regulations for EU sponsored urban regeneration funds. The study includes a financial concept (cost estimation, resources required, preliminary balance sheet) and also an organisational proposal (management forms, activities, operational expenses and revenues of the planned company, composition and amount of capital of the company) based on the author’s wide spread experiences gained as the former manager of the Ferencváros development company (SEM IX. Ltd.).

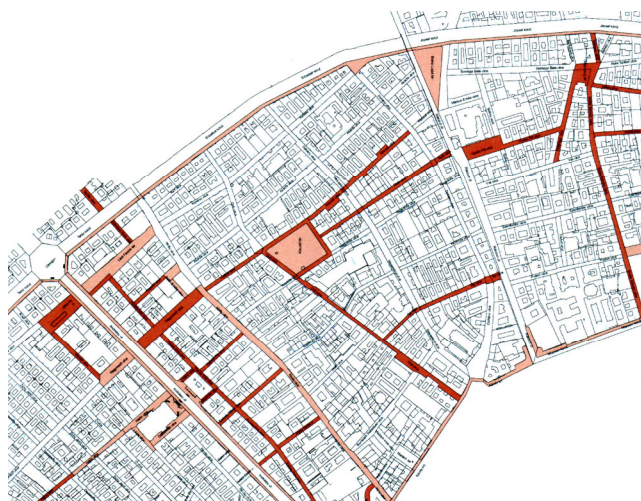
**Table 8**  
**Costs of renewal of one block in Inner-Erzsébetváros**

Tasks	Activities	Costs (thd. HUF)
<b>Property acquisition</b>	Street widening, internal public spaces – 2119 sq m area	<b>140.000</b>
<b>Site preparation</b>	Demolition for public spaces and for building – 4280 sq m area	<b>51.300</b>
<b>Renovation</b>	Residential buildings – 15 public, 4 condominium (2 façade)	<b>1.600.500</b>
<b>Replacement of flats</b>	113 flats – building in attic space or cash expenditures	<b>836.000</b>
<b>Upgrading of public spaces</b>	Wall-to-wall pavement, traffic calming measures – 5200 sq m	<b>83.200</b>
<b>Public utility development</b>	Water supply, sewerage, gas, electricity, public lighting etc.	<b>202.350</b>
<b>Management (3,5 per cent)</b>		<b>116.650</b>
<b>Not recoverable VAT</b>		<b>478.000</b>
<b>Total</b>		<b>3.580.000</b>

Source: CoUrbiT project – calculations by Gábor Aczél

In the feasibility study with only 500 million HUF “external” resources were calculated, and with another 420 million HUF revenue from the sale of the district-owned properties, meaning that the District’s own contribution would amount to 2.6 billion. (This sum is higher than the amount of subsidies that the Municipal Government of Budapest is able to provide yearly for action area operations and to private condominiums.) As indicated by Table 8, the highest expense items are those of renovation, replacement and VAT. Their partial elimination could be achieved only by selling all non-protected flats to the tenants; according to this alternative the District’s costs could be decreased by about 50 per cent. This alternative, however, would transfer the majority of burdens onto the inhabitants and is inconsistent with any concepts of “comprehensive urban renewal”.

Instead of starting the preparations for the realisation of this rather expensive project, the District decided to join to a specific inter-governmental cooperation with another two districts and the Municipality of Budapest. There has been a hope that the chances for getting EU subsidies for urban renewal would be better if the districts, having similar problems, form a consortium. As early as October 2004 the idea emerged to set up a development company by the districts 5<sup>th</sup>, 6<sup>th</sup> and 7<sup>th</sup> (later the 8<sup>th</sup> district joined and the 5<sup>th</sup> left) for the management of a common renewal program. Up to recently no common company was founded, the experts of the development company of the 8<sup>th</sup> district (RÉV 8 Ltd.) were commissioned with the delineation of a comprehensive renewal program for the zone between the Small and Grand Boulevard in Pest under the impressive title: “Europe’s Downtown, Budapest”.



**The system of pedestrian streets interconnecting the three districts (Madách Promenade is not even presented on the map – RÉV 8 Zrt, 2006)**

This ambitious inter-district program was adopted by the three districts in the Spring of 2007. The gross expenditure on the total program amounts to about 8,8 billion HUF. For the first phase, the four years between 2007 and 2010 a gross expenditure of only 890 million HUF is calculated, that is the program calculates with a “slow start”. The program includes a great number of smaller projects, that would contribute to the enrichment of the zone with new cultural, retail and tourist facilities and programs. Nevertheless, the share of expenditures on “physical” projects is considerably high:

Renewal of important heritage buildings	1.800 million HUF
Renewal of the Jewish Quarter of Pest	1,280 million HUF
Public spaces, traffic calming, pedestrian streets	1.830 million HUF
Parking projects	1.500 million HUF
<hr/>	
“Physical” projects	6. 410 million HUF

According to the preliminary calculations about the distribution of the expected financial sources the three districts would pay 33 per cent of the costs, the private “partners” another 33 per cent, and the 44 per cent is expected from EU.

Although the renewal of the Jewish Quarter is included, the future of the inter-governmental program is rather uncertain. It runs against one of the new “flag-ship” programs of Budapest, the so called “Heart of Budapest” scheme, that seems to have a priority as it is the common program of Budapest and the Downtown (5<sup>th</sup> district). Despite the fact that the Jewish Quarter is within easy reach of the City Hall of Budapest, behind which new office developments and a new square are planned, based on architectural competitions, Erzsébetváros should share the fortune of other two districts with rather dissimilar problems. As discussed in chapter 2.2, the two-tier municipality system of Budapest, besides inter-governmental co-operation, makes room for fierce inter-governmental competitions too.

### 7.13 A model of public-private partnership relations in Erzsébetváros – before and after the intervention of Veto!

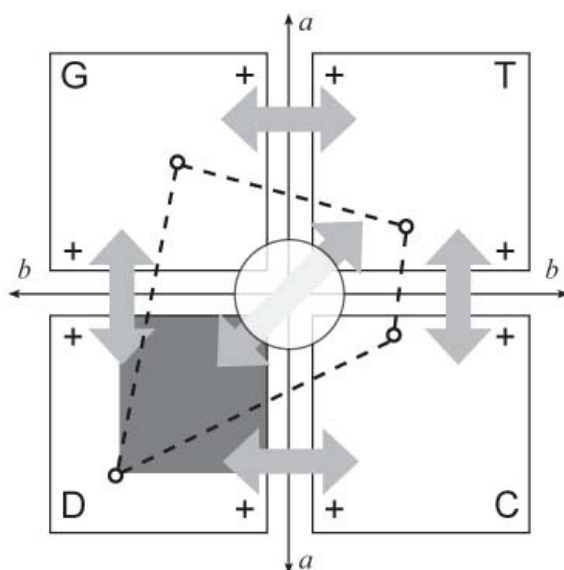
Based on the overview of the most significant relations among the actors in urban renewal in Inner-Erzsébetváros in the following part of the paper their partnership relations will be presented by a simplified model. The four main actors, the **local government (G)**, **inhabitants of the neighbourhood (tenants: T)**, **the developers (D)** and **the civil organisation (Veto!: C)** are symbolised by the quadrants. Along the “**activity axis**” (a-a) the strength of determination of the actors to realise their intentions is shown together with the actual intensity of their actions in performing their tasks. The “**management axis**” (b-b) refers to the actual capabilities of the actors to implement their intentions, that is, to their management skills.

It was shown in the preceding parts of the paper that the position of the four actors changed substantially after Veto! emerged on the scene in 2004. Their actual position is represented by the circles interconnected with dotted lines, representing an “**activity quadrangle**” in both periods of time. As shown by figures “**A**” and “**B**” the most significant shifts were observable in the behaviour of the civil organisation and the developers, while the local government’s intention to realise the program did not change substantially, it was able to improve its management skills (revision of plans, improved by-laws etc.) only in insignificant measure. Neither a substantial shift in the behaviour of the relatively passive inhabitants could be monitored – excluding their efforts to get the highest cash in compensation from the private developers.

While before the intervention of Veto! the “driver” function was performed by the developers assisted by the District, later the leadership has increasingly been taken over by the civil organisation (together with KÖH). In the lower-left box the “**productivity quadrangle**” is shaded representing the actual progress in the renewal operation, rather slowed down after Veto’s intervention. Next to the figures a short summary of the **most important partnership relations** follows. By Figure “**C**” some concepts of those external “actors” are presented that could contribute to the improvement to the situation.

*Figure 11/A*

*Phase 1. Partnership relations in Inner-Erzsébetváros before the intervention of Veto!*



**Partnership relations:**

**G-T: balanced, subsidies to condominiums, help in cases of tensions between developers and tenants**

**G-D: balanced, mutual interest in development**

**G-C: not existing, only general reservations by Veto! against restructuring and exclusion**

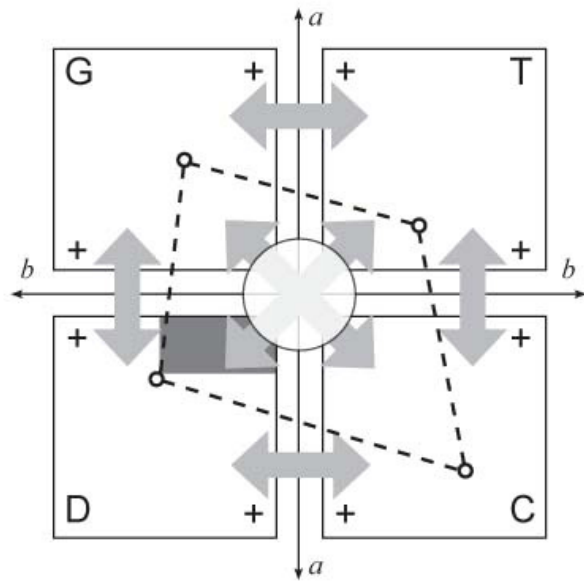
**T-D: balanced but in some cases serious tensions**

**T-C: not existing in this phase**

**D-C: not existing, only general reservations against the activities of the District**

**Figure 11/B**

**Partnership relations in Inner-Erzsébetváros after the intervention of Veto!**



**Partnership relations:**

**G-T:** more tensions after the potentials of renewal – and the future of tenants – becoming unclear

**G-D:** tensions, moreover threats against the District as development potentials decrease

**G-C:** rejection of Veto's intervention, then start of negotiations

**T-D:** insecure position of both tenants and developers

**T-C:** increased support of Veto by the inhabitants

**D-C:** increasing tensions, few negotiations

## 8. Start of an integrated social regeneration project in Józsefváros

In 2005 the Municipality of Budapest decided about the launching a number of regeneration projects in the most disadvantaged segments of the city, an initiative called “social rehabilitation”. This new regeneration policy represents a radical break with the former exclusionary practices presented in chapters 5 and 7. In 2007 the Ministry of Local Government and Regional Development issued a document, according to which Budapest (including its districts) and the larger cities (“cities of county status”) are liable to work out their Integrated Urban Strategy (IUS) as a compulsory background document for their tenders for urban renewal subsidies. In their IUS cities are obliged to mark out their urban renewal action areas that may be grouped into two categories: areas of integrated social renewal and city centre regeneration (with the aims to improve the centres’ public services and enhance their environmental conditions).

These categories are in line with the priorities of the Structural Fund of the EU as Hungary will use also European money for these operations. An important task of the IUS is the allocation and determination of those urban areas where the segregation of the lowest status population is the highest (called by IUS as “segregatums”). Based on preceding sociological research, and in line with EU principles, also a great number of indicators were determined by the Ministry the conformity to which is the precondition for the selection of action areas for social renewal projects. These indicators are grouped under the categories of unemployment, low activity level, poverty and exclusion, high share of ethnic groups, low level of education, high criminality, deteriorated environment and unfavourable demographic conditions. Areas which fully correspond to these indicators are relatively few in Budapest and also their average size is small. (The explanation of this yet advantageous situation in Budapest was given in chapter 1.)



As indicated by the map on the left the so called “crisis” areas are situated as “pockets” in the densely built inner parts of Pest. Note that the Jewish Quarter (4) and outer parts of Middle-Ferencváros (1) are also classified as crisis areas by the sociological survey. The location of Magdolna Quarter (3) in the 8<sup>th</sup> district, the scene of the first social urban regeneration project in Budapest is marked by red on the map on the right.

*Source:*

### 8.1 Social and physical conditions in Magdolna Quarter

Three “social urban regeneration” areas were defined in Budapest for the period of 2005-2008 as pilot areas. Two of them are rather small, consisting of a few old groups of residential blocks with substandard public flats (in the 9<sup>th</sup> and 10<sup>th</sup> districts), the third one, Magdolna Quarter in Józsefváros (8<sup>th</sup> district) at the periphery of the densely built inner zone of Pest is much larger with its 34 hectares. The regeneration program for Magdolna Quarter was elaborated by the urban development company of the district (RÉV 8 Ltd. responsible for the management of the described large Corvin Promenade project too). The selection of the site was made according to the indicators introduced as binding later based on standards in line with EU principles.

It is rather suggestive that a great part of the 2001 census data of Magdolna Quarter, most “stigmatised” in the public opinion, do not correspond to the prescribed indicators. The share of continuously unemployed is relatively low: 2,8 per cent, the rate of workers in manufacturing and

building industries was only 17,7 per cent (the indicator is 30 per cent), the share of the dependent members in the families was much less than the indicator (only 60 persons per 100 families vs. 150 persons according to the indicator). The most disadvantageous figures were those that refer to the housing and environmental conditions, to the educational level of the population and to criminality. The rate of substandard dwellings is 37,2 per cent, a very high figure compared even to the bad data of the 8<sup>th</sup> district, the land coverage index is about 80 per cent, actually there is no landscaped area in the quarter. The rate of the population above 15 years without the basic 8 year school education is 10,2 per cent (the indicator is 10 per cent). The low status of the area is shown by the rate of inhabitants above 25 years with college or university degrees: only 9,4 per cent (16,1 percent in the district, 23,8 per cent in Budapest as shown in chapter 1).

The rate of the gipsy population is estimated to about 30 percent (the census did not measure their numbers), and the criminality in the quarter is also high: 206 cases in 2001, 157 cases in 2002, according to police statistics. The latter two data explains the bad reputation of the quarter as the high presence of gipsies is associated with high criminality in public opinion. However, Magdolna Quarter is to be characterised as a highly deteriorated, low status residential area with a poor, lower middle class population where the concentration of ethnic population is substantially higher than in other run-down parts of Pest. It is also to be stressed that 42 per cent of the housing stock of the quarter remained in the ownership of the district government. Here a great part of the gipsy population is living in public rental flats, as against to those who were able to buy their homes either directly from the District or on the free market.

## **8.2 The social urban regeneration “model program” in Magdolna Quarter**

The model program, the first regeneration project of Budapest in which the triple system of values and goals of society, economy and environment are integrated started in 2005 with an about 820 million HUF common funding from the Municipality of Budapest and the District (700+120 million). In December 2007 the Hungarian Government included it into the group of those UE sponsored Operative Programs the right of decision above which was reserved for the central government. For the second phase of the Program between 2008 and 2013 two billion HUF is awarded that may be substituted by other funding as from the National Crime Prevention Committee (about 10 million HUF) or EU programs of GreenKeys and ASTUTE. The handling of the Magdolna Quarter Program at a “high priority” status was the first effective step of the Hungarian Government toward sponsoring of urban renewal operations from central resources. Naturally, the selection followed European priorities even if in Budapest the spatial social segregation yet stands under the level of many of western cities.

It is stressed in the official document of the Program it differs from any other urban regeneration (rehabilitation) programs initiated earlier. Here the main target group is the local population the continuous involvement of whom is a basic element in the management of all sub-programs. RÉV 8 Ltd. has involved into the program a great number of research institutions, NGO-s and civil organisations including universities, the Hungarian Academy of Sciences, charitable organisations active in help for families and the youth, local schools, the district police department etc. The main sub-programs of the Magdolna Regeneration Model Program in its first phase have been the followings.

- a) renovation of public rental buildings,
- b) renewal of Mátyás Square,
- c) creation of a Community House: the “Glove Factory” project,
- d) educating program,
- e) crime prevention program,
- f) employment program, enhancing local entrepreneurship,
- g) community development program.



ad a) The renovation program refers to the public rental buildings in 100 per cent local government ownership. After a complex physical and social survey the tasks of renovation are defined in co-operation with the local (public) Property Management Company each year. The budget of the works can be expanded by the consent of the tenants if they are willing to contribute to the costs either with their own work or with financial means. As there are a number of smaller works that would be done by the tenants, an offset system has been elaborated, e.g. compensation in the rentals or in the reduction of rents in arrears. When the works are carried out by a private contractor, a precondition in the contract may be the employment of local people. In 2006 the inhabitants of six houses expressed their will to join to the program. In order to enhance the confidence in the goodwill of the management and of the local council the works generally start with minor but important activities as the cleaning of the abandoned cellars and other common parts of the building with the required tools (gloves, shovels, sacks etc.) provided by the company. In weekends, generally also the employees of RÉV 8 Ltd. (architects, geographers, sociologists etc.) take part in physical work together with the inhabitants. Another usual start-up activity is the reparation of the wrecked entrance gates.

ad b) The preparatory work for the renewal of Mátyás Square, a rather dilapidated public space at the border of Magdolna Quarter, started in 2006 with the collection of ideas and wishes of local people, who later were included in the design phase too. The main goal was to create a public space that through its use by all social groups in the neighbourhood, would increase their integration to the area. Although students in landscape architecture were also included, in all phases of planning the basic decisions (for instance which part of the square would be enclosed) were made together with the inhabitants, generally on the spot. (The actual start of the renewal was a common work of teachers and pupils of the local secondary school together with university students, social activists and residents who created painted “sitting mounds” – new street furniture for the square.)

ad c) The aim of the creation of “Mátyás Square Community House” was the provision the local people with a public building housing cultural and training programs substituting the activities of the local school attended by children with very different social backgrounds. The programs of the House focuses on creativity, freedom and openness in order to overcome disadvantages accumulated across generations especially among gipsies. In the House that was opened in 2008, “Digital Childhood” programs (video, photo, media) are organised for younger people together with cultural events that are in tune with the various cultural backgrounds of the locals. It is planned that the section of RÉV 8 Ltd. that manages Magdolna Program will also be located in the Community House. In order to stress heritage considerations the House was refurbished from a local glove factory overlooking Mátyás Square.



**Two photos from Magdolna Quarter: the “sitting mounds” and the landscaped courtyard of a low-rise tenement**

ad d) The educating program is based on the local primary and secondary school that will be renovated. As the primary school educates nearly 100 per cent gipsy children the idea to unite the two institutions into a 12 class school came to the front in order to help the disadvantaged pupils to obtain a maturity grade. In cooperation with the Community House, functioning also as an “open school”, opportunities for further education, for specific courses for adults will be provided too. Recently the Program focuses mainly on the youth: experiments with specific programs in art education and with a weekly 2x2 hours “activity program” for children in their age of 6-10, sponsored by the Swedish Embassy are

rather promising. (As part of the latter program an agreement with the central library of Budapest was concluded.)

ad e) The program of crime prevention is aimed at the creation of a forum for the co-operation of the various players. A Public Security Working Group was established with the participation of public area inspectors, district wardens, civil wardens, social workers. Several training programs are planned in order to come to an agreement on a common strategy of handling problems of public security and crime prevention in Magdolna Quarter. Naturally the enhancement of the success of the police is in the focus of the program. In co-operation with a civil organisation a survey was done indicating that the lack of lockable gates represents the main problem; the implementation of a gate program is under way. As already mentioned, the program won a 10 million HUF funding at a tender the application document of which worked out in co-operation with two civil organisations.

ad f) This sub-program consists of three parts. A subsidised retail trade program will help to renew the premises of the small local entrepreneurs in the Quarter, in some cases also subsidies will be given to them in the procurement of the necessary equipment and devices. Also well qualified private craftsmen will be hired to help the small local companies planned to be set up for the implementation of renovation works, who at the same time may be at service of local people. In Magdolna Quarter the Gypsy (Romani) Entrepreneurship Program is of specific importance: this local initiative promotes their integration into the employment market and would enhance the confidence of the general public in gypsy entrepreneurs.

ad g) Under the Community Development Program the Magdolna Quarter Neighbourhood Council will be set up with the aim to recreate the lost social contacts, enhance the confidence in the public and private actors in the regeneration program.

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