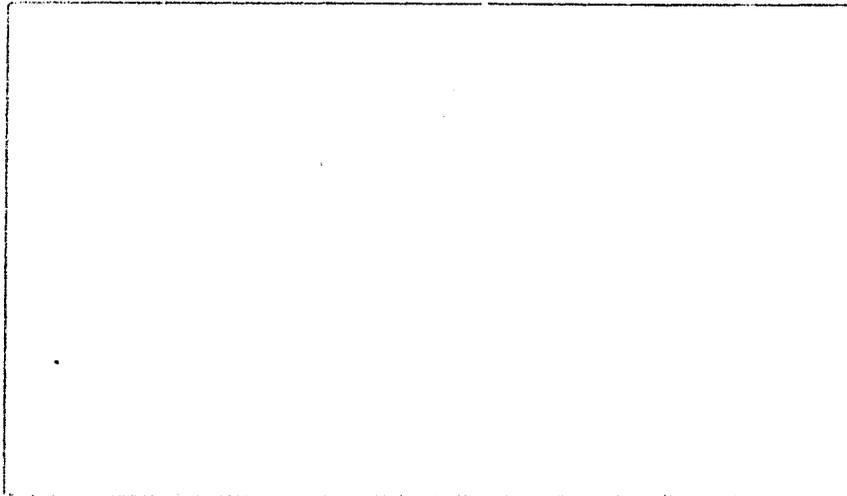


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Central and Eastern Europe Local Government and Housing Privatization



Prepared for the Office of Housing and Urban Programs
Agency for International Development



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**ASSISTANCE TO THE CITY OF BUDAPEST
TO REDEVELOP
THE LAGYMANYOS INDUSTRIAL AREA**

Report of Field Mission to Budapest

December 5-20, 1992

HUNGARY

MARCH 1993

**Prepared for the Office of Housing and Urban Programs
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT**

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**INTERNATIONAL CITY/COUNTY MANAGEMENT ASSOCIATION
USAID Project No. 180-0034
USAID Contract No. EUR-0034-C-00-2034-00
Local Government and Housing Privatization
Request for Services # 18**

ABSTRACT

In December, 1992, the Office of Housing and Urban Programs of USAID sponsored a mission to Budapest, Hungary to provide the city with assistance in redeveloping the Lagymanyos Industrial Area. The city has conducted numerous planning and engineering studies including a thorough analysis of the property ownership, and has received a proprietary proposal for setting up a public private partnership to redevelop the Lagymanyos site. Our recommendations fall into three major categories:

First, we concur with the basic method recommended in the proposal for the formation of a public-private partnership. However, we recommend some changes in its proposed structure, particularly regarding the redundant layers of bureaucracy, the steps needed to set it up, and the product it should produce.

Second, the city needs to implement a clear and effective system for regulating and approving private real estate development proposals.

Third, USAID should provide technical assistance in three field missions: 1) assist the city in the assembly and inception of the public private partnership, 2) develop parameters for a market study of Lagymanyos, and 3) recommend a development and implementation strategy for the site through an advisory panel review.

I. EXECUTIVE SUMMARY

In December, 1992, the Office of Housing and Urban Programs of the United States Agency for International Development (USAID) sponsored a mission to Budapest to provide the city with assistance in the redevelopment of the Lagymanyos Industrial Area. The mission team consisted of Alexis P. Victors and Michael Beyard. They were assisted by David Dowall, Katharine Mark, Iván Tosics, József Hegedüs and András Réti. The mission's activities were supported and coordinated by the Office of Deputy Mayor of Budapest, Dr. Istvan Schneller. Dr. Zoltan Csorba, consultant for the Deputy Mayor, and Mrs. Angela Pataki, Head of Section for the Mayor's Office of Budapest City, Department for City Development provided the principle coordination. The team is grateful to them and their staff for their assistance.

The initial meetings in Budapest revealed that the city had conducted numerous planning and engineering studies including a thorough analysis of the property ownership, and had received a proprietary proposal (hereinafter called the Proposal) for setting up a public-private partnership to redevelop the Lagymanyos site. The Proposal was prepared by an international joint venture, Hitel Ltd., which proposed itself as the project director. Although the Proposal is not a prefeasibility study, it does contain information that can be used as the basis for creating a public-private partnership for redeveloping the Lagymanyos site. A series of interviews and inspections were conducted during the visit. These interviews and inspections, combined with our review of the Proposal, allowed us to obtain answers to most of the assigned tasks, and recommend city actions and future technical assistance.

Our recommendations fall into three major categories:

1. First, we concur with the basic method recommended in the Proposal for the formation of a public-private partnership (PPP) as a development corporation to direct the development of the available land in the

Lagymanyos district and to act as the master planner for the whole district. However, we recommend some changes in the proposed structure of this partnership, particularly regarding the redundant layers of bureaucracy, the steps needed to set it up, and the product it should produce. We strongly concur with the recommendation in the Proposal that random sales of property and companies in the district be curtailed, to the extent possible politically, until the PPP is formed and the total district is planned and zoned, from the point of view of an entrepreneurial developer, for research and development and light manufacturing uses. The Proposal we reviewed could be modified to become a proposal to the State Property Agency to obtain their cooperation, their agreement to join a PPP, and their willingness to contribute property to it. Details of these recommendations are addressed in Chapter V of this report.

2. The second recommendation addresses the need for the city to implement a clear and effective system for regulating and approving specific real estate development proposals. The existing system is in transition as a free market economy evolves. We recommend a procedure based on the practice commonly used in the United States, but modified to the unique way Budapest is governed by both its municipal administration and its district governments. We recommend that a thorough but quick and understandable set of approval procedures be established so that Budapest in general and Lagymanyos specifically can compete with surrounding countries, and its own suburban communities, in generating new development and attracting new industry. This regulatory system must be hierarchical in nature with clearly defined roles and responsibilities for the municipal and district governments. These recommendations are addressed in more detail in Chapter VII of this report.
3. The third set of recommendations relate to several other specific tasks requested by the RFS and Deputy Mayor Schneller as well as our own findings. These recommendations relate to an initial site assessment and property inventory at Lagymanyos, ways to pay for infrastructure, and the need for USAID to provide future technical assistance. This assistance should be in the form of three targeted field missions to move the Lagymanyos project forward. These missions are: 1) to assist the city of Budapest in the assembly and inception of a public private partnership at Lagymanyos, 2) to develop parameters for a market study for Lagymanyos, and 3) to recommend a development and implementation strategy for Lagymanyos through an advisory panel review. These recommendations are covered in chapters IV, VI, and VIII.

II. INTRODUCTION

Dr. Gabor Demsky, the Mayor of Budapest and Dr. Istvan Schneller, the Vice Mayor of Budapest, met with U.S. Senator Liebermann and Officials of the U.S. State Department in June of 1992. As a result of that meeting Dr. Schneller wrote a request for a program of United States assistance in urban planning and development for the city of Budapest, Hungary. USAID was assigned to provide this assistance. The first USAID mission to Budapest, September 25, 1992 to October 9, 1992, provided an overview of the assignment, a review of problems, and a proposal for a Technical Assistance Program. The second mission, December 5, 1992 to December 20, 1992, was designed as a follow on to one of the components of the Technical Assistance Program that coincided with the second task outlined in Mr. Schneller's request.

Request for Services (RFS) by USAID

The scope of work outlined by USAID for this mission was as follows:

"The contractor will work with the City of Budapest, District XI and other concerned institutions to prepare a proposal for submission to the State Property Agency. The proposal should outline a business plan for redevelopment of the area known as the Lagymanyos industrial area.

Preparation of the proposal should be based on the outputs of the following tasks:

1. A review and evaluation of a recently completed pre-feasibility study (prepared by Quo Vadis Consult);
2. An initial site assessment and inventory of property ownership in the Lagymanyos area;
3. Preparation of a development strategy and business plan outlining a sequence of steps and tasks for redeveloping the site;
4. Preparation of a preliminary proposal for a management entity to coordinate and execute the development project;
5. Preparation of a preliminary cost estimate of pre-development activities; and
6. Provision of ongoing assistance to City and District staff so that a successful proposal can be submitted to the State Property Agency."

Dr. Schneller's Request

Dr. Schneller's proposal requested:

"[A] program for the rehabilitation of the industrial zones.

The purpose of the work is: to assist the reconstruction of industrial zones in order to:

- Assure a more efficient use of the urban land, and eliminate the environmental damages caused by the past operations.
- Enable their integration into the changed environment.
- The strategy of the rehabilitation of the five traditional industrial zones in Budapest is being prepared in order to elaborate scenarios for the municipalities in the implementation of the rehabilitation. Assistance is needed in the evaluation of the different procedures, organizational and institutional alternatives, and financing proposals.
- The rehabilitation of the so called Lagymanyos industrial zone has a priority among the medium term development objectives because of the Budapest EXPO. The pre-feasibility study will be prepared in October 1992 for the foundation of the future development. The preparation of the project must be followed by the feasibility study, financing plan and establishment of the organization framework."

In addition, Dr. Schneller's letter requested a review and report on the following areas:

- "Strategic planning for land and real estate development.
- Public-private partnership approaches to land and real estate development.
- Solicitation and evaluation of a project proposal within the context of broad zoning and regulatory criteria.
- Streamlining the regulatory environment.
- Public participation in development planning.
- Capital budgeting and financing to support the development strategy."

Additional Requests

Upon arrival and during the initial meetings the mission team was asked to give emphasis in our report on the areas of:

- Lagymanyos.
- Public-private partnerships.
- Review of the Proposal for a pre-feasibility and project implementation study.
- The process for approving private development proposals.
- The ways to pay for infrastructure to serve specific development projects without direct government funding.

III. ACCOMPLISHMENTS IN BUDAPEST

At the beginning of our mission, we met with Deputy Mayor Istvan Schneller. At this meeting David Dowall introduced us and presented our initial assessment of the purpose of the mission. Through subsequent discussion with the Deputy Mayor, the objectives of the mission were somewhat redirected away from preparing a proposal to SPA to the issues raised by Dr. Schneller mentioned previously.

Technical Assistance

From December 5, 1992 to December 20, 1992 the team met with over 40 decision-makers, architects, planners, and technical staff from the City of Budapest, District 11, and other public agencies such as EXPO; faculty at the Technical University and the Hungarian Academy of Science; urban development consultants; and USAID officials in Budapest. Appendix A contains a list of all those whom we contacted and with whom we had discussions and interviews.

The scope of the discussions and interviews was wide ranging and involved an exchange of information between the team and the city's decision makers. The purpose of these discussions was two-fold. On the one hand, the team gathered information on which to base its recommendations to the city for redeveloping the Lagymanyos site and for providing future technical assistance to the city as outlined in this report. Of equal importance, however, was the technical information and advice which the team provided during these discussions in response to specific questions from the city staff and the tasks outlined in the RFS.

The team also reviewed numerous plans and programs developed by the city, its consultants, and District 11 for the Lagymanyos area and for the city as a whole insofar as they affected the future of this area. The most important of these was the Proposal written by Hitel for the city. Unfortunately, this document was not available for our review until near the end of our mission. At that time we reviewed and evaluated it as called for in the RFS. As described in Chapter V, this proposal can be modified to serve as a proposal to the SPA for a joint public private partnership to redevelop the Lagymanyos site. Although all of the other reports were written in Hungarian, the team was able to gain valuable information from their planning and zoning maps, the keys to which were translated by city staff and the team's interpreters.

The team conducted several tours of the Lagymanyos area and other sections of District 11, contiguous industrial areas in Districts 9 and 21 in the southern sections of Budapest, the EXPO site, the Technical University, the developing M1 corridor leading to Vienna, and residential and commercial districts in the areas surrounding Lagymanyos.

USAID, through David Dowall and Katie Mark, was kept fully informed during our stay in Budapest as to the evolving nature of the mission, the problems we were encountering, and the preliminary findings and recommendations resulting from our research.

Presentation to the City of Budapest

At the end of the mission in Budapest, the team presented its findings, conclusions, and recommendations to the city planning staff including Mrs. Pataki and Dr. Csorba, and extended its trip by a day so as to give a formal presentation to Deputy Mayor Schneller.

The presentation was organized in two parts. Part I contained the team's conclusions and recommendations on the substantive issues outlined in the RFS as modified by our preliminary findings and by discussions with USAID representatives while in Budapest. Part II contained our recommendations to the city relating to future technical assistance.

The recommendations in Part I of our presentation related to: 1) the steps that need to be taken to redevelop the Lagymanyos project, 2) the need for a simplified development approval process, 3) the establishment of clear and hierarchical roles and responsibilities for the various public bodies and the public itself in the planning and approval process, 4) the creation of an effective structure for the public-private partnership at Lagymanyos, 5) the development of a practical relationship between the city and the districts in the planning process, 6) the ways that private developers can provide and pay for infrastructure and other public amenities, 7) the structure of a modern zoning system including clearly defined categories as well as the importance of

covenants, conditions and restrictions (CC&Rs) to control environmental quality, and 8) the shortcomings of the Proposal that was written for the city by Hítel.

Other Activities

As part of our technical assistance, the team also provided the city with numerous books, studies, and project profiles that specifically address the critical problems and issues that were identified with the Lagymanyos project. These publications are very practical, how-to materials on topics ranging from how public-private partnerships work to a comprehensive handbook on the business and industrial park development process. A listing of these materials is provided in Appendix B.

Prior to giving our exit presentations to the Deputy Mayor and his staff we met with Mr. James Watson, project development officer for USAID in Budapest and briefed him on what we had accomplished and what we were planning to recommend in our report. We also met briefly with Mr. David Cowell, USAID Representative at the U.S. Embassy in Budapest, before our departure.

IV. THE LAGYMANYOS SITE

History and location

Lagymanyos is an industrial development in the Kenelfold area of District XI in the southern part of the Buda portion of Budapest along the Danube River (Map 1). It contains 300 hectares (740 acres) including 4,153 dwelling units on 34 hectares (84 acres). Most of the remaining area is used for industrial and public facilities. The area was developed quite late in the development of Budapest. The Technical University to the north of Lagymanyos was founded in the late 1800's and industrial plants were built along Budafoki ut, the main street through Lagymanyos, in the 1930's. Parts of the area along the river were wetlands until the 1940's when they were dredged or filled. An estuary and shipyard were constructed in such a way that the estuary is protected from ice flowing in the river. The estuary still exists and would make a fine marina if it were cleaned up. Presently the river front is under utilized with a mix of low density industrial uses, some of which are bankrupt and abandoned. Building and site conditions are often poor with industrial pollutants not uncommon. To provide employee housing some companies built small housing estates near or next to their factories. The scattered housing ranges from single family houses and one-story townhouses to four-story apartments. Conditions range from charming single family neighborhoods away from the river to dilapidated units tucked next to industrial plants. Retail uses are often found on the ground floor of the apartment buildings and in small free standing shopping centers (Map 2).

The Lagymanyos area is very favorably located for redevelopment. To the north is the Technical University, the future EXPO, and the city's best housing in the Buda Hills. To the East is the Danube River where a new bridge is being constructed on the northeastern corner of the site to provide direct access to the Pest side of the city. A second new bridge is planned from the center of the site. To the west is a large housing estate with many multistory apartment blocks. Beyond that is the main highway from Vienna, the M-1. To the south, the M-6 highway links the site to areas of less dense residential development. In summary, the Lagymanyos site is the closest location to downtown Budapest that is underdeveloped, and it is ideal for redevelopment as a high technology, research, and light manufacturing park from a demographic, transportation, aesthetic, urban design, and utility point of view.

There are, however, three major obstacles to redevelopment that need to be overcome. These are: 1) the present inappropriate heavy industrial uses, such as the cement plant, on part of the site; 2) the industrial contamination left behind by past and present industrial activities; and 3) the planned extension of the M-6 through the middle of the site which will need to be carefully planned and designed in accordance with a new master plan for the area that reflects its intended future uses.

Present Uses and Availability of Sites for Redevelopment

At the present time, we believe that enough property is available at Lagymanyos to warrant proceeding with its proposed redevelopment. However this window of opportunity may not last long if incompatible activities move into the area as the land is privatized on a piecemeal basis. Present uses in the Lagymanyos area are changing rapidly, and industrial land speculation is beginning. Some of the state-owned companies have been privatized, i.e., a cable manufacturer has been sold to Siemens of Germany, although some of the privatized land may not be needed by the new owners. In other cases, state-owned companies have gone bankrupt and their land is available for redevelopment, although the State Property Agency is actively trying to sell many of these properties. In still other cases, publicly owned property, such as the power plant site may have excess land in the near future. In total, about 50% of the industrial land is estimated to be available for sale or redevelopment. Unfortunately, this figure will decrease as more people see an opportunity in buying there.

The city has recently completed a detailed survey of property ownership in the district, although ownership changes continue to occur. A survey of industrial land in Lagymanyos and its suitability for redevelopment is summarized below: (see Map 3)

1. Property already privatized: 567,000 square meters (140 acres representing 53% of the industrial area).
2. Property currently available for redevelopment: 144,000 square meters, (36 acres representing 13% of the industrial area).

3. Redevelopable property subject to privatization if not reserved: 368,000 square meters (91 acres representing 34% of the industrial area).

Major uses on the Lagymanyos site that have an impact on its redevelopment potential include a power plant that is being converted to natural gas and two cement plants. After conversion, the smoke stack of the power plant will be much shorter and the plant will use much less acreage. Since this plant provides hot water for heating the whole area, it is more of a positive feature than a negative. The two cement plants however will need to be moved since they are incompatible with the intended uses in a new business park. These cement plants currently cover the entire area with dust and the unused cement from their delivery trucks is washed directly into the river.

The Lagymanyos area also has some contamination from the industrial users of the past fifty years. The extent of the contamination is unknown, however it appears on the city's land use maps as a hazard. Contamination is not unusual in older industrial areas, but the problem will have to be dealt with clearly and forcefully. Most western countries require the contaminator or previous owners to pay for the cleanup. In Hungary, however, the previous owner was the state, and many of the state-owned companies that did the dumping no longer exist. If a public-private partnership is formed at Lagymanyos, the cost of cleanup will have to be deducted from the value of the contributed land, and as a result the capital contribution from the various partners will have to be adjusted accordingly.

The housing in Lagymanyos, while presently stable, needs to be evaluated for its condition and locational suitability as part of the planning for the site's redevelopment .

Proposed Uses

The city planning department has proposed a mix of uses for the Lagymanyos area. (See Map 4). For planning purposes, the site can be roughly broken into four parts. The northern portion (the Technopolis) is intended for research and development use after it is cleared and used for parking in conjunction with EXPO. The western portion of the site between Fehervari ut and the proposed alignment of the extended M-6 highway is proposed as a residential area with retail services to support it. The central part of the site between the proposed M-6 and the existing highway that it parallels (Budafoci ut) is proposed as a mix of light industrial and residential uses. The eastern portion of the site along the Danube is also planned as a mixed use area with a greater emphasis on light manufacturing.

District XI has proposed a more detailed land use proposal for the northern portion of the site, but it is based on requests from property owners and EXPO planners. Proposed uses include a hotel or motel along the estuary next to the existing railroad embankment. It does not appear that any market studies have been done to support

the uses proposed by District XI. High-value uses like waterfront hotels need to be very carefully considered in the context of other proposed developments and the overall master planning scheme before moving forward so as not to limit the financial return from the rest of the property.

Lagymanyos has excellent potential for a business and research park, but immediate action is needed. An experienced master developer needs to be given the responsibility to master plan the whole area, including the main through roads. Meanwhile sale of existing properties needs to be held in abeyance to allow the plan to work. Most of the existing uses could be retained, but some will have to be relocated or consolidated.

A major impediment is the planned alignment of a new highway through the site. The route was chosen to utilize an existing open area, to accommodate access to a new bridge being constructed across the river at the north end of the district, and to satisfy expected complaints from nearby residential areas. Unfortunately it would have a serious impact on the site's redevelopment potential if it is built at the planned alignment because it does not take into consideration the lot depths needed by potential users of the business park being proposed.

Another issue that needs to be considered is the possible need to relocate some existing activities in the Lagymanyos area. If a plan for a high quality business park is implemented, the value created will more than pay for the relocations. This issue will need to be examined in the next mission.

V. REVIEW OF THE PROPOSAL TO THE CITY FOR THE REDEVELOPMENT OF LAGYMANYOS

The Proposal for the redevelopment of Lagymanyos was prepared by a joint venture team (Hitel) consisting of Quo Vadis Consult of Hungary and Access BT of Hungary and Austria. We were asked to comment on this Proposal in the RFS. The Proposal is presented in three parts. They are:

- (A) Actualization of the Project; Raising the Problems.
- (B) Formulating the Project Concepts
- (C) Establishing the Project

We reviewed the proposal and found that it is a proprietary proposal to the city to establish a public-private development corporation to develop the Lagymanyos area and to designate Hitel, Ltd. as the project manager of the public private partnership. The proposal contains some cost estimates, but lacks sufficient detail to be able to evaluate and verify these estimates without significant additional research. This task will need to be accomplished on the next mission.

Actualization of the Project - Raising the Problems: Chapter (A)

This chapter covers the problems facing the city and the district caused by past practices and by the public sector's lack of experience in regulating land development in a free economy. We are not in a position to detail how planning and development has historically been done; however, many of the problems described in the proposal clearly exist based on our research, and our comments on the planning and approval process are designed to alleviate these problems. The Proposal suggests that a Supervisory Committee be formed with representation from all the public bodies involved to supervise the development of the Lagymanyos site. We feel that this committee is redundant, that the site should be planned by a master developer, and that the public agencies should perform their functions as described in chapter VII of this report.

The Proposal's comments regarding the characteristics of the Lagymanyos area are basically sound. For example, they state that the river front area is under utilized and that the actions of the State Property Agency in continuing to dispose of the property without a good masterplan for the area will reduce its development potential significantly and obstruct the city's desire to create a new business and high technology park on the site. Their conclusions concerning the development potential of the area are also sound. Lagymanyos is in a very favorable location for a high quality Business and High Technology Park.

Finally this chapter of the Proposal discussed the problems of unplanned development and why an experienced developer can increase the financial return to the current property owners. We have addressed this topic from a different point of view when we discussed the role of the private developer in the previous section.

Formulating the Project Concepts: Chapter (B)

The author describes the changes that have recently occurred in the developed world in the types of enterprises and industrial districts. The conclusion of the chapter is that Hungary could benefit from a business/high technology research park. We agree with this conclusion. The Technical University has departments that should be producing new technology and associated businesses, and Hungary has a highly educated work force. This location is an ideal place to foster new businesses that need to be near the university, want easy access to downtown, desire access to good housing, would benefit from close-in scenic setting along the Danube, and need to be near the main access road to Vienna and the west.

The Proposal also makes the argument that current world economic trends point to the need for a business/high technology park development in Hungary. While solid economic statistics or other market data were not presented in the Proposal, nor available to us from other sources, we think this statement is probably true. However, a market study should be undertaken to better support this conclusion prior to detailed

project planning. Budapest is in the center of a vast economic area with Austria, Ukraine, the Czech Republic, Slovakia, Romania and the former Yugoslavia around its borders. Budapest has a very highly educated urban work force that has historically produced many new technical innovations. The country should have at least one high quality business park to attract and keep high technology research and light manufacturing, if only to provide incubator space to nurture new companies in the short run.

Establishing the Project: Chapter (C)

The author proposes a public-private partnership (PPP). The partnership would be the master developer of the property. Our review of Hungarian law indicates that enabling laws for a limited partnership entity does not currently exist. However, the law does permit corporations and limited corporations. We agree that the redevelopment of Lagymanyos could best be accomplished by forming a corporation where the various owners could contribute their equity in the form of land, utilities, financing or expertise. However, we feel that all contributors should be stockholders, and a professional development management team with experience in developing large scale multiuse business/high technology parks should run the company. The company would be the master developer of all contributed properties. Ideally it should also master plan the whole Lagymanyos area since it would probably be the largest property holder. The public agency partners would play their traditional roles regarding zoning, approvals, and owners of infrastructure, while being asked to vote on issues of major concern such as the disposition of property. The type of consultants employed by the private developers and how they choose to present their plans should be up to them. Our proposals for missions and advisory panels to follow will address these issues in more detail.

The authors propose a budget for the corporation; however, its evaluation requires more details regarding their business plan, staffing, proposed use of consultants and costs in Budapest. The authors also propose that they be the project management team for the corporation. We strongly recommend that if they are chosen for this role that they either include an experienced western developer on the team or hire this developer as a consultant.

The development of a business plan for the Lagymanyos area is premature. There is no agreed-upon management structure, such as a public-private partnership, no accurate market studies, no land use plan, and no financing plan in place. All of these must be accomplished before a realistic business plan can be prepared.

VI. SOURCES OF FUNDS FOR PUBLIC INFRASTRUCTURE

The provision of modern infrastructure is a major requirement for redeveloping the Lagymanyos site. However, during our interviews numerous public officials expressed concern that utility, sewer, and road extensions to specific developments as well as landscaping and other public amenities, could not be provided due to lack of public funds and citizen opposition to paying for these improvements out of general funds because they would benefit only a small segment of the city. We advised the city that there are many ways to pay for this infrastructure, and we propose that this issue be addressed as part of a future technical assistance mission as proposed in the first Mission report.

Examples of some creative ways to pay for infrastructure include:

- Bond financing that utilizes a benefit district where the benefited property owners are the only entities obligated to repay the bonds.
- Land contribution by a public agency to a developer representing the cost of any required infrastructure that the agency would normally provide. The developer then builds and pays for the infrastructure with private funds.
- The developer pays for the infrastructure and a refund district is formed. Future users of the infrastructure repay the initial cost on a pro-rata basis when they get their construction permits.

VII. THE DEVELOPMENT APPROVAL PROCESS

In order for the redevelopment of Lagymanyos to take place, we believe that a clear and effective development approval process needs to be established. We recognize that this is a difficult process given the complex nature of local government in Budapest, and the political difficulties arising from the recent change from a command economy to a democratic, free enterprise system. However, regulatory uncertainty represents a major element of risk to the private investor and entrepreneur, and this uncertainty will severely limit private development of the type desired by the city of Budapest at Lagymanyos.

The city of Budapest has historically been composed of two layers of government: the municipality itself and local districts of which there are presently twenty two. The districts have their own Mayor, Vice Mayors, staffs and various consultants who provide technical assistance in areas such as urban planning and civil engineering. The city is currently responsible for developing and maintaining city-wide plans, policies and

procedures. Although the city can formulate city-wide plans, a majority of the districts must approve the plans before they can take affect. In addition, the districts currently have local development approval powers, are responsible for detailed site planning within their district boundaries, and receive most of the benefit from any property sales conducted by the State Property Agency -- arrangements that place severe regulatory and financial constraints on the city government. A lengthy description of planning and regulatory procedures in Hungary is given in the first mission report and is not repeated here. However, it is important to note that in practice, the roles and responsibilities of the city and the districts in planning and developing land are unclear and overlapping.

In Hungary there are currently two levels of land use plans: general zoning plans, which are the responsibility of the city, and detailed plans which are the responsibility of the districts. (Appendix C contains the current Budapest city zoning categories.) A detailed plan is a plot plan that includes the sizes, locations and heights of the specific buildings on the plot. This detailed plan has historically been prepared by the district or its consultants, although in some districts it can be prepared by a property owner.

In free market economies, however, detailed plans are the responsibility of a developer or property owner. It is our opinion that these detailed plans must be commissioned by experienced developers and property owners to properly and effectively develop land. Furthermore, the detailed planning of a successful business park or any other development should be left to the entrepreneurial developer. The city should zone land to properly plan the city's growth and the districts should approve, not develop, the detailed plans to make sure that they are in conformance with the approved zoning.

Public and Private Players

To provide a consistent planning and approval process, we propose that specific functions be assigned to the city, others to the district governments, and some to the land owners or developers. Each should play its logical role in the development process.

In accordance with the overall strategy outlined above, the development process, in almost all cases, should involve:

- a development team,
- local elected officials and staff, and
- local citizens.

The development team should include:

- The developer who may be a development company, an individual, or a partnership of several entities. The developer should be the project initiator, coordinator, and/or team leader who has invested money to

purchase or option land and developed plans for the project. The project can be a single building, a group of buildings or the development of a large parcel of land.

- The professional team, consisting of the land planner, engineer, and /or architect, provides the professional, technical, and design talent for a design that meets the developer's economic, aesthetic and technical requirements while also meeting the city's and district's requirements for the site.
- The attorney who provides the technical documents for the project and assures that the project complies with all public statutes, plans and requirements.
- The financier or banker who lends any money the developer is not providing from its own funds.
- The contractor who is hired to supervise construction of the project.

The local government should include:

- The administrative staff of the city and district governments which includes urban planners, civil engineers, transportation experts, budget administrators, and other experts on specific areas of concern such as toxic contamination, landscaping, transportation impacts, air pollution, etc., as required. At the district level, these experts may have to be supplied by the city government or consultants as required to minimize district expenses or where qualified persons are difficult to retain.
- Appointed officials who are members of a planning commission or zoning board.
- Elected officials including the city and district Mayors, Vice Mayors, council or board members, and members of the local legislative bodies

The public should include:

- The citizens involved in the process, including those individuals who live and work within the jurisdiction and choose to make their opinions and needs known in the development process through public hearings and private meetings with the developer and government officials. Those citizens include both those in favor of the project and those against. Individuals may represent only themselves or may represent a special interest, such as an adjacent district or community,

potential users of the project, a historical preservation group, an environmental group, or a housing coalition. The public agency hearing the citizen's requests needs to consider their comments but also needs to consider the best policy for the city and the district. If a project complies with all the public requirements there must be a very compelling argument to deny its approval. Frequently both the public agencies and the private developer create formal opportunities--hearings, focus groups, surveys, etc., for public comment.

Public and Private Roles and Responsibilities

To achieve a repeatable and easily understood approval process we propose that the various approval functions be divided between the city and the districts. In most cases we feel that the actual detailed planning for a development should be the responsibility of the land owner and an experienced developer.

Recommended City Responsibilities

The zoning functions assigned to the city should include:

1. **The city wide comprehensive plan.** An official document that describes how the city should develop over 10 to 20 years. It consists of written policies and maps to guide the quality, type (zoning), location, amount of development and infrastructure systems. This should be adopted as law and be approved by a majority of the districts.
2. **Zoning ordinance.** Regulates the use of buildings and land; restricts the height and size of buildings and the percentage of lot occupied by buildings and paving; sets minimum sizes of lots, yards, and open space. Ordinances contain, where appropriate, regulations for signs, parking, landscaping, screening for outdoor storage and building material quality. Zoning maps that clearly outline the zoning boundaries accompany the ordinance. Presently a new and more comprehensive list of zoning types is being considered by the city council/local assembly since the present list is too general.
3. **Subdivision regulation.** Requires recording of subdivision plots approved by a district council before lots can be sold or developed. They regulate width, depth, and size of lots. They provide standards for design and construction of streets, drainage, water, sewer lines, utilities, and where appropriate recreational facilities.

They can also restrict development in sensitive environments such as wetlands.

Recommended District Responsibilities

The Districts should be responsible for land subdivision and site and building approvals including:

1. **Pre-application phase.** Staff should be provided in the area of planning and engineering to discuss the developer's concept, to define initial issues, determine appropriate approval procedures and make suggested changes to comply with zoning for other development requirements.
2. **Application phase.** The staff should accept the developer's application and route copies to other agencies and the city for their comments. The staff should meet with the developer to resolve questions or problems. They should initiate official notice of upcoming hearing(s) to the public, adjacent owners, appointed officials of the planning commission or zoning board, elected officials of the district of council and appropriate agencies of the city government.
3. **Public decision phase.** The public decision phase should be in two parts. The first part is the planning/zoning commission hearing; the second is the district council hearing. At these hearings the developer presents its plans, the members of the commission or council ask questions, the public is given a chance to express their support or opposition. After the presentation and public comment phase, the members of the commission or council discuss the project and vote on it.

In the case of the planning or zoning commission, the vote is advisory to the District Council. In the case of the District Council, the vote is to approve or deny the project. An approval may include certain conditions.
4. **Construction phase.** The staff should review and approve the construction plans and monitor the construction to assure that the development is being built according to the approved plans.
5. **Occupancy.** The staff does not issue an occupancy permit until it has assured itself that all plans, conditions and zoning requirements have been met.

Developer Responsibilities

The land owner or developer should be responsible for all economic and marketing analyses and development planning for individual sites and for sites to be subdivided which they control. The major developer responsibilities should include:

1. **Market and financial analysis.** The market analysis is a critical component in development. It is used by the developer to evaluate the development potential of the metropolitan area, of a particular site and as a guide for designing a specific site including land uses, lot sizes, access, internal streets, utilities and buildings. The financial analysis includes the cost of the land, infrastructure, landscaping, marketing and profit to determine if the site could be competitively marketed. The greatest variable is the cost of the raw land.
2. **Planning.** The site needs to be planned in the most efficient way and for the least cost to meet the marketing goals. This planning process should be ongoing. It includes not only the original project planning and site master plan, but also a continuing review of the plans so adjustments can be made to meet changing economic and social conditions. The planning must include the degree of quality needed for the targeted users and the appropriate landscape planning.
3. **Engineering and design.** After the preliminary plans are approved by the appropriate agencies, the developer should have detailed engineering and building design completed. It should be noted that planning, engineering and design of a project constitutes an iterative process that continues from project conception to completion.
4. **Construction.** The actual construction of a planned area significantly improves the value of the finished lots. The developer is usually responsible for on-site construction and sometimes for extension of off-site utilities or roads. These off-site extensions often have financial recapture agreements.
5. **Marketing and management.** Marketing of development sites or speculative buildings to be built in a development, should start as soon as the preliminary approvals are obtained. Pre-leasing of buildings or pre-sale of sites significantly helps the developer to obtain permanent financing and improves the financial return. The

developer has a continuing responsibility to manage the development until it is completely sold out.

VIII. PROPOSED FUTURE MISSIONS

Based on the findings of our mission in Budapest, three field missions are recommended to successfully redevelop the Lagymanyos industrial area. The first would assist with the assembly and inception of a public private development corporation to manage the project. The second would develop parameters for a market study and guidelines for its development. The third would recommend a development and implementation strategy for Lagymanyos through an advisory panel review. These missions will be described in this chapter.

1. Field Mission to Assist the Assembly and Inception of a Public-Private Development Corporation to Manage the Lagymanyos Project

This field mission will be designed to undertake three tasks: 1) to assist the city of Budapest in developing a proposal to the State Property Agency outlining the advantages of donating its land to a public-private partnership (PPP); 2) to assist the city of Budapest and District 11 in designing, structuring, and setting up the PPP in cooperation with the State Property Agency, major landowners, and a Hungarian/foreign developer; and 3) to develop a framework for a business and financial plan to carry out the activities of the PPP in redeveloping the Lagymanyos site. The purpose of the PPP will be to implement real estate projects and facilitate the overall redevelopment of the Lagymanyos area as an extension of the existing urban framework of Budapest. In a broader sense, it will be designed to serve as a model of public-private cooperation throughout the city and the county.

2. Field Mission to Develop Parameters for a Market Study for the Lagymanyos Industrial Area

The Proposal (called a pre-feasibility study by Hitel) developed for the Lagymanyos area does not include a market study, and provides little information that could be used as the basis for a market study. The team was unable to find evidence of any other "market studies." Such a study however is urgently needed in order to guide the city and the PPP in their redevelopment efforts. At this time, there is no information on the likelihood that the Lagymanyos area can attract the kinds of industrial, high technology or other business uses that the city envisions for the site. In fact, there appears to be limited knowledge about the fundamentally different industrial markets that could be tapped. These markets include high technology, research and development, light manufacturing,

heavy manufacturing, warehousing, industrial offices, incubators, and corporate offices. Compatible uses that could be integrated with different industrial activities, the relationship to the Technical University, the EXPO, the river/marina, and the surrounding residential neighborhoods also need to be explored.

3. Field Advisory Panel Review to Recommend a Development and Implementation Strategy for Lagymanyos

Following the creation of the public-private partnership to redevelop Lagymanyos, the development of a framework for a business and financial plan, and the completion of a detailed market study for the area, an advisory panel of five to eight leading European, Hungarian, and U.S. development experts would meet in Budapest to assess the development potential of the area. This multi-disciplinary team would report on the market potential of different land uses and types of industrial development, propose specific planning and design guidelines, recommend an overall development strategy, and provide a practical step-by-step implementation approach that is tailored to the unique institutional realities in Budapest. This technique has been used successfully by many of the top developers in North America to shape large scale development proposals. Although it requires a high-powered group of developers, consultants and public administrators, the team believes it is justified since the Lagymanyos project is viewed by the city as a model for future redevelopment projects throughout the city.

The completion of these three missions will provide the technical guidance that the city of Budapest needs to successfully carry out the redevelopment of the Lagymanyos industrial area through the efforts of a public-private partnership. These missions recognize the high level of technical expertise already present among the city's staff, and they will be designed to focus this expertise on the most effective methods for redeveloping land in Hungary's evolving market economy.

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APPENDIX B
List of Resources
Provided to the City of Budapest

Building Together: Investing in Community Infrastructure, National Association of Counties, National Association of Home Builders, Government and Finance Research Center, Lincoln Institute of Land Policy, and the Urban Land Institute, Washington, D.C., 1990.

Business and industrial Park Development Handbook, Beyard, Michael D., Washington, D.C.: the Urban Land Institute, 1988.

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Smart Buildings and Technology-Enhanced Real Estate: Volumes I and II, Schwanke, Dean, Washington, D.C.: the Urban Land Institute, 1985.

Special Districts: A Useful Technique for Financing Infrastructure, second edition, Porter, Douglas R., Washington, D.C., the Urban Land Institute, 1992.

Working With the Community: A Developer's Guide, Porter, Douglas R., Phillips, Patrick L., Moore, Colleen Grogan, et al, Washington, D.C.: the Urban Land Institute, 1985.

Fifteen Project Reference File profiles of successful large office/industrial parks.

Infopackets of reprinted articles from magazines, trade journals and newspapers on: 1) research parks and facilities, 2) build-to-suit development, 3) business incubators, 4) miniwarehouses, 5) warehouses and flex facilities, and 6) infrastructure financing.

Four Panel Advisory Reports that provide examples of public/private redevelopment and implementation strategies for large scale industrial properties.

Appendix C

Existing Zoning Categories City of Budapest

(from Municipal Decree of 5/1986)

- 0-1 Residential areas.
- 01. Zone for high-density, city-like construction without much space between buildings - primarily unseparated apartment blocks.
- 02. Medium-density (without much space between buildings - primarily apartments in separate blocks.)
- 03. Lower-density housing (separate apartment blocks).
- 03.K. Lower-density housing (separate apartment blocks) in the Buda hills - areas that require special attention. 0.6 proportion between area and total area of floors
- 04. Low density residential (single-family housing).
- 04.K Low density single-family housing in the Buda hills. 0.3 proportion between area and total area of floors
- 05. Areas for blocks with not more than 4 apartments (2 apartments if there is no sewerage)
- 05.K Same as 05 in the Buda hills
- 06. Low density apartments (buildings with not more than 4 apartments on large building lots.)
(minimal lots: 2000 m²)
- 06.K Same as 06 in the Buda hills
(2000 m²)

1. Settlement-like Zones

11 & 12 Areas of city-like construction of varying density (high and medium-density)

13 Low-density (11, 12 & 13--detailed plans are needed)

2. Areas of weekend - houses and bungalows

21. Sections of areas along the river for bungalows, sportsfields, and campgrounds.

22. Area in hills for single-unit bungalows.

3. Institutions

31. Protected areas of historic significance or of importance for the townscape

32. City center with nationally important communal buildings.

33. Planned district centers.

34. Planned basic communal institutions (e.g. schools)

35. Communal institutions with large green surfaces.

4. Industrial and Storage areas

41. Planned area for the production and storing of smelly, explosive, infectious materials, etc.

42. Other industrial plants.

43. Area for storehouses.

44. Planned mines.

5. Other areas

51. Areas of water-management

52. Depositories for solid or liquid waste.

53. Depositories for toxic waste.

6. Areas of transport

60. Roads, railroads, connecting building including water transportation and air transportation.

7. Green areas, forests

71. Public parks.

72. Forests both inside and outside of the city.

8. Agricultural areas

81. Small gardens without a construction permit.

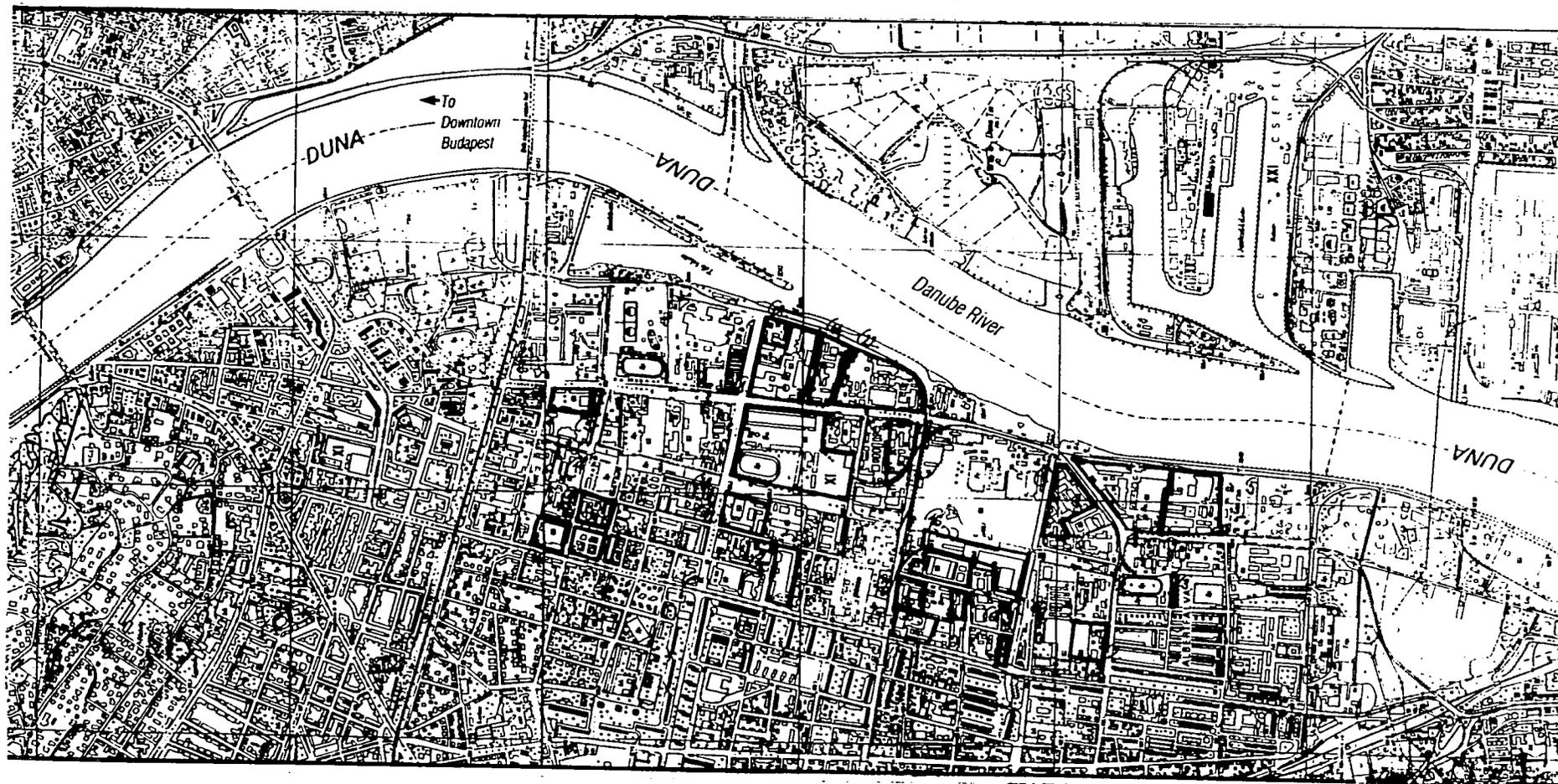
82. Agricultural areas apart from 81.

**Map 1
Budapest and the Lagymanyos Site**



34

Map 3
Industrial Property Ownership at Lagymanyos



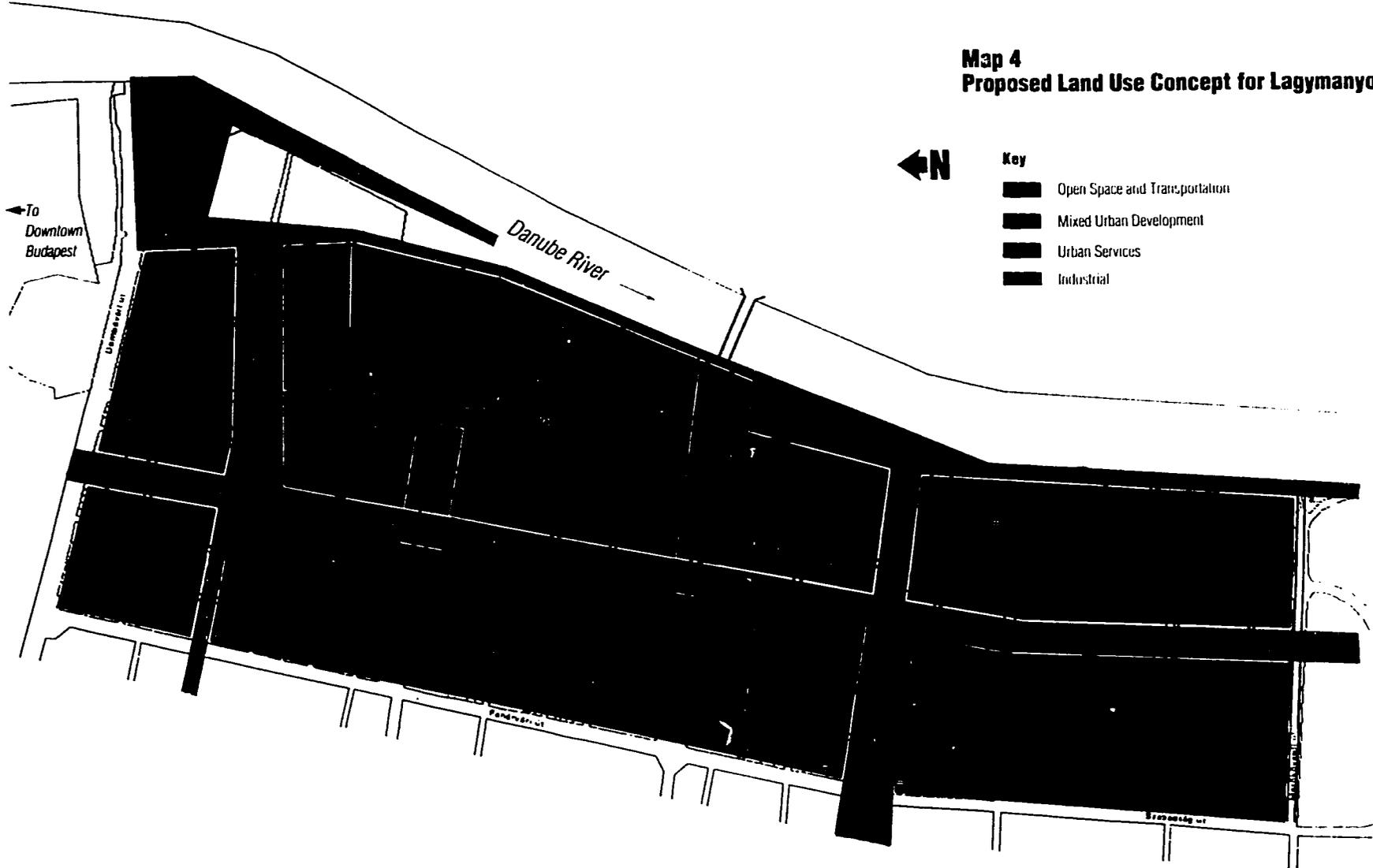
Key

- Privatized Property (not available)
- Property Under Negotiation to Sell (may be available)
- Available Property



39

**Map 4
Proposed Land Use Concept for Lagymanyos**



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