

PJ-AP60-012
ISBN^o 94911

**BUDAPEST INNER CITY
DISTRICT REHABILITATION**

FINAL REPORT

October 1993

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

Prepared by

Csilla Sárkány

Metropolitan Research Institute

INTERNATIONAL CITY/COUNTY MANAGEMENT ASSOCIATION
Local Government and Housing Privatization
USAID Contract No. EUR-0034-C-00-2034-00
USAID Project No. 180-0034
Request for Services # 36

ABSTRACT

After fifty years of deferred maintenance, Budapest is greatly in need of rehabilitation. Almost 20 percent of Budapest's two million inhabitants live in the six inner city districts on the east bank of the Danube. The current condition of inner city housing is very bad because of the severe lack of maintenance and rehabilitation, partly due to low rents and inefficient management by the publicly owned management firm, the IKV. During the transition of the last few years, Budapest's municipal government and the districts became the owners of large amounts of real estate. The districts are now the owners of the housing stock, and thus responsible for rehabilitation, although most districts have not yet developed comprehensive and consistent housing policies or rehabilitation strategies. While the lack of funds is clearly a major problem for districts in undertaking rehabilitation, their efforts also suffer from insufficient focus on financial aspects (partially due to the lack of staff expertise), no comprehensive planning, no coordination with the city or each other, not enough realism in project design, and ineffective partnerships with private sector. Technical assistance, both on the municipal and the district level, could help substantially to develop new methods of planning rehabilitation, taking more into account the financial aspects and the increasingly mixed ownership structure of buildings.

EXECUTIVE SUMMARY

Much of Budapest's special character comes from the inner city, which has remained multi-functional and culturally diverse, with an exceptionally heterogeneous population, due partly to the varying apartment structure of most buildings. Most of the inner city buildings were built in the last two decades of the 19th century; despite their good technical heritage, their current condition is very bad because of the severe lack of maintenance and rehabilitation, partly due to low rents and inefficient management by the publicly owned management firm, the IKV. Parts of the structural elements and the engineering system are in critical condition, although it is difficult to estimate accurately the amount of work needed and cost of renovation.

During the transition of the last few years, the district governments have become the owners of the housing stock, and hence responsible for rehabilitation, although most of them have not yet developed comprehensive and consistent housing policies or rehabilitation strategies. With straitened budgets and lack of experience and expertise, districts are not making much progress in the challenging task of rehabilitating downtown Budapest.

At present it seems that the most easily activated source for rehabilitation is the capital of entrepreneurs linked to the assets of the local governments, but local governments are not always able to form productive and effective partnerships with the private sector. Plans do not necessarily realistically assess the appeal of the project to potential investors, and the tendency is still to concentrate on large over-ambitious projects. Further, projects are often designed without taking into account the preferences of tenants or the demand of other potential consumers.

Continuing privatization also makes it difficult for districts to plan, as they do not know which buildings they will own in the coming years, and they do not know what sort of responsibility the new owners will be able to take on for the condition of their homes. This situation will certainly be exacerbated by the new Rental Act which introduces the full right to buy for residential and commercial tenants. As a consequence, within five years most probably the vast majority of inner city buildings will be converted to condominiums, creating a new situation in which districts — in some cases the minority, in some cases the majority owners in the condominiums — must approach the problem of rehabilitation differently.

In short, while the lack of funds is clearly a major problem for districts in undertaking rehabilitation, their efforts also suffer from insufficient focus on financial aspects (partially due to the lack of staff expertise), no comprehensive planning, no coordination with the city or each other, not enough realism in project design, and ineffective partnerships with private sector. Technical assistance, both on the municipal and the district level, could help substantially to develop new methods of planning rehabilitation, taking more into account the financial aspects and the increasingly mixed ownership structure of buildings.

TABLE OF CONTENTS

ABSTRACT	
EXECUTIVE SUMMARY	
INTRODUCTION	1
<i>Historical Background</i>	3
<i>The Inner City Housing Stock</i>	7
THE PUBLIC RENTAL SECTOR	12
<i>Rental Housing Regulation and Privatization</i>	12
District V	14
District VI	15
District VIII	15
District IX	15
District XIII	16
Privatization of shops	16
<i>Management of the Housing Stock</i>	17
Public sector	17
Management of condominiums	22
URBAN DEVELOPMENT IN BUDAPEST	23
<i>Real Estate Market and Investment Trends</i>	23
Downtown	24
Principal intersections	25
Areas of rehabilitation	25
New zones of action	27
Housing market	27
Private rental sector	28
<i>Land Use and Building Code</i>	28
FINANCING URBAN REHABILITATION	29
<i>Financial Sources for Rehabilitation</i>	29
Residents	30
Local governments	30
Central budget	31
Private investors	31

C

<i>The Cost of Rehabilitation</i>	31
Costs	32
<i>Subsidy Programs</i>	32
The possibilities of decreasing the costs and levels of rehabilitation .	32
Systems of subsidy	33
Specific subsidy programs	33
REHABILITATION PROGRAMS IN BUDAPEST	34
<i>Budapest-Level Concepts</i>	34
<i>Current Rehabilitation Projects in the Inner City Districts</i>	37
Block 15 in District VII	37
The rehabilitation of Közép-Ferencváros, in District IX	40
Madách sétány project, in District VII	43
Plans for the rehabilitation of Király utca and its neighborhood in ..	47
The "Broadway of Pest" in District VI	48
District VIII	48
District XIII	50
CHANGING CONDITIONS OF REHABILITATION	51
REFERENCES	54

LIST OF TABLES

Table 1	Data of housing stock quality in the inner city area (percent)	8
Table 2	Number of apartments according to the year of construction (percent)	9
Table 3	Deferred maintenance of IKV-managed housing stock of inner districts	9
Table 4	Nonrenovated housing stock of inner districts	10
Table 5	Changes of population in inner city areas 1970-1990	11
Table 6	Demographic composition of inner city dwellers, 1970, 1980, 1990 (percent)	11
Table 7	Data on educational qualification of inner city dwellers, 1990 (percent)	12
Table 8	The changes in tenure form in the last 3 years (units)	14
Table 9	The structure of revenues and expenditures in Budapest real estate management (million HUF)	18
Table 10	Rent revenues from residential units	21
Table 11	Price of offices in Budapest	24
Table 12	Price of dwellings in inner city Budapest (1,000 HUF/m ²)	27

LIST OF FIGURES

Figure 1	Budapest Inner City	5
Figure 2	Investment of Business and Commercial Buildings in Budapest Between 1989 and 1992	26
Figure 3	Rehabilitation Projects of Budapest Inner City	38
Figure 4	Block 15	39
Figure 5	Közép-Ferencváros	41
Figure 6	Madách Sétány Project	44

BUDAPEST INNER CITY DISTRICT REHABILITATION¹

INTRODUCTION

After fifty years of deferred maintenance, Budapest is greatly in need of rehabilitation. Almost 20 percent of Budapest's 2 million inhabitants live in the six inner city districts on the east bank of the Danube. Much of Budapest's special character comes from the inner city, which has remained multi-functional and culturally diverse, with an exceptionally heterogeneous population, due partly to the varying apartment structure of most buildings — i.e., the characteristic buildings with closed courtyards containing apartments of different sizes and quality, and commercial units on the ground floor. Most of the inner city buildings were built in the last two decades of the 19th century; despite their good technical heritage, their current condition is very bad because of the severe lack of maintenance and rehabilitation, partly due to low rents and inefficient management by the publicly owned management firm, the IKV. Parts of the structural elements and the engineering system are in critical condition, although it is difficult to estimate accurately the amount of work needed and cost of renovation.

During the transition of the last few years, Budapest's municipal government and the districts became the owners of large amounts of real estate. The districts are now the owners of, and thus responsible for, the housing stock, and hence for rehabilitation, although most districts have not yet developed comprehensive and consistent housing policies or rehabilitation strategies. With straitened budgets and lack of experience and expertise, districts are not making much progress in the challenging task of rehabilitating downtown Budapest.

The contradictory nature of the current system of planning is a result of the inefficient legal regulations of building and construction as well as the sharing of tasks between the districts and the capital. Although the districts have primary responsibility for housing, the municipality of Budapest is responsible for the maintenance and safety of the built environment, and the operation of public utilities. However, the municipal government has lost its previous powers and role as a coordinator of rehabilitation; for example, when the detailed plan (which is the responsibility of the district) does not involve modification of zones, district councils decide on their own, excluding the council of Budapest from the decision. (Nor do district authorities coordinate their rehabilitation efforts with each other.) Some of these shortcomings may change with the new Rental Act, passed in July 1993, which requires that 50 percent of district privatization revenues be given to the City and subsequently used for rehabilitation, so that the municipality will be able to influence rehabilitation in Budapest as a whole.

¹ The author gratefully acknowledges the contributions of József Hegedüs, Katharine Mark, and Iván Tosics.

The detailed plans developed by the districts in many cases have a strong physical, engineering view and do not have a financial rationale; nor do they encourage entrepreneurs due to their rigidity. Recent developments have shown that in the current situation the most easily activated source for rehabilitation is the capital of entrepreneurs linked to the assets of the local governments, but local governments are not always able to form productive and effective partnerships with the private sector. At the same time, while earlier plans were usually concerned with the improvement of the conditions of life, new ones tend to be more concerned with business investment. However, the plans do not necessarily realistically assess the appeal of the project to potential investors, and the tendency is still to concentrate on large over-ambitious projects — like the old dream of Madách sétány, a walking street to extend the central business district into the heart of District VII, or projects that preserve the original functions and restore the original structure in every single detail. Often projects are designed before taking into account the preferences of tenants or the demand of other potential consumers.

Continuing privatization also makes it difficult for districts to plan, as they do not know which buildings they will own in the coming years, and they do not know what sort of responsibility the new owners will be able to take on for the condition of their homes. This situation will certainly be exacerbated by the new Rental Act which introduces the full right to buy for residential and commercial tenants. As a consequence, within five years most probably the vast majority of inner city buildings will be converted to condominiums, creating a new situation in which districts — in some cases the minority, in some cases the majority owners in the condominiums — must approach the problem of rehabilitation differently.

An additional problem is the method of relocating households during and after rehabilitation; not only is this politically and legally difficult, but most districts do not have the vacant units or financial means to carry this out. Other political resistance to rehabilitation is motivated by the desire to prevent social segregation and to preserve the City's architectural heritage by avoiding lower levels of rehabilitation.

In short, while the lack of funds is clearly a major problem for districts in undertaking rehabilitation, their efforts also suffer from insufficient focus on financial aspects (partially due to the lack of staff expertise), no comprehensive planning, no coordination with the city or each other, not enough realism in project design, and ineffective partnerships with private sector. Technical assistance, both on the municipal and the district level, could help substantially to develop new methods of planning rehabilitation, taking more into account the financial aspects and the increasingly mixed ownership structure of buildings.

Historical Background

Budapest is a historical city, shaped by the development of centuries. Its development was partly spontaneous and partly a result of urban planning, but can be considered a "well planned" city. Under the operation of Budapest's first public commission, The Public Works Commission (PWC), between 1871 and 1949, Budapest has developed according to unified development ideas. In 1873 Budapest was legally established with joining of three cities, Pest, Buda, Óbuda. These years are also important because the political-economic possibilities for the development of the city were improving. In 1870 a population of 300,000 inhabited the territory of the city (concentrated in 80 percent to the inner part, mostly on the Pest side), and the population increased threefold by 1913.

Plans for the capital were based from the beginning on zoning prescriptions. The first widely accepted zoning regulation contained four zones, regulating the minimum plot with depth, a maximum number of floors and building density. Functional regulation did not exist. Zoning regulations were refined in 1914.

The PWC devoted considerable attention to preparing guidelines for the future development of Budapest and its surrounding area, including expanding the spatial extent of its planning powers. After 1949, the new political system with the dominance of the Party's political aims over experts' views brought about the integration of suburban districts with the city. In 1950 the Budapest Municipality with all 22 districts was founded. Population at that time was 1,590,000. Most of the planning decisions were made by high level political organizations. Later on, starting in the 1960s, responsibility was shifted to the municipal government and the local Party organization. In this process of decentralization, however, the municipality played the key role, and the districts were completely subordinated.

After the local election of September 1990, a new local assembly was formed, consisting of 88 members, 22 of whom are delegated by the districts and 66 of whom are directly elected by the parties. The previous hierarchy between Budapest and the districts was dissolved. The Capital Act defines the responsibilities of both levels but in general the district level has been considered to be the local government. The 1990-1991 regulations (including the Capital Act) took almost all property and power away from the municipality and transferred them to the district governments. The municipality lost much of its property, and most of its direct administrative power over districts. Only the right to establish the master plan remained with the municipality; for this reason master planning has become one of the most politically sensitive areas in which the municipality insists on its right in confrontation with some of districts which would like to have total control over development in their areas.

Budapest's inner city comprises Districts V, VI, VII, VIII, IX, and XIII, all in Pest on the left bank of the Danube (see figure 1). In the current phase of development inner city areas mostly preserve the architectural achievements, functional roles and social-cultural backgrounds of the turn of the century. The inner city areas are certain to preserve central functions in the long run:

- *Political-governmental institutions:* Parliament, presidential offices, government agencies, headquarters of political parties, high courts, public prosecutors' offices;
- *Business institutions:* Hungarian National Bank, commercial banks, the stock exchange, government trustee agencies, headquarters of national companies;
- *Cultural and science institutions:* the Hungarian Academy of Sciences, major museums and public collections, many universities, colleges and clinics, the National Opera, the Music Academy, theaters, art institutions.

The inner city area has utmost importance within the conventional city structure and the governmental, educational, cultural, and transport functions. The functional role of the inner city area is of more levels:

- *Functions of national importance:* national institutions, transport functions (described in the previous section);
- *City level functions:* there are institutions in the area that have citywide importance. These include national institutions such as employment centers and service centers, as well as business institutions, specialist stores, churches, schools, cinemas, hotels, and catering trade units, for example.
- *Functions of local level:* trade units providing for the need of the local dwellers and employees ("corner groceries," "snack bars"), parts of the institutions that belong to the local dwellers (police departments, banks, post offices, insurance offices) and are not concentrated in centers of local level, but can be found scattered evenly in the area, as is characteristic of Budapest.

The building stock of the inner city area suited Budapest's particular cultural context: despite the mostly homogenous character of the city, the built environment also reflects clearly discernible cultural backgrounds — home for a bourgeoisie of Hungarian, German, Jewish, Slavic origins (and others) fully integrated into the city fabric. During the reform age and the industrialization in the last third of the 19th century, the city developed in an organic way: new administrative, cultural, and civil

Figure 1



BUDAPEST INNER CITY

institutions needed for this development found their places in the city according to their importance in their hierarchy. The urban planning of the age provided synchronicity between the functional hierarchy of the institutions and their location within the urban structure.

The most painful period of the development started after World War II. With the demolition of conventional social structures many of the previous functions came to an end artificially. The buildings serving these functions were brutally truncated. A new and very disordered structure replaced the old one, thanks to nationalization, appropriation, and co-tenancy. The *ad hoc* nature and the petty solutions of this structure are certain to be preserved for some time and do not act as an attraction. The formation of Large-Budapest and the appearance of modernist urban planning ideas did not help the preservation of the roles of inner city areas. These things led to the largest extension of the city accompanied by the loss of multiplicity in the functions of inner city areas. In the new political system the society, its culture and its environment became uniform.

By now the bourgeoisie has changed radically and different classes of the bourgeoisie are currently undergoing continual shifts. Many of those belonging to the business or political elite have left the inner city areas. Inner city districts still show signs of the historical development of the city. Their structure, relationships, townscape, heritage are all due to this historical development.

The urban pattern that was a product of earlier times, served the needs of a multi-functional city. The homogenous structure, consisting of closed building-line blocks and buildings with closed courtyards, still is of great importance. The road network of this structure consists of avenues, boulevards and small squares fitted into the quadratic frame of the street pattern. Buildings with closed courtyards contain apartments of different sizes and quality. The comfort level of these apartments is not uniform either: most of them are of full comfort but there are a great number of apartments without comfort facilities in the proper inner city area. It is common among these apartments to have the lavatory at one end of the outside balcony.

The typical form of the apartment buildings tenement house of the inner city is the product of the late feudal legal system that did not allow certain members of society to own real estate. Small room and kitchen apartments were built for them in the back yard. These buildings greatly differ from the multi-story civic town buildings of Western Europe. Many experts claim that the existence of these buildings is responsible for the small level of segregation, as these buildings generally contain flats of varying quality. By the same token, however, the rehabilitation of these buildings and the restoration of the narrow, roomless and separated room-and-kitchen flats is of exceptional difficulty for both architectural and economic reasons.

The majority of the buildings were built in the 19th century. Their technical heritage is overall good: Budapest buildings, unlike European buildings in general, contain robust structural elements, mostly steel ceilings, fire-proof staircases and were built with solid brickwork walling. Major problems are caused by the buildings of the beginning of the 20th century. The structural elements, ceilings, and ornaments of these buildings are in a poor condition compared to the others. One of the serious problems was the deterioration of the bauxite-concrete structures of the 1930s, but this problem has been solved by now. Only a few buildings have been erected in the area since World War II, and these are mostly commercial centers or public buildings.

The Inner City Housing Stock

District V, Downtown, Lipótváros: The northern part of the downtown has historically been the trade center of the city. This zone has been constantly renewed due to exceptional utilization, therefore its current condition is good, although major renovation is overdue in the case of some buildings. Most of the buildings were renovated when the proper downtown was turned into an area of promenades (walking streets). Nearly one third of the buildings are protected as historic buildings, and this forms an obstacle in the way of rehabilitation partly because of strict regulations raise the costs of renovation and partly because of the unsettled nature of proprietary questions. The southern part of the downtown is not so exposed, so it could preserve the original medieval structure in concert with housing and cultural functions. In accordance with this, the technical condition of this area is poorer. The renewal of this area will be assisted by the transformation of the southern end of Váci utca into a promenade.

Flats of the best quality are to be found in this district. The percentage of flats lacking basic amenities is 5.47 percent as opposed to the same figure coming to 30 percent in Districts VIII and IX. The social composition of residents is very good; surveys support the hypothesis that representatives of the old bourgeoisie have remained in the area. Thirty percent of the residents are over 60 years old and the level of education of residents is outstandingly high.

The housing stock of the geometrically structured Lipótváros quarter shows the influence of the classicist era and the turn of the century. The quarter is the location of several public institutions. The housing stock is in good condition overall, and public institutions are in exceptionally good condition.

District XIII, Új-Lipótváros is the fanciest urban built-up area in Budapest and its condition is the best as well. This is mainly a result of the urban development of the inter-war years. It is an example of the attractive, multi-functional, high quality urban area. Its inhabitants were, and still are, the representatives of the

intelligentsia, the middle classes and state officials. Flats in the area are privately owned due to extensive privatization.

District VI, Terézváros: The housing stock of the main roads of the area (Andrássy út, Teréz krt., Bajcsy Zsilinszky út) is outstanding in its architectural quality. The villas surrounding Városliget are in good condition in general. Areas that are not so well appointed are in far worse condition, however, and their social composition is not so good either, with densely populated areas showing signs of segregation.

District VII, Erzsébetváros: Its housing stock resembles that of Terézváros but it is in a slightly poorer condition. This is the most densely populated area of Budapest: 50 thousand inhabitants in one square kilometer. The rate of renewal is fair, and some achievements have been made in the field of rehabilitation.

District VIII, Józsefváros: The original urban pattern has been damaged due to extensive urban reconstruction. Bad effects of the construction of housing estates has been shown in recent experience. The social composition of the area is unfavorable, with segregation affecting large linked areas.

District IX, Ferencváros: In some parts of the district such as in Belső-Ferencváros, the building stock still bears signs of its peripheral role like the preserved areas of Józsefváros, and buildings are of mixed quality. Urban rehabilitation plans of recent years have attempted to take advantage of the potential of the district. The other part of the district shows the extensive urban reconstruction. Between 1957 and 1967, 6,400 new flats were built here replacing another barrack settlement.

Table 1. Data of housing stock quality in the inner city area (percent)

District	1980		1990	
	one-room apartments	apartments without bathroom	one-room apartments	apartments without bathroom
V	37.4	11.4	31.9	5.5
VI	41.0	27.2	37.0	18.8
VII	46.4	37.8	42.7	24.4
VIII	49.7	43.2	44.7	30.4
IX	51.0	41.5	45.4	30.1
XIII	39.7	17.2	35.2	12.5
Budapest	35.0	24.3	24.9	12.3

Source: Census, 1990.

Table 2. Number of apartments according to the year of construction (percent)

District	-1899	1990-1919	1920-1944	1945-1959	1960-	Total %	total flats
V	48.5	28.6	14.5	3.0	3.8	100	19,631
VI	66.6	22.4	7.7	2.1	1.2	100	26,195
VII	67.7	19.4	10.1	0.6	1.5	100	35,453
VIII	50.9	26.3	9.7	1.5	8.1	100	39,917
IX	30.4	21.1	15.6	2.4	27.3	100	33,097
Inner districts	52.7%	23.2%	11.3%	1.8%	9.0%	100	154,293

Source: Census, 1990.

Despite their good heritage, the overall technical condition of the buildings is poor because of the lack of reconstruction and rehabilitation. Parts of the structural elements and the engineering system is in critical condition. A frequent problem in the buildings constructed around the end of the last century (more than half the stock in the inner city) is the instability of the balcony corridors — the only access to courtyard units — which necessitates emergency propping.

Table 3. Deferred maintenance of IKV-managed housing stock of inner districts

	Flats	Units with deferred maintenance		Buildings requiring balcony propping	
	number	number	%	number	area of balcony-corridors (m ²)
V	18,988	9,149	48.2	110	4,884
VI	26,742	14,829	55.5	241	9,247
VII	31,429	15,258	41.9	282	6,673
VIII	38,007	17,334	45.5	857	25,550
IX	29,600	5,166	17.4	77	1,825
XIII	39,626	9,166	23.1	362	6,160
Six districts together	189,462	70,902	37.4	1,947	54,339
From this on rehabilitation area	104,000	47,000	45.2	1,460	39,210

Note: This data was obtained from IKV, the publicly owned real estate management company. It is not clear what definition is used for deferred maintenance and it is certain that the IKVs in different districts have different criteria. Because buildings with some renovation can still be counted as having deferred maintenance, the figures here differ from those in Table 4 below.

Table 4. Nonrenovated housing stock of inner districts

Name of districts	Blocks	Building		Flats		Nonresidential
	Number	Number	Total space (1,000 m ³)	Number	Total area (1,000 m ²)	Number
V total of which: pre-1950, not renovated	77	701 395	10,525 5,248	19,260 8,952	1,226 588	2,891 1,385
VI total of which: pre-1950, not renovated	47	409 335	4,891 3,949	11,763 8,042	602 431	1,090 866
VII total of which: pre-1950, not renovated	65	749 412	8,606 4,117	20,494 9,656	1,045 467	303 250
VIII total of which: pre-1950, not renovated	116	1,376 1,017	12,047 7,464	32,099 19,586	1,615 938	3,057 1,992
IX total of which: pre-1950, not renovated	75	601 320	6,254 1,386	17,391 4,065	876 182	1,229 340
XIII total of which: pre-1950, not renovated	14	71 31	495 126	2,990 452	159 23	124 33
Rehabilitation area total of which: pre-1950, not renovated	394	4,107 2,510	42,820 22,294	103,997 55,118	5,565 2,828	3,694 4,886

Source: Rehabilitation of inner areas of Budapest, Capital City Council, 1990.

Table 5. Changes of population in inner city areas 1970-1990

District	Number of inhabitants			Percent change	
	1970	1980	1990	1970-80	1980-90
V	62,684	50,128	43,937	-20.03	-12.35
VI	87,937	71,204	59,477	-19.03	-16.47
VII	116,078	92,350	82,864	-20.44	-10.27
VIII	121,293	97,121	82,969	-19.93	-14.57
IX	67,549	64,622	56,075	-12.40	-13.23
XIII	64,270	59,947	52,283	-6.73	-12.78
Subtotal	519,811	435,372	377,605	-16.2	-13.2
Budapest total	2,001,083	2,059,347	2,016,774	+2.91	-2.07

Source: Census, 1990.

Table 6. Demographic composition of inner city dwellers, 1970, 1980, 1990 (percent)

District	1970		1980		1990	
	under 14	over 60	under 14	over 60	under 14	over 60
V	11.5	22.1	12.5	27.4	12.9	32.3
VI	12.0	22.2	13.4	27.5	14.8	29.2
VII	11.9	22.4	13.3	27.8	14.1	27.9
VIII	12.4	22.2	14.9	26.5	15.6	25.4
IX	12.2	22.3	14.3	26.5	15.5	25.3
XIII	11.4	22.9	14.3	26.1	12.2	29.6
Subtotal	11.9	22.3	13.5	26.2	13.6	28.6
Budapest	14.3	18.7	18.0	20.2	15.7	21.6

Source: Census, 1990.

Table 7. Data on educational qualification of inner city dwellers, 1990 (percent)

	elementary school	high school graduates	higher education
V	88.5	53.4	25.0
VI	83.4	41.2	16.3
VII	82.2	36.7	13.3
VIII	82.6	36.4	13.1
IX	83.4	39.2	14.3
XIII	81.5	46.0	20.4
Budapest	86.4	42.0	16.0

Source: Census, 1990.

THE PUBLIC RENTAL SECTOR

Rental Housing Regulation and Privatization

Before World War II the typical tenure form was private rental in the inner city. In 1952 the state nationalized the majority of housing stock (all housing consisting of more than six rooms). In 1990 85 percent of inner city stock was state owned and managed, the remaining 15 percent was partly "new" housing units built in last four decades and partly those flats not nationalized in 1952.

Budapest and district governments became the owners of huge real estate properties as a result of acts 1991. LXVI. and 1991. XXXIII. These acts order the transfer of state real estate properties to local governments. The acts say that the local government is entitled to take over all state-owned housing and all other real estate as well. If the building is built on a lot that is bigger than 1,000 square meters, the consent of the State Property Agency is required for the transfer. In the case of Budapest the situation is further complicated by the fact that the Capital Act divides a part of the real estate property between the City Council and the District Councils, and grants the right of preemption to both.

The transformation of the public rental sector began long before the political changes of 1989-90. Privatization in this sector became theoretically possible as early as 1969. The first regulation allowed very limited space to be purchased, however, and was in effect until the 1980s, when the strict constraints on the privatization of bigger buildings were lifted and the system of huge financial discounts was introduced. The demand of sitting tenants to buy their units was and still is very substantial, mostly because of the uncertain future of the rental sector

and the very favorable terms of sale. The central regulations on discount level gave way to local government prerogative when ownership was transferred, but because of political pressure sales prices largely remained at the same levels, awaiting the passage of a new Rental Housing Act, which finally happened in July of 1993 and will take effect in early 1994. Most rental units are sold for 15 percent of their market value, when 'extensive renovation' was not carried out within the last 15 years. The price is 30 percent of the market value if an extensive renovation was carried out between 5 and 15 years ago and 40 percent if it was carried out within 5 years. Tenants only have to pay 60 percent of this in the case of cash payment. Another option is the payment of 10 percent in cash and the rest in monthly installments for 15 years on low and fixed interest rates. The apartments can be resold or rented out by the owner without restriction following the purchase. There is no restriction on turning the apartments into offices or shops, and these actions do not have to be reported to the local government. The method of privatization has been debated by many. Independent districts have been allowed to decide about their own privatization policy.

The July 1993 Rental Act increases the pressure on local governments to sell housing to sitting tenants (both residential and commercial) by giving them "the right to buy" for five years starting January 1, 1994. In practice, this limits the ability of local governments to place buildings on the prohibition list, so that many more tenants will now be able to buy their units. The Act also determines sale terms: the local government must now offer a discount of at least 50 percent of the market price minus the tenant's investment; further, the downpayment is 10 percent and the buyer must be allowed to pay off the remainder over a period of at least 25 years, of which the first 6 years are interest free. This results in a very high discount and is thus expected to accelerate sales as well. In addition, the Act's one-year moratorium on rent rises also serves as an incentive to the local government to sell.

Although privatization policy and housing policy have not been adjusted, privatization prices and rent levels for apartment and commercial units have been following a similar course. None of the district governments have changed the original rent levels, and none have changed the selling price of apartments (approximately 15-45 percent of the market value, according to the condition of the real estate). The best apartments were bought up in all the districts. The rate of privatization is not uniform in the various districts and the way privatization revenues are used is different as well. There is as yet no information available about how each district will change its privatization policy in response to the new Rental Act, but they are required by law to develop new local regulations by the end of 1993.

Table 8. The changes in tenure form in the last 3 years (units)

districts	total number of dwellings 1990	dwellings of local government 1990	dwellings of local government 1993	privatized dwellings (total)	percentage of dwellings privatized
V	19,700	17,800	8,500	9,300	52.2
VI	26,200	24,500	18,200	6,300	24.3
VII	35,500	33,600	24,100	9,500	31.8
VIII	39,900	35,600	30,200	5,400	16.8
LX	33,100	28,400	18,000	10,400	37.7
XIII	56,000	38,500	31,700	6,800	22.5
inner-city	210,400	178,400	130,700	47,700	26.7
Budapest	805,700	395,600	255,800	139,800	35.3

Source: Magyar Hirlap

The data in table 8 show remarkable differences among inner city districts in the pace of privatization. The main tool to slow down privatization has been the maintenance of an extensive prohibition list; some inner cities have put the entire rental stock on this list, intending to develop a new local housing policy before restarting sales. As a common practice, all districts introduced a "threshold" for privatization, requiring that at least 35 to 50 percent of tenants show a willingness to buy before the building became available for sale.

District V

The level of privatization is the highest in District V among inner city districts (74 percent is the highest share of flats sold for the city as a whole), where more than half of the tenements have been sold. The district government has already been forced for political reasons to sell buildings that were on the prohibition list, as representatives argue that it is in the dwellers' interest to sell all the residential units. These buildings, numbering 125, often are included in plans of rehabilitation or are historic buildings. This district would have the greatest income from privatization as the value of apartments is the highest here, but the pressure from the public to buy is the strongest here as well. The council does not have enough flats to provide for local dwellers who need them. The reaction of the representatives to this is that "social problems have to be resolved in another way."

District VI

Privatization is carried out according to the original method in this district, and sales are continuing at a constant pace. The prohibition list contains all the apartments of the rehabilitation area (A, B, C and D blocks — four blocks just off the Kiskörút [the small ring road] — more fully described in the section on the Király Street project below), the apartments in one-story and two-story buildings, forming a part of the proposed walking street systems (Madách sétány). The units other than dwellings still are the property of the local government and form an important part of the local real estate management. The best apartments have been purchased in this district as well. There are instances in which the tenants try to resell their apartments to the local government, because the high costs of maintenance and renovation are too big a burden.

District VII

The greatest "battle" around privatization has been taking place in this district. The new local government introduced a moratorium on new sales in the Autumn of 1990. Later, however, the local assembly split into two groups — one favoring and the other opposing mass privatization at a low sales price. The latter group involved experts in establishing a comprehensive privatization strategy based on lower discounts but aiming to give support to new condominiums. These efforts were not accepted by the necessary majority and privatization with high discounts started again some months ago.

District VIII

In this district, privatization has been based on the old method, but it is expected to change very soon. Privatization has been constant since 1988 and 5,000 of the 10,000 tenements chosen to be marketed have been purchased. One half of the apartment buildings in the district have no comfort facilities and this rate has been increased by the sale of the better apartments. According to a local act of the council, at least half the tenants have to give signs of their intention to buy their flats in order to qualify the building for sale. In addition, the price calculation is going to change. According to the proposal, 20-80 percent of the price would be discounted in case the tenants create a fund for rehabilitation. Commercial units are put on a prohibition list together with units that are in exceptionally poor condition and units in historic buildings.

District IX

The sale of units in this district is based on tenant demand. A prohibition list of apartments exists that contains the buildings classified to be demolished (these

are mostly small and lacking comfort facilities) and the buildings that are part of RRTs (detailed plans).

The better buildings have been sold more easily so far in deals of greater simplicity and more profit. József Attila housing estate and inner Ferencváros have been sold entirely. In middle Ferencváros, which is part of a rehabilitation plan, only some of the better buildings have been purchased. The situation of the Aszódi housing estate is exceptional as no privatization has taken place here due to plans of rehabilitation. Buildings are planned to be sold after the reconstruction due to be completed this year.

District XIII

This district was the owner of more than 40,000 tenements in the beginning of 1989. By now the sold buildings make up the better part of the district's real estate property. The tenements of Újlipótváros (85 percent) and the József Attila estate (80 percent) have almost been entirely sold. Sales have been sporadic in other parts of the district.

According to the political concept of the local Free Democrat party unit the council would like to sell as many units as possible, keeping the same terms as so far. The process is to be finished as rapidly as possible, as this seems to be the only successful policy to be followed until the next local elections, as opposed to the anomalies of the maintenance of real estate, which is considered to be unpopular. There is no chance of raising rent or prices due to political pressure as well. The situation is so clear that parties do not even argue about the matter.

A list of buildings to be kept by the district is to be accepted. The list will contain the apartment buildings protected by the law and buildings containing units without basic comfort facilities along with buildings that cannot be rehabilitated economically, that is, the ones in ruinous condition, marked to be demolished.

The revenue of the sale of tenements was 634.4 million HUF in 1992. Together with interest and installments from previous years the local government had 1,692.412 million HUF on the account. According to the decision of the council this sum was used to finance the cost of sales (88,264 million) and assisted maintenance (100 million), renovation (36,905 million) and the works on the construction plans of the junction of Arpad hid (100 thousand).

Privatization of shops

Privatization of offices and other commercial tenancies (including shops, cellar areas, and garages, for example) was also regulated by Ordinance 32/1969. If no special regulations have been passed by the local authorities, shop premises can be

sold the same way as residential units, when the building is determined to be approved for sale. The Office of the Commissioner of the Republic interprets this to mean that premises other than housing units also have to be sold. In practice, however, no shops have been sold by the districts, even in those buildings which were privatized and turned into condominiums. The Rental Act gives the present tenant of the nonresidential space the right to purchase as of January 1994, and sets the maximum price that the local government can charge at 60 percent of the market value. At the same time, compensation vouchers can be used in the purchase. The present real value of the compensation voucher is around 50 percent of the face value, which means that the actual discount can reach 70 percent.

The passage of this bill by Parliament has meant that local governments lose one of their principal and reliable sources of income, which they have been using to compensate for the withdrawn central budget housing maintenance subsidy. The difference between low rents and market value will secure a high profit for current renters if they decide to buy their premises.

Management of the Housing Stock

Public sector

Until now, the management of 90 percent of the state-owned housing stock has been provided by the special 'Property Management Companies' (IKVs) controlled by the local authorities and also by the directorate at the metropolitan level. These organizations were not owners but managers of the property. Even so, they were trusted with certain rights and obligations of the owner, although the allocation of the rental units has always been the right of the local councils. Unlike other public housing organizations in the west, they were not nonprofit establishments, but rather worked as profit-oriented independent firms. They had to operate and maintain the buildings with their own staff, and to organize renovations.

When ownership of rental housing was transferred to local governments, in theory they acquired the right to set rents, although in practice most of them did not change the rents established by the central government in 1990 due to political pressure. The July Rental Act confirms the rent-setting right of local governments, but at the same time imposes a freeze in rents until June 30, 1994. The result is that almost all public rents in Hungary are at the 1990 levels. According to the 1990 ordinance, the rent depends on the comfort level and is virtually independent of the location and the condition of the building.

full comfort flat:	22 HUF/m ²
comfort flat:	15 HUF/m ²
half comfort flat:	7.50 HUF/m ²
fit but lacking comfort:	4.50 HUF/m ²

The rent is uniform and does not depend on the income of the tenants. A comprehensive system of housing and rent subsidies does not exist. Families in need of aid may apply for welfare aid on an occasional basis only. The current rent is insufficient to fund the maintenance and the renovation of buildings not to mention any construction or investment.

Rents on commercial units that are the property of the local government are determined according to the Civil Code. The raising of the rent is not controlled by law and is subject to agreement between the renter and the lessor (a passage on the regulation of rents is missing). The rent levels were defined by the municipality in Budapest in 1990. Since then, higher rents could only be achieved when a new renter was willing to agree to pay a higher rent. Modification of old contracts is virtually impossible. Meanwhile the renter may receive a much higher amount for the unit if he rents it to someone. Local governments are aware that they lose a source of income due to this situation but they are, in practical terms, unable to raise rents. Commercial rents still ensure high incomes for them. (District V receives more than 1 billion HUF a year. This is 14 times higher than residential rents and is equal to half of the council's budget.) The income is kept in the IKV budget and is spent on maintenance of the units.

At the end of the 1980s, the IKVs had three different sources for financing their operations: rents of residential units (30 percent of total revenue), other rents from nonresidential units (25 percent), and central subsidy (45 percent).

Table 9. The structure of revenues and expenditures in Budapest real estate management (million HUF)

Revenues	1987	1988	1989	1990	1991
rents of flats	2,648	2,907	3,009	3,859	3,236
other rents	2,478	2,968	2,986	4,791	4,888
central subsidy	4,360	6,646	4,618	0	0
total	9,965	13,303	10,704	8,650	8,124
	1,987	1,988	1,989	1,990	1,991
operation	2,110	2,369	2,700	n.d.	n.d.
maintenance	2,626	3,600	3,733	3,490	3,415
renovation	4,631	4,950	3,575	2,775	1,937
total	9,367	10,919	10,008	n.d.	n.d.

Source: Annual Handbook of Capital Government, 1992

The state subsidy has been completely eliminated since 1990. Privatization income from the rental units (of 130-700 million HUF for each district) has appeared as a new revenue in this area, but it has been considerably less than the former central subsidy. This could be used by the local authority for any purpose as they were not obliged to return this into housing until January of 1994 (in a provision in the new Rental Act). In one of the districts 50 percent of the privatization income has been used to fund renovation, in another the total sum was used, but in many cases the district uses this for the reduction of the deficit of its budget. As rents have not been raised and subsidies were eliminated, whereas costs have been increased due to an inflation rate of 25-35 percent, the standard of services has been necessarily decreasing. The new Value Added Tax Act of 1993 is certain to increase the costs of previously tax exempt renovation works. Another factor that may reduce the number of renovations started is that a new ordinance terminated the option of repayment for renovation works through the increase of the rent. IKV revenues have to be spent on services and the urgent maintenance of the buildings. Renovations can only be made where additional funds are available, so activity in this field is quite minimal at the present.

In spite of the former, apparently high, central subsidy, the rental stock's condition in Budapest became worse and worse, and it is not likely to be renovated in the near future. The main reasons of the deterioration of public housing were:

- centrally prescribed, low and undifferentiated rent, excluding depreciation costs;
- untargeted subsidies through keeping rents low, while direct central subsidies through the IKV serve both renovations and new constructions;
- an inefficient management structure:
 - the management work has been the exclusive right of the IKVs, who could dictate prices and standards through the monopolistic situation;
 - the IKV had an obligation to provide services, but no profit motivation or interest in minimizing costs;
- renovation was prescribed by central directives.

After 1991 local governments had to face the necessity of reforming the system of management. They attempted to reorganize the housing departments and the IKVs and appointed new directors to the offices. It has to be pointed out, that IKVs have begun their inner reforms even earlier, long before the local elections. Reforms have appeared in different forms in Budapest, but the different forms seem to agree in fundamental principles. The general tasks should be divided in two: on the one

hand, those related to the owner's direct responsibility; on the other hand, the management of buildings that does not need the owner's direct intervention. Differences in the ideas can be seen in organizational forms.

The main features of the IKVs' own reforms has been that they form separate limited companies from those divisions that can work independently. These small firms can serve the needs of the IKVs themselves, and work for the market at the same time. In these limited companies, workers sometimes have their own equity. The technical departments of the IKVs have been cut off the main body step by step this way, and so were the satellite offices that could work for partially privatized condominium buildings. At the same time IKVs lost the tasks that were related to the ownership functions of housing management, as these were taken over by the local authorities' departments. Through these reforms, the IKVs are becoming independent bodies, retaining the prospect of future development, and keeping their current powers.

The IKV in District VI prepared a scheme for restructuring, which was not accepted by the council. The main points of the scheme were:

1. The Office for Enterprise and Development can work as a limited company that is exclusively owned by the municipality.
2. The Office for Property Management can provide practical services for the operation of the buildings. Small limited companies, formed for the basic tasks, are partially owned by IKV, but major shares can be owned by their employees, so that they become directly interested in the success of the company. The companies can work for the Office, but the Office and the companies are free to contract others on the market.

The council's reason for the rejection of the proposal was, that it would only preserve the IKV in its current form and would prevent the council and its offices from controlling it. The alternative² would be that the owner's role should be clearly and completely taken over by the city administration, and specifically its Housing Department. The new, enlarged Housing Department would be responsible for the district's housing policy and planning strategy as well as its directives and methods. They would have to gather all information concerning the rental stock, to form the new management system, and to control it.

For building management services, independent companies would be contracted. Operation and maintenance, tenant relations, and rent collection would be the task of managing companies, either completely newly established or formed

² This is similar to the new management structure adopted in Szolnok with USAID assistance.

from the remains of the IKV. The selection of these companies would have two steps: first the Housing Department chooses 3-4 companies from a number of bidders, among which the tenants themselves choose their management firm in the second step. The management companies may work for a management fee, that is provided by the municipality from the rents. The company would have to make a public report every year about the use of the funds.

Experience shows that inner city districts tend to delay the reforms of the IKV and are taking small steps towards change. They are unaware of the number of flats they are going to keep and, therefore, are afraid a decision on the system to adopt would very likely be premature. The reliability of the maintenance firms is unknown as well. In most of the districts the number of units and the amount of work is rapidly decreasing in the IKVs. In District V, VII, VIII and IX the IKV was temporarily turned into a company of the local government and ownership duties are taken by the Housing Department.

Table 10. Rent revenues from residential units

Rent revenue from residential units (1,000 HFT)					
district	1987	1988	1989	1990	1991
V	141	154	161	204	184
VI	160	162	192	226	190
VII	186	219	230	262	193
VIII	190	211	215	326	233
IX	156	175	185	213	154
XIII	217	235	244	294	269
subtotal	1,050	1,156	1,227	1,525	1,223
Bp. total	2,625	2,884	3,037	3,859	3,236

Revenue from shops (1,000 HFT)					
	1987	1988	1989	1990	1991
V	522	586	600	1,089	1,247
VI	330	339	359	549	658
VII	344	411	414	776	666
VIII	266	296	288	491	462
IX	133	147	153	233	252
XIII	228	260	267	397	398
total	1,823	2,039	2,081	3,535	3,683
Bp. total	2,571	2,887	2,882	4,790	4,888

Source: Annual Handbook of Capital Government, 1992

Management of condominiums

Multi-family buildings with privately owned apartments have existed in Hungary since 1924 in the form of condominiums. A representative is elected by the owners, or, in some cases, a board of managers is elected the same way. It is becoming common that private firms are contracted for the management and take responsibility for maintenance and services, although in the case of privatized buildings in some districts, the IKV remains responsible for maintenance until the share of private units in the condominium exceeds 50 percent. The base of condominium finances is the collective expenditure that is voted by the owners for an indefinite period. A fund for renovation is established for major constructions. The average amount of the collective expenditure for one square meter of area is 25-40 HUF a month in Budapest, depending on the heating system and the physical condition of the building.

The full-scale rehabilitation of condominiums is made more complicated by the current legal environment. Although the 1977 Act on Condominiums and provisions of the Civil Code requires majority agreement for the sort of large scale expense involved in building renovation, the Building Law requires *all* owners to sign a request for work that requires a Building Permit (e.g., work affecting building height or appearance, or work on utilities).

The appearance of condominiums is an effect of the privatization and may at first slow process of rehabilitation and renovation although it also brings the finances of new owners to the table. The differing financial status and differing interests of the households, as well as the different scope of their ownership, does complicate the realization of renovation, and the process of setting up an agreement demands time and compromise.

Buildings of mixed ownership function as condominiums as well. In most cases, nonresidential units and public sections of the building remain the property of the local government — although this will change in 1994 with the right to buy of commercial tenants. The municipality pays its share of collective expenses as other tenants do. In many cases the share is higher than the rent on the unit. The local council has the same right to veto the renovation of a building as any other dweller has. The local government does not have to transfer its rental income to the collective expenditure.

Tenants, in most of the cases, were not aware of how high the cost of maintenance would be when they purchased their flats. Local governments are responsible for the state of the building stock in their area not only as proprietors but as public authority. Under the 1964/3 Building Law, the local government can order owners to maintain the building, undertake renovations, and can put a lien on the building to recover the costs. This procedure could reverse the privatization process

over a few years as buyers default on mortgages on the worst units and the buildings return to state ownership. Municipalities clearly see that they cannot sit and watch the deterioration of the mixed-property buildings as they are partly owners of them. This is even more so, when the building is part of a greater scale rehabilitation project.

The council of District VI is planning to transfer part of its revenues, coming from the rent of shop units, to the condominiums. This district is expecting incomes from its project that would create a shopping mall near Nagykörút by opening new walking streets in an area.

District VIII is planning to add 20-80 percent of its incomes from privatization to the rehabilitation fund of the condominiums.

The IKV in District V has introduced a remarkable idea. One downtown condominium, of which the municipality owned a 75 percent share more recently reduced to 25 percent, has not been renovated for 40 years. The facade of the building was in poor condition and authorities ordered the residents to have a shelter built to prevent the injury of the passers by as pieces of the plaster work were falling off. The cost of the renovation of the facade would be 12 million HUF, which comes to 200 thousand per dwelling unit. The IKV agreed to grant a loan without interest for 3-4 years if they support the renovation. The owners pay the installments to a bank account and there is a lien on the flats until full repayment.

URBAN DEVELOPMENT IN BUDAPEST

Real Estate Market and Investment Trends

The transfer to a market economy has brought an increased interest towards Budapest, a potential center of investment in Central Europe. The regional "primary city" role of the city is clearly shown by the amount of investment. Two thirds of the capital invested in Central Europe was invested in Hungary in the years 1990-91 and 60 percent of that capital came to Budapest. Most of the funds were invested in the nonproductive sector, that is in tourism, banking, credit, insurance, hotel businesses. The ever increasing number of office buildings, trade centers, hotels, for example, is a result of the extensive capital investment.

There was a ban on building office blocks until the first half of the 1980s. The first substantial constructions relying on foreign capital were the hotels. The hotels along the Danube riverside and the downtown were built in this phase. The hotels were followed by the first office blocks that were on the European standard. The growing number of private enterprises and the opening of Budapest offices by foreign companies was characteristic of the mid 1980s. The number of foreign company

offices grew from 1,350 at that time to 8,700 in 1991. According to the calculations of Föber (an investment company) there was a demand for 240-280 thousand square meters of office as early as in 1987. There were only a few buildings that could serve these needs, due to the unsettled system of ownership. Land prices in Budapest have become comparable to European standards in recent years. A square meter of a potential construction site costs 40-80 thousand HUF currently.

There is demand for offices of different types. Prospering enterprises and foreign companies seek luxury offices in the downtown area or Southern Buda. Smaller enterprises seek low rent offices. They generally choose former company headquarters' buildings that do not have all the necessary facilities, or former rental flats in inner city buildings, or offices that are farther from the city center. There was a huge demand for inner city apartments that could be turned into offices until last year. This year, however, prices fell from 100-150 thousand HUF per square meters to 75-80 thousand HUF, demonstrating that demand for these offices is decreasing.

Budapest offices can be divided into three groups according to their distance from the city center. There are great differences among the prices and rents of properties located in different areas.

- I. Downtown luxury offices
- II. Nagykörút, Rakóczi út and the surrounding area, main streets
- III. Side streets of the area outside the proper inner city

Table 11. Price of offices in Budapest

Cost (per square meter in 1,000 HUF)	I.	II.	III.
Purchase of the property	200-300	100-150	40-80
Purchase of the rental rights	180-250	80-120	35-60
Annual rent	28-35	20-28	12-18

Source: Real-Estate Market News. 1992.

Downtown

The center of the city attracts the most investors. Luxury condominiums, banks, offices, company headquarters and luxury hotels have been built here. This is the most densely built part of the city, and empty lots are very rare (there is one left in District V, together with 16 buildings that should be demolished). Investment in this area is restricted to the purchase of the buildings and their conversion into luxury offices. The total area of offices, including those currently under construction, is around 100 thousand square meters.

Principal intersections

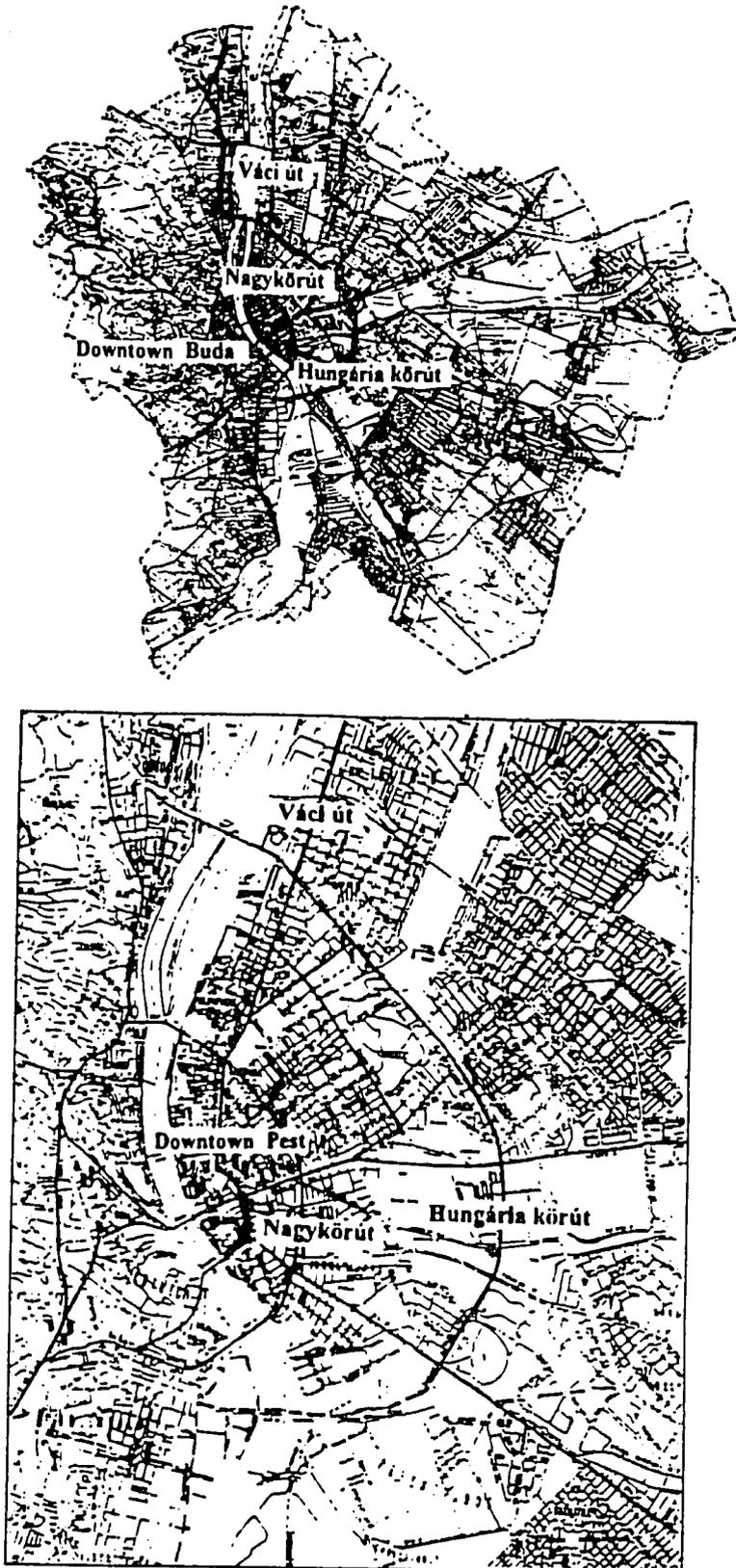
The Kiskörút (small ring road) area, important radial arteries, and new development in the area are each described separately (see figure 2).

1. Plans of the construction of shopping malls, banks, office blocks in the intersections of Kiskörút and the crossing avenues have been introduced: the plan of Madách sétány, the linking section of Király utca, the Anker building and constructions on the empty lots of Kálvin tér. District councils would like to take part in the projects in hope of a profit and would like to base their later rehabilitation projects on these constructions. This would result in 60-80 thousand square meters of offices being built in these intersections. The net worth of the buildings would come to 10 billion HUF.
2. Nagykörút and the crossing avenues, like Rakóczi út, Andrássy út, Bajcsy Zsilinszky út and Üllői út, are prominent areas, considering the high values of property. Projects are mostly restricted to reconstruction and extension due to the high measure of development in the area. Bigger projects in the area include the Royal Hotel and office block, and the West End shopping center. Both projects reach 15 billion HUF.
3. New areas of investment are coming into being. These formations are the result of the infrastructural development of recent years, as private enterprises begin to make moves based on future city projects. The area of Váci utca and the entire District XIII are areas affected in that way. New office blocks are being built, more than 30 thousand square meters of office area has been completed, projects include Robert Károly and Hungária körút, insurance companies' buildings are being built, and there is a much debated project for Hungária passage. There is no building activity on Könyves Kálmán körút at the moment. Proprietors here expect a steep rise in the value of their property due to the future completion of the boulevard and the new bridge.

Areas of rehabilitation

The fact that huge investments have been made in the areas affected by rehabilitation, proves the positive effect it has on the value of property. Block 15 in District VII, Nagydiófa utca, Nyár utca, Wesselényi utca, Paulay utca and Király utca are examples of this development. Ferenc tér and the surrounding area is likely to show the same development due to the continuation of a rehabilitation project. Projects in this area are expected to create 30-40 thousand square meters of new office area.

Figure 2



Investment of business and commercial buildings in Budapest between 1989 and 1992.

The same development can be observed on the Buda side. Main intersections where investment is concentrated, can be found in Krisztinaváros, on Budaörsi út (the site of the biggest project resulting in approximately 20 thousand square meters of offices), in the center of Óbuda, on Főtér, Zsigmond tér and Bécsi út. Demand for offices here is as big as in Pest and prices are the same as well.

New zones of action

Urban planning projects and experience suggest that new areas will be discovered by investors. These are likely to be the centers of outer districts, or areas where the construction of commercial or trade centers is possible or that are suited for recreational facilities.

The total area of offices for rent currently reaches the 200 thousand square meters mark. This may be doubled in the near future and by the end of the century it may be three times as much. This means that the market will be saturated and prices of real estate will be stabilized and investment will decrease.

Housing market

While investment in the commercial sector is high the housing sector stagnates. The number of new housing units built radically decreased in recent years, due to the termination of huge subsidized housing projects. Turnover trade has increased slightly on the other hand, which is a result of the appearance of the privatized housing stock on the market. Market value of dwelling units is approximately 5-8 times higher than the average annual income of the citizens, that is, it is approximately 3 million HUF for a unit on average. The difference of price between flats of the same size may reach 8 times depending on the location.

Table 12. Price of dwellings in inner city Budapest (1,000 HUF/m²)

	1989	1990	1991	1992
V	29.4	40.2	48.0	60.1
VI	26.5	30.6	35.6	44.7
VII	23.4	25.7	38.9	31.8
VIII	24.1	24.0	27.5	26.4
IX	24.2	25.3	30.8	26.0
XIII	28.1	28.0	30.5	34.7

Source: Office of Duty, 1993.

Private rental sector

The private rental sector is insignificant in Budapest. No reliable data is available regarding the number of units for rent or the average rent. Estimates and commercial information suggest that the average rent is between 500 and 1,500 HUF for a square meter, depending on location.

Land Use and Building Code

The contradictory nature of the current system of planning is a result of the inefficient legal regulations for building and construction as well as the sharing of tasks between the districts of the capital.

The Act on the Capital City states that the council of Budapest is responsible for the maintenance and safety of the built environment — part of which has been declared to belong to the world heritage — and the natural environment, as well as the operation of the system of public utilities that have citywide scope. The government of the city lost its previous powers and also its role as a coordinator with respect to rehabilitation due to distrust shown by the districts towards it. District authorities do not coordinate their rehabilitation efforts with each other either, although they admit the importance of coordination. The process of rehabilitation is made even more difficult by the fact that local authorities do not possess enough empty flats or lots to solve the problem of relocation during rehabilitation.

The Council of Budapest is responsible for the preparation of the citywide development plan and its realization, whereas district councils are responsible for the preparation of detailed physical plans and, as the primary building authority, they grant licenses of construction. The last urban planning scheme of the capital was introduced in 1988 and reflects the old principles. No plans taking new needs and goals into account have been prepared during the last three years. District authorities are having physical plans prepared, because they have realized that these are necessary for the beginning of rehabilitation. In cases when the physical plan does not involve modification of zones, district councils decide on their own, excluding the council of Budapest from the decision.

The districts' rehabilitation programs take shape in these physical plans. Plans reveal whether the authorities have strategic concept about the future of the area, and if they do, what it is like. Details of the plans reflect the differences that exist between the concepts of architects and committee members of the council. There are plans that have a strong physical, engineering view completely independent of financial rationality, and which do not encourage entrepreneurs due to their strict rules. Entrepreneurs are eager to make contact with the authorities of District VI, but the council marks areas that may serve as catalytic points for development and leaves the decision on actual physical solutions to the agreement between the

investor and the council. Physical plans are often so detailed that they mark the apartments that are to change their functions, or be demolished. In most of the districts this provided the basis for the prohibition list to prevent the owners from forming obstacles in the way of large scale rehabilitation. Most of the apartments in blocks by Madách sétány, Ferenc tér and Király utca in District VII have been included in the list. Citizens play a role in the acceptance of projects. Construction on an empty lot has been prevented by the residents of neighboring buildings in District IX. In another case, the protest of residents prevented the creation of a passage by opening two inner yards into each other.

The legal environment in which decisions are being made on renovation, reconstruction and maintenance, is crucial for the realization of the rehabilitation of the city.

Current regulations of expropriation theoretically grant local governments the option of fulfilling their duties related to urban development and rehabilitation, but the lengthy nature of the process makes the use of this method almost impossible. Paragraphs 177-178 of the Civil Code give the basis of the regulations. The main principle is that real estate may only be expropriated in special cases defined by law. Expropriation is made possible for the state and local authorities if the purchase of the real estate is impossible by the means of trade. The procedure is conducted by the responsible Commissioner of the Republic and does not have a second phase but is followed by the judicial phase. Restrictions are made in the case of housing as well. If the expropriation is carried out for the local government, the expropriated shall be provided with a suitable alternative accommodation. The procedure may be interrupted both by the owner and the renter and is very lengthy and clumsy. According to the new act, all lessors would be granted the option of expropriation with alternative shelter if such a move is in the interest of the public.

There are no legal regulations of concessions on urban planning projects. Act XVI. of 1991 on concessions does not allow concessions to be granted on activity related to rehabilitation. Contracts of this kind can be made between local authorities and entrepreneurs on a long-term basis. Local governments have no special right of preemption in the case of rehabilitation projects. Purchasing rights and resale rights cannot be included in contracts as sanctions, so this method cannot be used by local governments either.

FINANCING URBAN REHABILITATION

Financial Sources for Rehabilitation

In Budapest urban renewal had defined high quality amelioration of the environment as its principal aim and has been focused on architectural goals, not

taking social or economic objectives sufficiently into consideration. It could afford to do so as it enjoyed the full support of the state, who took over the burden of financing it. With the change of the economic climate and the narrowing of budget revenues, this technique of financing cannot be continued; new sources have to be found.

Urban rehabilitation can rely on two sources overall: user financing (i.e., renters and proprietors); and different types of taxes (subsidies, cross-financing). It is highly unlikely that the economy or the society would bear a 'pure' system: residents are unable to finance delayed renovations on their own, but the other model, in which other participants of the economy — who do not enjoy the benefits of the project — finance the whole project, is not usable either. This implies that those solutions, which combine the two methods will succeed. The question is, what proportions and what techniques could guarantee an acceptable result.

Potential sources for the finance of rehabilitation are described below.

Residents

One option is that the costs are paid by the dwellers and proprietors, which means that the changing of residents has to be expected due to the great number of people unable to pay the costs. In this case the number of residents who are able to enter this market should be estimated. A recent survey³ showed that 25 percent of the residents would be able to pay for a high level of rehabilitation. The majority of the residents would only be able to provide enough for a lesser degree of renewal of the flats. One interpretation of survey results is that rehabilitation should only be started after residents' incomes are increased.

Local governments

Before the new Rental Housing Act was passed, local governments had great freedom in the way they could use their revenues. A part of the revenues may be spent on rehabilitation, in the form of the creation of funds for rehabilitation or guarantees. In practice, local governments are often forced to spend incomes originating from the marketing of their real estate stock on operational costs. Legal regulations allow local governments to launch rehabilitation projects together with entrepreneurs. For example the local government may assign its real estate to the enterprise; the local government may contract the entrepreneur on a long-term basis, so that the enterprise may make use of the real estate freely, and should grant services in return or, if rehabilitation has exceptionally high costs, it may receive

³ This household survey was part of the HABITAT World Bank Housing Indicators Program supported by USAID. Empirical work and evaluation were carried out by the Metropolitan Research Institute and the Urban Institute.

concessions from the local government; or some of the entrepreneurs are willing to contract the local government so that they receive the rental rights of the particular real estate following rehabilitation. If the profitable nature of the enterprise is ensured and the risk is minimal, local governments may decide to apply for a loan, as in the case of District VII with Madách sétány.

The new Rental Act introduces restrictions on the use of privatization revenues effective January 1994. The Act requires the local government to keep sales revenues in a special account and to use revenues only for housing purposes, primarily for renovation of its buildings or new housing construction. In the case of Budapest, 50 percent of district privatization revenues must be transferred to a city account. Further, the central government offers a guarantee and an interest subsidy for loans taken out for housing renovation, as long as matching amounts are invested by the local government.

Central budget

Under the previous regime, the state budget was the sole source for rehabilitation. Reliance on this source has been restricted since the political and economic changes.

Private investors

The most likely source for urban rehabilitation is entrepreneurial capital, as it is involved in current projects due to the increased demand for hotel rooms and offices. With the use of cross-financing this source may be used for rehabilitation serving housing needs, in a limited quantity.

The Cost of Rehabilitation

Different architectural and technical levels are discerned according to the depth and size of rehabilitation.

- *Basic renovation:* main constructional elements (roof, facade, ceilings, balconies) of the building are renovated, but there is no renovation inside dwelling units, although the renewal of utility systems results in the establishment of the conditions of the equipment of comfort facilities in the flats
- *Renovation including comfort facilities:* this method is a combination of basic renovation and the renovation of dwelling units. Amelioration of the environment is restricted to the demolition of buildings that are in the way, and some other low cost procedures.

- *Renovation with the improvement of the environment:* this method includes the improvement of environmental relations (lighting or supply of green zone, for example), accompanied by necessary demolition of buildings, and the development of utilizable area, the changing of functions, major infrastructural investments, and the improvement, revitalization of the environment that is not strictly related to dwelling zones.

Only this latter was accepted as rehabilitation in Hungary until recently and the smallest unit of rehabilitation was the block or street. The change in proprietorship and economic environment has brought a change in the methods of rehabilitation as well. Experts now also accept small scale, building level rehabilitation.

Costs

Different levels of rehabilitation have different costs. The problem of basic rehabilitation is the renewal of the engineering system, the renovation of the roof, the renovation of the outer and inner facade. A cost of 500 thousand HUF for a flat is estimated in this case. The second method results in a 100 percent rise compared to the first. Costs of the third method are hard to estimate, as it includes the development of the environment and a good estimate requires the knowledge of the depth of this development. A gross estimate of the costs of the 100-150 thousand flats in the rehabilitation zones of the inner districts would come to 80-150 billion HUF.

Subsidy Programs

Rehabilitation can be assisted by the following techniques in case the sources are insufficient:

- decreasing the costs of rehabilitation, lower costs of construction
- targeted subsidy funds
- various financing techniques

The possibilities of decreasing the costs and levels of rehabilitation

The choice of the level of rehabilitation is related to the costs. The preservation of the values of the inner city, the restoration of the facades of the 19th century eclectic buildings and the high quality of the works raise the costs of rehabilitation. Many civic associations have been formed in order to preserve the heritage, on the other hand. Representatives in the councils and experts have realized that the magic transformation of all the buildings of the inner city area is not possible under the current economic circumstances but parallel to this there is a growing number of people who support civic associations, and the pressure these associations can apply

on councils is increasing. Lower levels of rehabilitation cannot be thought of in the inner city, due to these phenomena. These methods are therefore restricted to outer districts and smaller side streets.

Systems of subsidy

The most common and the biggest in its volume is the subsidy realized in the form of interest subsidy on loans, granted by the central budget on rehabilitation of condominiums and cooperatives.

A general subsidy is granted for renovation or enlargement of a flat or building. This subsidy is granted to repay a loan or a part of a loan not exceeding 200 thousand HUF and is the 30 percent of the monthly installments for the first 5 years and the 15 percent of the installments for the next 5 years. A special subsidy is granted for cooperatives and condominiums for the renovations of publicly owned parts of the building. The subsidy is granted to repay a loan not exceeding 200 thousand HUF per flat and its amount is 50 percent of the monthly installments. (According to some official sources, there is no upper limit for these loans.)

Specific subsidy programs

The two year development plan of the Council of Budapest includes a 1 billion HUF subsidy of the rehabilitation of the inner city. Some analysts of this program believed that the plan did not take into account the capital's real financial situation; in fact, due to financial problems, 300 million HUF planned to be granted in 1993, has been kept back by the Council. There is no real likelihood in the future of having a substantial amount of capital at the municipal level for rehabilitation. In the current situation the council is only granting enough for the rehabilitation of the promenade area downtown. Smaller amounts of subsidy can be found in the form of foreign aid, as in the case of District VI, where the renovation of a building is financed by the French Government in the form of a 100 million HUF grant.

Rehabilitation with cross-financing: the increase in incomes resulting from the rehabilitation of a particular area is linked to the renovation of the flats.

Cross-subsidization is the most common, accepted and aided method of rehabilitation in Budapest. The smallest unit of cross-financed rehabilitation is the building, whereas the largest may be the Capital city itself. It has two regular forms:

- *Cross-financing within the building.* This happens if the income of the shop units of the building is spent on renovation. This is the way condominiums that have revenue from shop premises work.

- *Cross-financing within a block or more blocks:* Most of the local governments suppose that if their territory has enough investment possibilities and there is a demand for them (empty lots with room for offices, for instance), then the foundation of a joint enterprise that includes the property of the authority as capital, is possible. These enterprises may be able to renew the area, as in the case of District VI.

REHABILITATION PROGRAMS IN BUDAPEST

Budapest-Level Concepts

The urban planning policy of Budapest was extensive and selective for decades. The renewal and rehabilitation of districts with old building stock was overlooked. The social and economic damage of this policy can't be easily undone, and the effort needed is increasing with time. An ordinance was passed in 1974 to prepare a plan for the rehabilitation of the inner city area. The first rehabilitation plan was accepted in 1978.

Objectives of that plan included that the area between Nagykörút and Kiskörút should recover its ability to attract residents and prevent them from moving out and that the population should be ameliorated in its social proportions to preserve townscape, street network and building stock. The plan also marked areas in inner Erzsébetváros and Terézváros, where the work had to be begun, marked Block 15 as the first rehabilitation block, and ordered the preparation and realization of a detailed plan concerning its rehabilitation.

The rehabilitation plan would have included 129 thousand flats in 474 blocks in District VI, VII, VIII, IX. Its costs would have been 400 billion HUF in 1983. Rehabilitation of the rest of the blocks would have been finished by 2015, according to the original schedule.

Financing of the project would have been ensured through various central sources, by adding them to the renovation funds of the IKVs. Although revision of several points of this project later became necessary, it had apparent effects. Revitalization of areas, that would have had no chance otherwise, was initiated by central subsidy. The project also revealed that rehabilitation could not be carried on with the same methods after the disappearance of central sources.

Works of rehabilitation began in various points of the city like inner Erzsébetváros, Block 15, the center of Kőbánya and Pesterzsébet, the historic center of Óbuda, the civic district of the Vár and the area of Váci utca.

The original concept of 1978 was revised in 1983-84 and a new plan was accepted in 1986. The area was extended by the addition of Districts IX and XIII in Pest and the addition of District I and the central parts of Districts II, XI and XII in Buda. The area included roughly covered the densely built, metropolitan inner city area that has its origins in the decades of the turn of the century.

The basic unit of classification was considered to be the zone of city planning. Out of a total of 229,432 flats in 999 blocks in the 110 city planning zones, 204 blocks with 104 thousand flats and 260 thousand residents were recommended for renovation. The plan was accepted by the Government and funds were appropriated for the first 5 years of the project. The primary objective was the completion of the rehabilitation of at least 2-3 blocks in each of the districts, that approximately meant the renovation of 2,500 to 3,000 flats. The estimated cost of the project was 5.5-6 billion HUF and renovation funds were supposed to cover 3-3.3 billion HUF of the total cost.

The plan of 1986 was a technical one despite its intentions and fitted into the redistributive budget agreement system of the time. It did not really deal with financing, which was dependent on political factors directly independent from the economy. Social problems were hardly taken into account nor were the mechanisms of the distribution of flats and social segregation.

The financial limits of the centrally financed projects were sensed in the 1980s. The importance of the use of funds of the residents and the capital of entrepreneurs and local organizations was accentuated.

The 1990s brought a new turn into the course of rehabilitation. The centralized system of local authorities was replaced by a more liberal system of local government that granted greater freedom to districts and municipalities. The Act on Local Government and the Act on the Capital City brought an end to the supreme powers of the Council of Budapest. Its position was weakened so much that it is now unable to fulfill its role as coordinator, although this role would be vital for the operation and development of a metropolis. The Council failed to agree with the districts in many politically important matters like privatization, city planning and housing subsidies. The 1990s brought a change because of the changes of the state distribution system, that minimized the funds the Government could spend on rehabilitation. It became clear that central subsidy should no longer be relied on, and that new sources had to be found.

In April 1993 the City Council of Budapest introduced a new two year program of development, that places the development of inner city areas in second place on the priority list following the development of transportation systems. The rehabilitation would initiate a process of reurbanization, according to the plan. It would partly subsidize particular projects of development with 300 million HUF each

year, and proposes the foundation of a Fund of Credit for Rehabilitation with 500 million HUF. The program was passed by the council but was suspended due to the lack of funds. The city has not yet reconsidered this program in view of the Rental Act's provisions earmarking privatization revenues for rehabilitation.

The 1990s brought a turn in the course of rehabilitation because the changing of the economic system brought changes to the system of distribution and supervision, and subsidies of rehabilitation were minimized. At the same time local governments became the owners of the rental stock previously owned by the State, inheriting the rights and duties of the proprietor together with the property. The part of the property that is not linked to public services, the so-called marketable property, can be used for enterprises freely, incomes on this property may be used for their own good. Local governments often use these sources, as the most simple ones, in case they are short of funds.

Achievements and ideas show that in the current situation the most easily activated source for rehabilitation is the capital of entrepreneurs linked to the asset of the local governments.

Local governments, however, are not prepared to deal with enterprises effectively, nor are they generally adept in the use of capital. Districts are now completing an inventory of their property and are establishing the databases, forming departments specialized in the management of their property. Representatives and officials are not acquainted with the techniques of enterprise. The challenge is big, but so is distrust shown towards real estate businesses.

The results of the recession of the economy is apparent in the changes of the programs of rehabilitation. Original plans were concerned with the improvement of the conditions of life, whereas new ones are more concerned with investments in businesses. No plans have been prepared about the possibilities of adjusting the level of rehabilitation so that it brings slight but detectable improvement. Experts still dream of gigantic projects like Madách sétány or Király utca, or about projects that preserve the original functions and restore the original structure in every single detail. Both types are planned to be market oriented but neither is concerned with the real possibilities of completion or the effects the projects may have on urban patterns or society.

Sociological analysis of the experience of market economies (Dániel) and of Hungarian tendencies (Hegedüs and Tosics, 1989, 1991) warns that the situation and the social composition of the dwellers has to be taken into account in order to make the project completable and the cost estimates valid. Low income families have two alternatives: one is to move out and the other is to stay with the help of the local government. The first alternative raises two problems: one is the willingness of the dwellers to move out and the second is the chance of providing alternative shelter.

Surveys of Budapest apartments show that one third of the residents find it acceptable that if development is in the public interest residents may be forced to relocate. Of those who have purchased their flats, only 23 percent agree.

The method of providing alternative homes for temporary relocation is not at all common in Budapest and this is one of the main obstacles in the way of rehabilitation. In the old system, the municipal government had homes it could grant for those who had to move out due to rehabilitation. This system has been terminated. None of the districts own enough empty flats for this purpose at the moment. The relocation of residents of blocks under construction is not solved this way. Several proposals have been introduced to solve this problem. Those districts who own enough cheap empty real estate plan to solve this problem by building new homes financed with the proceeds from the sale of other plots. District VIII and IX plan to build social flats — but if large numbers of cheap social flats are built in these areas, there is a danger of the new estate becoming a ghetto. A concrete plan has been introduced in District VI: an apartment building is to be turned into an office block by an insurance company from the Netherlands. The company, together with the local government, would build an apartment building on one of the empty lots of the district and this house would contain more flats than the relocated families would need. The surplus of empty flats would be used to relocate tenants of a smaller building, and the income of the sale of that lot would be used to take part in another construction. This method then would be continued for other rehabilitation projects. District V, lacking empty lots, is trying to purchase lots in neighboring districts for this purpose.

If the rehabilitation programs of the districts of the inner city do not support the dwellers in staying in their current flats, dwellers of lower status will not be prevented from moving out and the process of segregation will be initiated in this area as well. This would result in the loss of the specialty of Budapest, the phenomenon that no monofunctional territories have been formed in the inner city and that different age and income groups live together in that area.

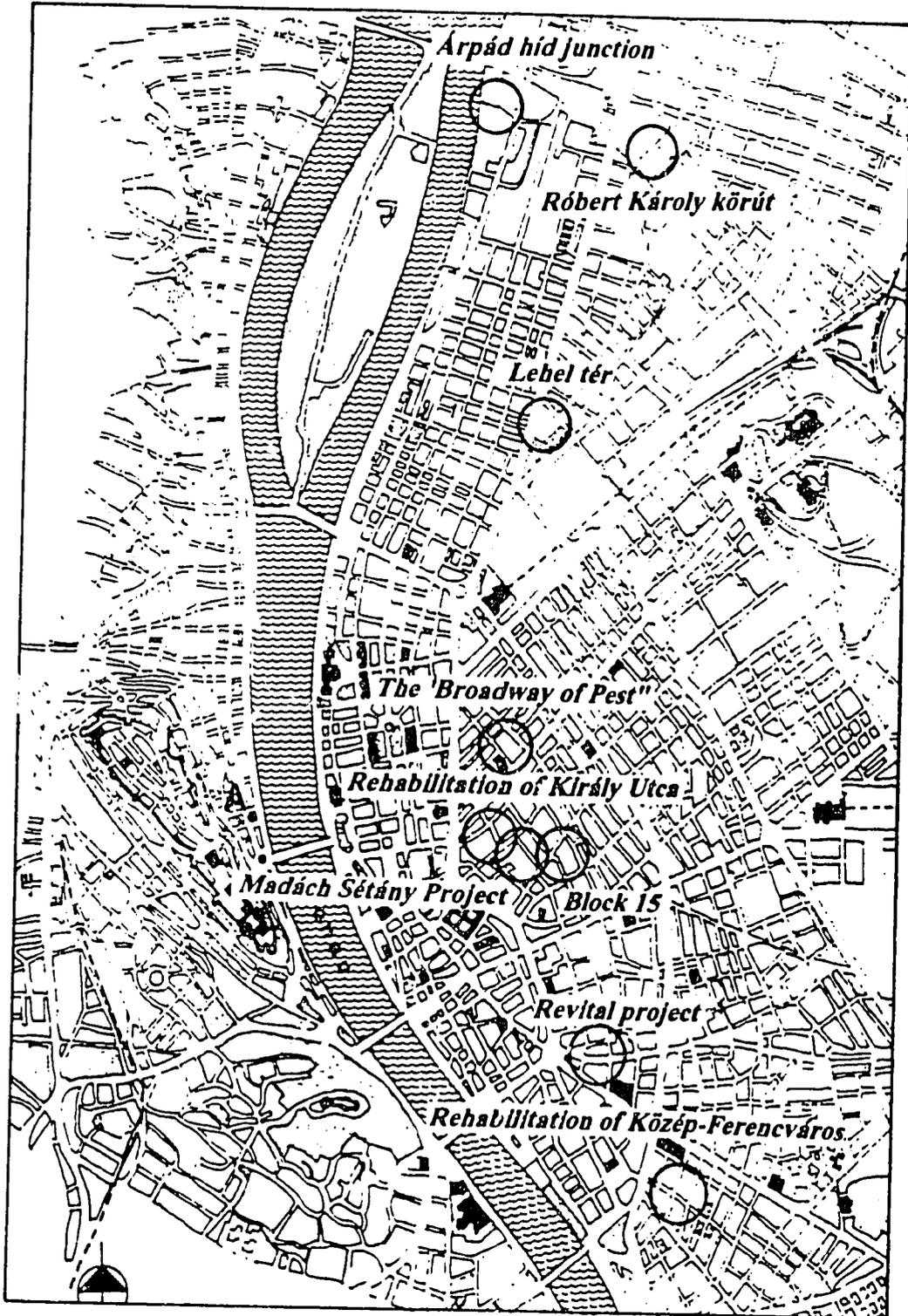
Current Rehabilitation Projects in the Inner City Districts

A number of recent, current, and planned rehabilitation projects (see figure 3) in the inner city districts illustrate the variety of approaches and the changing circumstances that those who undertake such projects are facing.

Block 15 in District VII

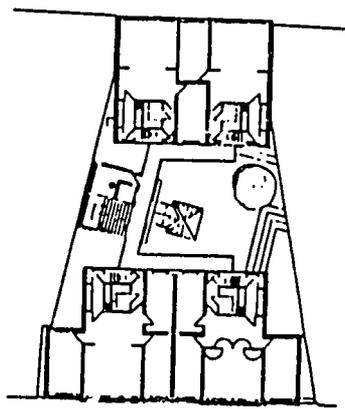
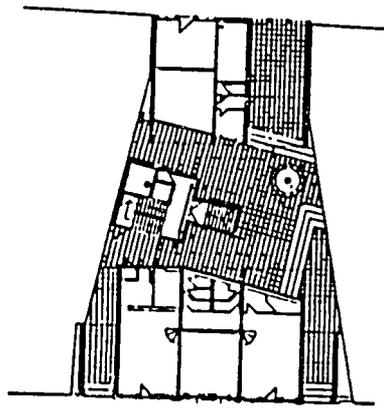
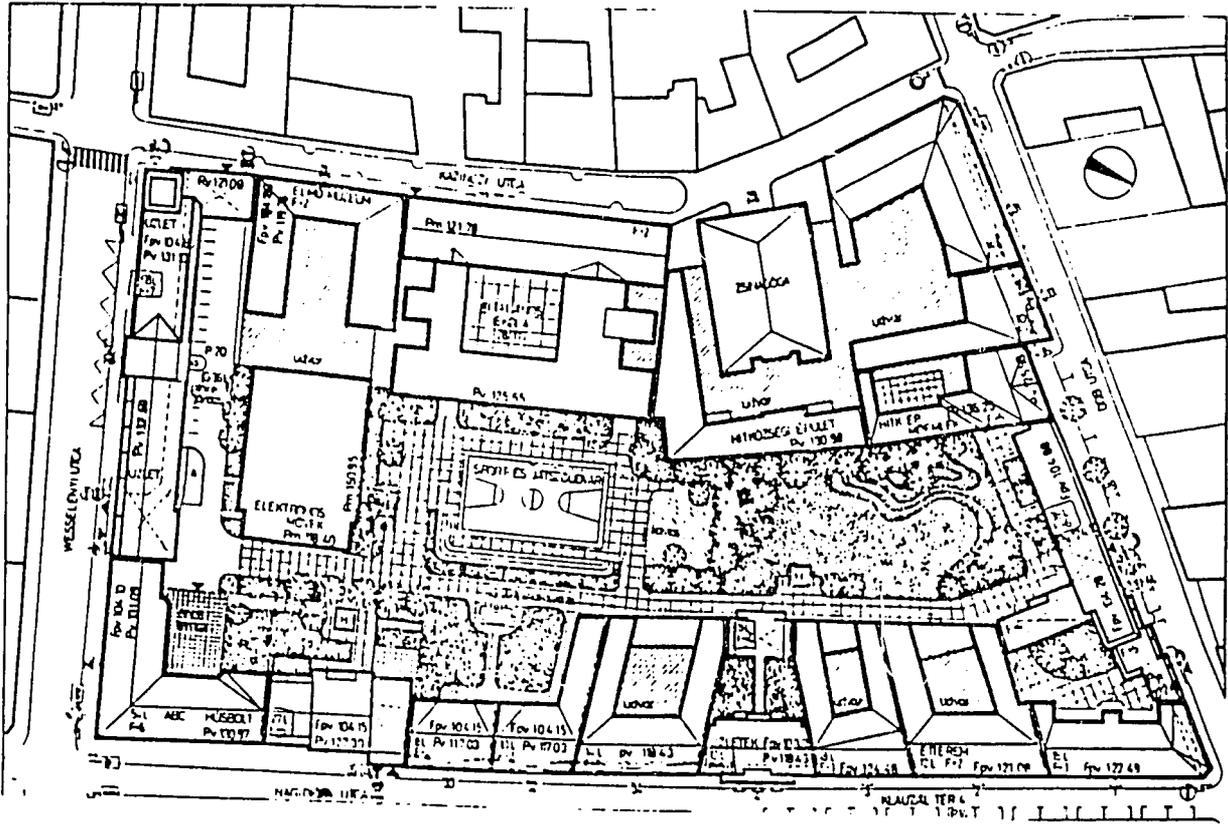
The reconstruction of Block 15 (see figure 4) in District VII was one of the first examples of rehabilitation. It was completed with the use of state funds and the concentrated efforts of many years. The original plan suggested that the continuity of works could be assured by providing permanent shelter for those who had to move

Figure 3



**REHABILITATION PROJECTS
OF BUDAPEST INNER CITY**

Figure 4



BLOCK 15

out due to works of construction and by moving the tenants of the next block into the just completed one. Construction would have proceeded from block to block this way. Since then it has become clear that the same level of rehabilitation of further blocks is no longer affordable. Despite this, two thirds of the new residents of Block 15 consist of former tenants of the neighborhood. The remaining one third got their flats through central and district flat distribution. The new tenants are presumed to be satisfied, as they pay rents that cover a fraction of the market value of the flats and therefore obviously made a good deal. Surveys show, however, that the new tenants do not entirely see their moving in as a success, criticizing the quality of work and the environment. It can be stated that even a project of this high quality does not necessarily result in the satisfaction of the tenants. This implies that the social profit of the investment may not be worth the capital that is invested by the public.

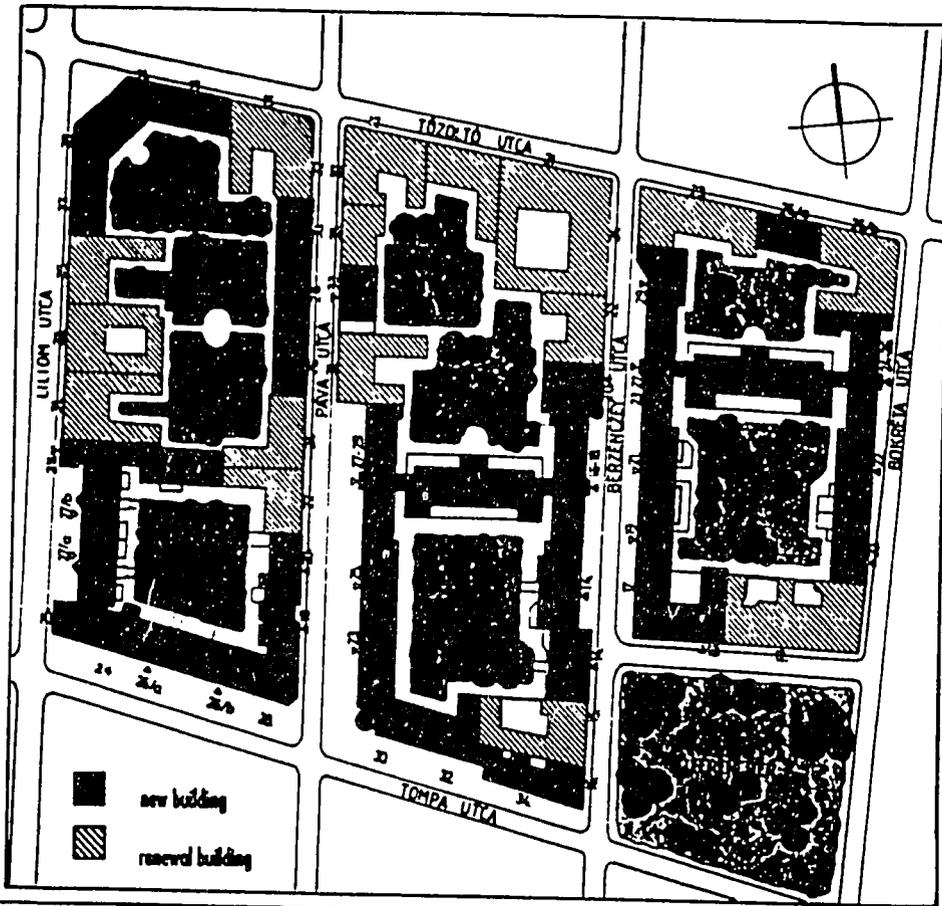
Due to the demolition of buildings and the connection of flats to each other, 143 flats have been eliminated. State-owned buildings containing flats of 42 square meters of area and lacking basic amenities have been renovated. New flats of 68 square meters of area with comfort facilities have been formed in buildings where ceilings had to be replaced. The original plan contained the construction of sub-surface parking facilities in the blocks, but this has not been realized due to the lack of funds. Parking is a major problem of the area. The cost of the rehabilitation of the block was 650 million HUF, including new construction on two empty lots.

The rehabilitation of Közép-Ferencváros, in District IX

Works of rehabilitation and reconstruction are currently in progress in the area surrounded by Ferenc körút, Úllői út, Hámán K. út and Mester utca, that is central Ferencváros (see figure 5). The planning of reconstruction was begun in the last years of the 1970s on the commission of the Capital but on the initiation of the district. The physical plan calculated that approximately one third of the 10,700 flats in the area were to be demolished and these would have been replaced by 4,350 new flats built in the same places or on empty lots. The original plan that relied on state and district funding only was replaced by the "private multi-level estate-type" solution financed by the OTP. Preliminary responses to newly built buildings were positive. A considerable interest has been shown by foreign sources as well in the information office opened in the new housing block near Tompa utca. Flats that are far from luxury but are nice and have good base plans are considered to be good by the public.

The cost of construction was 32-33 thousand HUF for a square meter in 1989 and 41-42 thousand HUF in 1992, while the price of sale rose from 42-45 thousand HUF in 1990 to 51-55 thousand in 1992. The investor was first concerned about the decision on the size and the price of the flats. Despite the relatively high price, most of the flats have been purchased. The experience is that "bachelor's flats"

Figure 5



	Rehabilitáció előtt Before rehabilitation	Rehabilitáció után After rehabilitation
A három társas terület Area of the three blocks	35700 m ² 35700 m ²	35700 m ² 35700 m ²
Közös zöldterület Common green area	0	13610 m ² 13610 m ²
Lakások Number of flats	533 db 533 pcs	743 db 743 pcs
Gépkocs-parkolóhely Car parking place	171 db 171 pcs	356 db 356 pcs
Parkolóhely lakásonként Parking place/number of flat	73% 73%	49% 49%
Átlagos lakóterület Average ground space of flat	41 m ² 41 m ²	57,5 m ² 57,5 m ²
Tüdőszoba nélküli lakás Number of flat without bedroom	33 db 33 pcs	0
Lakások új épületekben Number of flats in new buildings		468 db 468 pcs
Lakások felújított épületekben Number of flats in renewed buildings		275 db 275 pcs
Üzletek új épületekben Number of shops in new buildings		57 db 57 pcs
Üzletek átépítve új épületekben Ground space of shops in new buildings		3337 m ² 3337 m ²
Irodaház átépítve új épületekben Ground space of offices in new buildings		6111 m ² 6111 m ²



KŐZÉP-FERENCVÁROS

(efficiencies) are the most popular. Based on the sales of the flats and the purchasing power of those moving in, remaining empty lots were used for the construction of bachelor's flats by *Quadrat Co.*, the company that built the original buildings.

Rehabilitation of old buildings in the area was not based on the market but on the state rental stock system. Fourteen buildings were fully rehabilitated including the replacement of the engineering system and the modernization of all the flats (increasing them to comfort level). Alternative shelter was provided for the residents of the buildings in the first phase but recent construction has been done without the relocation of the residents. Relocation is permanent if the renewed flat differs in its area from the original by more than 30 percent. The rate of permanent relocation varies in each building and depends on the depth of renovation. The rehabilitation of the building was subsidized by the Council of Budapest in the form of a 60 million HUF allowance. Since the termination of the subsidy work has been slowed down. Construction is now financed from the rehabilitation funds of the local governments. A French-type Urban Development Association, *SEM-IX Rt*, has been established for the first time in Hungary, for the renovation of neighboring blocks.

This enterprise was formed with a capital of 70 million HUF. The district holds a 51 percent share in the company, while the rest is shared by the French CDC Deposit Bank and OTP. A representative of the French bank claims that their share is provided from banking and foundation sources and is related to the technical assistance program of the French Government. The company's object was defined as the development of the area, and the preparation of investments and construction works in the district, but operation outside the district has also been made possible. Objects of the project include construction of a high school and rehabilitation. The use of French methods in Hungary has been accentuated, as well as the assistance the French can give to local partners.

According to one of the representatives of the local council, the primary object of the project is to open up the area for future foreign and Hungarian investment. The second object, important for the district, is to ensure the adoption of French know-how and institutional background for the works taking place in the district. (It was common that investors sought contact with committees and members of councils as well as mayors, who were not at all prepared to make decisions in the matter.)

SEM-IX Városfejlesztő Rt was commissioned to complete the reconstruction of buildings on 76 lots in *Ferencváros*, in cooperation with other companies. The whole area of investment is transferred to the company, according to the contract. The first task is the preparation of the physical plans and a study of the possibilities of realization. The company continues the work of administration as prescribed by the law, purchases the real estate, prepares physical plans and completes the deal that

could be the sale of the lot as well as the rehabilitation of the building. It does not arrange construction and sales itself, unlike French companies. The company is responsible for the financial success of the enterprise. The share of risk is determined by an agreement between the local government and the company.

According to plans of SEM-IX Rt, 200-300 flats will be renovated and 200 would be demolished in the area of Ferenc Square. Development on the 55,000 square meters area freed after demolition would result in approximately 1,000 new flats and some offices and shops. Tompa utca would be turned into a promenade in the first phase and Ferenc tér, one of the nicest squares of the city, would be revitalized. The renovation of public areas and the rehabilitation of neighboring blocks may bring an increase in the value of the area and the process of gentrification may reach it as a natural conclusion of rehabilitation.

Madách sétány project, in District VII

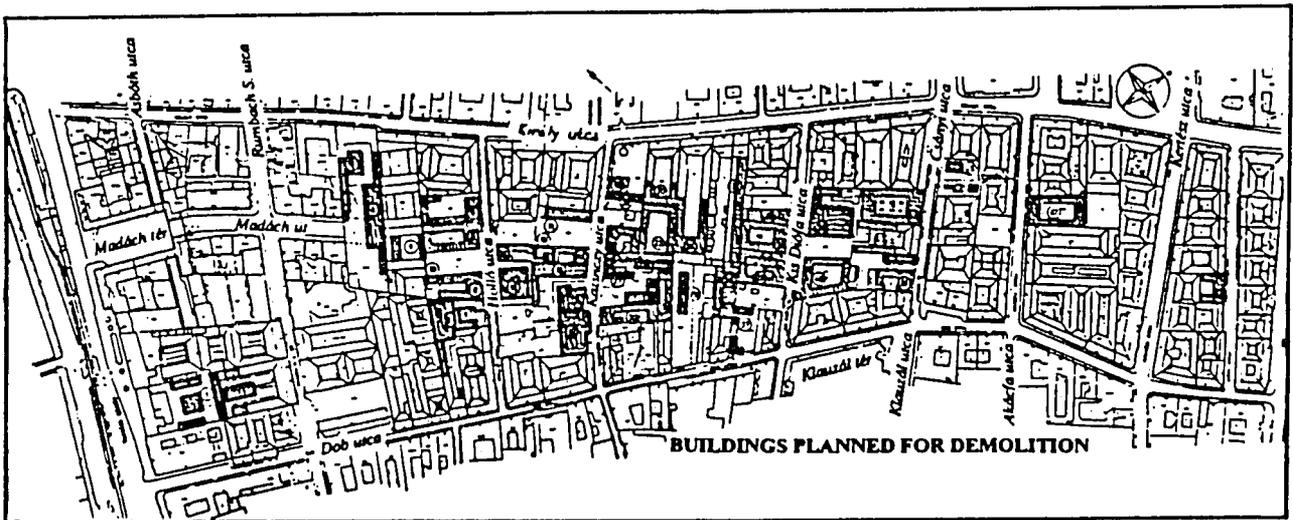
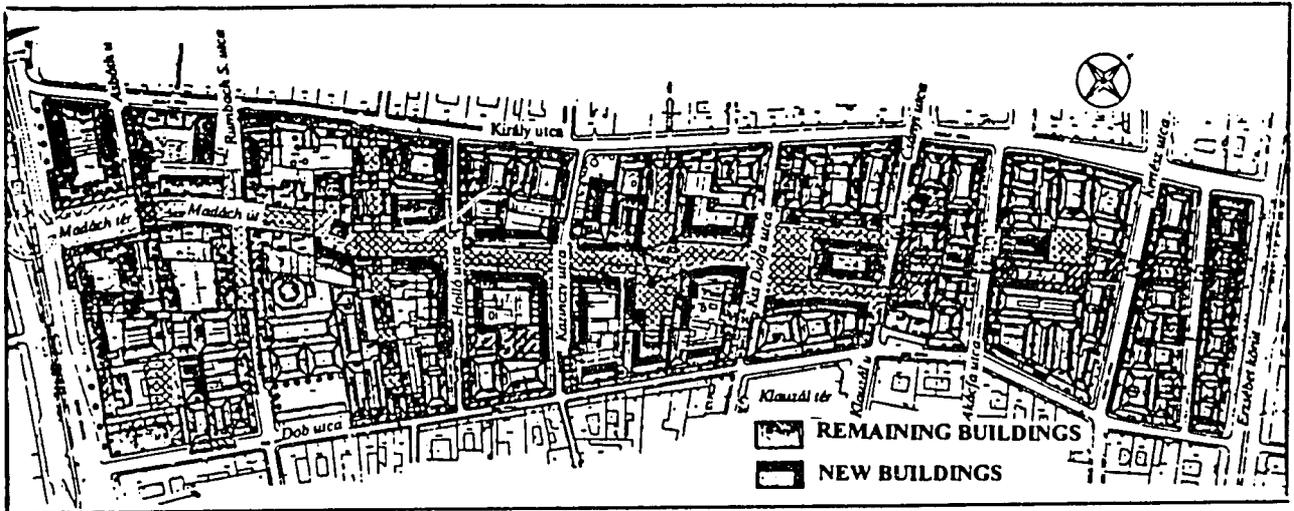
The project of Madách sétány (see figure 6), one of the most grandiose of the plans, belongs to District VII and not the City. Its effects may be far reaching, however. It apparently undertakes the use of the potentials of the area with a change of function. The densely built area of Central-Erzsébetváros would be turned into a business district.

The idea of Erzsébet and later Madách út was introduced in the first decade of the century. The concept was that a new road would serve as a main road of Erzsébetváros with multiple functions. The preparation of several plans was followed by the first phase of the project due to a situation that pressured the beginning of the construction: the City Council and the Committee of Public Works encouraged the preparation of plans because of the application of Orczy-ház Rt for a building license. The short completed section of the road was a scene of market-oriented housing works. The Civic Association of Erzsébetváros applied pressure on the council to open the new avenue, without apparent success, because decisionmakers did not find the project useful for the whole of the community.

The general plan of 1960 recommended the completion of the avenue as a main road that would take the burden off the downtown area. Its role was gradually suppressed in later plans. Block rehabilitation avoided the area and in concepts of the rehabilitation of the city Madách út was the example of the thesis that large scale rehabilitation cannot be put as burden on block rehabilitation.

The relation of the rehabilitation of the city and the completion of Madách sétány was once again articulated in 1989 due to the interest foreign sources showed towards empty lots. The idea of the road was rejected because its connection to the system of roads on its ends was not solved adequately, therefore the project of Madách sétány was accepted. A promenade that would be as beautiful as Váci utca

Figure 6



MADÁCH SÉTÁNY PROJECT

was outlined by the architects. It would contain renovated buildings of the secessionist style and new office and trade buildings. On one end it would be connected to Váci utca through the opening of the courtyard of the Town Hall and on the other it would be connected to Nagykörút through a closed shopping passage. Traffic would be directed to Király utca and Dob utca, and these streets would serve as the promenade's links with transport.

The acceptance of the plan was preceded by a serious debate of experts. It is not accepted by everyone that the revitalization of broken down areas can only be solved by an intervention of this size. Some claim that the project disregards the current structure of the city. Those who are against the project say that the promenade will not be available for those who approach it by car. The promenade demolishes a quarter that has a heritage of its own, results in a great change of population, and creates a closed area if the development of neighboring areas is not continued.

The plan was accepted by the City Council in 1990, when the representatives of the districts forced it. Madách Kft was formed and studies on possible realization were prepared. The project was taken over by the district as a result of the new regulations of local government, that gave the political and financial responsibilities to the district councils. The council of the district will decide upon the realization of Madách sétány. Leaders of the city may apply some pressure if they find the project useless for the city community as a whole.

Leaders of the district tend to disregard expert opinions, as they see this kind of development as inevitable. It may ruin the structure of the area and it may bring about a complete change of population, but it initiates the process of gentrification. This is the object of district leaders and they hope that the development will not remain restricted to the area but will bring improvement to neighboring areas as well.

The detailed plan of 1990 (prepared by Pomsár János of TTI) claims that new construction is possible in the area of Rumbach S. and Csányi utca. This would create approximately 300 new flats with 350 thousand square meters of area after the demolition of temporary buildings. Estimates suggest that incomes would be sufficient to finance the rehabilitation of the remaining 2,300 flats of the area. Madách út would be continued in the form of passages between Nagykörút and Csányi utca. No new constructions would be possible here. The rehabilitation of the whole area stretching to Nagykörút would cost 6.5 billion HUF. The development of infrastructure demands 2.2 billion HUF. In order to relocate residents, 560 flats would have to be built or purchased.

A survey carried out among area residents (Tosics, Kovács, 1992) found that residents of buildings marked for demolition intend to remain in apartment buildings. Of these, 74 percent would like to live in the same area or at least remain in the

district, 39 percent demand a larger flat and would pay more, and 49 percent would like to have a flat of the same value. Out of the 250 questioned, 9 would not like to move out. The survey identified quite a large group (30 to 35 percent of residents) that viewed the Madách sétány positively, while only 15 percent of residents sharply opposed the plan.

Data from the last plan were the following:

Data on the project	
Apartment buildings to be demolished:	25
Other buildings to be demolished:	23
Number of flats eliminated:	716
New lots:	29
Flats to be renovated:	1,430
Total area (m ²):	83,000
New shop area (m ²):	8,900
Estimated cost of rehabilitation (1,000 HUF) (estimated in 1990)	
1. Demolition:	361,000
2. Amenities:	221,600
3. Transport:	68,500
4. Environmental design:	113,900
5. Communication:	59,000
6. High-rise building construction rehabilitation of flats:	3,790,300
Basic institutions:	220,800
7. Alternative shelter:	1,365,000
TOTAL	6,200,100

The Local Government accepted the schedule of the realization of the project and commissioned Coopers & Lybrand Kft to prepare a feasibility study and to manage development.

The concept is that lots for high quality housing should be created and marketed to cover the costs of the rehabilitation of the quarter. The Local Government does not have sufficient funds to start the project and, therefore, hopes that banks will be willing to grant loans sufficient to start the project, based on the guarantee represented by the Coopers study.

Construction has begun on the first block of the promenade. The double office building of Madách Trade Center, built by a joint Austrian-Hungarian enterprise, will be the first completed. The new complex will incorporate 12 thousand square meters of office and shop premises. The total value of the project will be around 1.3 billion HUF.

Plans for the rehabilitation of Király utca and its neighborhood in District VI

District VI did not receive any central subsidy for the initiation of rehabilitation, so it prepared a self financing proposal as early as the 1980s. The physical plan of the rehabilitation of Block A was prepared but it has not been completed due to the resistance of local residents. At that time, concepts dealt with the area surrounded by Király utca, Anker köz, Bajcsy Zs. utca, Paulay utca and Káldy utca. Apartment houses were planned to be built on empty lots. Majakovszkij utca would have been turned into a promenade. Concepts have changed since then. New techniques of financing were brought by the new financial rationales. A prohibition list was established as the Local Government realized that privatization may be an obstacle in the way of rehabilitation. Peter Lantos, the Chief Architect of District VI, said about the prohibition list that "ownership forms, value of buildings, quantity and quality of flats, concepts of master and detailed structure plans for the area have all been taken into account."

The concept of the rehabilitation of the four blocks is that contracts are not made on individual buildings or lots but on the development of the whole area. The Local Government has created a company of mixed ownership, named Teréz-Invest, that is half owned by the French CDC bank. The capital of the Kft was 10 million HUF and the share of the local government is provided in the form of physical plans. The task of the company is to prepare a feasibility study on the project of the rehabilitation of the four blocks and to manage and finance the works. The concept includes linking incomes (coming from the utilization of empty lots, empty buildings, areas of development and first story premises) with the renovation of flats.

This program relies on gentrification, although it does not demolish flats in great numbers and does not plan to initiate a change of population as in the case of Madách sétány and Ferencváros. The change of population is likely to take place gradually as costs will rise following renovation, assuming that the rental system changes by then. The success of the program, as in all the other cases of this kind, greatly depends on how many investors can be attracted to finance the project. The blocks of District VI and Madách sétány in District VII are neighboring areas. Managers of these projects are not averse to cooperating, although they are natural competitors. If both projects succeed, a large rehabilitated area comes into being. If the projects fail, closed rehabilitated areas will be formed and these will not be able to initiate a rise in the value of property.

The "Broadway of Pest" in District VI

A number of theaters and entertainment facilities can be found in the area of Nagymező utca, but these are lacking other services. According to the concept this area may be turned into a real entertainment district with investment in infrastructure and the creation of quality cafés and studio theaters. The realization is expected to be based on entrepreneurial capital, but the cooperation of District VI and the City Council is needed as well. The main proprietor is the district but theaters are owned by the municipality. A detailed survey of the area has been prepared. The proposal on the realization of the project has been discussed by committees of the district and the capital, but it will have to be accepted by both councils. Physical plans may only be submitted after this. The municipality has to prepare the cultural concept by then, as it is needed for further action. Even the physical plan would not guarantee the "dream" quarter's realization, according to the chief architect of the district and the chairman of the Committee of Urban Development, because proprietary conditions and regulations do not allow the exclusive existence of the prescribed entertainment units in the area. Realization would be exceptionally expensive and the owners of units would not necessarily be interested in settling down here.

District VIII

There have been entrepreneurial attempts at rehabilitation in the district. A rehabilitational engineering department has been formed independently from the IKV to organize construction works in the 1980s. Physical plans concerning territories that were in the need of rehabilitation (Nagykörút, Baross utca, the former Mező I. út and Üllői út) have been prepared by 1990. Although their intentions were to preserve values, the plans marked points where commercial development was possible. These were all by the side of main roads:

- Horváth Mihály tér
- the area of clinics by Üllői út
- the area behind Corvin cinema

Sketch plans were ordered by the rehabilitational engineering department to discover what the level of possible development was, according to the urban development plan and the accepted level of density and environmental data. These plans were handed in and were planned to be evaluated. They were hoped to determine the actual policy the local government had to adopt to encourage enterprise in large areas.

This experiment was stopped at this point, however, for several related reasons. Architects who prepared physical plans could not find experts who would

have done the evaluation (a feasible study would have been needed) and financing was problematic.

Leaders of the district have prepared the material for the tenders of the utilization of 15 blocks, in order to initiate the beginning of rehabilitation. They expected foreign and Hungarian investors to show interest. All the 15 blocks were located in the central part of the district, close to the center of the city.

The authorities of the district and an Austrian-Hungarian company, named Revital Rt formed a joint venture for the development of these blocks. The local government's share consists of the empty lots. The local government is expecting a bigger profit that is guaranteed by the partner's reputation and the project itself, the construction of a hotel in this case. Revital Rt renovates the two buildings on the lot owned by the authority. This program came to a halt despite the initial impetus it had, due to the resistance of the residents in privately owned flats. There were no further applicants for the complex utilization of the other blocks as potential entrepreneurs are more interested in empty lots.

A detailed physical plan was prepared concerning the future of the central parts of the district. This plan took into account financial factors as well as architectural ones. The area is outside Nagykörút and has a positive role in the structure of the city. It is not as densely populated as Erzsébetváros: one story buildings and empty lots can be found alternating with multi story tenement houses. Architects concentrated on preserving the original atmosphere of the quarter, the air of corner pubs. The proposal uses market-oriented rehabilitational models, on the other hand. Its basic point is that rehabilitation has to take place in an improved urban environment to be able to preserve the housing stock of the area. Financing would not be exclusively based on the potentials of the inhabitants but the project would like to attract enterprise. Potential investors are not only private entrepreneurs but insurance companies and pension institutes as well. Béla Ó Varga and Ildikó Vasi recommended the foundation of a Rehabilitational Fund for the management of the project.

This fund would serve as a general financial background and it would serve the financing of projects and loans, whereas companies would be responsible for realization. The assets of the fund would consist of the real estate owned by the local government and incomes of privatization as well as donations from foundations, for example. The foundation has to be self financing. A board of managers would be responsible for its management and board members would be interested in functioning efficiently. Its tasks would include the setting up of a database and its maintenance.

'The proposal would like to find a solution that is based on gentrification and relies on the heritage of the past of the district and does not wish to force its ideas about development on the district.' (Dániel)

District XIII

No plans of rehabilitation are presently being undertaken by this district, as authorities are struggling to solve the problem of relocation of those whose homes are demolished.

Projects of urban development exist in the thoughts of the chief architect of the district, but these hardly take place in reality. The district does not grant any subsidy. The only part it takes is that it has physical plans prepared for the areas that may attract investors (but this is generally only after the first investor expresses its interest). Development may or may not be started, but the district is not concerned.

In Lehel tér and the surrounding areas, construction is taking place in a couple of empty lots and some buildings are being reconstructed. The tender conducted on the reconstruction of the Lehel marketplace was successful, and plans include a market, parking facilities, commercial and office areas; the project may include the reconstruction of the park. Construction of MÁV in the place of West-End yard belongs to District VI but it is related to this area as well.

Róbert Károly körút is a part of the outer boulevard and it is a first priority area of development as it is included in the concept of the development of the boulevard. The renewal of the boulevard itself has been done, so the next step is the renewal of the surrounding building stock. Two new office blocks and the reconstruction of DOMUS have been completed near Lehel út and the building license is to be issued on the empty lot on the corner, where Michelfeit is planning to build a furniture store. The construction of the Honvéd hospital and the reconstruction of the Nyíró Gyula hospital belong to this area. The local government, with great financial sacrifice, has emptied and partly demolished buildings in the area in order to make way for expected construction. Investment seems to have come to a halt, though, and these investments of the authorities seem to remain without profit. With newly-cleared but undeveloped empty plots dotted along the way, the boulevard is likely to be even more snaggle-toothed than before.

The area around Árpád Bridge was marked as the future center of the area in the previous general plan of urban development. Development did not start, however, except for the reconstruction of the Hétház, facing Váci út. The southern part of the intersection is included in the physical plan of the Árpád sétány. Physical plans of the northern part of the intersection are under preparation currently. These plans will include the rehabilitation of neighboring blocks. Plans were ordered to be

prepared because the Budapest Police Department will be placed here. A building license for the project will be issued shortly. This area will be the location of a high school for non-Hungarian students and the new wing of the building of the Social Insurance Agency. The physical plan includes parking facilities, commercial buildings and apartment buildings, both new and reconstructed.

The physical plan of Árpád sétány was prepared to use the bank of the Danube, as this area is seeing an increase in its value. The plan includes the section of the bank stretching to Árpád híd. Main points include the extension of the quay road and a green zone and promenade system by the bank of the river. Hotels and sport facilities have been concerned as objects of investment. These facilities are in different phases of realization. The district would like to cover the costs of the construction of the road and the parks based on the income from investments.

CHANGING CONDITIONS OF REHABILITATION

Previous chapters of this paper have laid out the past and present regulation, conditions and practice of inner city urban housing rehabilitation in Budapest. Many of these conditions will be changed when the new Rental Housing Act passed by Parliament in July 1993 is implemented in early 1994. This Act, especially the new regulation of privatization (taking effect in January 1994 if not invalidated before that by the Court of Constitution) creates a totally new situation for rehabilitation.

The increased pressure on local governments to sell both residential and non-residential units at discounted prices, along with certain restrictions on the use of those revenues means the loss of considerable revenue to the districts and a reduction in control over the rehabilitation process.

No one can really predict at the moment the magnitude of changes in the tenure structure due to the new Act. The current share of rental units of 40 to 75 percent in the inner city of Budapest will probably decrease to a level of 20 to 40 percent. An even more dramatic change, however, will occur in the changing number of rental and condominium buildings. Because of the compulsory formation of condominiums (local governments must convert the apartment building into a condominium even if only one residential or commercial tenant wants to buy) it is most likely that almost all buildings will be turned into condominiums. The majority of commercial tenants, for example, will buy their units, and according to draft calculations in the inner city districts 80 to 90 percent of houses have at least one commercial lease.

There are very narrow possibilities left for local governments to keep buildings on prohibition lists. The main possibility is the existence of concrete plans for rehabilitation, but, as we have discussed in this paper not all districts had prepared

their plans for rehabilitation by July 1993. Future plans will not enable the district to circumvent privatization.

Thus, as a consequence of the new Rental Housing Act districts will face a situation within a short time in which the majority of houses in potential rehabilitation areas are turned into condominiums, in which case the power of the public hand is much more restricted, and, in fact, in cases of major renewal the district will totally lose its decision making position. A decrease in the number of public rental units will lead to a situation in which possibilities for social housing policy (rehousing families in substandard housing or dealing with the homeless, for example) will be very much constrained. Furthermore, a sharp increase in segregation is very likely to occur: buildings with a majority of medium and higher income families will quickly be privatized and most inhabitants will vote for a higher management fee, pushing out lower income families who will be unable to pay these fees. On the other hand, middle income families in run down neighborhoods will decide instead of buying their flat to move to better areas, accelerating the "ghettoization" of some parts of the inner city area.

The only good news in this situation for the districts is the short term increase of privatizational revenue. Half of this money will remain at the districts' disposal and can be used for renovation or the construction of new municipal flats. The other half will be redistributed through the municipality and this money, most probably given to the districts with the largest amount of deferred maintenance, can solely be used for rehabilitation.

In this situation district governments have several short term tasks, the most important of which is the establishment of a local housing act (setting the rules for privatization) by the end of 1993. However, they must also think about comprehensive new local housing strategy, as by the middle of the next year the moratorium on rent increases will end. In this situation it is very important to have a comprehensive view of the local housing sector, including new rent policy, housing allowances, privatization strategy, and ideas about the reformulation of housing management. Besides all these, districts must also reformulate their rehabilitation strategies, opening up their approach to freshly privatized condominiums, and try to establish methods which create favorable circumstances for condominiums to join district oriented rehabilitation plans.

The municipal government of Budapest was given an important role in the regulation of rehabilitation. Before the end of 1993 a municipal decree must be passed including the rules to set up the Housing Fund collecting half of the districts' privatizational revenues. According to preliminary ideas the municipality will introduce a block-grant system. A formula will set the redistribution of revenues, concentrating the money on those districts where deferred maintenance is substantial, the district has lower revenue from its assets, and the population is

poorer. Within the given quotas, each district will have the opportunity to receive money for three types of urban renewal, including upgrading of slum areas, and investment into buildings that will remain rental buildings in the longer term.

The tasks listed above are quite different from those the districts and the municipality have had to face until now. Local governments need to be prepared for these new tasks, and technical assistance could help them to develop their own solutions to the emerging problems. It may be that these new ideas will only be carried out by the next local government (i.e., after local elections in Autumn 1994) and there is also a chance the recently district-dominated power relations between the districts and the municipal government of Budapest may change in favor of the municipality. While moving ahead will be more difficult than usual due to these uncertainties, the immediate tasks are urgent and important. The compulsory local decrees passed now will strongly influence the future of the inner city and can lay the foundations for an integrated and rational rehabilitation strategy.

REFERENCES

- Kenneth Baar. *Hungarian Land Use Policy in the Transition to a Market Economy with Democratic Controls*, 1992.
- Budapest Rehabilitációs Konceptió Tervezete Hilepetfeltárás, Konfliktuselemzés. (Proposal for Budapest Rehabilitation.) BUVATI, 1992.
- Capital City Council. *Rehabilitation of Inner Areas of Budapest*. 1990.
- Dániel, Zsuzsa. Hozzánólás Varga Ö Béla és S. Vasi Ildikó. "Javaslat a Fővárosi rehabilitáció finanszírozására Józsefváros Példáján." (Comments on the Proposal for Financing Rehabilitation in Józsefváros.) 1992.
- Devianszky Dr. Molnár, Katalin. *Legal Background of Rehabilitation*. 1992.
- Dowall, David, Katharine Mark, Iván Tosics. *Assistance in Urban Planning and Development: Report of Field Mission to Budapest*. 1992.
- Hegedüs, József, Gábor Locsmandi, and Csilla Sárkány. "A fővárosi városrehabilitáció programjának gazdasági finanszírozási és szociológiai háttere." ("Financial and Sociological Background of City Rehabilitation in Budapest.") Metropolitan Research Institute, 1992.
- Hegedüs, József and Iván Tosics. "Gentrification in Eastern Europe: The Case of Budapest." *Urban Housing for the Better-Off: Gentrification in Europe*. Editors: Jan Van Weesep and Sako Musterd. Stedelijke Netwerken. 1991.
- Hegedüs, József and Iván Tosics. "The Evaluation of the Process of Inner City Rehabilitation in Budapest." CIB Proceedings, Publication 118, *Housing Evaluation*. 1989.
- Law on Local Government (Act no. LXV of 1990) Hungary
- Linfield, M., P. Baross, J. Hegedüs, K. Zsámboki. *Alternative Mechanisms for Financing Urban Renewal in Budapest: The Case of District VI*. 1992.
- J. Roncken, P. Baros, R. Hagens, J. Pleeging, F. van Wilgenburg, J. Hegedüs, I. Tosics. "Research and Training Project on Housing and Urban Renewal in Budapest." 1992.

Tosics, Iván and Robert Kovács, 1992. "A lakosság a Madách sétányról" (Reactions of Residents to the Plan for Madách Sétány). Metropolitan Research Institute, 1992.

Varga Ö. Béla and Ildikó Vasi. *Középső Józsefváros Részletes Rendezési terve.* (Comprehensive Plan of Middle Józsefváros.) 1992.