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**CONFERENCE REPORT**

**INCLUDING PRESENTATIONS AND HANDOUTS**

eds N A Bongwa, K Z Stachowiak Bongwa, M R Brown

**INTERNATIONAL CONFERENCE  
ON URBAN RENEWAL  
AND HOUSING REHABILITATION**

**Szczecin, Poland  
May 22 - 24, 1997**

**Conference Sponsors**

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International Development (USAID)  
Municipality of Szczecin

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Urban Development Strategies  
Advisory Group  
(UDS)

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## **PREFACE**

The Municipality of Szczecin wishes to thank the organizers and participants of the Conference on Urban Renewal and Housing Rehabilitation of the 22-24 May 1997 for their contributions made in presentations and workshop discussions

Earlier conferences on urban renewal in Szczecin as well as in other municipalities (Lublin, Cracow, Bielsko Biala and Katowice), created a network for exchange of information. They also helped to put the subject on the political agenda. The Sejm, the Polish Parliament, started in 1997 to discuss a draft Law on Urban Renewal. A National Housing Fund which provides loans for renovation projects was also created by the government in 1997.

Local governments on their part have also developed a wide range of financial and organizational models for revitalization of their old areas. Special local agencies have been established. The instrument of the so-called TBS (housing associations) has been explored.

Obviously we will have to continue to share experiences and to go on with the lobby for legal and financial state support for urban renewal.

I would like to thank USAID, not only for supporting this conference but in general for being so very active in the housing sector in Poland, with a special focus on not-for-profit housing, housing policies and urban renewal.

I would also like to thank the firm Urban Development Strategies Advisory Group (UDS) from Szczecin for organizing the conference and putting together the conference report, that is lying in front of you.

**Piotr Mync**

Deputy Mayor  
Municipality of Szczecin

## ACKNOWLEDGMENTS

This volume contains the proceedings and a collection of the papers presented over the three days (May 22 - 24, 1997) of the International Conference on Urban Renewal and Housing Rehabilitation in Szczecin

Special acknowledgments go to those who played an essential role in making this publication possible: Mr Michael Lee (USAID, Poland), Mr Mark Brown, Mrs Martha Sickles Grabowska, Mrs Ewa Strumiłło Kudlak, (PADCO, Poland), Mr Piotr Mync (Deputy Mayor, Municipality of Szczecin), Mr Jerzy Krawczyk (Deputy Mayor, Bielsko Biała), Ms Mariola Polak Opyrchal (City Development Office, Bielsko Biała), Mr Krzysztof Skalski (Krakow Real Estate Institute), Ms Ewa Kipta (The Municipality of Lublin), Mr Jacek Lenart (Studio A4, Szczecin), Mr Grzegorz Zimnicki (ATRIUM, Szczecin), Mr Zbigniew Paszkowski (URBICON, Szczecin), Mr Janusz Zylka (Ministry of Housing and Urban Development, Poland), Mr Max Jeleniewski, Ms Carley Pennink (Institute for Housing and Urban Development Studies, Rotterdam, the Netherlands), Mr Nicholae Taralunga, Mrs Sorina Racoviceanu (Institute for Housing and Urban Development Studies, Bucharest, Romania), Mr John Driscoll, Mr David Jones (Harvard University Graduate School of Design, MA USA), Mr Pal Baross (KOLPRON, Budapest, Hungary), Ms Csilla Sarkany (Metropolitan Research Institute, Budapest, Hungary), and Ms Janina Kopietz Unger (Municipality of Bad Wilbad, Germany)

Special thanks to Mr Hans van de Sanden and the Renovation Team of the Municipality of Szczecin for their contribution. The same goes for Mr Mark Brown (PADCO, Poland), Mr Zbigniew Becker (Municipality of Szczecin) who spent much time correcting the English version of this publication and to Mrs Katarzyna Stachowiak Bongwa, Ms Halina Orłinska and Mrs Agnieszka Zimnicka who handled the necessary translations.

We also wish to thank the translators and the technical staff of TECHKON, Warsaw, Poland, the support staff: Mrs Anna Stachowiak, Mrs Lucyna Skraba, Mrs Marzena Olszewska and the personnel of "13 MUZ" (the conference location).

To all the conference participants and those who were unable to attend, we hope that the material contained in this publication provides an overview of ongoing approaches, fine examples of projects and debates on the subject. It is our hope that it will also serve as a framework for future debates and exchange of information.

Any error or omission in the text are the editors' total responsibility.

**Ngu Aloysius Bongwa**

Urban Development Strategies Advisory Group

Szczecin, September 1997

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# 1.0

**CONFERENCE BACKGROUND**

## Conference Background

Reversing the trend of physical and social degradation of the core downtown areas, by comprehensive and intensive renovation programs has been and is a top priority for most municipalities in Poland. Because the renewal and rehabilitation strategies chosen by most municipalities (particularly the municipalities of Szczecin, Lublin, and Bielsko Biala) deal with a process scheduled for several years in a constantly changing environment (political, institutional, legal, financial), it is important to monitor their performance, compare the planned and actual results on a regular basis and confront them with the experiences of other cities in Poland as well as abroad.

Looking back at what has taken place so far as concerns the urban renewal process, while a lot has been accomplished in all three municipalities, a lot is still to be done. While these municipalities can boast of some successes, serious issues still need to be resolved.

## Conference Objectives

The conference held in Szczecin resulted from the need to synthesize, analyze, evaluate and present options for future action as concerns the renewal process in municipalities in Poland, within the context of a changing legal and environmental setting, with the following main objectives:

- analyze and compare experiences from Polish municipalities, municipalities from other transitional economies (Romania, Hungary) and other countries (the United States of America, The Netherlands and Germany), with the formulation of the main approaches used and obstacles encountered as concerns the process of urban renewal
- examine current institutional and management options for urban renewal and housing rehabilitation projects and identify best practice options which could serve as examples and guidance to other municipalities
- examine and analyze the possibility of the creation of Public Private Partnerships in Poland and their ultimate role in the renewal and housing rehabilitation process, based on international experience
- look at alternative innovative financing mechanisms for urban renewal and housing rehabilitation used in other countries and the possibilities of their replicability in the Polish context
- analyze and propose possible improvements to the existing and projected legal framework with particular attention to the new law on renovation and modernization of urban areas in Poland
- formulate options and directions for future actions at the local government level (municipal level) as concerns the above mentioned issues

## Participants

The conference aimed at bringing together professionals concerned with the issues of urban renewal and housing rehabilitation from municipalities (various departments), the Office for Housing and Urban Development, universities, training institutions, consulting firms working closely with municipalities on renewal issues or under contract with USAID, architects, planners, sociologists and companies who are actually implementing renewal and housing rehabilitation schemes. In total 91 participants took part in the conference, including three facilitators and two translators.

*(For detailed list with addresses see annex No 1 page 88)*

## Conference Work Programme

After registration, each participant was given a background documents manual which included amongst other

- short version of the renovation strategy in the Municipality of Szczecin,
- draft project of the new law on renovation and modernization of urban areas,
- project summary Lublin's local initiative programme "Initiating Neighborhood Partnership",
- demonstration project in sustainable renovation, Turzyn area, City of Szczecin and background information on institutions and organization of guest speakers

The conference consisted of plenary sessions, a field trip and of group discussions.

The first day was reserved for remarks from the sponsoring and organizing entities and presentations from municipalities in Poland (Lublin, Bielsko Biala and Szczecin). A field trip to blocks No 21, 22, 27 & 33 of the inner city of Szczecin also constituted part of the programme for day one.

The programme for the next two days was divided into blocks representing key issues of concern (Institutional and Management Issues, Public Private Partnerships, Alternative Financing Mechanisms, and the new Law on Renovation). The methodology for these two days was to start with a keynote background presentation, followed by a case study presentation and group discussions. A plenary session ended up the last day to give groups the chance to present the main points of their findings and to allow for broader discussions.

## Proposed Outcome

As one of the outcomes of the conference, the proceedings including background presentations, case studies, summaries of plenary and group discussions are published in Polish and English to further disseminate this information for the use of concerned parties (municipalities, consultants, training institutions etc.) all over Poland and abroad.

# 2.0

## CONFERENCE PROGRAMME

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**THURSDAY**  
**MAY 22, 1997**

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- 08 00 09 00 Registration of Conference Participants
- 09 15 09 30 Official Opening and Introduction to the Conference  
Mr Jakub Dąbrowski
- 09 30 09 45 Opening Remarks by the Conference Co sponsors USAID  
Mr Michael Lee
- 09 45 10 30 Polish Case Study Presentation Lublin's Local Initiative Program  
Ms Ewa Kipta
- 10 30 10 45 COFFEE BREAK
- 10 45 11 45 Polish Case Study Presentation the Municipality of Bielsko Biała  
Mr Jerzy Krawczyk  
Ms Mariola Polak Opyrchał  
Mr Krzysztof Skalski
- 11 45 12 30 Polish Case Study Presentation the Municipality of Szczecin  
Mr Piotr Mync
- 12 30 - 13 30 LUNCH
- 13 30 15 30 Field Trip to Different Renovation Projects in Szczecin  
Blocks No 21, 22, 27, & 33  
  
Coordinators  
Mr Jacek Lenart (Studio A4) and Mr Hans van de Sanden  
Mr Grzegorz Zimnicki (ATRIUM) and  
Mrs Katarzyna Stachowiak Bongwa
- 15 30 15 45 BREAK
- 15 45 16 15 Presentation on Gmina Partnership Programmes  
(PADCO), Warsaw  
Mr Mark Brown
- 16 15 17 45 Plenary Discussions  
Moderators  
Mrs Katarzyna Stachowiak Bongwa  
Mr Zbigniew Becker
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**FRIDAY**  
**MAY 23, 1997**

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- 09 15 10 30 Keynote Background Presentation Institutional and Management Issues  
Institute for Housing and Urban Development Studies, Rotterdam, the Netherlands  
Mr Max Jeleniewski  
Ms Carley Pennink
- 10 30 11 30 Case Study Presentation Romania  
Institute for Housing and Urban Development Studies, Bucharest, Romania  
Mr Nicholae Taralunga  
Mrs Sorina Racoviceanu
- 11 30 11 45 COFFEE BREAK
- 11 45 12 30 Plenary Discussion on Institutional and Management Issues  
Moderators  
Mr Hans van de Sanden  
Mr Ngu Aloysius Bongwa
- 12 30 13 30 LUNCH
- 13 30 14 45 Keynote Background Presentation Public Private Partnerships  
University of Harvard Graduate School of Design  
Mr John Driscoll  
Mr David Jones
- 14 45 15 00 COFFEE BREAK
- 15 00 16 00 Case Study Presentation Blocks 21 & 22, Szczecin  
Mr Zbigniew Paszkowski (Architect from URBICON)  
Mr Zbigniew Becker
- 16 00 16 15 COFFEE BREAK
- 16 15 17 15 Group Discussion  
Moderators  
Mr Krzysztof Skalski and Ms Ewa Kipta  
Mr Zbigniew Becker
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**SATURDAY**  
**MAY 24, 1997**

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- 09 15 10 15 Keynote Background Presentation Alternative Financing  
Mechanisms for Urban Renewal  
KOLPRON, Budapest, Hungary  
Mr Paul Baross
- 10 15 11 00 Case Study Presentation Budapest, Hungary  
Metropolitan Research Institute (MRI), Budapest  
Ms Csilla Sakarny
- 11 00 11 15 COFFEE BREAK
- 11 15 11 45 Case Study Presentation Germany (not programmed originally)  
Ms Janina Kopietz Unger
- 11 45 12 30 Plenary Discussion Alternative Financing Mechanisms for Urban  
Renewal  
Moderators  
Mr David Jones  
Mr Ngu Aloysius Bongwa
- 12 30 13 30 LUNCH
- 13 30 14 00 Keynote Background Presentation the new Law on Renovation  
Municipal Renovation Team, Municipality of Szczecin  
Mrs Katarzyna Stachowiak Bongwa
- 14 00 14 45 Remarks on the new Law on Renovation  
Speaker Mr Janusz Zyłka
- 14 45 15 30 Group Discussions  
Group Coordinators Mr Krzysztof Skalski, Ms Ewa Kipta,  
Mr Zbigniew Becker and Mr David Jones
- 15 30 16 00 Group Presentations Summation of Points  
Mr Krzysztof Skalski  
Mr Zbigniew Becker
- 16 00 16 10 CLOSING ADDRESS  
Mr Piotr Mync
- 16 10 COCKTAILS
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# 3.0

## CONFERENCE PROCEEDINGS (SUMMARIES)

## DAY ONE THURSDAY, 22 MAY, 1997

**Moderators Mrs Katarzyna Stachowiak-Bongwa and Mr Zbigniew Becker**

The focus on day one was on the experiences of Polish municipalities in urban renewal and housing rehabilitation. As was evident from the presentations, there have been some successes as well as some problems.

### Opening Remarks

**Mr Michael Lee** of the United States Agency for International Development  
USAID (conference co sponsors)

The address of Mr Michael Lee of USAID laid a foundation for opening the proceedings of the conference by highlighting the following points:

- there is a crisis as concerns the buildings that need renovation and rehabilitation in Poland. This crisis needs solving immediately without waiting for clear guidance on what to do and what financing is available,
- the financing criteria that are used to measure the demand for renovation and rehabilitation need clarification,
- there is an absolute need for the involvement of the private sector and communities in financing and managing the process of rehabilitation and renovation, although we keep asking how do we involve these people, when the needs are so large, the ability of the owners and occupants of these buildings that need renovation is apparently so weak, capital markets are not well developed, the value of these buildings that need renovation and rehabilitation is often so poor?
- there is a need to show that there are answers to these questions and not to only identify the questions and whine about them,
- the key elements of solving this problem can be listed as follows:
  - creative thinking,
  - imagination,
  - flexibility,
  - responsiveness to opportunities and to needs

*(A more detailed presentation of Mr Lee's remarks begins on page 51)*

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## Polish Case Study

### **The Municipality of Lublin Local Initiative Programme**

Ms Ewa Kipta

Ms Ewa Kipta of the Municipality of Lublin presented Lublin's Local Initiative Programme "Initiating Neighborhood Partnerships", which received international recognition from UNCHS/Habitat as one of the twelve best practices in improving the living environment out of 600 nominated world wide. The Lublin programme highlighting the following points

- participatory planning and community development processes adapted to the dynamics of the local economy can ensure the sustainability of the revitalization efforts with diminished public inputs
- frameworks for participation and empowerment that structure the city/community interface and promote public private partnerships shape operational strategies integrating economic revitalization and environmental upgrading at the community level

To improve the quality of life in Lublin's neighborhoods the program focused on introducing participatory planning and citizen involvement in implementation through neighborhood development committees and street representative working in partnership with the City,

- ❖ creating an enabling environment for private investment,
- ❖ empowering citizens to pursue their own self improvement,
- ❖ promoting privatization in the housing sector and fostering improvement of the housing stock and helping in the development of micro enterprises, ensuring the sustainability of activities initiated, and
- promoting the replicability of successful initiatives

Despite its part time involvement in the program, the dynamic and dedicated Local Initiatives Team has managed to

- maintain an ongoing dialogue with residents to set priorities for upgrading activities as well as leverage and coordinate public and private inputs in the development process, expedite permitting procedures to stimulate housing renovation and change zoning to allow income generating activities and micro enterprises as of right foster awareness of environmental issues prompting residents to finance house connections to sewerage lines and contract private services for solid waste collection in the unpaved zones,
- mobilize residents to participate in the clean up and landscaping of the river front by the Lublin Foundation for Environmental Protection,

- offer technical and administrative support to property owners undertaking valorization of their properties,
- promote the adoption of local acts providing incentives for the rehabilitation of privately owned rental housing and the improvement of structural and sanitary standards in the pre war multi family housing stock, and
- expand the program to the other neighborhoods while simultaneously increasing the scope and diversity of the activities initiated

*(For details of this project including in depth data see the text of the full presentation page 35)*

#### Polish Case Study

### **The Municipality of Bielsko Biala The Role of the Municipality in the Preparation of Revitalization Plans**

Mr Jerzy Krawczyk, Ms Mariola Polak Opyrchał and Mr Krzysztof Skalski

Mr Jerzy Krawczyk, the Vice Mayor of Bielsko Biala highlighted the role of the municipality in the preparation of plans for the revitalization of the “old town” of the city of Bielsko Biala. He stressed the need for the following

- a local housing policy
  - the identification by the municipality of available financial resources for urban revitalization and replacement housing (municipal bonds, preferential credits, private investors),
  - effective municipal property management coordinated with the policy for privatization,
- facilitating by the municipality of the organizational process of urban revitalization,
  - co operation with providers of public utilities (power, water, and sewerage),
  - participation of private owners in infrastructure provision

Ms Mariola Polak Opyrchał, of the City Development Office, focused on the issue of Spatial Planning as a Tool for Urban Revitalization Process. Following last year's decision by the city council to make a spatial plan for the old town area in Bielsko Biala, the following approach has been taken

- detailed inventory of architecture, archeology, cultural values, infrastructure,
- prioritization of needs,
- phasing of design and implementation works,
- formulation of conditions for private investors,

- presentation of the alternative functional uses of the buildings (adaptation of used attics for housing and use of basement areas for commercial purposes),
- work out communication, transportation system (accessibility), and the location of parking lots and garages

This approach will be put into action as part of the revitalization strategy

Dr Krzysztof Skalski of the Krakow Real Estate Institute who had the responsibility of coming up with such a strategy for Bielsko Biala, highlighted the following issues

- the diversity of the background of the people involved in preparing the strategy,
- the strategy was based on experiences from other Polish municipalities (Szczecin included) and international experiences USA (Alexandria, Baltimore, Philadelphia, Washington), France and other countries,

The proposed strategy was based on the following basic pointers

- ❖ there are various partners (tenants, owners of the buildings, municipalities, investors and institutions) of the undertaking Suitable financing scenarios have to be prepared for this diverse group,
- the decision to participate in this revitalization process is optional (not obligatory),
- the basis for all actions taken is the existing spatial plan,
- pragmatic approach to particular tasks in time and in space,

To implement this strategy of urban renewal, the municipality of Bielsko Biala created a 'Coordination Team' with a legal status of a foundation based on a contract between the municipality and the coordinator

Dr Skalski also highlighted the need to define the roles and procedures for participation of investors and municipalities in this process in several issues

- policy of replacement,
- ❖ privatization of the whole building for the present users,
- ❖ renovation of municipal housing,
- sale of buildings to investors,
- municipal help to owners and tenants interested in renovation (Small Improvement Programs),
- ❖ sales and leasing of commercial properties with preferences for specific functions,
- financial support for young families interested in purchase and renovation flats,
- participation of the municipality in the arrangement of public spaces

All these issues will require a creative approach and a climate of certainty and trust

Mr Skalski also pointed out several difficulties encountered during the revitalization process including

- the lack of coordination in the decision making process of the municipality,
- ✧ political infighting which ends up affecting critical decisions of the city council,
- the new financing mechanisms are not compatible with routine creation of the municipal budget,
- difficulties in steering the dynamics of investments in collaboration with available financing

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#### Polish Case Study

### **The Municipality of Szczecin Urban Renewal Experiences in Szczecin**

Mr Piotr Mync

Mr Piotr Mync, Vice Mayor of the Municipality of Szczecin briefly characterized the experiences of the Municipality of Szczecin as concerns urban renewal

With a presentation of the historical, economic and current environment of the city, the Vice Mayor gave a short resume of the history of the renovation process in Szczecin which dates back officially to 1990 when a team was created specifically to oversee urban renewal process. A renovation strategy was worked out which has been recently updated (1996) and which is also part of the background documents for this conference.

For the 56 blocks chosen from the inner city as key targets for renovation, the following four organizational and financial models have been worked out in order to proceed with the rehabilitation process:

- public finance (budgetary) model,
- commercial model,
- public private partnerships,
- programs co-financed by the municipality and tenants (inhabitants)

Under the public finance (budgetary) model block NO 27 of the inner city of Szczecin has already been partially renovated. This block has recently been handed over to the newly created TBS (Social Housing Association). Implementation of the commercial model (Blocks 21 & 22) so far has not met with the same success as that of block 27, due to an unreliable partner. The municipality is presently working on the creation of a new body to oversee the renovation of these two blocks. This new organization is pointing more and more towards the public private partnership model.

A successful example of co-financing is the small scale renovation initiatives carried out through the "Small Improvements Program", which subsidizes upgrading of

living standards specifically through improvements done by tenants themselves as concerns bathrooms, kitchens, heating systems and renovation of common spaces (stairs, backyards etc )

Also highlighted was the municipality's cooperation with the Dutch Government as concerns Ecological Renovation in block No 27

Key difficulties pointed out by the Vice Mayor included

- shortage of replacement housing which is hindering the speed of the renovation process,  
financial constraints resulting also from political disagreement within the city council,
- limited competition (small number of firms willing and able to carry out renovation works) resulting in inflated prices,
- routine approach of some departments of the municipality to the issue of renovation,
- poor media opinion (some newspapers) about the municipality's renovation initiatives,  
a high percentage of low income people living in the areas concerned who cannot participate in the renovation process

It is the hope of the municipality that the new Law on Renovation will be approved in the near future thus providing instruments to help municipalities decrease the financial burdens related to renovation and rehabilitation

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Polish Case Study

**Field Trip Szczecin to blocks No 21, 22, 27, & 33**

Mr Jacek Lenart, Mr Hans van de Sanden, Mr Grzegorz Zimnicki  
and Mrs Katarzyna Stachowiak Bongwa

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The field trip to Blocks 21, 22, 27 and 33 of the inner city of Szczecin provided the participants with a first hand view of the implementation of the different models in Szczecin

The participants had an opportunity to see the urban and architectural set up of the blocks. The technical state of the buildings and the state of the buildings after successful renovation was experienced first hand by the participants. This also presented the participants with the occasion of judging the standard of renovation through their visits to already modernized flats.

In Blocks 21 and 22, Mr Hans van de Sanden of the Renovation Team of the Municipality of Szczecin, presented the picture of the initiatives taken so far by the

municipality, which have not proved to be very successful. These two blocks were supposed to be the first blocks to be renovated using the commercial model. However, this experiment did not work out due to unreliable partners. The main principles of the municipality's new approach to renovating these two blocks (public private partnerships) were addressed.

In Block No. 27, architect Jacek Lenart of Studio A4 presented a comprehensive expose of the design parameters, choices of renovation approaches and difficulties encountered during the renovation process. A background history of the initiatives undertaken to date was also presented. Renovating this block following the public finance model means that all the renovation funds came from the municipal budget. This has proven to be the most advanced project of renovation in Szczecin to date.

Block No. 33 is the next block to be renovated by the newly established STBS (Szczecin Social Housing Association). Contrary to block No. 27, this block has a mixed ownership structure, which requires a different approach to renovation. The basic principles of the future urban and architectural design, background information about the buildings and tenants and possible models of financing and organization of renovation processes were highlighted by arch. Grzegorz Zimnicki from the design firm ATRIUM and Mrs. Katarzyna Stachowiak-Bongwa from the Municipal Renovation Team.

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Keynote Presentation

**The Activities of Planning Collaborative Development International (PADCO) in Poland**

Mr. Mark Brown

In a brief presentation about the program, in which PADCO has been engaged in Poland for several years as a contractor of USAID, Mr. Mark Brown focused on the different aspects of PADCO's work, including four major components:

- firstly, conducting workshops to train developers throughout Poland on how to formulate and package housing projects, with hundreds of builders and developers having already participated in past training courses,
- secondly, assisting in the development of the Polish mortgage lending industry (although the implementation of the mortgage fund has been constrained by high interest rates, the problems of loan priorities and the general reluctance of Poles to take on long term debt in the current economic and changing employment environment),
- the third component of the project has been designed to increase the amount of investment in municipal infrastructure,

the fourth main component of PADCO's project, the "Gmina Housing Partnership", which was designed to assist municipalities to better manage existing housing stock and to meet the need for new and rehabilitated housing

The work of the "Gmina Housing Partnership" has focused on several substantial areas including

- preparing and adopting housing policies and housing strategies (primarily in Bielsko Biala and Szczecin)

- improving the management of the stock of communal housing and restructuring of communal housing boards (Bielsko Biala, Szczecin)

- ✦ developing of the "Not for Profit Housing Sector" by providing technical assistance and training,

- ✦ improving the economic development planning (work done specifically in Gdynia)

This was all carried out under the "Gmina Housing Partnership". Several principles have guided the work of this particular program

- capacity building in the staff of the gminas and local consultants and institutes so that the techniques and approaches which are developed, can be sustained,
- public participation and partnering of diverse groups to build support for projects and to bring in additional resources (not just gmina resources),  
the use of modern data management tools (examples the MIS for housing management, the analytical tools for evaluating TBS projects), and
- informing policy making at the national level to improve the legislation environment for local government self governance, using the experiences and feedback from the work in the gmina

Priorities that have come out of PADCO's experience include

- the fact that the diversity and complexity of financing is one of the aspects of increased participation that is going to be difficult to come to grips with but it has a lot of opportunities to present as well,  
the importance of using public sector funds strategically to stimulate urban revitalization (to leverage private sector involvement in investment)

*(For a more detailed presentation of PADCO's work in Poland see full text of this presentation page 59)*

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## Plenary Discussions

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The plenary discussions of day one focused on general issues and the presentation of the day

In response to demands from participants, additional information was presented on Block No 27 with special attention to financial issues (rent principles, getting back funds for renovation 20 to 30% from the sales of commercial premises, participation of flat owners in the overall costs of renovation) The problems of lack of replacement housing for tenants coming from shared flats was also touched

A partial attempt to solve the replacement housing problem could be the creation of TBS's (Social Housing Associations) with access to preferential funds

The problem of the instruments that can be used by the municipality in order to encourage private investors to invest in renovation process was addressed with the example of Szczecin Tkacka Street area where the detailed information was sent to potential investors about the upcoming tender of the project Out of the more than 500 invitation to tender sent out, 25 investors responded showing interest in the up coming bidding However, only four actually showed up for the bidding It was noted that in the Master Plan of Szczecin there is a whole system of incentives and concrete offers to investors

The example of Wrocław (where more than ten buildings a year were sold in the area of the old town), proves that the most important factor for investors, wishing to buy and renovate a building, is the availability of buildings with no tenants This frees them from the tying clause of providing replacement housing and also gives them the leeway of creating more market oriented spaces in the buildings

Mr Skalski pointed out the necessity of the creation at the central level procedures regulating the behavior of investors and the flow of funds within specific areas, when high profit investment can cross finance low profit investments (like modernization of communal flats) Other examples cited included Boston's linkage packages and the Indonesian formula

The financial aspects of renovation were touched with a comparison of the amount spent by municipalities on renovation in different cities (It is worth noting that Płock which is a smaller municipality than Szczecin and has less revenues, spends more on renovation and housing development than the city of Szczecin) Also the problem of participation of flat owners in the overall costs in the building modernization was raised

It also came out that a new active partner in the field of housing construction and modernization can be TBS's (Social Housing Associations) However, their importance can be illusionary, due to the fact that banks giving preferential credits to TBS's require municipal guarantees and only 15% of municipal budgets can be

reserved for serving loans. In this situation if municipalities invest a lot in other fields, the reserves for TBS's are very limited.

The experiences of other municipalities in the field of urban renewal and housing rehabilitation were presented (Płock, Katowice). In Katowice however the so called project Załęże 2000 created in cooperation with the Dutch Municipality Groningen and the Irish municipality of South Dublin, revitalization is only part of a complex project program aimed at primarily renovating technical municipal infrastructure destroyed during mining operations.

The general conclusion of the discussion was the agreement that there is a need among municipalities for the creation of a forum of exchange of information particularly as concerns main issues of interest (privatization, housing rehabilitation, renewal, etc.)

## DAY TWO FRIDAY, 23 MAY, 1997

**Moderators Mr Ngu Aloysius Bongwa and Mr Hans van de Sanden**

The proceedings of day two of the conference focused on two key issues Institutional/Management Issues of Renewal, and Public/Private Partnerships in the Renewal Process. The guest speakers on the Institutional/ Management Issue came from Institute for Housing and Urban development Studies (IHS) Rotterdam and Romania while on the issue of Public/Private Partnerships in the Renewal Process, guest speakers were from the Harvard Graduate School of Design, the Unit for Housing and Urbanization

Keynote Background Presentation

### **Institutional and Management Issues**

Mr Max Jeleniewski of the Institute for Housing and Urban Development Studies, Rotterdam The Netherlands

Mr Max Jeleniewski focused on the issue of institutional development, the main theme being that the responsibilities have to be brought back to their origins. This means thinking carefully on what are the roles of the different actors in urban development? The different roles of the public sector, the private sector and the residents. Having defined these three main actors, he highlighted the relations they have with each other making a clear distinction between the following ten different levels of cooperation between the different actors

- informal information exchange,
- formal exchange of information,
- informal consultation,
- formal consultation,
- letter of intent agreement (commitment),
- contract (binding legal form),
- establishment of a joint project team,
- joint action formal cooperation, and
- joint venture

The second issue of concern analyzed by Mr Jeleniewski was the relationship between the public sector, the private sector and the community with a focus on

where NGOs (non governmental organizations), and CBOs (community based organizations) come in. With a clear understanding of the roles of the primary actors and organizations, one can then for each problem for each area build up a kind of organizational model which eventually builds itself up, remembering that cooperation is so much dependent on trust and the willingness to share risks

*(See full text of presentation on page 64)*

Follow up on Keynote Background Presentation

### **Institutional and Management Issues**

Ms Carley Pennink of the Institute for Housing and Urban Development Studies  
Rotterdam The Netherlands

Ms Carley Pennink presented two models on participatory types of planning focusing on management orientation, trying to maximize the role of the different actors in urban renewal. Key characteristics of recent management approaches highlighted included:

- decentralized management, use of internal 'Profit Centers' and use of small cross department work teams with clear objectives (matrix organization),
- networking,
- contracting out of services,
- negotiation as an important tool,
- working in partnership,
- willingness to change, constant innovation with acceptance of mistakes, strong awareness of population as clients or customers,
- investment in training,
- management that can listen, focus on two way communication,
- management by walking about (MBWA) meaning that a manager should experience what is happening where it happens, rather than simply reviewing reports

The two models represented case studies from The Netherlands "The Tilburg Model" and from England "Southwark Model". The approach was to look at each model from the three different points of view:

- policy,
- processes, and
- institutions

While the models are trying to deal with similar problems they approach them in different ways

*(See full text of presentation on page 69)*

## Romanian Case Study

### Urban Renewal of Lipscani Area

Mrs Sorina Racoviceanu and Mr Nicholae Taralunga of the Institute for Housing and Urban Development Studies, Bucharest, Romania

The Lipscani case study presented by Ms Sorina Racoviceanu and Mr Nicholae Taralunga, first of all analyzed the strong and weak points of the area within the context of the whole city of Bucharest. Problems faced by the area included

- the lack of an approved planning framework,
- insufficient municipal resources to meet the community's expectations,
- over loaded infrastructure, and,
- claims from previous owners hindering security of investments

The needed strategy had to focus on the long term revitalization program combined with small scale projects with quick, visible impact, in order to improve the image of the place

The importance of building confidence among investors by creating some early results was highlighted. The first step taken was to agree on a plan which will sustain existing activities and encourage new investment in the area. Inappropriate development and speculation had to be prevented by designating the whole study area as a "heritage" or "conservation area", meaning that demolition or alterations without permission will be prohibited. Also the local authority could undertake essential repairs and recover the costs from the owner. Precise design for environmental improvements will be worked up through consultation with local interest groups.

The following is the action plan for the revitalization program IHS Romania proposed

## THE PREPARATORY STAGE

### Objectives

- to identify and to involve the actors, public and private, in order to create an institutional framework for the program implementation,
- to finalize the technical studies regarding the area,
- to organize an international seminar,

to organize a study tour in EU cities for a group of people to be involved in the revitalization program

## **THE OPERATIONAL STAGE**

### **Objective A**

- to select an action group for the revitalization program,
- ✦ to design a 12 month action plan for the action group

### **Objective B**

- ✦ to set up the revitalization agency,
- ✦ to identify and to implement a pilot project in the area in 2 year's time

The concrete results expected by the end of the project aim at

- : opening an office in Lipscani area backed by the main local agencies (office space and equipment provided, qualified staff, clear status, responsibilities and power, establishing steering committee and board of advisors, recruiting director of the agency),
- agreeing the business plan and making resources available for project (agreeing priorities for each year, setting targets, obtaining approval from financing agencies, publishing proposals, securing longer term resources), and
- implementing the pilot project to build confidence (design improvement, securing co operation of business, producing development briefs, publishing information, organizing events)

The Regeneration Agency will benefit a wide range of groups

- ✦ Businesses operating in the area, which include all the banks, and a large number of small businesses, will benefit from a better working environment, improved information, and facilities to encourage new businesses to set up in the area
- ✦ Property owners, private and public, including the Municipality who own buildings, will benefit from a clearer vision for the area's future, will co ordinate efforts to improve the infrastructure, and attract greater interest from financial partners
- ✦ Residents will benefit from improvements to municipal services, particularly cleaning and refuse disposal and water supply

The direct beneficiaries of the project will be the people of Bucharest, both from pride of the city as it improves and also through opportunities for job creation, as a result of the regeneration process. The Municipal revenues will increase corresponding to the new tax base creation. The increase of the property values will offer new standards for living conditions and will attract tourists in the area to see an important part of Romanian heritage (around 240 monuments)

The risks to the project achieving its objectives in terms of private investment and new business creation include

- failing to provide the legislative framework and to transfer responsibilities to/from municipality,  
focusing investment elsewhere, with investors neglecting old buildings in favor of new buildings and other parts of the city,
- lacking sufficient support from the central government for specific projects and programmes,  
motivating staff if resources are not made available and if the salaries are not competitive with what they could earn elsewhere

(See full text of presentation on page 75 )

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Keynote Background Presentation

**Public Private Partnerships**

Mr John Driscoll Harvard University Graduate School of Design Unit for Housing and Urbanization

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The presentation of the three case studies<sup>1</sup> from Boston – Tent City, The South End Neighborhood Initiative, and the Navy Yard – illustrated how a city, residents, and the private sector can structure opportunity-driven partnerships that address priority issues within distinct communities. In the context of the revitalization and housing rehabilitation strategies in Szczecin, they highlight many of the issues currently under discussion.

- ❖ Tent City, a public/private partnership based on a strong commercial partner, has similarities to the commercially led model currently under consideration for Blocks 21 and 22,  
The South End Neighborhood Initiative resembles TBS approaches and illustrates how a group of smaller TBS like initiatives can have a large impact within a neighborhood and
- The Navy Yard shows how partnerships can work within the constraints of historic preservation guidelines and the lack of central government funding, issues currently facing the larger renovation strategy in Szczecin. It also demonstrates innovative and mutually satisfactory ways of providing urgently needed capital from the private sector. Furthermore, it shows how redevelopment objectives must be adapted to current economic conditions if public/private partnerships are to be a successful tool in the revitalization of larger areas of a city, especially if the revitalization objectives are seen in the context of a 20 to 25 year time frame.

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<sup>1</sup> The case studies are summaries of case materials developed by the Unit for Housing and Urbanization

These case studies do not represent models to be directly transferred, but rather were used to illustrate that successful public/private partnerships are structured around a cluster of mutually reinforcing activities among the public sector, the private sector, and residents

The three projects operated within a supportive legal, financial, and institutional framework that, while not entirely present in Poland today, is evolving with the new TBS legislation and the proposed renovation law. Furthermore, the cases show how a municipality, when faced with diminishing resources from the central government, can creatively use its own resources in partnership with residents and the private sector to address local problems

Lastly, the Boston cases also illustrate how the City benefited from the existence of an entity that was largely responsible for revitalization efforts on behalf of the City. The BRA (Boston Redevelopment Authority) provided a 'steady hand' in an often unsteady process and was in a position to be an active partner in a public/private partnership, balancing between the economic incentives needed for private participation and concerns for social, environmental, and quality of life issues. It initiated and guided projects and strategies in different areas of the City, among many partners ranging from commercial to not for profit groups, and through economic cycles of prosperity and decline

*(See full text of presentation on page 85)*

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Follow up Keynote Background Presentation

**Public Private Partnerships**

Mr. David Jones, Harvard University Graduate School of Design, Unit for Housing and Urbanization

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Mr. David Jones focused on public private partnership financing using the Boston area case studies, highlighting the fact that the presentations from the Boston area provide specific illustrations of urban development achieved through different types of institutional and financial arrangements, all of which could be characterized as public private partnerships. Although different types of institutions were involved, they had a common concern with financing. Each offers a specific example of generic financial paradigms relating to public private partnerships.

He addressed the issue of institutional financing generally, distinguishing among cash flow, profitability, and project development.

A number of concerns which, almost inevitably, require public sector intervention within the framework of urban development were highlighted.

- First, there is the need for long term basic utility infrastructure.

- ❖ Second, there are social concerns, such as in the provision of collective goods and other public services, the costs of which will not always be fully recovered from user charges. This may be either because it is not feasible, such as in the provision of public goods, or because it is considered socially undesirable or inappropriate, such as in the provision of housing for low income occupants.
- Third, private urban development will create external costs upon the community, such as environmental and social heritage costs, which are not directly borne, through the market mechanisms, by the private sector operators.
- Finally, there is almost always a need for the public sector planning authorities to impose spatial and temporal order and discipline, as well as health and safety requirements, upon the development process, if necessary through exercise of coercive powers. This control represents a public good, in the interests of the entire community (including developers), but for which individual developers are normally unwilling to pay, at least through normal commercial markets.

For these various reasons, therefore, although the overall costs, including economic externalities, are inescapable, the financing of public private partnership arrangements will typically provide for some of them to be partially borne otherwise than directly or immediately through market mechanisms. The financing arrangements are, therefore, directed mainly at providing more flexible cash flows than may be possible solely with commercial market systems. These cash flow arrangements will typically involve subsidies, from either public or private sources, with responsibility for public subsidies shared between the local communities and the state or national governments.

*(See full text of presentation on page 85)*

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#### Case Study Presentation

##### **Blocks No 21 & 22 of the Inner City of Szczecin**

Mr Zbigniew Paszkowski (Technical University Szczecin, URBICON) and  
Mr Zbigniew Becker (Renovation Team Municipality of Szczecin)

Mr Zbigniew Paszkowski presented the architectural and urban concept of the renovation of the two blocks No 21 & 22. The concept was based on the approach that renovation cannot be treated in isolation but should be looked at in the context of the surroundings particularly as concerns communications, transportation and different functions. The idea of the renovation was to move out of the “total renovation” approach as presented before by the Norwegian Group URGN and move towards dividing the blocks into separate investment tasks which could be realized by separate individual investors. Such an approach, however requires a

clear future vision and the creation of parking spaces. The key characteristic features of this approach as presented are:

- pedestrianization of Bogusława Street with adaptation of ground floor flats along the street for commercial use,
- setting up the functional preferences of the area (commercial and housing),
- creation of nearly 600 parking spaces in the two blocks through the construction of two underground parking lots and parking spaces under pedestrian zones,
- adaptation of the set of the corner buildings into a high standard atrium covered shopping center with rental space, and  
demolition of background buildings of poor technical condition which would then be replaced by new housing

This presentation was complemented by a rich set of computer drawings.

Mr Zbigniew Becker focused on the institutional issues and the lack of public-private partnerships, which led to the problems faced so far as concerns the same blocks. After a short background history, it was made clear that the initial experience of Blocks 21 & 22 have led the City to re-evaluate the institutional framework within which renovation projects would be implemented.

Within the context of the TBS legislation and the renovation strategy, the City is now considering an alternative renovation organization, that can prepare and implement comprehensive renovation programmes in downtown Szczecin and can develop adequate financing/organizational models to ensure a sustainable flow of funds from both local and private developers.

The current strategic objective might therefore be slightly re-focused:

- to transform present run-down blocks into an attractive and economically vibrant concentration of downtown retail and service premises, coupled with high and medium quality housing for high and middle income residents, thereby providing an alternative to suburban commercial and housing locations and, to the extent that is economically possible, providing affordable housing for limited income residents, while maintaining a proper functional mix allowing for continuous liveliness of the area after office hours
- **where necessary** to provide adequate relocation facilities for the present residents

The Renovation Team is currently working on two possible options for the renovation of Szczecin downtown Blocks 21 & 22:

- **Option A** The city will evaluate and decide about proposals from two private sector groups. They include a local developer/builder in partnership with an

American investment company and a developer/consulting group in partnership with a (loose) consortium of local and national banks

- **Option B** If the proposals are not acceptable to the City Board, an option is to use the newly formed Szczecin TBS (STBS – a housing association), or to create a new TBS as the institutional vehicle for developing an alternative renovation strategy for the two blocks, which might enable accessing funds from the National Housing Fund (principally for replacement housing)

The logic is that even if Blocks 21 and 22 are developed under Option A, there are considerable opportunities to implement an Option B approach in other areas of the downtown. Indeed, based on current learning experiences, Option B may evolve as the more standard and generalized paradigm. Whichever option is ultimately chosen for Blocks 21 and 22, note should be taken of the administrative procedures and other resources which the public sector may contribute. These have been evolving within the Szczecin City Council to deal with a variety of urban planning concerns.

*(For more information on these projects see the Paper on Alternative Options for Public Private Partnerships Renovation Projects Incorporating the TBS (Housing Association) Platform on page 154.)*

After the presentations the group discussions about the key issues of the day (i.e. institutional and organizational issues, and public private partnerships) took place. The main conclusions of these discussions were presented by group rapporteurs on the plenary session during the third day.

## DAY THREE SATURDAY, 24 MAY, 1997

**Moderators Mr David Jones, Mr Ngu Aloysius Bongwa and Mr Janusz Zylka**

The presentations and discussions on day three focused on Alternative Financing Mechanisms for Urban Renewal Projects and the new Law on Renovation

Keynote Background Presentation

### **Alternative Financing Mechanisms in Urban Renewal**

Mr Pal Baross of KOLPRON, Budapest, Hungary

Mr Pal Baross presented a comprehensive view of urban renewal. A view which takes into account the fact that urban renewal in fact incorporates the following three different types of issues and perceptions of the area, together with a good understanding of the stock

- ❖ Housing policy,
- ❖ Urban development policy, and
- ❖ Social development policy

Using a sort of SWOT analysis of a problem area the following common key elements were highlighted

- ❖ Strengths location, architecture, social cohesion, cultural identity, and "something must be done",
- ❖ Weaknesses lack of market demand, disinvestment, social "problems", fragmented ownership, non compatible uses, functional obsolescence, technical obsolescence,
- ❖ Opportunities market repositioning, social repositioning, resource mobilization,
- ❖ Threats sub urbanization, "downtownization", segregation

Financial issues were examined under the following headings

- ❖ Households tenants, owner occupiers, landlords
- ❖ Buildings renovation, modernization, change of use, reconstruction
- ❖ Neighborhoods infrastructure, public spaces, facilities, complexes, social development programs,
- ❖ Cities (Local Government) capital subsidies, interest subsidies, tax incentives

### **The different sources of funds highlighted included**

- ♦ passive asset transfers vacant land, vacant buildings (parts), development rights, active asset transfer income producing real estate, income producing fees,
- ♦ capital working capital, matching funds,
- ❖ budget support re housing, infrastructure, public space, complementary targeting, subsidies interest subsidy, end user's subsidy, guaranties,
- : buy back commercial property, residential property

### **Stressing the need for financial planning, the following points were highlighted**

- market positioning demand for and absorption rates for real estate in the area,
- bankable projects project packaging, feasibility studies, marginal projects social partners, social funds
- ♦ municipal projects operating departments, operating budgets

The final recommendation was to structure urban renewal agencies essentially as a land development agencies with the basic business to prepare land and prepare development packages

*(See full text of presentation on page 99 )*

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#### Hungarian Case Study

#### **Urban Renewal Programme of Budapest**

Ms Csilla Sarkany of the Metropolitan Research Institute, (MRI) Budapest, Hungary

Ms Sarkany presented the Urban Renewal Programme of Budapest The objectives of the urban rehabilitation program presented included

The animation of the economy in rehabilitation areas

supporting the city in performing its roles as capital city and regional center, providing attractive conditions for economic sectors tertiary, quaternary, to increase the tourist attraction of the city

The preservation of the balance of urban structure

to moderate the extensive development of the city and its catchment area, "re cycling" the urban environment with an eye on sustainable growth, halting the reduction in the value of the stock of property in the affected area, or rather making it increase, making the affected area attractive for investments

- ❖ The improvement of the housing stock and urban living space
  - the gradual elimination of the housing stock of the lowest standard,
  - making the area attractive for the development of housing stocks of various qualities, meeting different requirements, suited for urban life style,
  - the improvement of services related to housing
- The preservation of the elements specific to the urban character
  - the protection of values as a matter of public importance in the program,
  - the establishment of proper instruments in the regulatory and financing system
- ❖ The preservation or improvement of the social structure of the affected parts of the city
  - halting segregation in the endangered areas, putting a brake on the segregation process

**The rehabilitation proposal for the Budapest District VIII, Block 2 was presented**

Of interest was the following basic principle of the development and financing program which was to keep budget resources to the minimum and provide for their most efficient use, trying to bring in maximum amounts of retail and business resources

- ❖ The possibilities for bringing in the resources of the inhabitants
  - in the form of rent (if the flats continue to operate as tenement, the tenants will pay the rehabilitation costs in the form of rent),
  - in the form of privatization revenue,
  - the flats are sold to the tenants living in them after rehabilitation,
  - through the direct utilization of the resources of tenants the flats are privatized and the tenants pay the rehabilitation out of their own resources

According to a questionnaire based survey, 35% of the residents would like to remain tenants 65% however would like to buy the flat (most of them after rehabilitation)

Taking into account the behavior and financial possibilities of the residents the program suggests primarily a privatization construction which would offer the flats for a minimum sum (even free of charge) to the tenants to buy, but should set as condition contribution to rehabilitation. The tenants who decide against this form would have given the option of buying the flats at higher prices after rehabilitation. The tenants who would not buy their flat in any form would remain tenants in the local government owned flats

At the same time when developing the privatization policy endeavors should be made

to establish, to the extent possible, buildings of uniform ownership type,

- ✦ for flats where structural work is also performed (e.g. the replacement of the roof) or modernization is executed with concurrent merger of flats, the flats would only be sold after rehabilitation,
- ✦ empty flats should be sold after rehabilitation

Arguments for privatization before rehabilitation and arguments for privatization along with rehabilitation

under the current financial institutional conditions the local government has no possibility to obtain, under favorable conditions, the high volume of capital needed for the investment,

- ✦ generally community and non market type projects are more expensive because of lax financial management,
- ✦ privatization revenue after rehabilitation is uncertain because of the high purchase price,
- ✦ as owners the residents could draw state credit with favorable terms for rehabilitation,
- ✦ as owners the residents would have better chances to have a say in the rehabilitation works, control would also be more efficient,
- ✦ the paying capability of residents (the principle of the subsidy model)

The success of rehabilitation will greatly depend also on whether the residents accept the burdens they would have to bear, whether they are capable of paying them. In other words, what is the sum the residents would find acceptable and payable. As the residents could, as the yield of the rehabilitation realize, the increased value of their flats we suggest that the residents should pay the increased value, but the rest of the costs should be covered by the local government

*(See full text of presentation on page 108)*

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German Case Study

**Urban Renewal in Germany**

Mrs. Janina Kopietz Unger, City Architect Bad Wilbad, Germany

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Dr. Janina Kopietz Unger (who was not scheduled to present but wanted to share her experiences in Germany as concerns urban renewal) elaborated the process in local governments in Germany

### Points of interest included

- **a role of spatial planning** all cities in Germany have master plans renewed after every twenty years based on the inventory of specific districts or areas taking into account the following aspects social, cultural, technical state of the buildings, open spaces, green areas, roads, objects of public use (private and belonging to the State) After such an inventory the directions of urban development are determined with great attention paid to areas which will undergo the rehabilitation process Rehabilitation is treated as an element of economic development of the city

The role of the City Architect in Germany is bigger than in Poland This person is responsible entirely for the technical state of buildings as well as the economic state of the town It is he or she who proposes to the city council which area should be chosen for rehabilitation After the approval of the city council and a detailed inventory of the chosen area, the preparation of the investment proposal (not very detailed) is contracted out The area of the rehabilitation is much bigger than one block It is aimed at improving the structure of the city The investment proposal should help in the economic development of the city, attract private capital and mobilize owners to cooperate

- **ways of financing rehabilitation activities** depending on the state of decline of a given area, the city council can choose one of two ways of rehabilitation existing in Germany "simple" or "complex rehabilitation" Simple rehabilitation is applicable in the case where the area of concern is in relatively good technical state and there has been interest shown on the side of the private sector After choosing this option the city council enacts the law on engaging in the rehabilitation process precisely describing the borders of the rehabilitation area The notice that the given property is under the rehabilitation process is written into the property register Simple way of rehabilitation means giving tax relief for investments within the rehabilitation area

In areas of more serious decline the city can opt for the complex rehabilitation process which is characterized by different ways of financing (subsidies, grants) but there is a rule which stipulates that this cannot constitute 100% financing by the city The degree of co financing is set by the city council depending on the importance of the investment Apart from this the city finances modernization of the streets and technical infrastructure and the renovation of municipal property The revitalization project has to be approved by Land (provincial level of government), which co finances projects after their completion Moreover, not meeting the deadline of completion originally set in the agreement between the municipality and Land means the loss of the co financing from Land

- ❖ **co operation with property owners** generally speaking there are three types of owners Those who have money, those who will have money, and those who will not have money The first group can modernize their property within the

requirement established by the municipality. The second group will have to borrow the money for this purpose and the city can co-finance this credit (20 to 30%), if the owner will agree to rent the flat at a level of rent set up by the city (for every district of the city there is a certain number of social housing units set up). Owners belonging to the third group, in most of the cases decide under pressure from their neighbors to sell the property given that they do not have the capacity to renovate the said property.

- **organization of the rehabilitation processes** – the process of rehabilitation is operationalized by the “Revitalization Office” which is a unit of the municipality usually located in the rehabilitation area. The Revitalization Office cooperates with architects, tenants, property owners and private investors. It coordinates the realization of the process and dispenses money for co-financing. The whole operation should be completed in a five to seven years period because in case of a longer time period the effect may not be profound.

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#### Szczecin Case Study

#### **The Consequences of New Legal Changes Proposed in the Project of the Renovation Law**

Mrs. Katarzyna Stachowiak Bongwa of the Renovation Team, Municipality of Szczecin

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Mrs. Stachowiak Bongwa’s presentation highlighted the changes in the draft of the law on renovation and modernization of urban areas which has already been in preparation for few years, due to the painful process of consultations and agreements.

The Law describes principles and ways of undertaking, organizing and financing renovation activities, and defines two major ways of conducting such processes:

1. programmed operation of the renovation, and
2. activities undertaken individually, outside of such operation.

The programmed operation of the renovation can be realized only on the *areas of the rehabilitation of existing buildings and infrastructure*, designated earlier in the Master Plan, as mentioned in Law on Spatial Planning from July the 7th, 1994.

After assigning in the Plan the area of rehabilitation, one has to decide where will be the area on which the programmed operation of the renovation should be conducted.

The first task of a municipal council is to make the decision about entering into preparation of the program for operation of the renovation and to appoint a coordinator of the operation.

The coordinator can be a person or legal body, who will prepare, coordinate and supervise realization of the renovation operation. The program should be completed by the coordinator within a 12 months period. The work on the preparation of the program entails not only the collecting of data (which are quite precisely listed in the Law), but also several consultations with inhabitants, which most probably will be much more difficult.

After finalizing the project of the program is presented to the public for a period of at least two (2) months, during which the inhabitants can file their conclusions and proposals. Then for the next two months they have a right to register formal complaints, if their proposals or conclusions have not been taken into account.

It has to be pointed out that this period is definitely too long. The inhabitants should be currently informed what are the principles of the renovation operation, program and future urban and architectural design are during the preparation of the program. They should not be put in the situation where a finished product, prepared without their participation, is presented to them at the end of the program.

The municipal council can pass the Act on approval of the program, if the program is accepted by more than 50% of the owners and perpetual leasees, located on more than 50% of the area within the borders of the operation.

If the program is accepted by at least 75% of the owners and perpetual leasees, who own or lease at least 75% of the operation area, realization of the program can be done by renovation condominium – a body consisting of the owners and leasees of the properties located within the operation area.

The tasks of the operation are financed by the municipality, condominiums, owners and perpetual lessees of properties located in the operation area. The Law to some degree decides, who is financing what, that means the municipality finances the infrastructure, investments in public spaces, preparation of renovation program, work of the coordinator, purchase or expropriation for public purposes (what belongs to the municipal tasks anyway). The rest lies on shoulders of condominiums, owners and perpetual lessees, however the Law creates a possibility of change in the range of investments financed.

In case of evasion of execution of modernization works by the member of *renovation condominium*, the condominium can demand the execution by proxy. Revenues from this title would be executed from the real estate mortgage on the properties renovated in such a way.

Conducting the modernization by the renovation condominium gives the right to larger subsidies from the state. They can cover even up to 50% of the renovation costs, however not real costs, but normative costs (product of usable area of the building, degree of damage and indicator of reconstruction value, defined by voivod).

The Law creates a possibility of a subsidy of 20% of the normative costs of the renovation for individual projects, outside of the borders of operation and initiatives within the borders of the operation, but not conducted by renovation condominiums. The share of the owners in the costs cannot be lower than 30%.

Subsidies given by the state come from the National Renovation Fund, created with an input from the revenues of the State Treasury as well as by the input coming from the contributions of all municipalities, being a part of increased property taxes.

Although the Law on renovation is still not perfect, it is however a first positive step from the side of the state towards resolving the difficult situation of deteriorating housing stock, which is becoming more and more dramatic.

*(See full text of presentation on page 119)*

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## Discussions

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The discussion on day two and three focused amongst others on the issue of the possibilities of participation of inhabitants in public private partnerships (PPP's) and renovation taking into account their financial possibilities. Mr Skalski briefly described the experiences from France where exists a mixed system of financing so called "investments in stones" and "investment in people". The main idea is to increase housing allowances by the government and at the same time increase rents to the level which covers the costs of maintenance of the building.

The issue of standards of renovation was also discussed. For example in France the approach is to do "small things for small people". This means equipping all flats with three basic elements: wc, bathroom, heating (averaging 150,000 flats a year).

Many issues of concern were brought up with the over protection of historical monuments without financial support from the State being at the forefront. The State could support the efforts in this sector through tax incentives or deductions.

Dr Freino raised up the issue of stimulating renovation processes in a "sociological way" (building up citizen dignity and pride, support of positive competition between areas, establishment of a closer relationship between the municipality and the citizens through the organization of special events, etc.)

The modular buildings constructed during the 70's which are without proper insulation and are in worsening technical state also constitute a matter of concern.

It was noted that the process of urban renewal cannot and should not be separated from the issue of economic development, especially in small towns with touristic potentials.

Basically the main conclusion was that municipalities cannot realistically count on very active support from the State, which forces them to become the main actor trying to deal with the inhabitants and the private sector as concerns urban renewal and housing rehabilitation

The short sighted policy of selling municipal assets (land and buildings) to cover recurrent expenditures was criticized. On the other hand given that at the moment municipalities cannot count on the State or the private sector, they are forced to do this. This can however only be justified if the revenues from these transactions are invested in infrastructure etc.

Mr. Zyłka reiterated the need for the "professionalization" of urban renewal activities undertaken by municipalities which can start from the choice of the area, and should guarantee the success in economic as well as social terms.

This "professionalization" includes such elements as the ability to come up with a business plan, which is still a weak point of operations.

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### Final Conclusions of the Conference

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The participants were asked to propose at least three necessary major improvements in the empowerment and facilitation of renovation activities, taking into consideration legal, financial, technical, and institutional issues. They came up with the following:

- **The creation of the renovation fund** as presented in the draft of new law on renovation and modernization of urban areas. Some participants judge the proposed way of the creation of the fund as being too centralized. It was proposed that municipalities should create a renovation fund at the local level, work out the program of renovation for the approval of central government, and expect grants or subsidies from the State based on individual needs. One of the revenues of the renovation fund could come from the tax on the increase of the market value of the land after the renovation, which is a practice in Germany. On this issue another proposal was that the renovation fund should consist of two parts: one, credit for activities deemed profitable and from which costs can be recovered and the second part could be made up of subsidies given to renovation activities with mainly social benefits.
- A fund should also be created by the municipalities of a region (**regional funds**), for the purpose of supporting contributing municipalities engaged in renovation in this region. This idea needs coordination with the general reform of the State administration and the creation of bigger and stronger voivodships.

- The mechanisms of **financial support from the State should be diversified** For example, housing allowances are very important as concerns enabling the right mix of population in any renovation area, (they enable the poorer segment of the population to pay more realistic rents for flats)
- There should be **bigger tax incentives** in the case of the modernization of historical monuments
- In the case of **renovation condominium** as defined in the new draft of the Law on Renovation and Modernization of Urban Areas, the housing corporations should be represented by their managerial boards All flat owners do not necessary have to show up for meetings (too much democracy can hinder the speed of the renovation process)

**The specifics of the renovation process** should be much wider, taking into account the existing building law and credit regulations For example, staircases, windows, thermal insulation and many architectural details in old buildings do not meet contemporary building requirements and for each such case, a special permission of the Ministry is necessary which becomes a bureaucratic obstacle as the scale of the renovation operation increases Such permissions should be issued at the local level or at the highest, the voivodship level

**Participation of the State** in support of renovation activities should be at least equal to their participation in newly constructed buildings

Future actions at the municipal level include

- Create a **comprehensive renovation strategy** coordinated not only with a housing strategy but also with a local economic development strategy
- There should be a concerted effort at the municipal level to look for **more innovative ways of financing** (from the inhabitants, private sector, banking sector etc )

Municipalities should invest in **new communal housing**, which in future could serve as replacement housing thus solving one of the biggest obstacle to date as concerns renovation projects

- Municipalities should also actively search for **alternative institutional arrangements** when it comes to modernization, maintenance and management of old municipal property (The creation of Social Housing Associations TBSs is a good example, Public Private Partnerships, and others)
- Municipalities should **lobby at the State level** for changes to be made in the existing and proposed Law on Renovation and Law on Building and others  
Municipalities engaged in the renewal and rehabilitation process should **cooperate and exchange information on a regular basis**

# 4.0

## CONFERENCE PROCEEDINGS

### FULL LENGTH TEXT OF PRESENTATIONS

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## DAY ONE: THURSDAY, MAY 22, 1997

### Opening Remarks

Mr Michael Lee of The United States Agency for International Development (USAID)

Thank you very much Mr Dąbrowski, distinguished ladies and gentlemen, friends I would like you firstly, quickly, to picture the city of Calcutta A city of teeming millions of people, uncontrolled development, growing at the rate of perhaps a thousand people per day people mostly building their own shacks wherever they can find land The picture of the city is changing hour by hour, minute by minute

It has long been a requirement of planning the city of Calcutta that before any plan can be made, there must be a detailed land use picture of the city, plotting the presence and location of every building in the city This may be possible now in the days of Geographic Information Systems (GIS) but until recently it was basically an impossibility It is like the medieval theological debate, asking how many angels can dance on the head of a pin It is also to me rather like the debate in Poland on how many buildings need renovation and rehabilitation We are told the number may be 1 800 000 We are told it may be 1 390 000 We are told it may be even less than this Are these yesterday's figures or today's? What standards were used? What are the financing criteria that are used to measure the demand for renovation and rehabilitation? The absolute figures do not matter very much We in this room in particular know that there is a crisis, that it needs solving immediately and that there is a massive problem that will be with us for many years to come

We know this because we are interested in the subject The people of Poland know this in part because of the interest of the national media in this issue We can't wait for clear guidance from central governments on precisely what to do and how to obtain financing One of the reasons that there has been discussion on the number of buildings that need assistance is to give guidance on financial support from central government, whether in the form of loans (subsidized or un-subsidized) or outright grants But whatever the scale of the need, whatever the scale of support, we know very well that the needs are well beyond the capabilities of national treasuries to be able to pay

There is an absolute need for the involvement of the private sector and communities in financing and managing the process of rehabilitation and renovation And I say this

not for dogmatic reasons, not because I believe that this is necessarily the answer to every problem, but because this is common sense. This is the logical solution.

But then we ask, how do we involve these people when

the needs are so large,

- the ability of the owners and occupants of buildings that need renovation is apparently so weak,
- capital markets are not very well developed,
- the value of these buildings that need renovation and rehabilitation is often such poor collateral?

This conference is not to identify the questions. We are not here to whine about the problems. We are here to show that there are answers, that there are immediate solutions to some of these problems. That there are ways of involving the community and getting the private sector to pay, that there is no need to wait for guidance and for money from above before we can start.

This conference will also show that there is no one single model for rehabilitation and renovation. That there are very many ways this can be approached and the conference will show how it is being done in Poland, how it is being done in other parts of Central Europe. There is one key element though. The need for creative thinking. The need for imagination. The need for flexibility. The need for responsiveness to opportunities and to needs. These, I believe are traditional Polish characteristics: imagination, creativity, flexibility and responsiveness. Until recently and for a long period, they have been suppressed at the local government level, but looking around Poland we see that local governments are responding to the responsibilities that they have been given. I for one am very happy to see this resurgence of creativity at the local level.

USAID is proud to have been associated with some of these experiments and we are pleased to be able to co-host this meeting with the city of Szczecin.

Our work with Polish Gminas started with the "Gmina Housing Partnership" and the city of Szczecin is one of our partners in this. (Mr. Brown of PADCO will be talking more about the "Gmina Housing Partnership" later in the day). We are now moving into the first phase of the new "Local Government Partnership Program", where, for the course of three years or so, we will be offering a partnership to around fifty gminas. I am pleased that some of the candidate gminas for this Local Government Partnership Program are present at the conference today. We will be working with them to help to address a range of problems including the problems of renovation and rehabilitation with the aim, of course, of benefitting the whole country. We will be using a range of techniques in order to be able to disseminate the results of this Partnership Programme, not least so that we will be leaving behind a Polish capacity in terms of training institutions, professional institutes, consulting firms and the like,

in order to be able to help to deal with these problems when USAID is shaking your hand to say good bye

This conference is encompassing both the "Gmina Housing Partnership" and the "Local Government Partnership Program" It will show, as I said, that we do not need to wait, that we need to and we can involve the private sector and communities in the process of rehabilitation and renovation and that the absolute key to this is new ways of thinking Creativity

I am looking forward to a fruitful and interesting three days of debate Thank you very much

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#### Polish Case Study

#### **Lublin's Local Initiative Program Initiating Neighbourhood Partnership**

Ms Ewa Kipta

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Since 1990, democracy and decentralization in Poland have given municipalities the freedom to institute new practices and take bold initiatives Responding to the challenge of integrating and revitalizing Lublin's older underserved districts, Ewa Kipta, architect and planner in the City Urban Planning Unit, initiated a process to engage residents in the development and rehabilitation of their neighborhoods Dwindling central transfers and tight budgets necessitated the mobilization of community resources to improve the urban environment It was a cutting edge concept in Poland for both city planners and the population The main objective was to build a new working relationship between residents and city officials, based on a shared vision of the future and "a lasting trust" The initiative could not begin without strong backing within city government Jadwiga Jamiołkowska the City Architect and Director of Architecture, Urban Planning and Construction department in 1991, provided that support as did the reform minded City President Leszek Bobrzyk who was willing to experiment with innovative ideas They both saw rehabilitation as an important component of Lublin's housing strategy a view consequently shared by Elzbieta Mącik who replaced Ms Jamiołkowska in 1993

The 1994 elections changed the composition of the City Council However, the new City President, Paweł Bryłowski, reaffirmed the priority placed on rehabilitation as a key strategy for Lublin Dr Krzysztof Stefaniuk, Vice President in charge of City Development, has strongly backed the initiative and provided the Project Team with the political support they need to proceed USAID is supporting Lublin with technical assistance and training The Unit for Housing and Urbanization at Harvard University Graduate School of Design is providing this support as a subcontractor to PADCO under USAID's Housing Finance and Municipal Advisory program In Poland

Lublin Local Initiatives Program was launched in two lower income districts. The first one, Bronowice, has a population of 4,000 and encompasses an area of 73 hectares, 30 of which are residential. The population of the second, Kosminek, is 3,200, its area 38 hectares. The fabric of both districts consist of 19th Century core of multifamily housing, originally designed for workers employed in adjacent factories, a zone of good quality single family housing and more recent under serviced extensions consisting of illegally built housing. Because the districts were designated as urban renewal sites, residents were denied access infrastructure. They could not even connect to existing networks, on the grounds that all existing housing was "temporary" pending demolition. Repairs to buildings were also prohibited except for major roof leaks. This state of affairs lasted over 30 years resulting in resentment and distrust of municipal authorities.

Lublin's community planning process has required an extensive outreach effort sustained over two years, including consultation with every household in project areas, discussion and consensus building. Regularly scheduled public meetings were held and motivated residents on each street who became the planner's contact persons. Gradually, residents became aware of the role they could play in shaping the future of their neighborhood. The plan for Bronowice was approved by the City Council in December 1993 and the plan for Kosminek in February 1994. Adoption of the plan regularized the status of the unauthorized houses built on illegally subdivided parcels. Residents could now feel secure from both displacement and challenges to their occupancy rights. The City avoids being involved in tenure issues. Residents sort out their ownership and tenancy rights with the private parties involved.

In December 1993, the City made a commitment to stimulate local investments in infrastructure and buildings in conjunction with urban development plans through the Act for Support of Local Investment. The Act for Bronowice was passed in December 1993 and the Act for Kosminek in March 1994. Residents along each street designate representatives who negotiate on their behalf requiring infrastructure improvements and sign the cost sharing agreement for which they are personally liable. The municipality covers 50% of the cost of water. Sewerage and power lines, 70% of the costs of roadbeds and sidewalks and 100% of the cost of drainage and street paving. The construction sharing formula can be modulated to take into consideration issues of equity and cost burden. As an incentive to private rehabilitation of buildings, investors are granted a three year exemption from property taxes. To mitigate the negative impacts of low rent ceilings and stringent tenant protection laws, the City Council passed the Act on Regarding Renovation of Privately Owned Rental Housing, in August 1995. The Act provides a small grant to private owners undertaking to repair or rehabilitate multi family apartment buildings.

The impact of the city initiatives have exceeded expectations. Young people who had left the site are returning to family real estate holdings that have become valuable assets. Multi generational families are re establishing themselves in houses

where elderly parents had been living on their own for decades. Families who came to the area for the sole purpose of getting relocation apartments are now investing in renovation and expansion of their dwellings. Local micro enterprises are establishing family businesses and small commercial enterprises. The built environment is being rehabilitated and renovated by empowered residents fully aware of their productive capacities.

In September 1994, the City decided to institutionalize the Local Initiatives Program as a key environmental improvement strategy. To avoid changes in the organizational structure of the municipality and the need for additional budget resources, the proposed institutional framework established two interlinked working groups under the Vice President for Development:

A Program Team headed by Ewa Kipta with members drawn from the staff of the departments involved at each stage of the rehabilitation effort,

A Coordination Group bringing together the heads of departments.

This structure built on existing linkages between departments, and simplified the interface between residents and the city administration. It was presented to the City Council in December 1994. The Local Initiatives Team was formalized in January 1995 and in February, the Coordinating Group was established as a Standing Committee for City Development.

To improve the quality of life in Lublin's neighborhoods, the program focuses on:

1. Introducing participatory planning and citizen involvement in implementation through neighborhood development committees and street representative working in partnership with the City,
2. Creating an enabling environment for private investment,
3. Empowering citizens to pursue their own self improvement,
4. Promoting privatization in the housing sector and fostering improvement of the housing stock and helping in the development of micro enterprises,
5. Ensuring the sustainability of activities initiated, and
6. Promoting the replicability of successful initiatives.

Frameworks for Participation and empowerment that structure the city/community interface and promote public/private partnerships shape operational strategies integrating economic revitalization and environmental upgrading at the community level. Despite its part-time involvement in the program, the dynamic and dedicated Local Initiatives Team has managed to:

1. Maintain an ongoing dialogue with residents to set priorities for upgrading activities as well as leverage and coordinate public and private inputs in the development process,

- 2 Expedite permitting procedures to stimulate housing renovation and change zoning to allow income generating activities and micro enterprises as of right,
- 3 Foster awareness of environmental issues prompting residents to finance house connections to sewerage lines and contract private services for solid waste collection in the unpaved zones,
- 4 Mobilize residents to participate in the clean up and landscaping of the river front by the Lublin Foundation for Environmental Protection,
- 5 Offer technical and administrative support to property owners undertaking valorization of their properties,
- 6 Promote the adoption of local acts providing incentives for the rehabilitation of privately owned rental housing and the improvement of structural and sanitary standards in the pre war multi family housing stock, and,
- 7 Expand the program to the other neighborhoods while simultaneously increasing the scope and diversity of the activities initiated

In a span of three years, 274 existing houses have been partially or fully renovated and 78 new ones have either been completed or are in advanced stages of construction. Only 6 shops existed in the neighborhoods before regularization. Today, 89 shops have been opened in rehabilitated buildings and 44 new and converted buildings are entirely occupied by commercial uses. Close to 195 people are working in these small businesses and micro enterprises. In addition to the inputs of residents themselves, construction activities have provided work for over 150 persons engaged in the building trades. The changing image of the area is attracting private developers and investors interested in vacant parcels close to the city center.

The Local Initiative Program has demonstrated that participatory planning and community development processes adapted to the dynamics of the local economy can ensure the sustainability of the revitalization efforts with diminished public inputs. The Program enabled the City to achieve its objectives through strategic investments, partnership with the community and empowerment of residents. Watching a construction crew installing a new concrete paved sidewalk on Sosnowa Street, and pointing to the transformed facades of new and renovated buildings, a resident reflected "I never dreamt that our street could be so beautiful. This program has changed our lives."

Lublin's Local Initiatives Program received international recognition from UNCHS/Habitat as one of the twelve best practices in improving the living environment out of 600 nominated world wide. Elzbieta Maćkik, the City Architect, and Ewa Kipta, Coordinator of the Local Initiative Program, received the award from U N Secretary General in plenary session at the Habitat II Conference in Istanbul on June 4th, 1996.

**PROGRAM AREA SUMMARY INFORMATION - BRONOWICE**

Total Area of Housing	19,42	ha
Number of Residents	4,000	
Number of Small scale Housing Plots	415	
Number of Plots for Rental Housing	34	
Area Designated as Open Space	12,41	ha
Area Designated for Industry and Wholesale	17, 20	ha

IMPROVEMENTS	1992 93	1996	
Number of Shops and Small Businesses	Increase from 5 to 25	53	
Number of Housing Renovations by Private Owners	57	135	
Number of New Houses and Extensions Built by Private Owners	19	29	
Length of Upgraded Street Infrastructure	400 M	—	M
Length of New Sewerage Lines	400 M	—	M
Length of New Water Lines	400 M	—	
Length of New Gas Lines		20 M	—
Area of Improved Open Space for Recreational Purposes	7,00 ha	continuing	
Industrial Areas for Privatization, Regularization and upgrading	6 86 ha	4,16	M

### PROGRAM AREA SUMMARY INFORMATION - KOSMINEK

Total Area of Housing	19,20	ha
Number of Residents	3 200	
Number of Small scale Housing Plots	416	
Number of Plots for Rental Housing	23	
Area Designated as Open Space	5,00	ha
Area Designated for Industry and Wholesale	17, 20	ha

IMPROVEMENTS	1992 93	1996	
Number of Shops and Small Businesses	Increase from 2 to 30	36	
Number of Housing Renovations by Private Owners	80	112	
Number of New Houses and Extensions Built by Private Owners	38	49	
Length of Upgraded Street Infrastructure	980 M	+175	M
Length of New Sewerage Lines	620 M	+255	M
Length of New Water Lines	160 M	—	
Length of New Gas Lines	470 M	—	
Area of Improved Open Space for Recreational Purposes	—	1,06	ha
New Street Surfacing	—	350	M

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**Keynote Presentation****The Activities of Planning and Development Collaborative International (PADCO), Warsaw, Poland**Mr Mark Brown

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I have been asked to give a short presentation about the program my firm has been engaged in here for several years in Poland as a contractor to USAID. This is a program called the "Housing Finance and Municipal Advisory Program" for Poland. Since 1994 PADCO and other contractors, (consulting firms) has been providing technical assistance and training in the housing and municipal sector. The framework for these activities is an agreement between the United States Government and the Polish Government, so you can say it represents a common agenda of the two governments.

As the Polish economy has evolved and grown within this period, so has the project changed and evolved and I will briefly talk about four main components of the project spending a little bit more time on one that has been already mentioned, which is the "Gmina Housing Partnership"

The first part of the project which I will like to mention has promoted the establishment of the private housing development sector in Poland. Working with the Housing Finance Project Office of the government of Poland, the project has assisted hundreds of private developers to develop housing projects in the private market thus helping to fill the gap left by the decline of funds from the state (federal government). One aspect of that work has been to conduct workshops to train developers throughout Poland how to formulate and package the financing of housing projects and in fact hundreds of projects were reviewed and assisted over nearly a three year period. And hundred of builders and developers did participate in training courses that were conducted by this project.

A second part of the project has been to assist in the development of the Polish mortgage lending industry. Although the implementation of the mortgage fund has been constrained by high interest rates, by the problems of lien priorities, and I would say by the general reluctance of Poles to take on long term debt in the economic environment and the changing employment environment. Although these constraints are there, we do know that lending for house ownership is growing. Whereas only two banks were offering mortgage loans when the program started, today something like twenty banks are offering mortgage loans in the market. So there is a move towards market based housing finance. A continuation of this work which we have recently started has been to develop training for banks bank staff involved in mortgage lending operations. So this is operational level training and it is in direct response to the interest and activities of banks to expand their mortgage lending operations that is happening now.

A third part of the project has been designed to increase the amount of investment in municipal infrastructure. Clearly this is something that is badly needed to sustain economic growth and also to address the backlog of deferred maintenance and unmet demand for basic services in gminas. The strategy to achieve this increase in investment in infrastructure has been to stimulate long term debt financing from commercial but also perhaps more importantly by municipal bonds issued by gminas. The form of technical assistance that has been offered, that has proved very successful in this part of the project has been to specifically to assess the credit worthiness of gminas and for this work we have collaborated and we continue to collaborate very closely with the Municipal Development Agency. The tool that has been primarily used for this is something called the "Gmina Financial Analysis" and to date this analysis has been conducted with something like eight or nine gminas. Several of them have gone on to take advantage of the knowledge that they have gained about their credit worthiness their ability to repay debt and have either taken commercial credit or to issue municipal bonds. So this component concentrates on the development of a non subsidized municipal credit market and the municipal bond market.

It is interesting to know that this morning in the presentation of Bielsko Biala, you may have heard that they are also talking about the use of municipal bond moneys to finance the implementation of part of their housing strategy and in this a case where two consulting firms PADCO and RTI (one of our fellow contractors) have been assisting the gmina in this process. So the way it works in this case is that the "Gmina Financial Analysis" is used to diagnose or examine the financial health of the gmina and to establish its credit worthiness, its ability to repay debt. On the other side we have assisted beginning from the Housing Strategy prepared by the gmina to look at which of those components of the housing Strategy ought to be good candidates for receiving moneys that come from the municipal bonds. So there is a strategy for financing housing related activities with municipal bond moneys and in fact we are in the middle of this work right now. So there you have two complementary tools which look at the financial capabilities and our work to try to link that to the housing strategy of the gmina.

The fourth main component of our project has been mentioned already. It is called the "Gmina Housing Partnership" which was designed to assist gminas to better manage existing housing stock and to meet the need for new and rehabilitated housing. You might say the purpose of this program has been to assist gminas shoulder the burden or to meet the challenge of the Local Government Act, or perhaps to take advantage of the opportunities of the Local Government Act. Under this Gmina Housing Partnership pilot projects were conducted in Six Gminas and today some are being replicated or maybe modified in other gminas and they have produced a variety of experiences, solutions and tools that gminas can use to better meet the obligations of local governments and some of the results you have already

heard in the presentations this morning. In fact the program has provided technical assistance in the three revitalization case studies which were presented this morning (Bielsko Biala, Lublin and Szczecin)

So under the "Gmina Housing Partnership" local governments are gaining practical experience which they can use "at home" as it were but also this part of the project has sought to take the local experience and apply it in some cases at the national level. For example by bringing experience from the revitalization activities into the discussion about modifying and drafting the Renovation Act. For example, one year ago we organized and participated in a conference in which I think most of you were involved in.

So the work of the "Gmina Housing Partnership" has focused on several substantial areas:

First of all preparing and adopting housing policies and housing strategies. This work has been done primarily in Bielsko Biala and Szczecin. And as a matter of fact we had a conference in Bielsko Biala about two weeks ago that summarized some of the experience and was attended by twelve (12) different gminas. So we took practical experience that we gained in helping gminas in formulating their housing strategies and we asked them to come back just as we are doing today and transfer that experience to Gminas that did not receive the direct technical assistance.

Another area of assistance under this program has been to improve the management of housing stock of communal housing mainly and to restructure communal housing management bodies. This work has also been done in gminas such as Bielsko Biala and to a certain extent in Szczecin. There are several practical tools, I will mention one which was developed in Srem which was a model and a Management Information System that allows the ZGM to manage the inventory of the housing stock, to program money for capital repairs, to make decisions about investments in repairs and to evaluate different scenarios and thirdly to assess different rent strategies and resulting impact on housing allowances. This is an example of a tool that is designed to improve the management of housing stock. In Bielsko Biala, on the side of restructuring the management bodies, we are in the middle of assisting the ZGM and ADMs to develop a strategy for restructuring which is looking more and more like privatization of the whole of these bodies.

As I mentioned before in several of the gminas of the Partnership we have assisted in urban revitalization and neighborhood revitalization strategies. I don't probably need to say more about that. In Lublin, Szczecin, and Bielsko Biala we have provided technical assistance in this area.

Another area and one which currently is quite active is the development of the "Not for Profit Housing Sector" or the TBS. We are providing technical assistance and training, really to try to give a kick start or a boost to the development of this sector.

and this by definition involves partnerships of governments, of local governments, of tenants, investors, of gmina officials. So PADCO works today with BGK to promote the concept and the program and in fact we have completed in the last month a series of five regional presentations presenting the concept of TBS. We are also now providing two different kinds of technical assistance. On the one hand, advice to gminas and TBSs on organizational and business planning issues. How do you organize to establish a TBS? How does a TBS define its activities, its mission, its business plan? That's the organizational and business planning side.

On the other side we are assisting TBSs and also BGK to assess the feasibility of specific projects. So the TBS has a specific project and they want to understand how the loan can be repaid. Where the sources of money (the financing) are coming from. There is a computer model that allows us to evaluate different parameters and to find out whether the project is viable, really looking at it from the perspective of BGK as the lender.

I guess the last area that I would mention of the pilot projects of the "Gmina Housing Partnership" was to improve economic development planning and that was work that was done specifically in Gdynia and in fact last week the economic development study for Gdynia went to the printer. There was an element there of developing analytical tools and the capacity of the gmina to understand its economic development issues and opportunities and to be able to analyze the issues that are important in the development of the gmina.

So there are several general principles that have guided the work of the "Gmina Housing Partnership"

- One has been capacity building in the staff of the gminas and local consultants and institutes so that the techniques and approaches that are developed can be sustained.

Public participation and partnering of diverse groups to building support for projects and to bring in additional resources. Not just gmina resources. So this participatory aspect has been another guiding principle of our work.

A third element that has come in several places has been the use of modern data management tools, for example the MIS for housing management, the analytical tools for evaluating TBS projects. The idea being not simply to collect a lot of information but to look at it from a strategic point and to use the information strategically to direct the results at the decisions that are being made.

Finally I guess there has been a principle which I mentioned of using the experiences and feedback from work in the Gmina to inform policy making at the national level to improve the legislation environment for local government self governance.

I would finish by mentioning some of the priorities that came out of our experience and try to direct them a little bit to the themes of this conference

One, I would say that participation in housing finance by the private sector is growing. We know this. It has to grow a lot more but it doesn't simply mean big outside investors. I think it means mobilizing individual savings, as well as local and international capital markets, and I think the diversity and complexity of financing is one of the aspects of increased participation that is going to be difficult to come to grips with but it has a lot of opportunities to present as well.

- I think a second priority area is simply renovation of housing stock so as to preserve and enhance its usefulness (of course this is one of the main themes of the conference) but I think also maintaining and preserving affordability to a wide range of households is important, not to produce middle income ghettos in the middle of the city. So I think there are obvious issues about protecting our households at low income scales as well.

I think a third area is simply the importance of using public sector funds strategically to stimulate urban revitalization and to me strategically here means that the gminas have to use their funds to leverage private sector involvement and investment, that gminas and local partners in the private sector and from other non government groups need to unite their efforts, to work together. They need to devise creative mechanisms to assess and use funds that are available from diverse sources. For example the National Housing Fund, and funds which will be become available under the Renovation Act.

Our program is scheduled to end in a few months time the "Housing Finance and Municipal Advisory Program" and the "Gmina Housing Partnership". We are already in the process of taking experience from the Gmina Housing Partnership and applying it in some of the cities which are participants in the pilot "Local Government Partnership Program" of USAID and it is our expectation that this work will continue and the models and tools and approaches will continue to be applied under the "Local Government Partnership Program" which Michael Lee discussed this morning.

Thank you

## DAY TWO. FRIDAY, MAY 23, 1997

Keynote Background Presentation

### **Institutional and Management Issues**

Mr Max Jeleniewski of the Institute for Housing and Urban Development Studies Rotterdam, The Netherlands

First an elaboration on the Institute for Housing and Urban Development Studies in Rotterdam, the Netherlands. The Institute (IHS) is mainly concerned with training, short courses and masters programmes to Ph D studies, and on the other hand the Institute does consultancies and research. One of the regions IHS is active in, is Central and Eastern Europe. In relation to Central and Eastern Europe IHS provides each year a course on "Inner City Development in Central and Eastern Europe" for professionals from all over Central and Eastern Europe. The course starts each January. The three months course for professionals focuses on new planning approaches in the field of urban renewal, housing and urban development and on designing projects which come up with concrete results.

The main theme of this presentation is institutional development. The starting point is bringing back the responsibilities to their origins. It has to be clear what the roles of the different actors in urban development are. Secondly, we have to build up institutional arrangements. The main conclusion will be that in each different situation we will need new institutional arrangements.

Therefore there is not "the solution" for urban renewal, nor is there "the solution" for a kind of organization which will work. One solution which has been found in one city and has had success does not mean that in the next city it will also have success. There are local differences. People are different, laws and by laws are different in each country or city, politicians are different, and ownership relations in cities can be different. (As an example, the situation in Szczecin is not identical to the situation in cities in the east of Poland.)

A good example of the different roles of actors is how different governments look at housing or heritage. Looking in the world, we will see that in countries like the United States or a country in Europe, Belgium, housing is considered to be more or less a private good. People have to take care about their own housing situation. This means that in these countries, there is a completely different attitude of government.

towards housing than in other countries like for instance the Netherlands or the Scandinavian countries. Here housing is seen as something which some people cannot take care of themselves. In these countries, the government has to step in and has a certain responsibility for housing its citizens. These countries reserve huge budgets for housing policies, both for central government and local governments. We also see here an important role of housing associations as non governmental organizations in housing. So what we have to find out before we start any process is

What are the roles of the different actors?

- What are the responsibilities they will take up?

We will see that there are different roles of the actors in urban renewal. There is the public sector, the private sector and there are the residents. These are the principal actors in urban renewal. Questions to be answered are

what is the role of the public sector, What do they want, What do they see as their responsibilities,

what are the responsibilities of the private sector, and

what would be the role of the residents?

There is a clear difference between the Western European situation and the Central and Eastern European situation. In Western Europe there are residents organizations which can be very strong and they tend to push the public sector to come up with solutions in the housing sector. In Central and Eastern Europe, the role of the residents (and that is by tradition) is still limited.

Now that we have defined the three actors, the relations they have with each other have to be analyzed before we can go into the different responsibilities (which as I said can be different in each place). For this, a distinction between ten different steps of cooperation between the different actors have to be formulated. They are ranked in the scale from one to ten. Simply to that there is a partnership, is not enough. We have to define the level of cooperation.

*Informal exchange of information* is the first step in cooperation. This can be described as a meeting in a pub or in a restaurant. We meet somebody and we exchange some information. This is in fact the start of every cooperation. But it is very informal, there are no obligations, there are no responsibilities. In the list which we will go through point for point we end up with the highest form of cooperation which is when we establish a joint venture. We work together, through a company, there are statutes, we have contracts and everything is arranged. In between these two extremes we have different steps.

So the first step as I have mentioned is cooperation on an ad hoc basis, things are being discussed and there are no obligations. The second step is already more

*formal formal exchange of information* This can be described as sending a letter to somebody asking for certain information. A reply will be made with the information requested. This is already one step further. The cooperation process is already on paper. However, there has only been an exchanged of information.

The next step is consultations. We have to distinguish informal consultations and formal consultations. The first one *informal consultations* is that we are in the same pub and we ask opinions (of a certain project). So we consult and we ask for advice from other people. *Formal consultations* are more official, e.g. through a meeting, where there is an agenda. We discuss things openly and then we find these things back in the minutes of the meeting. We have not done anything yet. There has only been consultations and advise.

The next step is the *letter of intent*. This means that we are putting on paper what we want to do in future together. It is not really a legal form because we cannot go to court. Letters of intent are important for public relations. An example is a press conference stating we the municipality of (—) and the resident's organization or the project developer (—) have decided to develop this in this project.

The sixth level of cooperation is an *agreement*. This is the moment when we are not only saying things but we are also committed to do something together. What we intend to do together is document and we have commitment from both sides.

The next step, is *the contract*. It is a legal form. We can go to court if the partners do not agree with each other in the later stage of working together. A contract basically determines the responsibilities.

In the next step we really start working together. We could do this in a *joint project team*. A project team can be established as a kind of agency, something which does not have a legal basis. In this we make by laws that stipulate responsibilities towards each other, the responsibilities to the outside and what kind of decisions can be taken by the agency.

In level nine, a formal cooperation is created. There are two possibilities. The more informal approach is through what we call an NGO (Non Governmental Organization). We can establish an NGO either through an association, a foundation or a union.

The second possibility and the last step, is to establish a real company, a *joint venture*. This can be done for example through a joint stock company. Now our individual characteristics and identities have been replaced by a common organization.

In light of the above, we learn that when talking about a partnership, the key questions are always: What do they mean by a partnership? What kind of partnership? There is so much talk about partnerships which never come out of stage one, two or maybe three.

**Point of clarification (Mr Hans van de Sanden) One question Are these ten point about cooperation with residents or about in general cooperation between the actors you mentioned ) Also please explain what an NGO is?**

In general the story above is valid for all kinds of cooperation It could be between everybody I will come to both questions

Coming to the last point of my presentation in which I hope to wrap up the previous information and maybe give an answer There are three different actors the public sector, the private sector and the residents Within the different kinds of cooperation, there are many different relationships There are all kinds of new organizations where the actors play a different role There is hardly an organization where all these three actors are equally represented Take the joint venture In the joint venture individual residents will not take part It is always a joint venture between public sector and the private sector or only between two actors in the private sector

There can also relations between the public sector and the residents As an example, in urban renewal in the Netherlands, there is a model in which the residents and the local government work together This a model is called a "Project Organization" Within this "Project Organization" the so called project group plays an important role In this group both people from the local area (residents or residents organizations) and civil servants from local governments are represented In this "Project Organization" the two parties/actors are consulting each other on their points of view The organization is meant to advice the local government, on the final decision to be taken by the city council This is a clear example of step four of the cooperation scale (formal consultations)

Another example is between the private sector and the residents There are some examples in the Netherlands in which they cooperate in the field of heritage This is not always the highest priority of the local government In some areas the residents took action In different cities they have started joint ventures which take care about the heritage These joint ventures are in fact companies with an idealistic goal They are buying houses, renovating them and selling them again This type of organization is of course a joint venture but in relation with the local government, they use a kind of informal consultation model This is because there is no official cooperation, no agreement, and no contract with the local government But they talk to the local government about their plans and vice versa, so they know from each other what they are doing In this way they develop projects In this case, we see two kinds of cooperation coming up within one framework

We also have the cooperation between private sector and public sector that is the so called Public Private Partnership (PPP) model I will not go very deep into this subject because that will be dealt with later on today by Harvard University Graduate School of Design

What even becomes more complicated is that different actors also change roles. For instance the residents. As individuals they are not very strong. To get stronger they create an organization, an association or a foundation which will represent their interest. We call this a Community Based Organization (CBO). People from a certain block or area organize themselves into a kind of organization which makes it easier for them to negotiate with the public sector, the private sector or the landlords. Not everybody has to be consulted in the block or area. The organization acts as a representative body. This is what we call an NGO.

The public sector can also start a kind of association or something outside. There is the example of project organization in Denmark, or the Urban Development Councils in the United Kingdom. The public sector acknowledges that they can not carry out certain tasks. However they do not want the private sector or the residents to take over these tasks, so the local government establishes an association or a foundation which will develop a certain area. So the tasks have gone from the public sector to an NGO, a separate non private body.

The private sector can also do this. For some projects, for example seaside resorts, the private sector is interested in developing recreational facilities (bars, restaurants, etc), but is handicapped by its image of profit seeker. Some companies together with the local organization of small and medium enterprises can establish a foundation. This foundation will represent them (the private sector) in talks with the local government. Here, the private sector which is after profit, creates a non profit organization and this non profit organization takes care of the interest of the private sector. This is another example of a "non governmental organization" (NGO).

These are all kinds of organizations which are not typical for the government, not typical for the private sector, not typical for the residents but they have all kinds of relations and of course within these relations all these organizations can cooperate, can work together inside the different cooperation models which were presented.

For the problems of each area we can build up a kind of organization model which is based on the ten steps of cooperation. But all cooperation is dependent on trust. A cooperation has to depend on goals we mutually agree on. Each of the parties/actors has to retain some kind of their own identity. Going into cooperation and losing one's identity means the concerned party does not exist anymore. This also means there is no need for cooperation.

The kind of cooperation is also dependent on personalities. In each city there are different personalities, in each organization there are different personalities. One mayor is different from another mayor so only the personality of the mayor can determine how things are going. Local circumstances are important. Another aspect to be mentioned, especially if we come to the highest steps of cooperation scale, is the willingness to share risks. And here is the big bottleneck in many

cooperation's Everybody agrees on how to share the profits, (there is no problem) but when it comes to sharing the loses then the real problems start

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Follow up Keynote Background Presentation

**Institutional and Management Issues**

Ms Carley Pennink of the Institute for Housing and Urban Development Studies Rotterdam, The Netherlands

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Lets try to link to what Max was talking about What I am going to do is present two models, an English Model and a Dutch model of participatory types of planning What these models are doing is trying to maximize the role of the different actors in urban renewal While they are trying to deal with similar problems they are approaching them different ways Inherent in these is a policy framework and the procedures that have been developed result in an institutional framework or an institutionlization of the procedure Part of what is inherent to this process is an orientation towards strategic planning So this is a little bit the setting that I am going to introduce I'll talk first about the characteristic of what we say "strategic orientation" is, or strategic planning, and then talk a little bit about management practices that are being introduced into these models

In any strategic orientation or approach one of the first requirements is that it has to be linked into policy So there has to be a policy orientation Anything that you do has to be anchored into the existing decision making process, administrative procedures and to the political system That is the basic requirement, it is the starting point

The second point is that it has to be focused on multi sectoral strategies and programmes That basically implies co ordination It also implies that there is a tie between the physical planning systems and the budgeting systems (tying expenditures to revenues)

The third point is participation in ownership by the key actors That implies participation at an early stage by all the various stakeholders (people who have some kind of interest in the situation) It also implies something else which I am going to address in the models that I am going to discuss, a new kind of process, a new kind of working, a new kind of participation

The next point is prioritization Strategic planning or strategic orientation also implies having to make this choice So being able to maximize the situation and focus by making a choice on where to go first and where you want to go

Incremental development That basically means that you don't necessarily have to do everything at once, you do it on an incremental basis You try to tie into the capacities of the staff at that existing moment and develop incrementally as those capacities develop Now also one characteristic of strategic planning or strategic orientation, is that there is a medium to long term horizon

One of the things I want to address which is a crucial point of the models I will be presenting is the management orientation What they have been incorporating in these models is essentially recent changes in management approaches Characteristics of this (I will just go through them very quickly) are basically attitudinal The willingness to change Constant innovation with acceptance of mistakes Breaking old approaches, dealing with new ones, being more innovative and creative Being more opportunity driven What is also very particular in the first model I am going to talk about is the concern for quality What is quality? defining what quality is

Strong awareness of the population as your clients So you are serving somebody Linking investment into training (what I said about strategic planning before in terms of approaching things incrementally as staff capacity develops you link into training at different stages)

Management that can listen (I am sure that everybody has heard this quite a bit) It means focus on two way communications not just top down Management by Walking About (MBWA), this has implications for bureaucratic procedures That means going and visiting people and finding out what they want as opposed to dealing only with reports and signing off on things The other implications of course is that management and institutions are decentralized In fact one of the models I am going to talk about is this "Profit Center" idea, a way of getting management and strategic orientation down, closer to the people and it has implication for the institutional structure One is the "Profit Center" model and the other is a cross disciplinary, cross department working methodology, a matrix organization Networking is another characteristic Contracting out is another form of improving management practices Negotiations, and this is very key As you change processes and procedures and you develop new institutions negotiations become one of the crucial elements and working in partnerships

The first model I am going to talk about is Tilburg in the Netherlands It is called the Tilburg Model

This is a very special case submitted for the Habitat II conference this year in June as one of the best practices and it won first prize, it has got a lot of visibility What I have done is divided the overhead sheets into the foundation, the policy issues, the procedures, (the process), and the institutions that have come out of this, and ultimately, the characteristics which imply that they have a more strategic

orientation and they make use of they new kind of management practices that are being applied

The policy foundation was actually laid down in the urban management plan for Tilburg in 1989. It is basically a physical plan but it lists out guidelines for city policy in a lot of different areas. Now this plan was developed by setting basic quality standards for the whole city. For every area, they have policy standards for each policy area, so for environment, housing services and infrastructure. Those problem areas that do not meet quality standards become the focus for finance and attention. Inherent to this whole thing as well, sort of as a result of this approach, is a change from the hierarchical sort of bureaucratic set ups, institutional set ups to organizational networks and I will explain what those are later on.

**Point of clarification from Mr Gregory Polk I would just like to get a sense of how Tilburg defined very specifically quality standards in those areas like housing, parks, or whatever. Not what is a quality standard but how did Tilburg specifically define one**

You have to look at it in a comprehensive way. So I would say that housing has their standards but that is seen in the context of what the neighborhood means to the residents. So housing by itself is linked to other issues. It could be linked to access to public transportation, all these things have a value in themselves and is looked at in a very comprehensive way. So housing could be age, quality, number of rooms, all the characteristics that come with housing that is not seen in isolation that is seen as the whole process of establishing those standards via the input of the communities and the professional organizations in the that area and they kind of have a tendency to evaluate on their own what they assess as quality.

This basic urban management programme is altered annually by input from the citizens. This is the starting point. One approach they take is that they develop a neighborhood description, so, based on the particular neighborhood (Tilburg is divided into neighborhoods), they develop a description that describes problems, solutions and is also composed of an audit of the neighborhood. Also they have basic quality residential neighborhood reports and those are where the indicators are found. They give indicators of the quality of the neighborhood as developed by the local government with the input of the citizens. So it is a very standardized system, in fact. It is kind of a performance benchmark. After having developed these indicators, which are altered every year, they put them into an information system. These things are then on record and one can compare them.

The process behind doing this neighborhood description and setting these standards is the following. In a particular neighborhood, representatives are chosen from professional organizations, from residential groups etc and they are on a board. They meet in a group as representatives of different organizations and as individuals within particular neighborhood. They sit down and define their own

problems. At a certain point they also have to come together and refer to the people they are representing to figure out if everybody agrees with what they are doing. So there is a problem definition at that point.

The next step of the process is that they sit in group and decide what they consider as possible solutions. This implies also that different organizations may have different solutions for their problems. They may have different definitions of what the problem is. It also implies that in fact there is some idea about who can do what. Given the solution, it may be a public solution, it may be a private solution or it may be a community solution. So the next step is assigning responsibilities. Remember this is still being done within the neighborhood with a group of representatives from professional organizations and the community linking into public sector. It is still being done at the community level. Afterwards responsibilities are assigned within this representative group, these assigned responsibilities are taken back to the neighborhood at large and those groups who have been assigned the responsibilities have to agree to take them on. At that point there is a relationship between what has been prioritized by this group and the group that they represent and the technical capacity and budgetary capacity of the government to be able to implement this project. That is basically the process.

Linked into this is the basic structure of local government and that is that in the basic policy areas of housing, services and infrastructure, things are dealt by profit centers. The political system acts as a holding company and the Profit Centers are the different division of the holding company. It is a business approach to everything. Once policies and strategies have been established by the political system they are out of the loop. They are no longer involved other than to deal with performance reviews and to give feedback if necessary. The product has been defined, the strategy has been provided so city servants at that point, the administrative staff are responsible for delivering the product. One of the things which is very important here is that there is a clear separation between the task of the politicians and the task of the profit centers. They are very separated in this case and this was an intent in Tilburg to be able to do this. These profit centers have a relationship with the ongoing procedure setting out neighborhood descriptions and developing standards and the strategies for the next year.

I would like to refer back to what I was saying about strategic orientation and planning. In other words Tilburg has certain characteristic which incorporates these ideas. It is very participatory in fact with the involvement of all the key stakeholders. It is a system for setting strategic objectives because not all problems can be solved at once and there is a decision within these working groups about who will do what and at what time. It is very firmly anchored into policy and the decision making process and so there is a very strong link there as well as a strong separation. It is less bureaucratic, it is innovative and it is extremely autonomous it is very participatory.

but as far as the public sector is concerned, the managers are extremely autonomous. They have the ability and the mandate to work on their own.

Instruments of control are always a concern. In other words, you can institutionalize a process or a procedure, but you still need control mechanisms. This is basically done as far as the profit centers are concerned through contractual arrangements and performance reviews. So there is a very business-like approach to this, and the process is very client-specific.

The second model I chose simply because it resembles a little bit what the Municipal Renovation Team of Szczecin is trying to do. This system was developed in Southwark, London.

The basic policy objective was to effectively decentralize the management of inner-city projects. They wanted to figure out if they could set up better ways of cooperating with businesses and interested investors. That was a primary objective. They wanted to harness community involvement and having experimented a great deal with bottom-up approaches, they found out that it was not a comprehensive enough approach, so they were searching for other ways of dealing with this.

They basically started with one pilot project, so the system, the procedures, the processes, and the institutions developed from there. In fact, the pilot project is called the Elephant and Castle. They did it following their nose, learning by doing essentially. What they did was they formed a project team, worked with an existing project which was ongoing, tied into and cooperated with the developers, establishing meetings with the community. Elements of their involvement in the project (which ended up in a partnership) is that they made use of their public skills to try to reduce the cost of the project to the community and the private developer. They did things like speed up the approval times. So via establishing common objectives, one of the issues for the private sector and other community groups involved in the project was the time and money related to extended approval times. Essentially, they also did this on an incremental basis, so as there was an inability for one partner not to do something, the other one moved in. The other element of this project is that they did not use a master plan at all. It does not mean that they gave up on the institutional framework or that they forgot about legal procedures, but in fact they had the mandate to develop as they went along.

While this is in some way similar to the Municipal Renovation Team (Szczecin), it slightly differs in that the project teams (because this became an accepted procedure), were cross-disciplinary teams, so from each line agency, each sector, somebody was chosen based on their competencies and their abilities to fulfill a task. One of the issues, in terms of institutionalizing this, is that they wanted to make sure they had longevity on the projects, so they insisted that people who were involved in a project take a contract for the term of that project. Now the issue here is that project focused on a particular geographical area. So per geographical

area there exists a different project and a different team. Coordination comes in fact because they still sit in their offices as well as on the project teams. So most of the institutional coordination occurred back in their offices between the different project teams.

Again I refer back to the list on strategic orientation. This procedure was very linked into policy because each project had a council member who was very involved in helping push this thing forward. It was a less institutionalized participatory project than Tilburg but it was participatory in that the team functioned as the link (very successful) between the private sector and the community. Innovative in the fact they really did not have a pre-prescribed plan and they basically change their objectives and strategies as they went along. When you talk to the council member involved in this particular pilot project she says one of the problems we had is not losing our vision. We became so innovative that we had to keep coming back to what our original vision was about what we wanted to achieve. It was therefore also very incremental. Multi-sectoral they establish a system of tying physical planning to budgeting and it was coordinated back in the line agencies. Linking also it was a very good system for trying to prioritize as they went along. So the project team was there to function as a tool for being able to help prioritize, link into budgeting, know how much was reasonably possible at a particular time and with their long-term view as a public agency helped to set priorities within a community, translated those into priorities.

These are the two models I wanted to present. This is the end of my presentation. Thank you very much.

(Max Jeleniewski)

As a concrete example what has been done is that the strategic decisions are being taken by the council. That means that not all the decisions are being taken by the city council, but a package, the strategic line. There is a budget and this budget will be worked out by these groups which are there and they have more or less independence in deciding within the guidelines on how to spend the money. So you have decentralized part of the decision-making process on the money. This means that on the project team level you can take decisions much faster because you do not have to go through the whole line of decision-making. A very concrete example: The city council can say every purchase up to 100,000 USD can be decided within this project group, and everything above 100,000 USD we want to have approval. Of this 100,000 USD there are guidelines on how to spend it. It is approval at the end of the year if they did well or not. If they did not do well they are in trouble. And of course they get a total budget not to spend more than so and so much. This is about money decisions and you can do the same of course with planning decisions.

Like in the English model the UDCs they have total freedom. It is a public organization which has been established by the city council. But the city council does not have anything to say (almost nothing to say) about the planning standards because they decide themselves and this speeds up the development process in certain areas. In each situation it is a little bit different.

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Romanian Case Study

**Urban Renewal of the Lipscani Area**

Mrs Sorina Racoviceanu and Mr Nicholae Tarlaunga of the Institute for Housing and Urban Development Studies Bucharest, Romania

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**1 General presentation of the city context**

Geographically, Bucharest is a town where East meets West. The mixing of cultures is clearly evident in the development of the urban structure over many centuries, influenced as it has been by successive colonizers of Byzantine, Ottoman and Western origin. Each of these cultures has imposed a different pattern of geometry on the urban structure. Based on the natural topography of the area, the urban structure was subsequently modified by a radial network of routes encircling the town and linking early Christian churches. This pattern was later broken by the 17th and 18th century Ottoman influences which generated informal patterns of lanes and bazaars and which were in turn superimposed in the 19th-20th century by grand Hausmann style boulevards and squares as Western influence gained a foothold in Romania.

Between the 17th and the 19th century, the surface of the town has continually extended. Repeated decisions were made in the 18th century, in order to stop the building of houses outside the admitted limits. However, the process of extension could not be stopped and the sixty villages around Bucharest were included and became districts of the town. In 1991, after the administrative reorganization, there are 22,800 ha for Bucharest City and 153,600 ha for the villages in Ilfov Agricultural District surrounding the city.

The number of inhabitants grew throughout the centuries, due both to the population increase and to the migratory flow towards the capital. Since the end of the Second World War the city of Bucharest has changed dramatically. The population has grown from one million to an estimated 2.6 million. The inhabitants of Bucharest represent 10% of the inhabitants of Romania and more than 18% of the urban population.

The nucleus of the present center of the city was Curtea Domneasca (Princely Court) fortified in the 15th–18th centuries, and the adjacent commercial zone in the northern and eastern side, located on the left embankment of the Dambovită river

The northward expansion of the city caused, apart from the increase of the center surface, a northward movement of its boundaries, and after 1920–1930, the business center was defined, including a dominant banking sector in the area of Calea Victoriei crossing the East–West axis and Lipsican Street

After 1948, concomitantly with massive nationalization, a dramatic cut of functional diversity occurred—for instance, in 1936 there were 3 state banks, 102 private banks and 13 branches of either foreign or provincial banks, in 1973 there were only 4 state banks, of which two had 2 and 8 local branches respectively, again, there were 49 newspapers compared to 16, 72 cinemas compared to 16. There were also 40 insurance companies compared to the 2 ones existing in 1973, and 81 professional societies and associations as compared to 23

Against this background, until the 1980–1989 ample operation took place in the southern sector of the central area—punctual insertions of the National Theater, hotels, cinemas, a multipurpose hall and, especially, dwellings with commercial spaces at the ground floor

After 1990 due to the development of private sector a strong dynamism characterizes the activities in the central area—the new banks and offices that appeared use, by conversion, housing and hotel spaces, moreover, a system of leases has been started to grant building plots for banks and offices

One may anticipate a powerful growth of the service system, especially in the realm of professions, finance, banking, and managerial activities, taking into account the sector restructuring that has started since 1990. The 1992 census showed that in Bucharest there was a 47.1% share of the population in the service area (out of which 6.6% in transport and telecommunications, 12.1% in commerce, 11.1% in various services, 1.4% in administration, 4.9% in education, culture, art, 3.4% in science, 3.4% in the health system), a 41.5% share in industry, 7.5% in construction, and, finally, 3.9% in agriculture and forestry

## **2 General presentation of the Lipsican area**

The “old town”, Bucharest’s historic center, is a unique and precious asset, with considerable development potential and one that should attract public and private investment. Similar places in other cities have become the focus for investment, enterprise, and tourism, like Convent Garden in London, the Marais in Paris, the Plaka in Athens or Sultanahmet in Istanbul

The study area covers a surface of about 1.25 sq km, with a complex functional profile, including housing (1445 families living in 1380 apartments) and also public institutions, banks, shops, churches, hospitals. Most of the buildings were built in the 18th-19th centuries, but there are some historic monuments built in the 15th-17th centuries.

The boundaries of the area are high traffic routes: the Kogalniceanu boulevard (North), the 1848 boulevard (East), the Dambovită river (South), Calea Victoriei (West). Two metro lines cross the Unirii square, there is a lack of parking places, and pedestrian ways are not structured.

There is a difference between the urban structure of the part where banks and administrative functions are concentrated and the commercial area, with higher land use indicators and poor physical shape.

### **The Lipscani Street**

Previously named Prince's Court High Street or The German Street, Lipscani Street is the present day main street of the area, developed in the middle ages as a by-pass between the Mihai Voda Bridge and the Down Town Market Place, skipping the Prince's Court premises.

During the 18th century, the High Street was somehow shadowed by the commercial role of some other streets like Shelari, Smardan or Covaci. Anyhow, the existing or the emerging inns (Sherban Voda, Zlatari, Gabroveni), the commercial premises flanking the street are elements that forecast the street's functional characteristic as commercial spinal cord of the city.

The 19th century was decisive for Lipscani in acquiring the commercial character. The Great Fire 1847 didn't spare the area, affecting mainly its eastern part. The damages produced explain why in this area larger buildings, unusual for the site, are to be seen.

Late 19th century, the process of modernization of Bucharest involves also the Lipscani quarter. Important public buildings are erected in the southern sector of the former Mogosoia Road, the present day Calea Victoriei (Victory Avenue) replacing older inns or secularized monasteries. Banks or commercial premises replaced landlord manors, spreading from Calea Victoriei through Lipscani Street towards crossing with Shelari Street. Real estates merged to form larger building sites suitable for the modern banking or insurance facilities.

The rest of the street retained its appearance and its function: retail and small workshops. Several redevelopment areas are to be seen in that part of the street although the late 19th century buildings were frequently improved on site. Due to the fact that it appeared quite late, the Gabroveni Street served as a backyard alley for the estates facing the Lipscani St. Weather facing Lipscani there were the shops or the

residential facilities, towards Găbrveni facades display even now the appearance of the former warehouses and workshops. The cutting through of the North-South Boulevard (the first decade of the 20th century) sliced the Lipsican Area in two.

### 3 Premises for revitalization

In a first analysis some strong and weak points can be identified.

#### Strong points

- The area as a whole has a memorable character, evoking an image of Bucharest as “Little Paris”  
It is a rarity because so much else of the city center has been demolished by Ceaușescu
- The location, at the heart of the city, is readily accessible by public transport and on foot, as well as by car
- It contains many of the city’s potential tourist attractions
- It is the country’s main financial district, and the banks are expecting to double in number over the next few years  
The busy commercial area, incorporates long established wholesalers as well as more recently established workshops and street traders

#### Weak points

Important buildings are decaying and “at risk” as a result of lack of maintenance and inappropriate uses. A number, particularly in key areas, such as Lipsican Street, are derelict or have been demolished.

- A significant residential population, some 4,500 people live in former commercial buildings, many in poor conditions
- The streets generally are drab and unwelcoming due to a lack of maintenance and surveillance

There are conflicts between uses, for example between traffic and pedestrians, and between financial functions and those of the bazaar.

Many of the current occupants are too poor to afford a better environment, while there is perceived to be a major problem of crime and security, which is blamed on the “gypsies”.

There is insufficient space available to accommodate demands from either small enterprises or financial institutions.

The regeneration of the area will bring a number of important public benefits which justify its receiving priority, including

conserving an important part of the national heritage in ways that the general public and visitors can enjoy,

acting as a model for the introduction of a market economy and efficient business practices

- creating a springboard for new enterprises to establish themselves in a supportive environment

creating jobs and training opportunities for people who would otherwise be unemployed

The physical problems, which apply to many other historic areas, are complicated by structural or institutional problems peculiar to Romania and to an extent other Eastern European countries

There is no approved planning framework despite a host of excellent surveys, and there is little prospect of agreeing on an overall plan for the city when so much is uncertain, staff resources are limited and the political system has not yet won sufficient trust

The municipality is taking over responsibility from the government without the resources to meet the community's expectations, while power is divided between the Town Hall, the sectors, and a number of other administrative bodies

- The problems of development are aggravated by an over loaded infrastructure particularly inadequate water and heating supplies, and partially completed grand projects, such as the Avenue of Revolution which are competing for attention and resources

Securing investment in the old city center is made even more difficult by the claims of previous owners, and the lack of a trustworthy and proven system for agreeing property prices and values

The needed strategy should focus on the long term revitalization program combined with small scale projects with quick, visible impact, in order to improve the image of the place

It is important to build confidence among investors by creating some early results. The first step is to agree a plan which will sustain existing activities and encourage new investment in the area. Inappropriate development and speculation must be prevented by designating the whole study area as a "heritage" or "conservation area". This means that demolition or alterations without permission will be prohibited. Also the local authority can undertake essential repairs and recover the costs from the owner. Precise design for environmental improvements should be worked up through consultation with local interest groups.

## 4 IHS Romania proposed action plan for the revitalization program

### 4.1 THE PREPARATORY STAGE

#### Objectives

- to identify and to involve the actors, public and private, in order to create an institutional framework for the program implementation**
- to finalize the technical studies regarding the area**
- to organize an international seminar**
- to organize a study tour in EU cities for a group of people to be involved in the revitalization program**

- |                  |   |
|------------------|---|
| <i>Action 1</i>  | To establish a Leading Committee for the revitalization program (responsible Local Council and the Foundation for the Reconstruction of the Capital City)                               |
| <i>Action 2</i>  | To identify and to select the organizations to undertake the technical studies (responsible Local Council)  |
| <i>Action 3</i>  | To identify the financial sources for action 2 (responsible Local Council and the Foundation for the Reconstruction of Bucharest)   |
| <i>Action 4</i>  | To identify local and international participants for the international seminar "Urban Revitalization of the Lipscani Area" (responsible the Leading Committee, IHS Romania, URBED)      |
| <i>Action 5</i>  | To get approval from the City Council and to organize the seminar (responsible the Leading Committee, IHS Romania, URBED)   |
| <i>Action 6</i>  | To submit to the City Council the conclusions and recommendations of the seminar, in order to give directions for future action (responsible the Leading Committee, IHS Romania, URBED) |
| <i>Action 7</i>  | To identify cities and funds for the study tour (responsible IHS Romania, URBED)  |
| <i>Action 8</i>  | To identify the persons for the study tour, persons to be involved in the revitalization program (responsible the Leading Committee, IHS Romania, URBED)                                |
| <i>Action 9</i>  | The study tour and lessons/conclusions to be submitted to the City Council (responsible the participants to the study tour, the Leading Committee)                                      |
| <i>Action 10</i> | To identify financial sources for funding the Lipscani Area Renewal Agency (LARA) (private sources, PHARE)  |

## 4.2 THE OPERATIONAL STAGE

### Objective A

- to select an action group for the revitalization program
- to design a 12 months action plan for the action group

- Action 1* To identify and to select the persons for the action group (responsible the Leading Committee)
- Action 2* To identify and to select two international consultants in the field of institutional development and financial management (responsible the Leading Committee)
- Action 3* To set objectives for the action group (responsible the Leading Committee)
- Action 4* To make the inventory of the available instruments (planning, fiscal, legal) for the program (responsible the Leading Committee, the action group)
- Action 5* To make a 12 month action plan (responsible the Leading Committee, the action group)
- Action 6* To get approval from the City Council (responsible the Leading Committee, the action group)

### Objective B

- to set up the revitalization agency
- to identify and to implement a pilot project in the area in 2 year time

- Action 1* To design the agency legal status, structure, financial mechanism (responsible the Leading Committee, the action group)
- Action 2* To identify the director of the agency (responsible the Leading Committee, the action group)
- Action 3* To find the office space for the agency (responsible the City Council)
- Action 4* To select the staff for the agency (responsible the action group, the director)
- Action 5* To find equipment (responsible the action group the director)
- Action 6* To organize a 2x3 month training program for the staff on modules like relocation, contract management, financial management, PPP (responsible the director, the international consultants)
- Action 7* To design the business plan of the agency (responsible the director, the international consultants)
- Action 8* To finalize the land use plan for the area (responsible the director, the international consultants, contracted firms)

- Action 9* To identify a pilot project and its spatial limits (responsible the Leading Committee, the action group, the agency)
- Action 10* To identify and to select the developers, to make contracts for the execution of the objectives (responsible the agency)
- Action 11* Monitoring and evaluation of the pilot project (responsible the agency, the international consultants)

## 5 What has been done so far

In July 1993, the Town Hall established an agency "Historic Center" responsible for administration of the real estate (operation and maintenance), but the lack of funds could not improve the existing situation

- ❖ The Municipality with technical advice from the Ministry of Public Works and Regional Planning and with financial support from the Foundation for the Reconstruction of the Capital City, started a series of projects (historic studies, zoned urban plan with regulations, infrastructure improvement studies), in order to establish a framework for decision and for further operations

In June 1995, the Municipality and two consultant teams (URBED from UK and IHS Romania) organized an international seminar on inner city revitalization, bringing international experience on this field. The institutional aspects were of special interest. The need for an agency responsible for the management of the revitalization operations was one of the main conclusions.

In March 1996, a team of specialists went for a study tour in the UK to visit similar agencies in Greenwich, Manchester, Glasgow, Edinburgh.

- In March 1996, the Municipality submitted an application to the PHARE Program, to finance the establishment of Lipscani Area Renewal Agency (LARA) and the implementation of some initial projects in the area.

The international competition "Bucharest 2000" organized in 1996, raised the interest for Lipscani area, which is located in the neighborhood. The meetings and seminars following the competition took into consideration the investors' interest to locate in the historic center.

- Supported by the Ministry of Culture, the European Cultural Center was established in the Lipscani area.

- In April 1997, the PHARE application was renewed, having three long term objectives:

- to strengthen the local authorities' capability to take into account social, cultural and environmental aspects of economic development, and to consider the market forces' impact in urban development,
- to develop the partnerships and networks among decentralized public and private sector, encouraging local businesses and local inhabitants participation during the project,

to increase the property value within the area and to preserve the existing historical heritage

The concrete results expected by the end of the project aim at

opening an office in Lipsican area backed by the main local agencies (office space and equipment provided, qualified staff, clear status, responsibilities and power, establishing steering committee and board of advisors, recruiting director of the agency),

- agreeing the business plan and making resources available for project (agreeing priorities for each year, setting targets, obtaining approval from financing agencies, publishing proposals, securing longer term resources),
- implementing the pilot project to build confidence (design improvement, securing cooperation of business, producing development briefs, publishing information, organizing events)

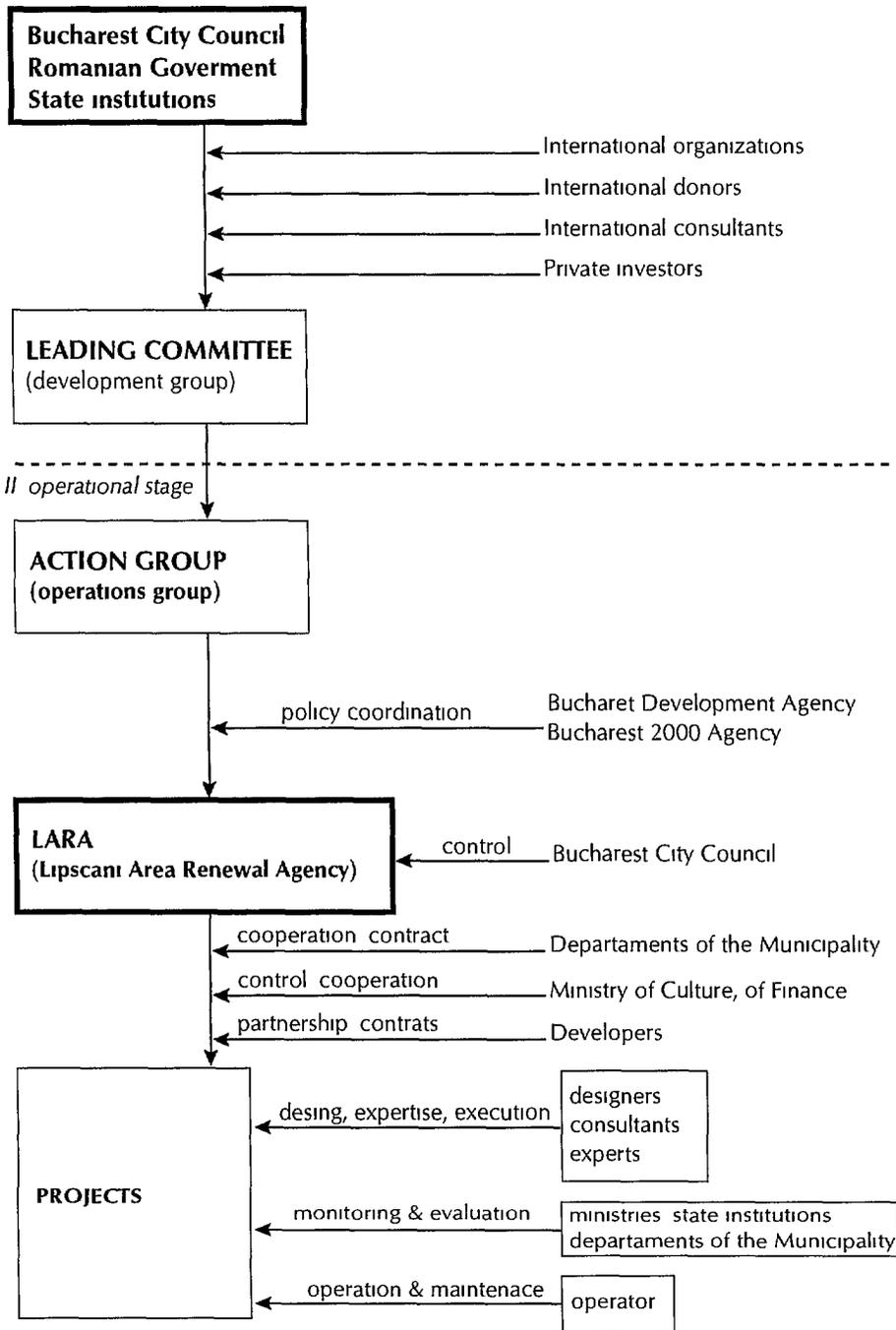
The Regeneration Agency will benefit the interests of a wide range of groups

- ❖ Business operating in the area, which include all the banks, and a large number of small business, will benefit from a better working environment, improved information, and facilities to encourage new business to set up in the area  
Property owners, private and public, including the Municipality who own buildings, will benefit from a clearer vision for the area future, coordinate efforts to improve the infrastructure, and greater interest from financial partners
- Residents will benefit from improvements to municipal services, particularly cleaning and refuse disposal and water supply

The direct beneficiaries of the project will be the people of Bucharest, both from pride in the city as it improves, and also through opportunities for job creation, as a result of the regeneration process. The Municipality revenues will increase accordingly to the new tax base creation. The increasing of the property values will offer new standards for living conditions and will attract tourists in the area to see an important part of Romanian heritage (around 240 monuments)

The risk to the project achieving its objectives in terms of private investment and new business creation include

- failing to provide the legislative framework and to transfer responsibilities to/from municipality,
- focusing investment elsewhere, with investors neglecting old buildings in favor of new buildings and other parts of the city,
- lacking sufficient support from the central government for specific projects and programmes,  
motivating staff if resources are not made available and if the salaries are not competitive with what they could earn elsewhere

*I operational stage*

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Keynote Background Presentation

### **Implementation and Financing of Urban Revitalization Projects Public/Private Partnerships in Boston**

John Driscoll, David C Jones, and Bogue Trondowski<sup>1</sup>

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## Introduction

The presentation of the three case studies<sup>2</sup> from Boston—Tent City, The South End Neighborhood Initiative, and the Navy Yard—illustrates how a city, residents, and the private sector can structure opportunity driven partnerships that address priority issues within distinct communities. In the context of the revitalization and housing rehabilitation strategies in Szczecin, they highlight many of the issues currently under discussion.

Tent City, a public/private partnership based on a strong commercial partner, has similarities to the commercially led model currently under consideration for Blocks 21 and 22,

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<sup>1</sup> This paper is a summary of a presentation made by John Driscoll and David C Jones at the International Conference on Urban Renewal and Housing Rehabilitation held in Szczecin, Poland from May 22-24, 1997. Mr. Driscoll and Trondowski are responsible for the Boston case studies and Mr. Jones is responsible for the section on Public/Private Partnership Financing. Mr. Driscoll is a Senior Research Associate at the Unit for Housing and Urbanization at the Graduate School of Design. Msrs. Jones and Trondowski are Research Fellows at the Unit for Housing and Urbanization.

<sup>2</sup> The case studies are summaries of case materials developed by the Unit for Housing and Urbanization.

- The South End Neighborhood Initiative resembles TBS approaches and illustrates how a group of smaller TBS like initiatives can have a large impact within a neighborhood, and,

The Navy Yard shows how partnerships can work within the constraints of historic preservation guidelines and the lack of central government funding, issues currently facing the larger renovation strategy in Szczecin. It also demonstrates innovative and mutually satisfactory ways of providing urgently needed capital from the private sector. Furthermore, it shows how redevelopment objectives must be adapted to current economic conditions if public/private partnerships are to be a successful tool in the revitalization of larger areas of a city, especially if the revitalization objectives are seen in the context of a 20 to 25 year time frame.

Since 1982, the City of Boston has been actively redefining its role as a public partner and creating new functions to strategically build up the vitality of its diverse neighborhoods. The case studies chosen do not represent models to be directly transferred, but rather are used to illustrate that successful public/private partnerships are structured around a cluster of mutually reinforcing activities among the public sector, the private sector, and residents.

The three projects operated within a supportive legal, financial, and institutional framework that, while not entirely present in Poland today, is evolving with the new TBS legislation and the proposed renovation law. Furthermore, the cases show how a municipality, when faced with diminishing resources from the central government, can creatively use its own resources in partnership with residents and the private sector to address local problems.

Lastly, the Boston cases also illustrate how the City benefited from the existence of an entity that was largely responsible for revitalization efforts on behalf of the City. The Boston Redevelopment Authority (BRA) provided a 'steady hand' in an often unsteady process and was in a position to be an active partner in a public/private partnership, balancing between the economic incentives needed for private participation and concerns for social, environmental, and quality of life issues. It initiated and guided projects and strategies in different areas of the City, among many partners ranging from commercial to not for profit groups, and through economic cycles of prosperity and decline.

### **Tent City and the Southwest Corridor Deck**

In 1960, 30 to 60 percent of the housing stock in the South End neighborhood of Boston, home to some 30,000 residents, was in need of rehabilitation. The South End was divided by a commuter rail line that separated a higher income area experiencing revitalization in the 1970s and early 1980s from a lower income area with poor housing conditions. In the 1980's, a major infrastructure project—

moving the orange subway line, covering the SW Corridor Deck, and creating a pedestrian park—removed the boundary between these neighborhoods. The project also created the opportunity to bring together three mutually reinforcing elements into a public/private partnership: the need for affordable housing, a major commercial development in need of parking, and the availability of public land.

### **Tent City**

The Tent City project derives its name from an April, 1968 demonstration during which South End activists and residents erected tents to dramatize the need for low and moderate income housing in their neighborhood. It was not until eighteen years later, in 1986, that residents and public officials celebrated the start of construction of 270 units<sup>3</sup> of mixed income rental housing. Twenty five percent of the units are for low income families, fifty percent for moderate income, and the remaining twenty five percent for market rate housing. The development also includes community space, retail space, and an underground parking facility. Tent City is organized around several key components including:

- The linkage program<sup>4</sup> that links development of commercial space in the City of Boston to the need for affordable housing by subjecting the commercial development to linkage exaction.

The Boston Redevelopment Authority (BRA), the planning and development branch of the City of Boston,

The Tent City Development Corporation, a non profit, community based development corporation, formed to develop the project. The corporation remains as the overall management entity.

Urban Investment and Development Company (UIDC), developers of nearby Copley Place, a major retail, commercial, residential, and hotel development.

Under authority granted by the linkage program, the BRA negotiated a land exchange with UIDC. The Tent City site was assembled from UIDC and BRA parcels. In return for UIDC deeding its parcel to the housing project, the BRA deeded a parcel of land it owned at another location to UIDC. UIDC also contributed costs associated with building a 698 car underground parking facility (which it owns) on the Tent City site, with 129 parking spaces leased to Tent City Corporation for \$1 per year. In all, costs to UIDC were estimated to be approximately \$10.12 million by the end of 1985.

As an overall controlling agreement for the project, the BRA retained ownership of the Tent City land parcel. The BRA provided the Tent City Corporation with a 99

<sup>3</sup> 96 one bedroom units—61,66 sq meters 90 two bedroom units—84,86 sq meters

67 three bedroom units—115,122 sq meters 18 four bedroom units—147,155 sq meters

<sup>4</sup> Article 26A of the Boston Zoning Code

year air right lease and UIDC with a 99 year subsurface lease. Thus, after all the negotiations were complete, the BRA still retained control of the project as a whole. The rent structure of the apartments is stipulated within the BRA's air rights lease to the Tent City Corporation as a means of avoiding conversion to all market rate units in the future.

### **Conclusion**

Deal making between the BRA and UIDC was seen as advantageous to all parties involved. For the BRA, without UIDC's contributions, Tent City and its affordable housing would not have been possible. UIDC, by paying for the entire underground parking facility, provided parking for Tent City occupants, but by also retaining ownership of the parking, UIDC maintained a profit making venture for itself.

### **South End Neighborhood Initiative**

This case study illustrates a different type of public/private partnership that was structured to reach into a neighborhood without the strong commercial potential of Tent City. In 1987, the South End continued to experience growth in residential and commercial development. Affordability was a growing problem with about 25 percent of households "at risk," in regards to housing affordability criteria.

Responding to these problems, the City of Boston and community based organizations active in the South End Neighborhood embarked on the South End Neighborhood Housing Initiative (SENHI) process in 1987. The objective was to create affordable rental and home ownership opportunities for families, and protect current residents from displacement. In addition to drawing on its reserve of land suitable for residential development, the City provided technical assistance to locally based community development corporations throughout the project development process including design, finance, and engineering.

SENHI was developed through a fifteen month community participation and planning process. The action program addressed the community's diverse needs through two key strategies:

- \* Affordability stated as a ratio of 1/3 low income, 1/3 medium income, and 1/3 market rate, applicable to projects built on city property, and
- \* Preference given in the developer selection process to minority business enterprises, community development corporations, and joint ventures with these groups.

### **Results of SENHI Phase I**

By 1991, the results of SENHI's work became evident with 307 units of mixed income housing of which 219 (71.3%) were reserved for low and moderate income households. (See Exhibit 1) This percentage exceeded the target outlined by SENHI.

in 1987. Since the inception of the initiative, \$50 million was invested and the City has reclaimed over 14,900 square meters of vacant land and buildings. In addition to the housing units, approximately 1,830 square meters of new commercial space and 160 parking spaces have been created on these development sites.

***Exhibit 1 SENHI Phase 1, Housing Accomplishments 1985 Present***

<b>SENHI Project</b>	<b>Square Meters</b>	<b>Cost</b>	<b>Total Units</b>	<b>Low Income</b>	<b>Moderate Income</b>	<b>Market Rate</b>
Marc Tyler Condo	717	4,721,739	35	11	12	12
Paul Sullivan	405	2,137,812	33	32	1	
Taino Tower	1,189	4,484,094	27	9	9	9
Parmelee Court	3,741	12,755,000	74	25	24	25
Langham Court	4,121	13,566,000	84	28	27	29
Roxbury Corners	3,297	11,442,485	54	22	19	13
<b>Total</b>	<b>13,470</b>	<b>49,107,130</b>	<b>307</b>	<b>127</b> <b>41%</b>	<b>92</b> <b>30%</b>	<b>88</b> <b>29%</b>

SENHI was designed to achieve the maximum number of affordable units which were financially feasible within the planning guidelines required by the community, the constraints of available resources, and the existing South End market. The SENHI program also set aside parcels for open space and gave the land to locally managed land trust for maintenance.

**Conclusion**

SENHI proved to be one of the most effective neighborhood development initiatives in Boston. It addressed the community's need for affordable housing, its desire to build up the capacity of local development corporations, and its concern that all new development conform with South End's existing zoning and design requirements. The strategic location of the six sites chosen by SENHI helped to send a clear signal to private investors that the City was making a commitment to revitalizing the neighborhood. The initiative also helped community-based organizations and the non-profit private sector to become more sophisticated partners with the City in subsequent neighborhood revitalization efforts. On completion of Phase I in 1990, a working group of twenty-eight residents, representing a broad constituency, was appointed by the Mayor to develop a policy plan for the next twenty years. The concepts outlined in the SENHI program led to

the launching of the Neighborhood Partnership Program as a model of service delivery and development at the community level

## **Navy Yard**

In July 1974, the Charlestown Navy Yard closed as a military facility. Subsequently, it was made available for transfer to the City of Boston and its redevelopment agency, the BRA. Early on in the planning process, it became clear that federal government grants for the purchase and improvement of the site were not available and that the BRA would need to look elsewhere for funds.

The Navy Yard contained an unusual mix of brick or granite nineteenth century buildings and reinforced concrete contemporary utilitarian structures, housing supply depots, and repair facilities. The initial plan called for a substantial amount of light industry to replace jobs lost as a result of the shipyard closure. However, continued weakness of the region's industries raised serious questions as to the competitiveness of the site relative to suburban locations. This led to a subdivision of the site into smaller areas for which distinct redevelopment options could be explored, they included:

**National Historical Park** The section that included the oldest buildings was chosen to be developed first and as an extension of the Boston National Historical Park designed around the USS Constitution, a historic naval vessel and a major tourist attraction. In 1974, the National Park Service acquired the site from the Navy for one dollar.

**Historic Monument Area** A thirty one acre area with numerous historic structures was transferred to the BRA for one dollar, under the stipulation that preservation be an integral part of the reuse plan of what was later named the Historic Monument Area. A seventeen acre parcel was also conveyed for one dollar to build Shipyard Park, one of the site's first public infrastructure projects.

**New Development Area** The remaining fifty eight acres, designated as a New Development Area, was conveyed to the BRA for \$1.74 million in order to develop a mixed use project consisting of both new construction and the rehabilitation of existing buildings.

### **Public Investment Strategy**

The Navy Yard revitalization plan was self-financing, as borrowing to acquire another long term asset would have required competing for city funding against ongoing nearer term neighborhood capital improvements. The BRA still had to provide the initial working capital from its own resources, and develop a redevelopment strategy to minimize this cost. However, redevelopment could not start without major public investment for environmental cleanup and the

construction of new infrastructure. Improving the public perception of the site while maximizing the impact of scarce public funds was critical in bringing about an immediate and significant change in the Navy Yard's image, from a derelict industrial area to a new mixed use site. This helped stimulate the first private investment.

Public capital has been invested in demolition, site preparation and the construction of new utilities, streets, and public open space. Public investment was phased carefully to leverage scarce public resources to attract specific private investments. The approval of environmental impact reports early in the reuse process provided a significant marketing advantage, as the transformation of existing structures and new construction could proceed "as of right."

### **Public/Private Partnership Strategies**

In the historic area, redevelopment was carried out by leasing the building shells of historic structures and the ground on which they stood to developers willing to undertake their rehabilitation in accordance with historic preservation guidelines. Leasing enabled private developers to limit the amount of front end capital they needed to invest in an area that had yet to prove itself a desirable location. From the BRA's point of view, leasing allowed it to participate in the longer term returns from the project. The terms of individual ground leases were tailored to each project's needs and are summarized in Table 2.1.

**Table 2.1 General terms and conditions of HMA ground leases**

Term	65 years
Land lease	
A) Option Payment	\$ 10/GSF per annum, to increase by \$ 10/GSF at each three month interval from date of the Lease Commencement Agreement until construction
B) Base Rent during construction	Fifty percent of operational period base rent or \$ 63/GSF per annum
C) Base Rent	\$ 1.25/GSF per annum at Certificate of Occupancy
D) Percentage Rent	5 percent of annual net cash flow, calculated by subtracting from effective gross income operating expenses, real estate taxes, base rent and an amount equal to 12.5 percent of certified total project costs
Rent escalator	Rents are increased in accordance with yearly CPI increase (generally deferred for initial 3 to 5 year occupancy period)
Security and maintenance	\$ 0.05/GSF per annum to maintain the public areas within the HMA and \$ 0.05/GSF per annum for security services
Neighborhood linkage fee	\$ 50/GSF payable upon issuance of building permit and an additional \$ 50/GSF at certificate of occupancy
Refinancing or sale	BRA to receive 15 percent of net refinancing or sales proceeds
Property tax	Property to be fully taxable by the City at applicable rates

In the new development area, the purchase price of \$174 million paid by the BRA to the federal government was based on a "fair reuse value" appraisal of the site. In 1979, Immobiliare New England (INE), a private developer, advanced the site acquisition funds to the BRA in exchange for the award of development rights. The land transfer formula apportioned the total acquisition cost to the development phases on the basis of their redevelopment potential. As each phase commenced, the appropriate portion of the outstanding site acquisition loan given the BRA by INE was discharged, with accrued interest.

This phased development schedule helped to hedge private sector risk as INE retained an option to withdraw from the project if the initial phases were not successful. If this option was exercised, the remaining debt would become payable. In exchange for assuming some of the downside risk, the BRA was granted a participatory interest in the event that the site's redevelopment potential exceeded initial expectations. Thus, the long-term public-private partnership was able to draw upon the complementary abilities of the public and private sectors to accept risk and return over different time horizons. It also enabled an innovative use of the development power of the public authorities in exchange for private sector benefit.

### **Lessons from the Charlestown Experience**

The redevelopment of the Charlestown Navy Yard presented significant challenges to the BRA. The original redevelopment strategy envisioned a mix of public and private uses to which the market did not respond. Initial lack of investor interest forced the BRA to revise its reuse plans dramatically. In addition, the location of the site adjacent to a politically active lower-income neighborhood required the incorporation of the abutters' aspirations into the process. The ability to adapt and an agency that could guide the process proved critical in the case of Charlestown. The creation of a national historical park around the USS Constitution by the National Park Service immediately after the closure of the base served to focus public attention on the project. In response to the biomedical research emerging as a new growth industry in the 1980's, the BRA successfully negotiated with the Massachusetts General Hospital to open a major Biomedical Research Center thus demonstrating the ability of the Navy Yard to attract these new industries. By 1990, thirteen buildings had been completed and six more were under way in response to a market that defined a somewhat different future for the site than had been initially envisioned.

An extensive community planning process was initiated to guide the yard's redevelopment. Over one hundred meetings were held with neighborhood residents, local merchants, advocacy groups, historic preservation officials, organized labor, and other interested parties under the auspices of the Charlestown Neighborhood Council, a twenty-two member elected body of residents and business people that advises the BRA on development issues affecting the community. Against this difficult backdrop, the City of Boston has succeeded in

attracting over \$600 million in private investment to the Naval Shipyard's revitalization over the past two decades. Its balanced growth strategy to attain a full return on asset value provides a wealth of experience for future military base closing.

### **PUBLIC-PRIVATE PARTNERSHIP FINANCING**

The presentations from the Boston area provide specific illustrations of urban development achieved through different types of institutional and financial arrangements, all of which could be characterized as public private partnerships. Although different types of institutions were involved, they had a common concern with financing. Each offers a specific example of generic financial paradigms relating to public private partnerships (see Figure 3).

Before examining the issue of public private partnerships, it is important to look at institutional financing generally, distinguishing among cash flow, profitability, and project development. Cash flow is normally of most immediate concern. It relates to survival, from meeting current payrolls to keeping contractors at work on urban development projects. If necessary, cash must be borrowed—often short term at high interest costs—to ensure financial survival, because delays are almost always expensive. Nonetheless, for medium to long term sustainability, cash flow, though necessary, is not sufficient. It is essential that the enterprise or entity be profitable over the long term, covering all costs in terms of economic resource consumption, including capital costs. This must be done either from commercial charges or from other financing sources. Finally, development projects almost always require the injection of new capital into the entity or enterprise. This will typically be from debt, grant or equity, thereby permanently changing the capital structure. In other words, projects tend to disturb the financial stability of the entity as a going concern. Capital may also be provided in the form of land transfer which mitigates against additional cash payments.

The standard paradigm for any development project is that capital is invested to produce long term assets. These are either used or disposed of, so that the proceeds, from rental or sale, cover the costs of operation, maintenance, administration and taxes, together with recovery of capital investment costs. The latter comprise fixed asset depreciation, the return of capital, together with interest, dividend or retained earnings, the return on capital. Thus, even though some economic and financial efficiencies may be obtained through better management or contracting arrangements, incurrence and recovery of full costs is virtually inescapable. Second, if project assets are to be used only in a profit maximizing manner, they can probably be provided, managed and disposed of entirely within the private sector, with no public sector involvement.

However, within the framework of urban development, there are always a number of concerns which, almost inevitably, require public sector intervention. First, there

is the need for provision of long term basic utility infrastructure. Second, there are social concerns, such as in the provision of collective goods and other public services, the costs of which will not always be fully recovered from user charges. This may be either because it is not feasible, such as in the provision of public goods, or because it is considered socially undesirable or inappropriate, such as in the provision of housing for low income occupants. Third, private urban development will create external costs upon the community, such as environmental and social heritage costs, which are not directly borne, through the market mechanisms, by the private sector operators. Finally, there is almost always a need for the public sector planning authorities to impose spatial and temporal order and discipline, as well as health and safety requirements, upon the development process, if necessary through exercise of coercive powers. This control represents a public good, in the interests of the entire community (including developers), but for which individual developers are normally unwilling to pay, at least through normal commercial markets.

For these various reasons, therefore, although the overall costs, including economic externalities, are inescapable, the financing of public private partnership arrangements will typically provide for some of them to be partially borne otherwise than directly or immediately through market mechanisms. The financing arrangements are, therefore, directed mainly at providing more flexible cash flows than may be possible solely with commercial market systems. These cash flow arrangements will typically involve subsidies, from either public or private sources, with responsibility for public subsidies shared between the local communities and the state or national governments.

Private sector subsidies, in principle, sound implausible. However, they may sometimes be derived from coercive powers of government, well motivated voluntary activity, or contractual obligations. Coercive power is typically exercised as compensation for (or as complementary to) the provision of orderly development, through the spatial planning (zoning) process. It often results from requirements that private developers pay a linkage fee (through a formal exaction or proffering process) in exchange for planning permission on a particular site. It is also quite customary for the site developer to provide some or all of the on site infrastructure, to be vested in the appropriate utility or government for subsequent use, operation and maintenance.

If a developer has entered into some form of public private partnership agreement, initially involving the provision of public assets such as free or subsidized land, the contractual arrangements may well provide for a sharing of profits, derived from the ultimate enhancement of land values upon project completion.

Private corporations may also make voluntary contributions usually in cash but sometimes in land or other assets towards public sector activity, from a variety of

motivations Overall, there may be a recognition by the corporation of its responsibility as a member of the local civil society and social discourse More commercially, contributions may be made to enhance public image, assuage social conscience, or, provide early and necessary financial assistance to the public sector, in exchange for some agreed or expected concession at a later time or on another site

Individuals within a community may also, in certain circumstances, make contributions to public private partnership arrangements These may be in the form of monetary donations or voluntary service In more limited circumstances, especially with the provision of local social services (such as park or playground maintenance) or tertiary infrastructure, it may even involve voluntary physical labor, the classic "sweat equity" situation

Where contributions come from state or national governments, they will often result from funding provided under legislated programs, directed at specific social concerns, such as low income housing or social heritage restoration There may also be funds of a more flexible nature, such as block grants to local governments, to use with more discretion This may be done either directly or through community based organizations Finally, local governments themselves, with the most immediate interests in the local urban development process, must often be seen as a major and residual source of subsidy funding Sometimes, in addition to cash grants, subsidy may be enhanced by technical assistance or the provision of facilities

Once the concept of subsidy from cash, voluntary service or asset donation has been established and implemented, the actual funds may be used in two principal ways First, capital grants or concessional loan funds may be used, as complements to market based borrowing or profit seeking equity, to lower the average cost of capital for the provision of physical assets This, in turn, will lower the annual requirement for debt interest and (provided there are also adequately long amortization periods) provide for a reduction in overall debt service requirements If subsidies are provided on a periodic annual basis, these may well be used, as complements to user charges, to contribute towards overall annual operating expenditures

When lower debt service requirements are combined with a lowering of net expenditures for operation and maintenance, this reduced cash flow obligation permits the possibility that at least some of the operations of the public private partnership be provided at lower than market costs In other words, not all the costs will be needed to be directly recovered, in full from users, through market prices This provides the flexibility for subsidy components to be directed at social, environmental or longer term developmental concerns, for which full market pricing may be inappropriate

At least two cautions are appropriate First, the fact that either capital or operating subsidies make it possible for user charges to be lowered for selected or all users does not mean that they should be Subsidies, from whatever sources derived, will

almost always be limited. Thus, it is essential that they be well targeted, so as to benefit, as far as is feasible, only those persons or activities intended.

In principle, costs should be recovered in full, by market based user charges, with subsidized charges being regarded as exceptions. Moreover, for each situation where subsidization appears appropriate, there should be careful examination and justification, from perspectives of economic efficiency (such as correction or mitigation of market failure), social equity and overall public policy. In particular, where a public private partnership allows and facilitates the earning of profits by the private sector partners, this should be encouraged and sustained. Misguided attempts to unfairly limit profits for reasons of perceived unfairness may not only be unjust, it may also be economically inefficient. As a result, it may even drive private participants away or discourage them from further participation.

A second caution relates to the fact that subsidies can lower prices. Thus, following normal economic principles, more will be demanded of a good or service than if it were fully charged for. It should, therefore, be ascertained that public policy makes it appropriate for the provided good or service to be financed in this way, usually to correct a market failure or to deliver a needed public or collective good. Where capital grants, or concessional credit, are involved this may also engender policy failures. For example, faced with the full costs of maintaining a partly worn out asset, or of replacing it (too early in its working life cycle) with concessionary capital funding, local policy makers might choose the less economically efficient but more financially attractive option, thereby reducing the availability of capital for more urgent purposes.

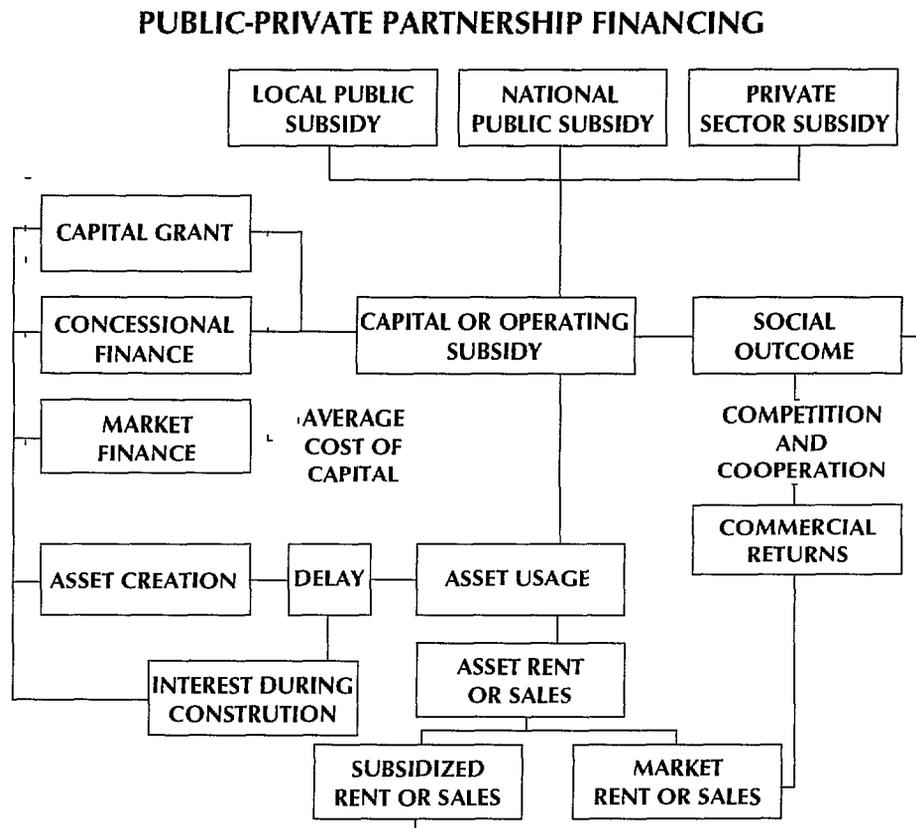
Urban development activity will affect the real values of land. Therefore, it is important to ensure that any likely betterment of land values be equitably shared between the private and public partners. However, although provisions for sharing the profits from land values may be included in the contracts, in practice the changes in such values can be very speculative. Furthermore, because of the time element, economic buoyancies may change dramatically between the start of projects and their final completion and realization. It is, therefore, important that contracts for the sharing of land value increments be drawn in a flexible fashion, providing a methodology for allocating values fairly under a variety of economic circumstances.

Urban development is a process subject to much disruption and delay. This, moreover, exacerbates the costs of carrying unfructified assets, often installed at significant cost. In particular, all delay, between initiating the creation of assets and their final use - sale or disposal, incurs interest costs. These in turn add to the overall costs of capital, thus nullifying, to some degree, the advantages of the capital subsidies. Unfortunately, because the capital may be subsidized, the overtly perceived impact of the interest costs will be mitigated, reducing an obvious and immediate financial pressure to expedite development.

Nonetheless, as already indicated, the full economic costs of disruption or delay will impact somewhere in the system, albeit not readily apparent from (say) the financial accounts. This places an additional managerial responsibility upon project management to ensure that the installation of costly infrastructure which is complementary to site development be carefully phased, within the constraints of scale economies. This is so that delays do not create undue economic burdens, by diverting capital funding from more urgent opportunities, as well as raising overall project costs.

Therefore, with respect to the Boston presentations, it can be seen in the Navy Yard, for example, that the on-site infrastructure installation has been carefully phased, providing only that which can most promptly and efficiently be used by complementary development of superstructure. This, of course, requires attention to the possibilities for full and prompt financing of the superstructure, as well as of the infrastructure. It also necessitates an adequate marketing strategy for the commercial or public use of the completed buildings.

**Exhibit 3 Public/Private Partnership Financing Chart**



## DAY THREE. SATURDAY, MAY 23, 1997

### Opening Remarks

Mr David Jones

Ladies and gentlemen perhaps we could begin this morning session which is (as we have already been warned and are looking forward to) presentations about the financial implications of renovation and rehabilitation. What we are hoping to do is have two presentations from Hungary. The first from Mr Pal Baross and the second from Mrs Csilla Sakarny and we can keep to some reasonable time, what we hope to do after that is to hear from you what possibilities and practices exist for what is called innovative financing and alternative financing mechanism for urban renewal and rehabilitation. And in order to get us to think about that we hope to be able to invite Janina Kopietz Unger who is an architect from one of the German cities to give us short introduction to some ideas which she can put forward to us to get us to think.

I am mentioning this now because those of us who come from elsewhere full of big ideas about what we can do in the United States and other places, and one of the things that I have heard in the last couple of days is a sort of reaction which says "its all very well for you because you have a big buoyant economy and you can do this and that and you have a well structured government transfer system etc. And that's true. What I have developed even in this short time is a growing admiration for the way people in Eastern Europe, from Romania and Poland and other places have had to start from scratch in effect with a new system of government, with a new system of inter governmental financial relationships and therefore in one way, are in a position of having to squeeze what they can out of a very fragile system. But perhaps in another way, can teach us a lot about throwing aside the prejudices and coming to you and saying "All you have to do to sort this out is this" which of course we know is arrogant and prejudiced and all bound up in our own traditions. So its for that reason that I want to mention that we specifically like to here from you instead of the other way around. So you may want to be thinking about this as the morning proceeds. Without further ado if he is ready, perhaps we should invite Pal Baross to begin.

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Keynote Background Presentation

**Alternative Financing Mechanisms for Urban Renewal and Housing Rehabilitation Projects**

Mr Pal Baross Kolpron Budapest

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Thank you very much Mr Chairman Good morning everybody When I have to talk about finance, I very often go back to my student years when I studied about this problem and the professor who was introducing this subject in the first day said, there are three periods in a man's life There is a period when he believes in Santa Claus, and there comes a second period where he doesn't believe in Santa Claus, and there comes the third period where he becomes the Santa Claus And I think urban finance has a lot to do with this Very often when one stands to think about urban renewal we think that there is somewhere out there a Santa Claus who will deliver the money for the project Then very soon we discover that there is no Santa Claus so it comes back to the stage that you have to look for the money somewhere in a more innovative way, more within the community, more from developers or from public private partnerships But then comes a point where you decide that there must be some Santa Claus somewhere to make this project work I would like you to keep this in mind that in all the countries of Central and Eastern Europe many of these projects started up with very normative ideas about preserving and improving important parts of the city, hoping that they will get some money for that People have done a lot of plans and have spent a lot of energy to create these plans to discover that there is no money to start with, so comes a kind of second cycle of looking within the project area and scraping together money from other sources But I think for a good urban renewal project, and a successful urban renewal project, comes out of this phase of showing explicitly where the money is needed from other sources I will try to talk more conceptually about the problems which any urban renewal programme faces here in Central Europe or in Hungary and look at more specifically some of the projects in Budapest

Let me start with what you could call a comprehensive view of Urban Renewal Urban Renewal in fact incorporates three very different types of issues and perceptions of the area Together with a good understanding of the real estate cycle, the progress of the stock which is there Inevitably, and I think that is where many of the urban renewal problems, anyway in Budapest come up are tied up with housing policies Essentially, people are saying that here are part of the city where the housing is bad, run down, obsolete, not well maintained So we have to give people a better environment And of course it is not only housing, it is part of the city and we have to have a very strong view of how far it relates to other urban development issues of the city What will be the function of this area? Can this be maintained as it is now? Should it be restructured? Should there be new projects

coming in? Will that replace existing people? And out of the many years of western experience, we also see that it is a social development policy. Many of these people are poor because of the way they participate in the labor market, because of their education, sometimes in some cities because of their ethnic background. For businesses which operate in an area, because they are starters or always small business or marginal businesses. So in order to move the area, it is not just the physical stock, you have to deal with the local economy, with the local people, and you have to develop social programmes as well.

Now I will call this a comprehensive view. A comprehensive view is a view which emerged from cities and countries where urban renewal has had twenty, thirty years of history, where people also learned starting from a very limited architectural or physical, which I will almost say a kind of real estate approach to urban renewal but they have now learnt that it is actually a more complex process.

Let me go back to the real estate cycle because I also think that it is important to remember that we have pieces of architecture like the pyramids which are the same for hundreds and hundreds of years but by and large real estate is not like that. They are things that are built, they are used, they are maintained to some degree, and sooner or later they are destroyed or they disappear. (It is very instructive to look at some of these old movies especially those which were made with a different speeds so you can see these very fast moving people in the area to realize that cities have changed tremendously and if you were looking at a city movie of a hundred years in an hours time, you would see incredible building and destruction activity). So it is important to view urban renewal within the context of whether it should trigger or is triggering city destruction or should it be essentially no more than in one way or the other preserving the place or putting it back in the original use or original quality.

Next I will like to show a SWOT analysis of a problem area. We have to look at these areas in a much more broader movement sense, in a market sense, their position in the city, the type of opportunities which exist, the types of threats, the kinds of strength and weaknesses of the area. Very often we say that the strengths of an area where we would like to contemplate urban renewal is "location". Very often when I look at a little project description from the urban renewal area, it starts with the first sentence "This is a centrally located part of the city". You look at this project in Szczecin, you look at the projects in Warsaw, you look at the project in Budapest, sooner or later it comes out that we want to do something about it because it is a very important location and obviously location should be the strength of the area. The second one to which people often refer is the architecture, or the physical assemblage of the area. It is a place which used to be very often an elegant place, a very important place of the city, where not only thirty, forty, a hundred years ago it was the best part of the city but how today the whole urban

renewal is trying to redress this balance and wants to strengthen this architectural character. Sometimes (not always) but it could be a strength of the area, there is a social cohesion. People have been living there, they have been using the place, they know the post man, they know their neighbors, they know the shop keepers, they know the bicycle repair people. It is an area where you can draw on the long experience of families living in the area, their common desire to stay in the area and make the area comfortable. Very often the area has a cultural identity beside the social cohesion. There are often very important cultural buildings and landmarks and so forth. And the last element of the strengths is because of the way that the issue of urban renewal comes up, there is a tendency to something about it. Whereas other parts of the city can go on and on (maybe there is a politician living there who would do something about the tramway, the sewer line or the school), because these are problems areas, there is an emerging focus that something must be done which is in fact a strength of the area.

Let me look at some of the **weaknesses**, which one will have to consider in developing an urban renewal programme. One is very often **lack of market demand**. People who have money are not looking at these areas as a place to live or not in this present condition. Very often the small plot sizes, the lack of parking spaces, probably pollution, accessibility, will also make it less attractive for businesses locations in its present form. So we find that there is a problem of disinvestment from the area. This is partially due to the lack of a strong market demand for the place. We have a very interesting experience in a small city next to Budapest, which is about twelve (12) kilometers. It is really just a suburb, which was an old Serbian based village, very nice pleasant houses and small town atmosphere, where there was a very strong market demand for people especially artists but also for people who had alternative jobs who did not have to be everyday in the city during the day. This presented an opportunity for these people to move out and transform this physically peasant run down architecture into a modern urban renewal programme on an individual basis. So you can find an area where market demand switches and it becomes a question of how you can reposition the area for another kind of market demand. The place can be very nice for younger people, for alternative business types for shops which do not need so much of a high quality office environment and so on.

I will also like to mention another weakness concerning disinvestment. Everybody is taking the money out of this area. So if there are landlords, they collect the rents but they are not reinvesting in the houses. People who live there are basically willing to pay less rent than they can afford because they say 'Why should I pay more rent for a house which is not so well maintained'. There could be social problems beside the social cohesion. The area can become a kind of transition zone for people who have no where else to go in the city. It could be a depository for old and elderly people who essentially are just going to die in the next ten, fifteen years, so they

have neither the money, nor the interest to invest in the area. There could be police problems, prostitution problems, all kinds of other problems which could be part of the weaknesses of the area. Fragmented ownership. These areas are normally historically developed parts of the city with a completely different type of plot subdivision. It is extremely difficult to put together projects of size in land ownership which make investments feasible. Non compatibility of land uses, again we find old warehouses, repair shops, backyard operations in the area which make it more difficult to clean it up and make it work as a more cohesive place. And the place may be functionally and technologically obsolete. The people who use cars cannot get into the area, they cannot park their cars. The real estate cycle has gone so far that it is extremely difficult to prove that by investing in the houses or in the buildings you get a better return on the investment than if you were pulling them down and investing in new houses.

What are the **opportunities**? I think that very often we have a market repositioning opportunity. Very often as a kind of urban development project we can see how the refurbishment, the redevelopment could create a new sense, a new space in the city. There are many of examples from especially in the United States, in England where they use these "Flagship Projects". This is a property led development philosophy based on complete repositioning of all their harbor areas into new business centers, run down areas into convention centers and housing and so on. There could be a *social repositioning*. This is to be more attentive of the changing locational and housing needs of people in the city and see whether these areas will fit into these changes. Again if I go back to the basic statistics of Hungary, we found out that over the last ten years, marriage rates have dropped considerably from eight in a thousand to about four in a thousand. People are staying unmarried much longer. It means that they will be looking for single type of accommodation. Maybe rental housing becomes a much more important option until the ages of 22, 28, or 30 when they establish their households and these inner city areas will be very well socially repositioned to people who like to live downtown, have a job, and participate in the market. These people are not looking at buying houses at this stage of their life.

Another opportunity is resource mobilization. This is kind of a Santa Claus issue. Precisely because there is stronger and stronger pressure that something must be done, you could look on the long term either at the city scale or the national scale for money available for this type of project. It is very important because throughout my work here in the region, I find that people are unwilling to think forward. Everybody thinks for the next year maximum. And I mean project people. They cannot develop projects in the long term (five or tens years from now). They say, "well it is unrealistic". It is not unrealistic. It should be understood that it is when somebody starts up with local resources and does a good job, that the pressure starts building up to make resource mobilization at the higher level a reality. For

example in Budapest, we have been talking about the problem of setting up city funds for about four years and it is just being materialized. We have been talking about the need to re-orient housing finance for refurbishment and rehabilitation away from only new housing. Now the new housing policy is gradually accepting this point. So it is very important to think of resource mobilization not only as this year's issue or next year's issue but as a long term issue.

What are the threats? I think that one also has to look at in the long term, that as societies and cities are becoming suburbanized, not only people, factories, businesses opportunities move out from the city center, they are gradually abandoning many of the urban renewal areas, further weakening the market demand for these places. Almost opposite to that there is the other set of "downtownization", of concentration of very particular types of activities, especially finance, business support, and poverty. You also have to cope with the problem that the area in which you are working increasingly becomes a depository of poorer and poorer people, because of the city's life processes. The other threat is in societies where minorities or migration is a significant part of the urban life, is that you have segregation. People of a certain kind of minority or people coming from elsewhere (war refugees, or very strong migrant groups) will create their own neighborhoods. We have in Hungary a typical problem with the gypsies. It is a very difficult issue for the Hungarian society to absorb and to both recognize the cultural entity of these people and their way of life and face up to that, and to allow the gypsy minorities to participate in the mainstream of economic development of the country.

So I would say that this kind of SWOT analysis is very important to carry out for any project that you are doing. It is to position the project as concerns the strengths of the area, the weaknesses of the area, what will be the opportunities, and what will be the long term threats for your work.

Moving forward to finance. Obviously how much money will be available will depend on these two elements I discussed before. If the project is perceived purely as a real estate project, it will have a completely different kind of finance structure than if it is conceived as a housing programme, as an urban development programme, as a social development programme. If the area out of this SWOT analysis comes out as a negative area, as an area of disinvestment, much less finance will be obtained than if you position the area and show that there is a demand, whether a market demand or a social demand for the area to function. So we could talk about the finance issues at the household level. What are the options for financing tenants, what are the options of financing owners, and what are the options of financing landlords (public landlords or private landlords). At this point I think I would just rather list some of the financing options and come back to it during the discussion or questions session, because as I have understood from a few remarks

from some of my colleagues, there has been quite a bit of discussions on this housing subsidies and owners support and so on. So you can target the households or you can target the buildings. It is what you call financing of bricks type of operation, where you see whether it is sufficient to do some kind of renovation of the buildings, modernization of the buildings, you have to change the use of the buildings or reconstruct the buildings. You can look at the financing issues at the neighborhood scale, which is a completely different issue. A question of financing infrastructure, financing open spaces, facilities like schools, playgrounds and so on, complexes and here I think of libraries, public functions and social development programmes. You can look at the finance at the city level or the local government level of how much, especially since in Central Europe the municipalities retained ownership of shops, which provides a position on cash flow operation. How far you can use this cash flow to raise bonds or finance to reinvest it in the urban renewal area? Many of the cities inherited land and buildings so they have assets. How far are the sales of the assets used to support such a programme? How cities can formulate development initiatives in these areas in terms of taxation of businesses or investment, or how far they can go into partnership programmes of working with the residents, or with private developers of putting the projects or assets together? I think at the central government level the kinds of incentive that could work towards urban renewal are capital subsidies, which means if you develop housing, public housing in these kind of areas the government could finance part of the capital cost, interest subsidies, and again also at the national level, there are tax incentives.

I would like you to think about this, because in urban renewal you will most likely have to look for finance of these different types. It is not enough to say we want to look for finance from the national government. Who should finance the households? Who should finance the buildings? Who should finance the neighborhood? We should try to identify in the project components the most likely targets where finance is needed. Why do we need to finance for example tenants? Why do we need to finance public spaces or school renovation projects? Where does the money come from? Again the same applies to financing issues that you have to sit at the chess board as a player playing with many different kinds of funds. The sources of funds are also diverse. One, very often you will see in Central Europe, is the passive assets transfer meaning that the renewal agencies receives the ownership of non producing assets, lands and buildings. The important part of these passive assets is that when you get vacant land you don't get you money, it doesn't give you a cash flow. It only gives you a cash flow once you have sold it or once you have developed it. The positive part of this passive asset transfer is that you can use it as a kind of capitalization of the agency itself.

Then you have active asset transfers. Again the agency may receive in the area the ownership of not only vacant or unused spaces, but lets say the shops. So from the

rents of the shops you actually have an active cash inflow, which you can use in financing. I am particularly looking at the rights to collect fees in the area. For example parking fees. It can generate a lot of cash flow especially if it is a central located area of the city and people come there with their cars, and you can get the rights of paid parking in the area. Of course the agency can receive capital in terms of working capital, if the municipality or the central government creates a basic fund or a kind of matching fund proposal. The more they generate for projects, the amount is matched equally or in some proportion. It is important to look at budgetary supports, which are not only for the operation itself, but are kind of side effects of the operation. For example if you will have to do some kind of re housing from this area to other parts of the city and the city anyway has a kind of overall housing stock process management, then it is accepted that the cost of moving people of liberating buildings here to move it to the other part of the city comes out of this budget. It is not a project budget but it is integrated into the city's overall housing budget. The same applies for infrastructure, road maintenance, development of parks and so on. The city has budget for this but it is important whether that money will be spent in area B instead of area A, where it is important for the urban renewal to get this public space image improvement. It is not something that the agency will have to generate out of its own funds but it relates to the overall city budget support. And also for public spaces and complementary targeting. Complementary targeting means that if you have a chance of managing investment in the city, let's say there is a retail programme of the city, where shops will be established. How many large shops, shopping centers will you allow in the outskirts or the inskirts of the city? Obviously if you could argue that for the urban renewal part of the city you need to have a really strong retail component, then you have to convince the city authorities that they are not going to build shopping centers in the outskirts of the city because it draws away your purchasing power. It draws away the possibilities of rent in the area. The same applies to job programmes, housing programmes and so on.

Then there are subsidies. I think these are more difficult topics to deal with. It is more difficult to structure interest subsidies and user subsidies. Interest subsidies is when you build a project and you have to borrow money for the construction cycle. Then you get some kind of subsidy on your loan. Actually in Hungary the case is that if somebody is making a housing project, and the project is finished within one year, then 70% of the construction (interest) finance is subsidized by the central government. But I must warn that these kind of construction finance subsidies are short lived subsidies, and if they are not linked to either tenant subsidies, so that people can pay for the buildings which you have built, or to an end user factor subsidy, so that people can buy the space that you have built, then it is really worth nothing. It just that somebody gave you money to build buildings which in three to five years later will end up in the same problem, because either they stay empty or

people will not pay the rent necessary for maintenance. Buybacks of commercial property and residential property. You could make some arrangement in this urban renewal programme that the project is developing some commercial space or some residential space which is bought back by the city. It is up to the end user purchasing from you, it is another source of funds.

Again what I would like to emphasize is that there are many bits and pieces to be put together in this Santa Claus game and it is not enough to think of financing as coming from one source, which will keep on paying. It is important to do some financial planning. The first thing about financial planning is about market positioning of the area. You have to find out actually what will be the demand and the absorption rate of real estate in this area in the renewal process, in the new building process and so on. Then out of this market positioning of the area, you find out what are your bankable projects, projects for which you can attract private capital, what are your marginal projects, where there may be development interest but you have to participate, you have to share some of the risks. What are the social projects where you have to look for social partners, and what are the municipal projects? And each of these elements should be planned as a separate component of the project.

In order to separate this funding and urban renewal process I propose to structure the urban renewal agency essentially as a land development agency. Their basic business is not to fix the roof of the houses. Their basic business should be to prepare land and prepare development packages. They are planning, they are cleaning the area, making it ready for development. They are disposing of the plots, assigning or selling the plots to other end users and making sure that the infrastructure is built. I think obviously along with this development agency we must build a board of directors, who have a strong stakeholders interest in the process. And I think that attached to this agency, also working in very strong collaboration should be a housing project group which deals with the part of the housing which will remain there, a municipal infrastructure project which is essentially linking the area with the normal municipal operations, and a private investment group which deals with those parts of the projects which could be packaged and sold or brought into the partnership.

I find experiences which actually bundle all these services into one agency very confusing and ultimately non-financable because these are completely different financial streams to work with. So in some way you end up (if all of these aspects are shaken together) with an agency which is busy fixing the roofs when it should be preparing plans for land and upgrading the area.

In order to do a cash flow process for the agency (and here I am still thinking in terms of a land development agency) you have a capitalization process to see what assets this agency is going to work with, what will be the money available. We have talked

about the passive assets, to transfer property to the agency, active assets and working capital. Then the agency should look at the first stage of strategic sales. Trying to get rid of the passive assets, turning them into cash, turning them into a development process. Look at loan financing. How far can the active assets serve as a base for a longer term loan. For example, let's say from the shops we take in a year about 10 million USD or then instead of working on a project for 10 million USD for the area you say, what is the loan I can service with 10 million USD. And it is probably 100 million USD. So I can develop a project of 100 million USD instead of 10 million USD. Establishing the municipal budget streams, the longer term commitment for the project. Asset for asset deals. Deals where you provide land and or other development opportunities in order that the developer provides you with other assets, (returns housing, shops etc.) Then there is the question of how much cash the agency should transfer to the outside. It is not enough that the agency is sustaining itself and spending more and more money on itself or on the area, but to say well it basically got a lot of contributions so is there an expectation of the agency let's say at the end of the year or in ten years to return assets to the city?

For later discussions if you think it is important, I worked out a typical example of a development exchange programme where you look at the building and say, well, we vacate the ground floor for offices, for retail and develop the roof for something else, how the economy at this scale works and how you can establish whether it is an important part of your project strategy or not. I also have an example for this asset for asset programmes where you calculate the value of what you give to a developer and the value of what you get back.

Thank you very much

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David Jones

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Thank you very much indeed for giving me, who comes from sort of a financial background, one of the things I was looking for when I made my opening remarks, which is a different way and an innovative way of looking at the financing possibilities in this part of the world, and breaking open some of my personal prejudices in the way I look at things. I would very much appreciate that you might share copies of your slides with me and many in the audience because I think you really have a gold mine there of very useful and helpful information, and I thank you for that.

Hugarian Case Study

**Urban Rehabilitation Program of Budapest<sup>5</sup>**

Ms Csilla Sarkany of the Metropolitan Research Institute, Budapest

The key issues related to the urban rehabilitation of Budapest have been regulated in a comprehensive way by the earlier urban rehabilitation concepts. In conformity with the conditions prevailing at that time those concepts had been based on community (state, Budapest, district) interventions and presumed funds. In the second half of the 1990's it has become necessary to develop a completely new urban rehabilitation concept. The Act on Local Governments makes it mandatory for the metropolitan government to specify the general regulation plan of Budapest, the development and urban rehabilitation program of the city, while the processes which took place during the past few years make it urgent to develop a new urban rehabilitation concept, as every element of the conditions of urban rehabilitation has basically changed:

- as a consequence of privatization the overwhelming majority of tenement buildings with many flats became condominiums with private majority owners,
- as a consequence of the local governments' decentralization in the two level public administration system of Budapest the role of the lower level has increased as the owner's authority and decision making competence were allocated to the district,
- the metropolitan resources available directly for urban rehabilitation were actually reduced to the Budapest Metropolitan Rehabilitation Fund, drawing its resources from the privatization revenue of the local governments, more specifically 50 % of such revenue is transferred into that fund,
- the role and responsibility of the government has been greatly reduced part of the budgetary subsidy allocated for housing rehabilitation was merged into the local governments' "normative" subsidy funds, another part was no longer available.

In the changed environment the key decisions are to be taken by the condominiums that is by the families and the districts which became the owners and the metropolitan government can influence the processes only indirectly.

In such greatly scattered situation in which any player can successfully hinder the implementation of any rehabilitation strategy cooperation must become attractive for any party.

<sup>5</sup> The Budapest Urban Rehabilitation Program has been prepared on the commission of the Chief Architect's Office of the Budapest Metropolitan Government. The authors of the program: V. Roskutat's Kft, Palatum Kft, Team Pannon Kft.

The basic Budapest urban development concept is to identify the financial and regulatory instruments which would promote cooperation between the players. The precondition for this is that every player accepts the main objectives, the guiding principles of urban rehabilitation.

### **The system of objectives of urban rehabilitation**

The general objective of urban rehabilitation is to make parts of the city retain and improve their quality and thus maintain their economic potentials, so they are capable of performing their key functions. The task of urban renewal is to launch, to the extent possible in a scheduled way, conscious intervention exercises in all places where the city's self-rehabilitation processes halted or slowed down, using external instruments. Urban rehabilitation can serve several parallel objectives. The objectives of urban rehabilitation can be summed up as follows:

- 1 Animation of the economy in rehabilitation areas
  - supporting the city in performing its roles as capital city and regional center,
  - providing attractive conditions for economic sectors: tertiary, quaternary,
  - to increase the tourist attraction of the city
- 2 Preservation of the balance of urban structure
  - to moderate the extensive development of the city and its catchment area,
  - "re-cycling" the urban environment with an eye on sustainable growth,
  - halting the reduction in the value of the stock of property in the affected area, or rather making it increase,
  - making the affected area attractive for investments
- 3 Improvement of the housing stock and urban living space
  - the gradual elimination of the housing stock of the lowest standard,
  - making the area attractive for the development of housing stocks of various qualities, meeting different requirements, suited for urban life style,
  - the improvement of services related to housing
- 4 Preservation of the elements specific to the urban character
  - the inclusion of the protection of values as a matter of public importance in the program,
  - the establishment of proper instruments in the regulation and financing system
- 5 Preservation or improvement of the social structure of the affected parts of the city
  - halting segregation on the endangered areas, putting a brake to the segregation process

The metropolitan government can realize its own objectives, if it can make them accepted by the district governments also. If the metropolitan government wants to influence also directly the rehabilitation processes in addition to the regulatory instruments, it must establish and operate a system of subsidies on the basis of the present criteria, out of its own resources.

The metropolitan rehabilitation program proposes the establishment of a regulatory, subsidy and organization form which would take into consideration the objectives of the districts, expects the active participation of the districts in the subsidy programs and in the establishment of organizations.

### **The metropolitan system of subsidies**

There is no realistic chance for an organized rehabilitation of all the downtown areas of Budapest with large public funds because of the limited resources available for the metropolitan and district governments, so the concept suggests that the metropolitan government concentrate the available resources primarily on the complex rehabilitation of smaller areas. Consequently the concept recommends the establishment of a subsidy system which would promote the rehabilitation of action areas which would also take into account metropolitan priorities, would attract private and retail capital into the rehabilitation process.

The concept suggests to establish a subsidy system which would also motivate far more modest rehabilitation projects of condominiums not outside the action areas, but within the targeted rehabilitation area. Smaller scale renewal of buildings is not sufficient to bring about structural changes in the area, but are necessary to halt or reduce the further deterioration of the housing stock, its loss in value, to prevent segregation.

The elements of the subsidy recommended by the program are

- : subsidy to the rehabilitation of action areas,
- : subsidy to the smaller scale rehabilitation of individual condominiums

The basic principle of subsidy is that the employment of public funds on the given area, promotes as widely as possible the input of private resources, whether in the form of retail capital or external development capital. The system of subsidy should be in harmony with the existing subsidy programs (district rehabilitation programs, instruments of the state) or rather supplement them. A precondition for making the metropolitan subsidy available should be the adequate participation of the districts in financing the programs.

### **Subsidy to action areas**

The objective of subsidy to action areas is to promote in areas of key importance from the aspects of urban structure, the rehabilitation and development programs

determining the development of the given parts of the city, which are in harmony with the objectives and key principles set by the metropolitan government. The objectives and key principles are to stimulate the owners of condominiums in a larger area, the local government, the owners of shops to participate in organized rehabilitation.

It is yet to be decided on what principles the action areas should be selected. Whether the program should concentrate on the rehabilitation of areas in crisis, where there is less chance to attract external resources, or rather give impetus to the rehabilitation of areas with more favorable development potential. If it is possible to support several types of action areas, the objectives to reach and the rate of subsidy can be set in a differentiated way.

The level of rehabilitation will be determined by the interested players. It would not be realistic to set the objective of fully rehabilitating every single residential building, but the target could be to achieve rehabilitation of at least the standard which would lead with minimum public money to the improvement of housing quality and increase the value of homes, and thus contribute to the success of the rehabilitation program. The rehabilitation level in the subsidy program cannot be set with general validity because of the variety of the programs, the different status of the residential buildings and the paying capability of the people living there.

Entrepreneurial, business type development programs, programs related to public areas and housing rehabilitation, all are needed to rehabilitate an area, so the objective of the program is to support the rehabilitation of the buildings in the downtown action areas on the high level and to contribute to the costs of intervention in public interest in the action areas.

The elements of the subsidy system to action areas are

- ❖ Building rehabilitation subsidy to condominiums would be interest free credit or non refundable grant covering 30-40 % of the rehabilitation costs. The subsidy would be available to the community of the condominium, if it has adequate own funds and the district government is also ready to contribute, thus the program would set the precondition of having own fund and subsidy from the district government.

Guarantee Fund: the objective of the Guarantee Fund to be established by the Metropolitan Government would be to help those home owners who for one reason or another (high age, low income) cannot obtain credit, draw loan of the state subsidized type available for the rehabilitation of condominiums and for energy rationalization. The operation of the Guarantee Fund can be most valuable for the condominiums which could not start the rehabilitation process because they have one or two home owners who are incapable to pay.

- ❖ Subsidy to the rehabilitation of buildings owned by the local government with the use of the rehabilitation fund already operating.

- Subsidy to tasks of public purposes during the rehabilitation process there will often be need to cover costs which would not be recovered directly from the development projects, or in the course of which the increase in value would only indirectly become evident (e.g. the demolishing of certain parts of buildings, the replacement of flats) These include the establishment, rehabilitation of public areas, the improvement of parking conditions. The subsidy would be adapted primarily to the programs of the district government or the organization executing the rehabilitation, and the contribution by the metropolitan government would in this case also act as supplement to the resources.
- Financing infrastructure projects in action areas: the rehabilitation program proposes that by reconciling the projects with the representatives of the facilities affected by the rehabilitation, development of infrastructure: district offices, metropolitan offices, infrastructure companies they should support rehabilitation by implementing the sectoral projects in harmony with the action area programs.

### **Assessing the volume of funds needed to subsidize action areas**

The costs, subsidy requirement and recovery of the rehabilitation of action areas greatly depend on the position of the given area in the urban structure, on the technical status of the buildings, flats, on the paying capacity of the citizens. According to assessments the subsidy requirement for a block can vary between 10% and 40%. In areas with favorable market position the proper targeting of investments of public purposes can promote the rehabilitation of the block out of private resources, while in areas in unfavorable status the ratio of the costs of rehabilitation of condominiums and that of public purposes can reach 30-40% of the costs.

Should the metropolitan government appropriate annually HUF 1 billion as subsidy to the rehabilitation of action areas, the district governments should contribute at least the same amount, and similar volume can be expected to come from private resources, in such case in the medium term (5-10 years) three action areas would be rehabilitated.

The specification of the exact limits of action areas in special decrees will help the organized implementation of the rehabilitation of action areas. That will make it possible to concentrate for a few years the available resources and the organized technical capacities required for the implementation of the rehabilitation projects. The decree can specify special regulations, such as accelerated official procedure, rehabilitation obligations, etc. A key component would be that for the specified period the metropolitan government would provide subsidy to the action area, undertake the concentrated rehabilitation of public areas, and the modernization of utilities. The action area would be specified only after a cooperation agreement was

concluded between the metropolitan and the given district government on the contents and financial construction of the program

The Program proposes to establish and operate an independent financial fund to finance the specified tasks of urban rehabilitation. Applications would be invited for the program. The district government could apply for the subsidy by submitting preliminary rehabilitation study for the selection of action area, and after the decree is approved, for the various forms of subsidy.

### **The establishment of the organizational back-up**

When launching the program a Rehabilitation Program Office would be set up as part of the Office of Chief Mayor of Budapest. That would not mean to increase the staff of the metropolitan government as the required staff could be drawn in by employing some external agency similar to the establishment of the Program Office and partly by re-allocating existing staff, without hiring additional personnel.

Launching the program with an efficient program office or program coordinator it will become clear in one or two years, whether some external organization is needed to coordinate metropolitan tasks, and it could be gradually established based on the experiences. It is suggested to make it as a "non profit" organization. That does not necessarily mean a form of association, but sets the requirement that in the course of its operation the association should not be permitted to withdraw any profit earned through the operation from the operation area of the association which, due to the character of urban rehabilitation task, is a rational criterion. Thus the emphasis on the non profit character of the organization also suggests the participation of the metropolitan government (and the public players in general) would be required not in areas, where profit oriented organizations can also work efficiently, but rather promote enterprising, to act as catalysts in important issues related to the efficient provision of subsidies to strategically important public projects.

District Development Companies would be responsible for the preparation of concrete rehabilitation projects. The members of the Companies would include the district governments, the metropolitan government and some banks. Similar development company is now being organized in district VIII.

Regional Information Offices, local offices established and maintained by district development companies and district governments will function as basic forums for maintaining links with citizens and for reconciliation. Their operation is imperative during the participative preparation and planning processes, to prevent or manage conflicts.

## **BUDAPEST DISTRICT VIII BLOCK NO 2 REHABILITATION PROPOSAL**<sup>6</sup>

The block is in downtown Budapest in district VIII between two ring roads. Although public opinion regards district VIII as the most unfavorable one outside Nagykeresztúr this is the district with red light quarters and there is also a large slum area. The downtown area has retained its favorable market position.

The physical status of the buildings, the housing stock and the composition of the population is similar to the area between the two ring roads. Typically it is densely built, there is a lack of green areas and empty plots suited for construction. Compared to the average, the block has more favorable features and that will be a decisive element of the project. The block has two squares in two corners, and they are currently used for parking.

The built in ratio of the block is 77%, the level area indicator is 2,9 m<sup>2</sup>/m<sup>2</sup>. 65% of the built in area is occupied by flats, altogether 352 in number. 80% of the flats have all the necessary utilities, the rest is substandard. The preparations for rehabilitation of the block have been going on since 1984, the greatest result of the preparation for rehabilitation was that some 23% of the flats are empty, another advantage is that because of the preparation for rehabilitation only a small portion of the flats had been sold, 90% of them are still owned by the local government. This will make it somewhat more simple to coordinate the rehabilitation works and to make decisions, and will make it possible to develop a privatization policy different from the earlier one.

Most of the non housing premises are used for commercial purposes, but there are also some smaller companies, while a number of premises are empty. Along Krudý Gyú most recently catering facilities were opened, offering services mostly for young people, (jazz clubs, tea shops, etc.)

The questionnaire based survey made in the block also shows the general demographic and social features of the downtown area. Typically the block houses older people (40%) and single persons (24%). As for the composition based on educational standards the block has favorable features. 34% of the inhabitants finished secondary school and 33% are college or university graduates. Those ratios are high above the Budapest average and are rather close to those of Belváros (Downtown). Not many families plan to move out of the block and those who move in are generally younger middle class people. The survey also showed that the residents react favorably to rehabilitation and are ready to contribute to the costs. The inhabitants are generally satisfied with the quality of their flats, with the people

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<sup>6</sup> Rehabilitation proposal of district VIII Block 1 1996. Prepared on the commission of the local government of Budapest District XII. Prepared by Varoskutatás Kft. Palatium Kft. Luga Internationa Kft.

living there, and regard as the greatest problems, the poor status of the buildings, the absence of green areas and the parking situation

The basic principle of the block's rehabilitation was to find the urban function, character that would best fit the features of the block and would attract enterprises, would provide a favorable housing market environment for the targeted residents

Regarding the built in density of the block, it is one of the most densely populated blocks and the starting principle was that population density must not be increased, but premises with commercial and business functions must be increased

### **The rehabilitation proposal of the block**

Developing the new image and making it accepted The already existing germs of the alternative culture provide the basis for the concept that the block should offer catering facilities specifically for young people commercial and entertainment facilities, apartment flats for students

Improving the structure A reduction of the high building density of the block by demolishing some levels in the internal part of the block

- Improving the urban living space Along with the rehabilitation of the building it is most important to increase the size of public areas, the areas can be used by the community and improving the standard of existing ones reduction of traffic on Mikszáth Kálmán tér, Lőrinc pap tér and Krúdy Gy utca, covering them with decorative casing

Exploitation of development possibilities With the removal of the smallest buildings and those of the lowest quality, with the demolishing building wings , with the merger of plots an area can be established which will be suited for the development of new housing or office building, garages

Improving parking facilities Development of covered parking lots in backyards

- Rehabilitation of buildings and with the support of the local government The program does not suggest the rehabilitation of the flats, except for the modernization of flats without utility supply

### **Development and financial principles**

The basic principle of the development and financing program was to keep budget resources to minimum and provide for their most efficient use, and to try and bring in maximum amounts of retail and business resources

The possibilities for bringing in the resources of the inhabitants are

in the form of rent if the flats continue to operate as tenement, the tenants will pay the rehabilitation costs in the form of rent,

- in the form of privatization revenue,

the flats are sold to the tenants living in them after rehabilitation,  
 through the direct utilization of the resources of tenants the flats are privatized  
 and the tenants pay the rehabilitation out of their own resources

According to questionnaire based survey 35% of the residents would like to remain tenants, 65% however would like to buy the flat most of them after rehabilitation

Taking into account the behavior and financial possibilities of the residents the program suggests primarily a privatization construction which would offer the flats for a minimum sum (even free of charge) to the tenants to buy, but should set as condition contribution to rehabilitation. The tenants who decide against this form would be given the option of buying the flats at higher prices after rehabilitation. The tenants who would not buy their flat in any form would remain tenants in the local government owned flats

At the same time when developing the privatization policy endeavors should be made

to establish to the extent possible buildings of uniform ownership type,  
 for flats where structural work is also performed (e.g. the replacement of the roof) or modernization is executed with concurrent merger of flats, the flats would only be sold after rehabilitation, and  
 empty flats should be sold after rehabilitation

Arguments for privatization before rehabilitation and arguments for privatization along with rehabilitation

under the current financial institutional conditions the local government has no possibility to obtain, under favorable conditions the high volume of capital needed for the investment,

generally community and non market type projects are more expensive because of lax financial management,

privatization revenue after rehabilitation is uncertain because of the high purchase price,

owners the residents could draw state credit with favorable terms for rehabilitation,

owners the residents would have better chances to have a say in the rehabilitation works, control would also be more efficient,

The paying capability of residents the principle of the subsidy model

The success of rehabilitation will greatly depend also on whether the residents accept the burden they would have to bear whether they are capable of paying. In other words, what is the sum the residents would find acceptable and payable? As the residents could, as the yield of the rehabilitation realize the increased value of

their flats we suggest that the residents should pay the value growth, but the rest of the costs should be covered by the local government

Calculations and assessments suggest that in case of full rehabilitation the increase in the value will be  $\frac{2}{3}$  of the costs, which means that  $\frac{2}{3}$  of the costs would be paid by the residents and one third by the local government

The paying capability of the residents

the residents who want to buy their flat earn around the average income, while those who want to continue to remain tenants belong to the low income group according to questionnaire based survey those who plan to build their home are ready to pay 20-30% of the rehabilitation costs

For the rehabilitation of the jointly owned parts of condominiums the residents can draw credit under favorable terms for 70% of the costs<sup>7</sup>

In operating condominiums it happens frequently that one or two residents do not want or are incapable of paying the necessary share and so they hinder the rehabilitation of the condominium. To avoid such a situation we suggest that only those residents should be permitted to buy their flat who are willing to cover the costs of rehabilitation. If for reasons not of their own some residents become unable to repay the credit the local government can give subsidy on the basis of individual appraisal

## The financial construction of rehabilitation

Privatization before rehabilitation

The resident would buy the flat for a minimum sum (and ready to share rehabilitation costs)

The local government would give to that condominium the part of the rehabilitation cost by which rehabilitation costs surpass the increase in value<sup>8</sup>

- The resident would pay the remaining portion out of his/her own resources in the form of cash or credit drawn under favorable term

In case privatization takes place after rehabilitation the resident could buy the flat for 50% of its market price

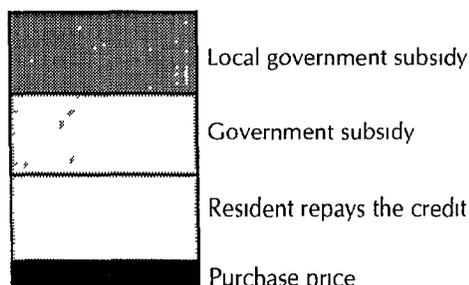
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<sup>7</sup> When drawing the loan the rate of government subsidy is 50% of the amortization volume. The credit can be drawn by owners in proportion to their ownership share. The bank performs credit appraisal for every owner individually

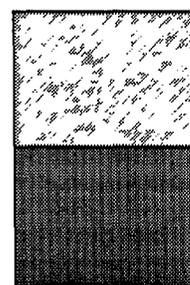
<sup>8</sup> Naturally the local government would transfer the given proportion only if the condominium has its own share available

## Comparing the financing models of average building rehabilitation's

Privatization before rehabilitation  
in case credit is drawn



Privatization after drawing credit  
50% purchase price



When comparing the two models it is obvious that both the resident and the local government contribute less to financing, provided the resident benefits from state subsidy

## Summary of the financing resources of block rehabilitation

Local government resources for the parts retained in its ownership	677 M HUF
Private resources	220 M HUF
Local government subsidy to owners	275 M HUF
Financing public areas	65 M HUF
<b>Costs of rehabilitation</b>	<b>1247 M HUF</b>

## The local government's balance of the rehabilitation process

Total local government spending	1000 M HUF
Revenue earned from privatization and the utilization of property	500 M HUF
Increase in the value of property	255 M HUF
<b>Loss of the local government</b>	<b>245 M HUF</b>

As a summary we can conclude that almost HUF 250 million of subsidy is needed for the execution of the rehabilitation of a block of favorable status, and that sum represents 20% of the costs. Within the frameworks of the proposed metropolitan

subsidy program the local government could apply for minimum HUF 120 million from the rehabilitation fund. The current system is not project financing or subsidy operating but subsidy to the rehabilitation of individual buildings. Obviously both the district and the metropolitan governments would participate to a much greater extent than calculated by using the more simple form of arrangement. The district government has already started the rehabilitation of the first three buildings in the traditional way, by using exclusively local government funds, for which it obtained, in the first step, HUF 250 million from the metropolitan government.

How much of the rehabilitation proposal submitted by us will be finally implemented will also depend on the attitude of the rehabilitation company which is currently being organized. It may happen, that this proposal remains an intellectual product of an expert group, as it has happened to several other studies. After all the program to be executed will depend on the decision of politicians and the heads of local government offices, guided by their personal interests and professional concepts.

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#### Szczecin Case Study

#### **The Consequences of the New Legal Changes Proposed in the Draft of the Renovation Law**

Mrs. Katarzyna Stachowiak-Bongwa, Municipal Renovation Team of The Municipality of Szczecin

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The draft of the law about renovation and modernization of urban areas has already been in existence for a few years, due to the painful process of consultations and agreements resulting in constant changes of the draft.

The Law describes principles and way of undertaking, organizing and financing renovation activities, and defines two major ways of conducting such processes:

- 1 programmed operation of the renovation, and
- 2 activities undertaken individually, outside of such operation.

The programmed operation of the renovation can be realized only in the areas of the rehabilitation of existing buildings and infrastructure, designated earlier in the Master Plan, as mentioned in Law on Spatial Planning from July the 7th, 1994.

Incorporating a relatively small change in the Plan, such as assigning the area of the rehabilitation, takes a very long time. The city of Szczecin already began this process, and the borders of such area have been proposed to the local council.

The borders of the area of rehabilitation of existing buildings and infrastructure cover more than the 56 blocks included in the Strategy of Renovation (marked on

the picture below by numbers) they had been assigned with some reserve, in order to have a possibility of manoeuvre during investment planning (for example, developing empty plots for replacement housing) and the possibility to use the subsidies proposed in the Law

After assigning in the Plan the area of rehabilitation, one has to decide where will be the area on which the programmed operation of the renovation should be conducted. The Law states that the operation should be completed within a 10 year period, which taking into account the average speed of construction and modernization allows for the estimation of the scale of the undertaking

After a closer look into what is presently happening in Szczecin in the field of buildings modernization, it can be noted that in the nearest future, these activities will be concentrated only within a few blocks: quarter No 27, where the on going renovation will be continued, quarter No 33 chosen as a next one for renovation, quarters 21 & 22, where the new company for the purpose of renovation will be created (Szczecin Renovation Society), and in the area of Tkacka Street, where three private investors chosen in bidding are supposed to complete the renovation of few old houses connected with the development of empty plots nearby

According to the Law, the first task of municipal council is to pass an Act about entering into the preparation of the program for the operation of the renovation. In this Act the council also has to appoint a coordinator of the operation. In the previous project the coordinator was named directly as a 'municipal plenipotentiary', now this name had been changed to more neutral one, placing the person between municipality (whom citizens do not always trust) and the inhabitants

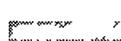
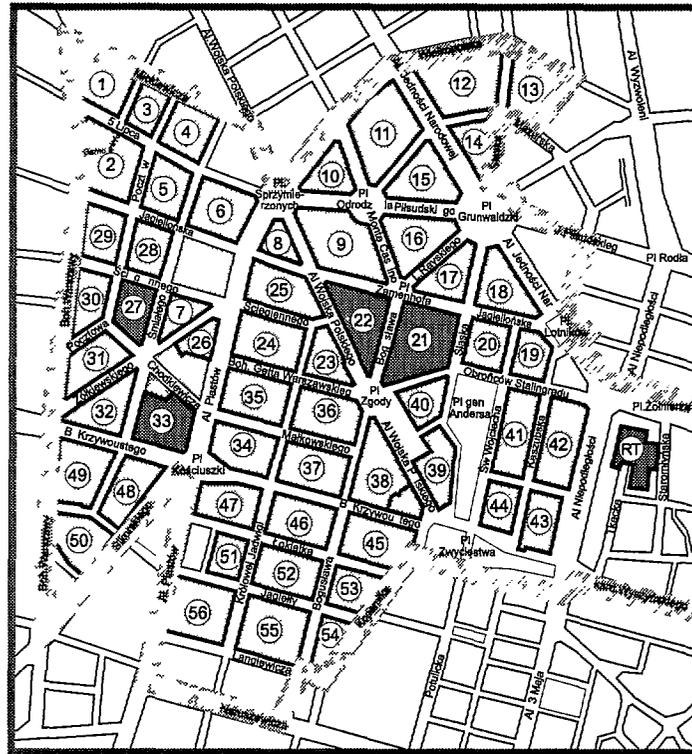
The coordinator can be a person or legal body, who will prepare, coordinate and supervise realization of the renovation operation. Who could be such a person in the case of the Municipality of Szczecin? Given that the STBS (Szczecin Social Housing Association) took over from municipality block No 27 and 33 chosen as the next for the renovation, it can be predicted with high probability, that as concerns these quarters the role of the coordinator will be played by the STBS – a partnership with 100% of shares belonging to Municipality. In blocks No 21 & 22, the newly created company, a partnership between the municipality and private investor can also play such a role

A different situation exists in the Tkacka Street project, where there are three private investors, who can act as coordinators of the renovation operation individually or choose among themselves one person for this purpose

Looking at the map and various possibilities created by the Law on renovation it is clear, that there should be one person or unit in the City Hall responsible for the coordination of the few concurrent renovation operations in the city

According to the Act about entering into preparation of the program for renovation, the municipal council makes a preliminary decision about the borders of the

## Szczecin - Śródmieście Szczecin - the Inner City Area



Obszar rehabilitacji istn. zabudowy i infrastruktury  
Area of the rehabilitation of existing buildings and infrastructure



Obszar operacji renowacyjnej  
Area of the programmed operation of renovation

operation, schedule for working out the program, principles of consultations with owners perpetual lessees condominiums tenants and organizational units located within the borders of the operation

The program should be completed by the coordinator within a 12 month period  
The work on the preparation of the program entails not only the collecting of data (which are quite precisely listed in the Law), but also several consultations with inhabitants, which most probably will be much more difficult

After finalizing the draft of the program it is presented to the public for a period of at least two (2) months, during which the inhabitants can file their conclusions and proposals Then for the next two months they have a right to register formal complaints, if their proposals or conclusions have not been taken into account

In comments about the last draft of the Law, which were recently forwarded to the Office for Housing and Urban Development, the municipality of Szczecin pointed out that this period is too long. The inhabitants should be currently informed on what the principles of the renovation operation, the program and future urban and architectural design are during the preparation of the program. They should not be put in the situation where a finished product, prepared without their participation, is presented to them at the end of the program.

The municipal council can pass the Act on approval of the program, if the program is accepted by more than 50% of the owners and perpetual leasees, located on more than 50% of the area within the borders of the operation.

Coming back to the situation in Szczecin, looking at the ownership structure in block No 33 it is apparent, that contrary to the comfortable situation of the municipality in the block No 27, (100% municipal property), receiving the approval of all owners and lessees of the area can be problematic. There are different forms of ownership: plots belonging to the municipality, which were transferred to STBS, plots owned by State Treasury and perpetually leased to Housing Cooperative *SrÓdmiescie*, Polish Post and Voivodship Center for Labor Medicine, finally an empty plot bought recently by a private firm, on which it will construct a building containing flats, commercial space and an underground garage. Looking at the size of the plots not owned by STBS it is clear, that receiving more than 50% of the acceptance of the proposed project can be difficult.

From the day the Act on approval of the program is passed to the day of voting the Act on completing the renovation operation, owners wanting to sell their property lying within the area of operation are obliged to propose a first offer to the municipality so in some way ownership rights are constrained. The municipality has one month to decide on purchasing the property or rejecting the offer.

If the program is accepted by at least 75% of the owners and perpetual lessees, who own or lease at least 75% of the operation area, realization of the program can be done by renovation condominium – a body consisting of the owners and lessees of the properties located within the operation area. A change introduced in the last draft of the Law (in my opinion for better) is a statement that the creation of such condominium is not obligatory, and it does not have to cover the whole renovation operation area. Looking at the block No 33 we can see from an urban point of view that a few complexes (groups) of the buildings are distinct. If the threshold of 75% acceptance of the program on the whole operation area is not achieved the alternative creating one or more smaller renovation condominiums exists.

The tasks of the operation are financed by the municipality, condominiums, owners and perpetual lessees of properties located in the operation area. The Law to some degree decides, who is financing what, that means the municipality finances the

infrastructure, investments in public spaces, preparation of renovation program, work of the coordinator, purchase or expropriation for public purposes (which belongs to the municipal tasks anyway) The rest lies on shoulders of condominiums, owners and perpetual lessees, however the Law creates a possibility of change in the range of investments financed

What does it mean in practice the choice that the realization of the renovation will be conducted by a renovation condominium?

the municipality is obliged to purchase the property on the operation area, if the owner decides to sell it,

- in case of evasion of execution of modernization works by the member of renovation condominium, the condominium can demand the execution by proxy Receivables from this action would be executed from the real estate mortgage on the properties renovated in such a way,
- conducting the modernization by the renovation condominium gives the right to larger subsidies from the state They can cover even up to 50% of the renovation costs, however not real costs, but normative costs (product of usable area of the building, degree of damage and indicator of reconstruction value, defined by voivod)

The Law creates a possibility of getting a subsidy of 20% of the normative costs of the renovation for individual projects, outside of the borders of operation and initiatives within the borders of the operation, but not conducted by renovation condominiums The share of the owners in the costs cannot be lower than 30%

Subsidies given by the state come from the National Renovation Fund In the original draft there was a statement that the Fund will be created in equal degree by input from the means of State Treasury as well as by the input coming from the contributions of all municipalities, being a part of raised property taxes This tax would be raised gradually, in order to prevent property market distortions Revenues from this source would enable creation of the National Renovation Fund, serving the whole country

Unfortunately, the statement that the input from the state would be at least equal to the sum of municipal contributions, was removed from the last draft of the Law, with justification that the lower range legal act cannot determine state budget decisions For municipalities it is a very big change for the worse

From the other side, surely a change for better is a statement saying that the creation of renovation condominiums is not obligatory, and that they do not have to cover the whole operation area However reading the text of the Law, it is clear that this change had not been carried on in all the articles, particularly in those dealing with financing of renovation condominiums and operations

Further on, there is no relation to existing legal acts, particularly the ones about possibilities of tax relief for expenditures connected with renovation of the buildings. Maybe for the individual initiatives undertaken outside of the area of programmed renovation operation area, there should not be subsidies but only higher tax incentives, as for example in Germany.

Although the Law on renovation is still not perfect, it is however a first positive step from the side of the state towards resolving the difficult situation of deteriorating housing stock, which is becoming more and more dramatic.

# 4.0

## ANNEXES

# ANNEX I

## LIST OF CONFERENCE PARTICIPANTS

### SPEAKERS, FACILITATORS, ORGANISERS

- |  |   |
|--|---|
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# 6.0

## CONFERENCE BACKGROUND MATERIALS AND PAPERS

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# 6.1

Municipal Renovation Team, The City of Szczecin

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## **Alternative Options for Public-Private Partnership Renovation Projects, Incorporating the TBS (Housing Association) Platform**

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## Introduction

The Szczecin Renovation Team and The Unit for Housing and Urbanization at the Harvard University Graduate School of Design are collaborating in a review of the social, financial, and institutional problems related to rehabilitation of buildings in downtown Szczecin. Technical (spatial planning) concerns are being addressed only very briefly. The review is exploring the potential for public/private partnerships within renovation projects that build upon the possibilities opened up by the newly enacted executive law on TBSs (housing associations with access to subsidized loans from a housing bank) and the still draft renovation law.

This working paper was written by Mr. Zbigniew Becker, a member of the Municipal Renovation Team, and Messrs. John Driscoll and David Jones of the Unit for Housing and Urbanization. The paper has been included as part of the proceedings of the International Conference on Urban Renewal and Housing Rehabilitation held in Szczecin from May 22 to 24, 1997 and as a basis for recommendations to the City Board and City Council on amendments to the Renovation Strategy.

The work is supported by USAID through its Housing Finance Technical Assistance and Municipal Advisory Program for Poland [PADCO (EUR 0034 C 00 4029 00)]. The Conference on Urban Renewal and Housing Rehabilitation was sponsored by USAID as part of PADCO's Gmina Housing Partnership program. In the area of theoretical foundations of public/private partnerships, the review builds upon the earlier cooperation between the Team and the Institute for Housing and Urban Development Studies in Rotterdam, the Netherlands.

The action research seeks to identify a range of public/private opportunities within the Szczecin Renovation Strategy, that address the following issues:

### *Public Sector*

The construction, renovation, operation and maintenance of public infrastructure, to facilitate or sustain appropriate levels of service delivery, enabling possibilities for leveraging and inducing maximum private sector participation, and an awareness of the resulting financial implications of selected strategies, including a very necessary emphasis on municipal financial obligations.

### *Private Sector*

The recognition that, in a market economy, private sector involvement will be motivated by economic incentives related to issues of supply, demand and price, seeking to maximize (often short term) financial returns against other alternative investment opportunities, avoiding (where possible) responsibility for costs of economic externalities and yet seeking to be financially (or otherwise) compensated for costs (including social costs) incurred which detract from the highest and best use of (or outcomes from) property development

### *Residents*

Opportunities for the creation of choices and satisfactions, including appropriate facilities for active consultation and participation. The privatization of flats for sitting tenants, while an important political issue, has the potential to create considerable management difficulties in the future

### *The Social and Civil Discourse*

Concerns relating, for example, to social and economic equity, democratic participation, environmental safeguards and sustainability, preservation of cultural heritage and overall delivery of services

Clearly, there is a necessity, as in all similar circumstances, for cooperation between the public and private sectors. Both roles are important. If the area is not to become a permanent drain on public funding, this cooperation must be seen as facilitating private sector activity which results in delivery of marketable goods and services, together with adequate commercial profit. Public sector involvement should, therefore, be concentrated upon the delivery of public or collective goods and services, remedies for potential market failure and correction of social inequities. However meritorious the concerns, to the extent not directly recovered, these expenditures will represent a permanent allocation of public resources, which have alternative uses. Moreover, the longer the recoveries are delayed, the more the public sector will be providing credit, with an implicit interest cost.

Although the private sector is appropriately concerned with commercial returns and profit seeking, it also tends to have a much shorter time horizon for intended involvement in individual projects and lesser concerns over their long term impact. This is especially true of environmental and heritage concerns, as well as other economic externalities. This will also be reflected, in terms of social time preference, in the willingness of the private sector to demand and expect to pay higher interest costs than costs of capital embodied in longer term concerns of the public sector.

A Renovation Strategy for Szczecin allows for addressing these overall strategic issues for the entire downtown area and identifying flexible planning and design frameworks that encourage “demand driven” approaches to match the development objectives for the designated area. These planning and financial frameworks should be responsive to the planning objectives, financing and social opportunities that occur within blocks, streets, individual buildings and public spaces. A definition of these approaches will allow the Renovation Team to assist the City authorities in developing opportunity driven sub models when framing public/private partnerships. It will also encourage projects that can match both public and private financing opportunities and address social issues.

### **History of the Problem and Description of the Area**

The city of Szczecin is located in north western part of Poland, some 60 kilometers from the coast of the Baltic Sea. The City, with a population of approximately 420,000 residents, functions as a principal center for the West Pomerania region with a population of approximately 1 million.

The economy of Szczecin centers around ship building, maritime, metal and chemical industries. The Port of Szczecin is of principal importance for the Polish economy, handling approximately 40% of the national sea cargo. Geographically, Szczecin is capable of providing natural sea and river port facilities for Berlin, which is within only a one and a half hour drive on the motor way. Economic indicators show robustness and strength of the local economy, with unemployment figures well below the national average.

The Szczecin Inner City Area, or Centrum, forms an important housing district inhabited by about 60,000 people and contains a large portion of the City's approximately 53,700 communal residential apartments. The Centrum also contains the largest commercial, service and office area in Szczecin and in the region, with almost 20,000 jobs.

The renovation of the core of the Centrum is regarded as a strategic objective for the City. This area, covered with buildings erected at the turn of the century, presents a valuable urban planning layout with wide tree planted main streets and characteristic star shaped circuses, so typical of the patterns of the nineteenth century urbanism. Buildings and land are predominantly owned by local authority.

### **City Renovation Strategy**

The Renovation Strategy was adopted by the City Council in March 1996 and is viewed as a critical component of the City's Housing Policy, as adopted by the City Council in December 1996. The renovation strategy puts particular attention on

- Improving the quality of life, including decreasing the population density and improving the housing conditions of downtown residents,  
Enhancing the commercial function so important to the city, preserving the historical town layout and architecture and protecting the downtown district against degradation,  
Improving the buildings and immediate neighborhoods, e.g. parking facilities, open spaces, playgrounds, etc.,  
Reducing air pollution caused from coal burning stoves through the introduction of new heating systems and improving energy/water conservation through upgraded building systems

## **A Review of Renovation Approaches**

Renovation projects undertaken within Szczecin's Inner City Area present a pioneering effort in this field in Poland. The practical implementation started in 1993 with publicly financed renovation of buildings in Block No 27.

Through a constant process of studies, implementation, discussions with city officials and residents, consultations with local and foreign experts and the incorporation of relevant experiences from other European cities, the Renovation Team has tried to identify appropriate models of finance and management for the renovation in the Inner City area.

To date, renovation efforts in Szczecin can, perhaps, be characterized as under two broad approaches:

- Predominant public or private approaches, incorporating

- The Commercial Model

- The Public Finance Model

- Public/private partnerships, incorporating

- Larger scale improvements, within formal institutions

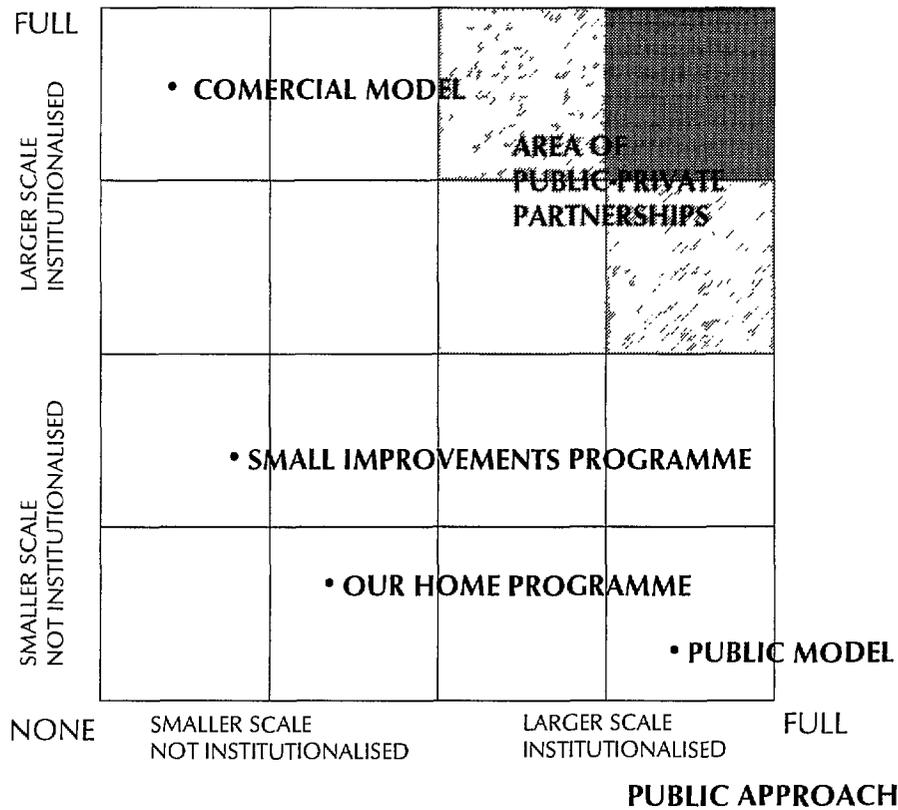
- Smaller scale improvements, including joint financing by the Municipality and inhabitants

These can be summarized by the diagram (FIG 1)

Although each model can be portrayed as having a particular emphasis of attention, it is clear that all must be perceived as different types of partnership between the public and private sectors. The following descriptions, therefore, highlight important characteristics of each type of partnership arrangement, rather than seek to place it into a specific category.

**FIG 1 Models of approach**

**PRIVATE APPROACH**



***Predominant Approaches***

The Commercial Model

This model mainly applies to highly attractive and commercially valuable blocks where in a majority of the cases the municipality owns the buildings. The model consists of temporary lease (or transfer of use rights) of municipal buildings and perpetual or temporary usufruct rights (or use rights) of land in attractive locations to private investors (natural persons or corporate entities)

The transferee (or potential buyer) undertakes to restore the buildings and improve landscaping, while respecting the rights of sitting tenants of municipal flats. The approach to working with existing tenants often differs from one project to another. It may, for example, include ensuring adequate permanent alternative housing to all or part of existing tenants. Alternatively, users may stay in their tenanted apartments.

and then, after completion of renovation works, pay a higher rent according to generally applicable housing regulations

In Szczecin this was the model used in the contract with Norwegian/Polish group for Blocks 21 & 22, now superseded<sup>1</sup> This is described, in detail, below

#### The Public Finance Model

This model applies to areas where housing function and municipal ownership are expected to prevail also in the future The municipality initiates and organizes the renovation programs and ensures that financing is in place This may be combined with the transfer of buildings to a not for profit organization specialized in management of housing stock, for example a TBS The proceeds from any sales of renovated buildings would normally be directed to renovation of other buildings

In Szczecin, this model is being successfully used in Block 27 of the Turzyn area It includes the renovation of 400 units and a Ecological Renovation Demonstration Program in 127 of these units The start of the implementation of the Renovation Strategy established new practices of public participation which have become institutionalized including information meetings, bulletins, consultations with inhabitants and information centers While successful, the Turzyn program represents a considerable burden on the city's budget, requiring the equivalent of 1 million USD investment each year

### ***Public/Private Partnerships***

#### Larger scale Improvements

Experience from large modernization/renovation projects indicates that the private sector is often not able to undertake projects that are long term, must simultaneously resolve complex social problems, or upgrade major infrastructure Furthermore the scale and complexity of renovation undertakings, even in commercially attractive areas, can discourage potential investors

Local authorities need to seek the most suitable organizational/financial framework for launching and sustaining such projects These frameworks must take into account the social covenants and tasks of the public sector, while encouraging the private sector to invest its ability to respond to any market needs and expectations, through the provision of adequate commercial incentives

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<sup>1</sup> Since framing of the initial renovation approach for Blocks 21 and 22 in 1991 the perception of the problem has changed and the renovation strategy has incorporated new approaches For example there is a willingness to organize renovation projects around a series of coordinated smaller sub projects that are within the financial capacity of local investors with lower financial potential (as for example in the case of the Tkacka Street Project)

Previous experience from countries with a well developed market oriented economy demonstrates the potential of public private partnerships for renovation undertakings, although these partnerships will require good preparation to be successful in specific Polish cities

In Szczecin, examples are as follows

- a) The Tkacka Street area a renovation/development Project in the Old Town Area in Szczecin, where the Municipality packaged and traded its buildings in need of major repair and adjacent empty lots for new construction. The payment for these packaged real estate assets was in form of alternative housing for present tenants of municipal flats. Cultural heritage preservation was an important component of the Project, adding to its costs
- b) Current (revised) proposals under consideration for Blocks 21 & 22

#### Smaller scale Improvements

These include smaller scale improvements to apartments, jointly financed by the municipality and residents. By providing incentive grants to finance improvements to sanitary facilities and heating systems, residents can improve their living conditions in buildings where no renovation projects are planned for say the next ten years. Such a program can also be used for minor improvements to immediate access infrastructure, such as water supplies and neighborhood streets.

Small improvement renovations are not a substitute for comprehensive renovation, especially in buildings that require major repairs. These programs are intended to minimize social degradation and depreciation of housing stocks, and also make dwellers feel more comfortable, if a comprehensive renovation is unlikely in the foreseeable future.

In Szczecin, about 1,250 units were improved under the Small Improvement Program as of March 1997. A subsequent Our Home Program is being currently developed, aiming at a building scale interventions.

## **The Commercial Model - A Review of Experience**

### ***The Initial Concept***

Five blocks in a prime commercial location in the heart of the downtown were initially earmarked for renovation under the commercial finance model. In two of these Blocks 21 & 22 previous studies had recommended modernization and renovation activities, centered around the pedestrianization of a section of the street running between the two blocks. Subsequently, this area was selected for a development project to be undertaken by the Urban Renewal Group Norway.

(URGN), who had contacted the city in 1991. A summary of the relevant Project data is as follows:

**FIG 2 Summary of URGN Project**

<b>Data concerning the 1993 Renovation Project for Blocks 21 &amp; 22 (A contract between the City of Szczecin and the Urban Renewal Group Norway)</b>	
Total usable floor area of flats after renovation	26, 000 sq. m
Total usable floor area of commercial premises	34, 000 sq. m
Number of parking places provided in underground parks	250
Number of replacement flats	930
Planned construction period	4 years
<i>Project Finance</i>	
Declared URGN equity	USD 6,2 mln
Ceiling of mortgage collateral on communal buildings and land related to the Project against the loans from the EBRD*	USD 6,0 mln
Project's peak negative cash flow	USD 18,0 mln
<i>The City Board had to get the City Council's authorization for the limit of the exposure of the municipal assets possible liabilities for the City</i>	

A series of negotiations led to formulating an agreement between the URGN and the City of Szczecin that was signed on 10 November, 1993. The Contract assumptions can be summarized as follows:

The Developer (URGN) would finance and construct replacement housing on municipal land and transfer the buildings to the municipality free of charge,

The municipality would terminate previous tenancy agreements with the users of commercial units, move tenants of flats to newly built apartments and transfer vacant<sup>2</sup> buildings and land to the Developer for the agreed period of 17 years,

<sup>2</sup> Rights of the then present owners/occupiers of flats would be respected. The Developer would negotiate with them on an individual basis.

- The Developer would finance and carry out the renovation of buildings and then manage them (during 17 years minus the construction period), recovering expenditures and profit from the revenues from rental fees and from an agreed share of the proceeds derived from selling parts of the renovated premises
- What is not sold would be transferred back to the Municipality,  
The Project was supposed to produce additional income generating spaces acceptable under the terms of town planning and architectural guidelines

### ***A Breakdown of Implementation***

The Norwegian partner defaulted on the Contract and in May of 1996 the City canceled the agreement. This led to a concern and questioning as to why the original concept failed in its implementation. Although not all the answers are clear, there are some fairly obvious indications as to why this occurred.

The principles of the strategy, including the idea of a commercial model of renovation were formulated in the years 1991-92, when the level of optimism and belief in the invisible hand of the market in Poland were running high, indeed perhaps a little bit too high. The initial inflow of foreign venture capital that occurred in the first years after the political and economic changes that took place in Poland in 1989-1990, was attracted to sectors that required capital to offset years of disinvestment. Among the candidates were former state-owned commercial enterprises, perceived by investors as having the more promising potential for restructuring as profitable private firms.

This also coincided with the arrival of new elements of the market economy, such as the Warsaw Stock Exchange, which in the initial stages of operation was bringing the level of anticipated profits almost to a boiling point. This atmosphere helped to justify very optimistic expectations regarding the role and scale of the private sector in economic activities.

In the context of an almost euphoric atmosphere of changes within the economy prior to the formulation of the initial Renovation Strategy in 1991-92, there was a prevailing expectation that market forces could quickly produce concrete results in every domain of concern. It was also generally expected that this was a game for the 'big guns'—large developers and institutional investors—who by the sheer scale of their financial resources would quickly surpass whatever efforts the Municipality could undertake on its own.

### ***Lessons Learned***

In re-evaluating the experience of the URCN project, key points can be highlighted that, when combined, may have been contributing factors to the inability of the project to move forward. These include:

A very ambitious plan and comprehensive program that devolved virtually all of the risk and responsibility on to the private sector,

A lack of adequate communication between the Norwegian (URGN) and the Polish Partner (ESPEBEPE, a local construction holding company) within a renovation Project Development Company (Ceremi), significantly attributed to material differences between the partners regarding operational culture, legal tradition and project objectives,

- Lack of flexibility in financing assumptions when the expected EBRD loan did not materialize, everything came to a halt,

Local opposition the project faced local opposition, including the existing users of commercial facilities who voiced a fear of 'foreign' investors, and,

- An open ended perception, not necessarily common to all parties involved, with respect to likely increases in land values affecting anticipated commercial returns on investment

Furthermore, the growing involvement of the private sector country wide created some problems of its own. For example, the establishment or expansion of formal financial markets have also opened up for potential investors other investment opportunities, that competed more aggressively against urban development projects

### Institutional Issues

The renovation approach underlying the URGN project was based on a high level of expectation on the part of the municipality concerning the potential role of the private sector in renovation of this part of Szczecin Downtown. An underlying assumption, and one that is normally put forth in the rationale for private sector involvement, was that the private sector developer would be the predominant actor, thereby reducing the administrative cost to the city

In retrospect, the required staff support and the need for an overall organizational framework to guide the project within various city departments was to some extent underestimated. As a result, the commercial model, as adopted, was working within an institutional vacuum. Despite the fact that the Project was comparatively well steered through official procedures and all the contractual obligations of the city were fulfilled, it may be argued that, had the public sector's efforts been structured differently, the break down of the Project might have been prevented<sup>3</sup>

<sup>3</sup> It's quite likely for example that had the City been a partner in the renovation Project Company it would have stepped in when growing frictions between the URGN and ESPEBEPE led to stopping the construction of replacement housing in 1995

The URGN experience demonstrated that the presence of an institution with the resources to assume responsibility for renovation over the long term is critical, whether national or regional economic trends ultimately help or hinder implementation. Such an organization can promote cooperation among government bodies, commercial interests, and private citizens residing in the blocks to be renovated.

### Legal Issues

The formal contract agreement alone was not a sufficient vehicle for communication between the public and private sector partners, given the highly complicated and dynamic nature of the project and the economic, social and technical environment in which it was occurring. This is illustrative of any relationship involving private contracting with the public sector. The establishment of legal rights and responsibilities, within a formal contract, is often a much more complex (and therefore costly) matter than originally envisaged (in this particular case the negotiations took almost two years). Thus, it is clearly instructive to review the earlier contract, to ensure that adequate provisions had been made. This will facilitate improved drafting of future contracts for similar activities.

Key matters within each contract would have needed to be specified clearly, with certainty, and, in detail. There was also a need for equally specific provision for adjustments and remedies, when contract performance did not meet expectations or outcomes. Finally, provision needed to have been made for the establishment of contractual responsibilities in circumstances not originally envisaged but which would still need to be addressed as they arose. Among the concerns to have been specified, for all contractual parties, were

- legal obligations, rights and duties, commitments to perform specified actions or to desist from so doing,
- rewards for performance or the manner in which these were to be determined, monetary or other damages for non performance, and, limitations upon activities considered to be contrary to the intention of the contract

### Financial Issues

It could be argued that perhaps the economy in Poland had not yet reached a level that could support a major commercial venture like this one. Nevertheless, the EBRD Feasibility Report by Henry Butcher Poland Ltd, never questioned the economic or financial feasibility of the Project when assessing the URGN's loan application to the EBRD.

Although the overall and final financial viability may not have been of concern, a project of this nature has the potential to run into difficulties on an interim basis. A significant amount of funding needs to be invested, for fairly long time periods, before the financial returns from sales or rents will accrue to the investor. This involves costs for interest during construction, as well as the carrying costs of completed but unfructified physical construction and related public infrastructure. It may be questioned, therefore, whether it is appropriate for all of this burden to be carried by the private sector. Certainly, the private sector can and should evaluate its risks. However, if failure occurs, the public sector as well as the private contractor is a significant loser – if only because of the costs of delay. Accordingly, it is important to ensure that the private partner is sufficiently robust, financially and logistically, as well as having adequate access to temporary financing for working capital and contingencies.

#### Public and Social Responsibilities

It is reasonable to suppose that the private sector can provide innovation and dynamism which might often be missing from the public sector. Indeed, profit seeking efficiency is a major motive for involving the private sector at all. However, although the private sector may have an overall advantage, there are many domains where it has neither the superior ability nor interest in effort maximization. Two of these aspects were included in its responsibilities. These were social housing and infrastructure implementation. It must, therefore, be perceived that market forces can work both for and against such a project. If ultimate profitability of the project becomes suspect, the most likely costs to be curtailed are those which will produce little or no profit or financial benefit, as well as those where the contractor has no competitive advantage for efficiency.

#### ***Redefining the Terms of a Public/Private Partnership***

Even though the failed contractual arrangements involved private sector firms, it is also important that the project not be seen as a failure of the private sector. Instead, it must be perceived as a breakdown of a particular form of public private partnership, involving very specific partners and organizational arrangements. Indeed, one of the main principles underlying the project is that of restoration of the downtown commercial area. Thus, as already asserted, if the market is not involved – and market forces tested at every opportunity – an important new development, together with its institutional possibilities, will be perceived as a failure. Equally importantly, potential lessons will not be learned for the benefit of future projects.

Thus, the initial experience of Blocks 21 & 22 led the City to re-evaluate the institutional framework within which renovation projects would be implemented. Within the context of the TBS legislation and the City's own strategy, it is now

considering an alternative renovation organization, that can prepare and implement comprehensive renovation programs in downtown Szczecin and can develop adequate financing/organizational models to ensure a sustainable flow of funds from both local and private developers

The current strategic objective might therefore be slightly re focused

- to transform present run down blocks into an attractive and economically vibrant concentration of downtown retail and service, coupled with high and medium quality housing for high and middle income residents, thereby providing an alternative to suburban commercial and housing locations and, to the extent that is economically possible, providing affordable housing for limited income residents, while maintaining a proper functional mix allowing for continuous liveliness of the area after office hours

where necessary to provide adequate relocation facilities for the present residents

The Renovation Team is currently working on two possible options for the renovation of Szczecin downtown Blocks 21 & 22

- **Option A** The city will evaluate and decide about proposals from two private sector groups They include a local developer/builder in partnership with an American investment company and a developer/consulting group in partnership with a (loose) consortium of local and national banks

**Option B** If the proposals are not acceptable to the City Board, an option is to use the newly formed Szczecin TBS (STBS a housing association), or to create a new TBS as the institutional vehicle for developing an alternative renovation strategy for the two blocks, which might enable accessing funds from the National Housing Fund (principally for replacement housing)

The logic is that even if Blocks 21 and 22 are developed under Option A, there are considerable opportunities to implement an Option B approach in other areas of the downtown Indeed, based on current learning experiences, Option B may evolve as the more standard and generalized paradigm Whichever option is ultimately chosen for Blocks 21 and 22 regard should be taken of the administrative procedures and other resources which the public sector may contribute These have been evolving within the Szczecin City Council to deal with a variety of urban planning concerns

The most important of these can be tabulated as follows

**FIG 3 Urban planning concerns**

Item	Source	Availability
Preliminary commercial concept	Deputy Mayor and The City Board, endorsed by the City Council but not without opposition	Available
Preliminary planning/urban design study	Officials within the control and employment of the City Council	Available
Legal concept for organizational framework	Officials within the control and employment of the City Council	Still evolving within the framework of decentralized and market friendly economy
Land for construction of replacement housing	Within the public domain	Partly allocated partly earmarked
Social credibility of the undertaking	Primary responsibility of the public sector as a whole but with increasing participation of concerned residents, the wider civic discourse, and, the private sector	Changing and evolving as part of national and local concerns to match social concerns with economic efficiency issues

## Public-Private Partnerships

### *Principles General Application*

The concept of public private partnership is gradually replacing or modifying an earlier, more rigid, paradigm. Formerly, especially in Western societies, it was seen as appropriate for the public sector to provide most or all of the primary and secondary infrastructure, both physical and social. This would include, for example, the treatment and generation systems, together with principal transmission and distribution (or collection) systems for water supply, wastewater, solid wastes and electricity. In addition, social infrastructure, such as schools and major health facilities were publicly provided. In former centrally controlled economies, such as Poland, public provision would also extend to centralized space and water heating

Much of the capital expenditure was funded by debt, either raised in bond markets or by similar instruments or from municipal loans funds, managed by central governments. For revenue earning activities, costs were wholly or partially covered from user charges. For other services, they were covered from public revenues, either raised locally or from shared national sources.

Concurrently, in Western societies, it was standard practice for private sector developers to deal with purchase and physical development of individual plots and sites, within the overall framework of publicly administered construction standards and spatial planning regulations.

Many of these arrangements continue to prevail. Indeed, they may well do so indefinitely into the future. They are not, necessarily, inappropriate or inefficient. However, shortages of capital for public facilities, coupled with newly evolving economic, social and political paradigms, have engendered a breaking down or modification of many of the former rigidities. As a result, new and alternative opportunities have opened up.

Despite the greater potential for involvement by the private sector, it is very likely, particularly with major urban renewal undertakings, that the private sector cannot and will not accept the risk of undertaking large projects on its own, particularly those with many social components. In addition, the over-controlling attitude of the public sector in the past has acted as a deterrent to the private sector, particularly in these large, complicated projects.

Given their interests and, therefore, the degree to which the both sectors wish to legally tie to each other, partnerships can range from a coordinated effort made by the two parties without a formal binding contract to a relationship, in which the two partners establish a joint venture company with shared risks and benefits.

Within this range, there are many permutations to the partnership models.<sup>4</sup>

### ***Principles - Specific Application to Szczecin***

Because of the scale and complexity of the renovation of downtown Szczecin, an over-reliance on either the public or private sector is not financially sustainable, especially if the City wishes to implement a renovation program within 25 to 30 years. Thus, the renovation strategy sets objectives that structure the long-term programs that can substantively complete a comprehensive renovation of the core of the Centrum within that perceived time frame. To accomplish this objective, the

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<sup>4</sup> See background discussion in annex 1 including review of Paul Kloppenborg, *The Quest for Utilization Value Economy as the Good Ordering of Interests*, Amsterdam.

municipality has expressed interest in the involvement of the private sector, especially because it wishes to attract the additional capital required to implement a renovation strategy within a reasonable time period

There is a new recognition that the realization of the Centrum's revitalization potential will require a willingness to define outcomes from the public investment that achieve strategic economic social and environmental objectives. To do this, it will still be necessary to accomplish a partnership with a range of private investments that fit within shorter term economic returns required for profitable commercial involvement

It seems important to ensure, above all, that any renewed attempt to carry out the Centrum project should be seen as a reaffirming commitment and providing the greatest possible chances of success. Not only is this necessary to secure the financial and political support of the City Council, it is also essential to the commitment and participation of the many persons, institutions and businesses expected to participate, from both private and public sectors

Therefore, the project should more firmly be structured on the basis of public private partnership. It is the revised organizational and financial form of this partnership, not the principle of it, which should now be the focus of attention

### ***Organizational Frameworks***

Establishing a pragmatic financial and organizational framework is critical to resolving potential conflicts, identifying and meeting the needs of the divergent public and private objectives inherent in a land development project and reducing the isolation that leads to inefficiencies and failure of projects

Partnership approaches aim to reduce the isolation in which the two sectors usually work and increase the benefits to be realized from the two sectors working together. In Szczecin, a renovation strategy sets a scene for different partnership agreements that may have district wide implications or may only be relevant to a specific project. The partnership will most likely involve a combination of central and local government authorities, TBSs, banks, business and resident associations. Given the dynamic nature of a partnership and the potential number of groups involved, a specific legal framework and negotiating authority will be required to give local public representatives sufficient leeway to negotiate the terms of agreement during partnership formulation and functioning

The following specific resources are involved in a renovation undertaking such as the renovation of the Blocks 21 and 22, and can be grouped into the broad division into soft (intangible) and hard (tangible) resources

**FIG 4 Organizational and financial sources of partnership**

<b>Organizational and Financial Sources of Partnership</b>		
<b>RESOURCES</b>	<b>SOURCES</b>	
<b>Hard (Tangible) Resources</b>	<b>Public</b>	<b>Private</b>
Existing land and buildings	Primarily public, including additional land acquisition and disposition	Limited private
Land / buildings for re-housing	More likely public	Some private activity
Communal infrastructure	Primarily public (primary and secondary)	Some elements built by (secondary and tertiary) private sector and later vested in public sector
Funding	Specific financing for projects, long term debt (where available), vesting or sales of municipal assets subsidies/grants tax incentives	Equity financing, debt financing
<b>Soft (intangible) Resources</b>	<b>Public</b>	<b>Private</b>
Approved plan	Usually public including, strategic plan or strategy land use plan approval and design review	Can be partially drafted by private entities
Commercial concept	Concept within public plan	Feasibility Study
Design Guidelines and quality specifications	Identification of guidelines within the framework of national minimum planning building and health & safety standards & heritage protection requirements	Market decisions conforming to local conditions
Managerial & Organizational Experience	Public tuned to political control	Project Management
Social and Political	Public Participation Resident Outreach Political Support	Political Support and Lobbying
Marketing and Public Relations	Social and Political Credibility	Market Information

Even from a very general assessment it can be seen what kind of benefits are likely to be gained through establishing a public private partnership. In almost every aspect of a renovation project it is realistically possible to achieve some form of cross support that utilizes the natural strengths of both sectors and results in the improved performance of the project.

The most interesting aspect in which this form of the synergetic fusion should occur is finance, where the private sector can sometimes contribute access to market sources of commercial and institutional capital, pre financing from the end users, and financial management skills, whereas the public sector may contribute special and bridging funding (for example for development of infrastructure) and collateral for otherwise commercial finance.

### ***Nature of Resource Mobilization in a PPP Renovation Strategy***

As a means to an end, partnerships are a way of mobilizing the private and public funding of development in an effective manner and overcoming the budgetary constraints of the public bodies involved in the project.

In practice, under the existing situation in Poland and specifically in the Szczecin region, the municipal budget is the prime source of renovation funds, with limited contributions from private investors. Unfortunately, these sources are insufficient to implement the renovation program at a rate and to the extent required for preventing any further depreciation of existing buildings. This unfavorable trend can only be reversed upon institutional allocation of funds from the central budget to renovation and repair projects, this may include National Housing Fund, as proposed in the Act on Assistance to Selected Housing Development Forms, or National Renovation Fund, as proposed in the draft Renovation Bill.

Basically, renovation funds can be raised from the following two principal sources:

Public funds (both local and national), derived from (i) taxes and other income of local and central budgets, (ii) rental fees charged to tenants of municipal properties, and (iii) receipts from sales of municipal assets including land, and (iv) various forms of borrowing. There are two forms of public funds. The first is that of common or regular funds for ongoing and sustainable repair and upgrading of property. Examples include those from the annually deposited 1.5% of building replacement cost, to be allocated to cover the cost of future repair works. The second form of funds is more specific. They include those allocated in terms of specific policy, whereby priority is granted to renovation projects within a determined time. The National Renovation Fund, the National Housing Fund, and Environmental Funds are examples of such funding instruments.

Funds from private sources, both individual and institutional, may be invested in renovation for profit or for particular tax relief. They may also be in search of

other, non pecuniary, benefits, mostly those connected with individual housing or similar needs, as well as enhancement of the corporate public image

Renovation projects can rely on a single finance source, but most often they involve finance packages combining specific public and/or private funds. In terms of the renovation aspects, The strategy clearly identifies the following tasks of renovation developers

- raising public moneys from various governmental and non governmental specific funds,
- adequate and appropriate use of public finance and development of long term disbursement schedules for renovation funds allocated by municipalities,
- a provision for reinvestment of all additional revenues from renovation in subsequent renovation projects,
- attracting private investors, both domestic and foreign,
- development of adequate renovation cost sharing rules for existing owners/tenants

There are, however, also some risks involved, that are mainly of a political nature. Firstly, the lack of practical experience in creating and maintaining such partnerships may lead to the loss of credibility on the part of politicians supporting the idea of PPP, because initially their involvement will be perceived as the pursuit of vested interests. Secondly, PPP will not be the best vehicle for all and every kind of project. Thirdly, if the changes in external environment would require a very drastic departure from the original principles of the project, on the part of the public sector, there will be a tendency to avoid changes and instead continue along the once agreed lines. These, however, will be defined by the rather unwieldy political decision making process therefore not easily amenable to modification. This would tend to weaken the flexibility merit of a PPP.

### ***Potential Organizational Structures***

There is a range of possible options within an institutional framework, in which renovation public private partnerships might take place. Among the possible formal or informal organizational structures to be considered, with comments upon some distinguishing features, are the following

- 1 **Szczecin TBS (STBS)** but with the proviso that, at present, it may be required to focus on the development of new low cost housing. The use of National Housing Bank funding for renovations even of housing is still under consideration and there does not appear to be a clear mandate for the STBS to involve itself in clearly commercial developments. It could, however, serve as a

vehicle to finance replacement housing. An alternative is to create a separate TBS to deal specifically with the task of renovation, such as in Blocks 21 & 22.

- 2 **Development Corporations (DCs)** these can typically be established with separate legal identity from their component participants or participant organizations. They may include non profit and for profit sub corporations and may have some of the mandates of the local government delegated to them to exercise within the project area. However, it would probably be wise not to delegate either fundamental powers over planning or eminent domain. If necessary, these can be exercised, on request and with approval, by the local government. Powers of taxation should always be expected to be retained by the local government, under democratic norms. However, with proper procedures, the local government might establish a special tax district (conterminous with the area of the DC) in which it could levy a special tax surcharge to achieve its purposes. In effect, the local government would seek to facilitate the concerns of the DC, rather than to use it as its agent.
- 3 **Business Improvement Districts** similar procedures and conditions would apply to those of the DC organization. However, the decision makers would wholly or mainly comprise the businesses within the district, typically through a business association. Clearly, any imposition of community power such as a special tax surcharge even following a majority vote, could not be imposed upon the minority unless there were clear legal mandates to bind the minorities. Otherwise, and perhaps more appropriately, the local government would act on its behalf, similar to a CDC.
- 4 **Community Associations and Neighborhood Partnerships** these organizations, not having separate legal identity, would need to act by consensus. Individuals would agree to perform those functions which can be done separately. However, those activities which need to be performed collectively would be performed either by voluntary cooperation or (after joint request) by the appropriate government department or public utility.
- 5 **Private Developers** these will normally be motivated by profits from the sales or rents from completed projects or project components. Arrangements can be made for public infrastructure to be vested in the appropriate governmental or utility unit. However, these arrangements should be transparent from the outset and permit the developer to build the financial implications into the expected revenue stream from project earnings.
- 6 **Individual Property Owners** individual owners of buildings may be motivated by profits or sales from expected completion of their individual components. These will normally relate to the renovation of interiors. Experience elsewhere

indicates that if they do not have vacant possession, especially from subsidized tenants, they will not be adequately motivated to participate in project work or financing. Thus, it is important that the institutional situation be crafted in such ways that these participants can be rewarded by the market place, rather than from public funds. In the context of the Szczecin's Centrum, private ownership of buildings/groups of buildings is still comparatively rare.

- 7 **Government Departments and Utilities** these will normally have specific mandates and may well be the appropriate organizations to do well what they do best. In the case of government departments, this is to regulate, tax and allocate budgetary funds, as well as to exercise legal powers of eminent domain such as the taking of property (with appropriate compensation) from reluctant sellers. Utilities will typically be most experienced in providing specific services, such as those for road paving, water, sanitation, sewerage, district heating, gas and electricity. There may well be opportunities for the levy of specific hook up charges to new users of services or even where there is an enhancement of service to their premises. Some of these utilities may, of course, become privatized.

Within the context of both the complexity and the time frame of Szczecin's Renovation Strategy together with the multiple entities that could be involved, it will be important to create on the part of the City an institutionally sound intermediary to coordinate project design, management, investment and marketing, and to provide the long term institutional structure with which to manage a dynamic renovation strategy.

As indicated above, there will need to be available, from the finance department or elsewhere, expertise in both economic and financial analysis. The former will provide information which can usefully contribute to project evaluation and justification of components, in an advisory, rather than prescriptive, fashion. The latter will be required to assist in packaging project financing plans and developing proposals for either cost recovery or subsidy, depending on circumstances. It is not always appreciated that an economically justified project may not be financially viable (and vice versa). Also, adequate cash flows may sometimes be generated when there is only partial or even no direct cost recovery.

### ***Sources of Revenue and Funding of Capital Expenditures***

It may well be appropriate to expect that, broadly, commercial rewards will accrue to private sector participants and that public sector entities will be the most convenient to tap public sources. This does not, however, preclude the possibility of levying linkage or betterment charges on private sector participants, especially if they are perceived as likely to derive economic rents (surpluses) resulting from publicly provided facilities. The extent to which this can be done is typically

dependent upon the buoyancy of the local economy. In a booming economy it is easier to introduce such charges while in an economic downturn, it may be necessary, at least in the early stages, to subsidize some or all private participants, to secure their individual and collective cooperation, including the creation of a critical mass.

As already indicated, much of the initial funding for any defined project may well need to come from the Municipality's budget. This may subsequently be partially reimbursed from either private participants, from property sales or rents, or from specific national funding sources. Among the latter might well be National Housing Bank, Environmental Fund and (at present theoretical) Conservation Funds of the Ministry of Culture.

### ***Financing Mechanisms***

The application of the financing principles to the contemporary situation in Szczecin, suggests that the most promising outlook for strategic models of financing of renovation might be

- Housing & Finance
  - housing loans (mortgage loans & National Housing Fund loans)
  - housing related personal income tax incentives
  - environmental and conservation funds
  - municipal moneys for renovation
  - special contributions from inhabitants for higher than standard quality of the (communal) replacement housing or for staying in the location
  - Supporting infrastructure municipal budget or linkage exactions
  - Social activities and infrastructure municipal budget or linkage exactions
  - Commercially attractive activities
    - capital raised by the private sector
    - projects (or project components) executed by the private sector

There will be other issues and concerns which impact upon the financing mechanisms. Among the more important are the following

- the accommodation of heritage preservation and social issues, within concerns for the private sector to achieve the highest and best use of renovated property and how this is to be compensated for,
- determination of a minimal critical mass of development, renovation and investment to generate optimum rises in property values and engender potentials for relocation,

- the form, content and purpose of economic analysis, related to project evaluation and justification of components, in an advisory rather than prescriptive fashion, the accommodation of economic externalities, both of costs and benefits, within the financial framework, through taxation, subsidy or otherwise

Although there are a number of different institutional models for PPP, they have common concerns relating to finance. Market pricing, seeking commercial returns, must typically be combined with social and collective concerns, for which market prices may be inappropriate. Therefore, it is essential to establish arrangements for capital and operating finance which can engender or encourage flexible cash flows. This will usually necessitate some degree of concessional capital funding, to reduce the average cost of capital, together with operational subsidies to supplement revenues from market driven activities<sup>5</sup>

## **Generalized Assumptions for Alternative Strategies**

### ***Social and Community Issues***

The nature of social issues relating to renovation projects in Poland reflects a wider issue of problems connected with the profound changes relating to housing. Housing was once perceived as a life long privilege to which the citizens are entitled by default. The switch to the market oriented social and economic mechanisms started to replace the old system with the balanced sets of rights and obligations of the tenants, regulated by laws based on the provisions of the Civil Code.

This sounds quite straightforward from the legal point of view. On the social plane though, tenants are painfully discovering that flats they had been occupying for tens of years are not 'theirs' in the sense that the legal owners have certain rights to impose their own plans related to the property. Thus, occupants may react in hostile ways and frustrate legitimate development opportunities. Theoretically the owner may resort to litigation to get a court order, forcing the tenant to move to new replacement housing. The law prescribes standards for replacement housing, as well as procedures for rejection of the owner's offer and appeal. But court proceedings are time consuming and there seems to be little precedent that would give clear and strong signals to tenants that inadequate as they are, laws relating to this complicated and delicate issue will be enforced. First eviction orders for tenants in substantial rent arrears have been already executed, which was in itself quite revolutionary. Other facts must follow, allowing for the building up a workable social consensus around these issues, and for recognizing the areas where the laws should be adjusted.

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<sup>5</sup> Annex 2 provides a more comprehensive conceptual explanation of these financial issues

The high proportion of low income and retired residents increases the complexity of the problem, given the weakness of social security system now in operation in Poland. Among the matters to be considered, as part of any rehabilitation strategy, are the following:

1. From among those wishing to stay

how much can they contribute towards the cost of renovating/upgrading the area and would that be enough?

what other sources should be tapped into?

if many of the primary wishes of the present tenants will need to be curtailed or modified, because of basic incompatibility between their (social) wishes and the (economic) realities, what will be the way for achieving a workable compromise?

2. From among those wanting to go

to the extent that the existing relocation possibilities are unsatisfactory alternatives, how much can they contribute towards creating relocation possibilities they would like to accept?

what other sources should be tapped into?

if many of the primary wishes of the present tenants will need to be curtailed or modified, because of basic incompatibility between their (social) wishes and the (economic) realities, what will be the way for achieving a workable compromise?

3. What are the 'newcomers' ready to bring with them, in terms of their net input into the area (hard and soft resources minus locational assets)?

4. Can the inhabitants be participants in decisions about the spending of public money and managing the public assets after renovation?

5. To what extent may social issues be perceived as impediments to commercial success of the undertaking, whereas, upon further evaluation, they may be assets beneficial for the Project?

Those who have lived in the area for the longest period feel they are entitled to various benefits. On the other hand, usually their debt to the buildings they occupy is the greatest, having used the premises at the subsidized rents for the longest period.

There is a likely need for organizing an stock exchange of flats (apartments) including an institutional framework to facilitate various trade offs and match making.

on a localized scale, in order to minimize the need for external provision of replacement housing

### ***Technical Issues***

Although this paper does not deal, in detail, with technical issues, some of the more obvious and relevant matters for consideration are the following

- to stop preliminary urban/ architectural design and planning, and what to leave to the market processes,
- ❖ how to establish a loose architectural & urban design vision, coupled with the strategic incremental process of implementation,
- how to encourage and engender high quality design linked only with the short term economics

### ***Contracting Arrangements***

In arranging packages which are attractive to private investors, it is important to beware of the “currant bun” concept. In an anxiety to demonstrate effectiveness and potential for success, it is possible to offer to the private sector only the most attractive options. Conversely, only those packages which are less attractive will fall to be performed by the public sector. This, of course, may be both unavoidable and very appropriate, at least allowing the private sector to assist, by bearing some burdens which would otherwise fall on the public sector. Nonetheless, because the more attractive options will have been traded away, the public sector may be left with a set of only sub optimal activities. Without the more attractive activities, these will have lower average financial potential, with less option for effective trade off among them. Thus, in effect, when dividing up a “currant bun,” the private sector will have been allocated “all currants and no bun!”

Concerns to engender actual or perceived private sector success, or to make participation more commercially attractive, may sometimes bring about an under pricing of contract packages. This will in effect, provide public subsidies to the private sector not necessarily justified by the economic situation.

Alternatively if competitive bidding is used, it might lead to the concern known as the “winner’s curse”. The less well specified are the contract provisions, the more likely it may be for a contract to be won by a lowest evaluated bidder which has under costed its expected obligations, just in order to win the contract. Subsequently, as contract revenues fail to adequately match contract costs, the contractor may tend to produce sub standard performance, delay or complete contract failure. This, of course, as experience in Szczecin has already demonstrated to some extent, will result in massive and unintended costs in pursuance of remedies and in re contracting.

## Recommendations for Future Actions

The proposed renovation of Blocks 21 and 22 can be also used as a learning tool. While being used to develop an appropriate strategy for that particular site, the process can concurrently allow to develop potential alternative principles and practices for use in other locations. There are a number of recommendations for future action, therefore, which should be addressed. Among these are

- an inventory of standard routine incentives and possibilities available for the area of Blocks 21 and 22 (housing policy, master plan incentives, grants for small improvements etc ),
- ❖ a survey of 'natural' functional packages for individual buildings, including the kind of function/functional mix acceptable within the overall scheme which would require the least 'input' and produce the biggest 'output' from a building towards achieving the overall objective,
  - a 'packaging' of linked activities, so as to make them attractive to private sector participants, e.g. school & car parking, replacement housing & car parking, and, other grouping of activities into 'clusters',
- arrangements for district (or otherwise central) heating & technical infrastructure,
  - the 'enfranchising' of the tenants, by giving them a genuine consultative participation in the planned operation, consistent with a willingness to accept the necessary responsibilities (including financial contributions),
  - procedures to balance, as much as possible, the need for replacement housing, by adapting a substantial portion of the existing spaces into affordable flats with moderate rents so that this will reduce the need for an all out replacement housing provision, and reduce the cost of renovation of parts of buildings (modest standard lower construction costs),
- a strategy to seek funding for the housing component of the renovation scheme from the National Housing Fund or (when enacted) National Renovation Fund, making sure that income based eligibility of the tenants and technical standards of the flats as required by the Fund statutes are complied with,
  - procedures to ensure that commercial components of the scheme are funded by commercial mechanisms and from commercial sources (standard loans, down payments of end users, venture capital),
  - strategies to minimize the risk of carrying too much of the unfructified physical construction and related public infrastructure, pending its ultimate sale or other conversion to revenue earning status,
- ❖ removal from the public sector of obligations to make uninformed and premature judgments about the design, siting, size and capacity of project components, so that even though it is not expected that the market will

necessarily provide perfect answers it will mitigate against the risks of totally ill advised and open ended decisions, which are then difficult to modify, whichever of the recommended organizational structures is chosen for dealing with the renovation of Blocks 21 & 22, it is necessary to stress the need for a coordinating/intermediary body on the part of the City, that would handle the problems connected with the implementation of larger Renovation Strategy well packaged financial mechanisms to facilitate and encourage maximum commercial participation, consistent with appropriate funding of public services and social concerns

## Conclusions

The City Council of Szczecin has promulgated a specific strategy for renovation. If the implementation of this strategy is not to be allowed to drift, some hard choices will need to be made. These may, perhaps result in the delay, disruption or abandonment of some favored and well formulated concepts or projects. Some of these decisions will, inevitably, be driven by locational concerns and financial limitations, including the capacity for interim financial survival of peak negative cash flows during long implementation periods of large projects.

Furthermore, in a market driven economy, decisions will be needed as to how to efficiently encourage market successes while constraining excesses, derived from monopoly power, which are disruptive of the public and social agenda. Complementary to this will be a need to decide the extent to which market failures will be compensated, in the interests of public policy. Otherwise, however justified, they may have to be left alone, for lack of either financial resources or political will.

If the PPP concept is to work more effectively than hitherto, it will need to establish institutional arrangements which are meaningful in substance, rather than only in form and appearance. Lessons learned so far suggest a need for improved communication, as well as a clearer sharing of both authority and responsibility between the partners. The institutional arrangements must be designed and operated around common concerns, for which there is mutual commitment to effective and efficient outcomes. Furthermore, these outcomes must adequately reward the private sector participants for their risks and commitments, as well as fulfilling the concerns of public policy.

It must be increasingly recognized that the private sector participants are, legitimately and appropriately, concerned with maximization of commercial returns and business profits. They should, therefore, not be expected or required to subordinate these expectations to the public agenda, except to conform to law and regulation. If legitimate commercial concerns are downplayed, the private sector partners will not perform their activities in ways which are fully complementary to the public interest. Indeed, they may walk away from their activities.

However, despite these legitimate market motivations, there is no mandate, either in public policy or economic efficiency principles, for the public sector to provide unwarranted and inappropriate financial support for private sector activity. Indeed, if the private sector imposes external cost upon the public at large, these should, as far as possible, be forced back upon it (internalized) by a combination of taxation and regulation. Nonetheless, where the private sector provides public benefits at private cost, it should expect to be compensated for these, out of public funds.

Within the framework of a specific project, the City Council will need to decide the extent to which it will package activities, so that effective internal cross subsidies will make the whole operation financially self-sustaining. This is usually much more convenient, administratively, than transferring other public resources into a particular project. It should, however, be a guiding and not an overriding principle. Based on more comprehensive economic or financial analysis, there may well be cases where it is legitimate either to transfer public revenues into a specific project or, alternatively, to expect a particular project to provide revenues for use elsewhere in the public sector.

For example, in Szczecin, there will inevitably be concerns about the extent to which, for example, concerns about the renovation of the Centrum will need to be measured against those for activities elsewhere in the city, including suburban development or restoration. More specifically, resources used for (say) restoration of downtown cultural heritage may be denied for the upgrading of partially developed suburban infrastructure.

While a great deal of emphasis is placed upon physical property, the point is repeatedly stressed that in the final analysis people are most important. Within the present context of Poland's evolving political and economic dynamics, there are complementary needs to unloose the market potential of human involvement in the economy, while still protecting, as a major social obligation, the concerns of the economically fragile. Because of the close relationship of people to homes and houses, this, in turn, will often revert to property management issues.

The social issues, moreover, are confounded by major changes in both attitudes and legal rights with respect to property rights. Increasingly, communal property rights are changing to private rights. These need to be respected, in the interests of justice, fairness and decency. Furthermore, economic efficiency in property transfer and use will only be possible with a full recognition of these rights. Nonetheless, there is still an important role for public policy, with respect to health and safety, spatial and temporal order and discipline, and, the use of specific property for public purposes.

However efficient the private markets, there will inevitably be a continuing role for the public sector in general and the City Council in particular. It must take the lead in providing many public services of a collective and social nature, as well as

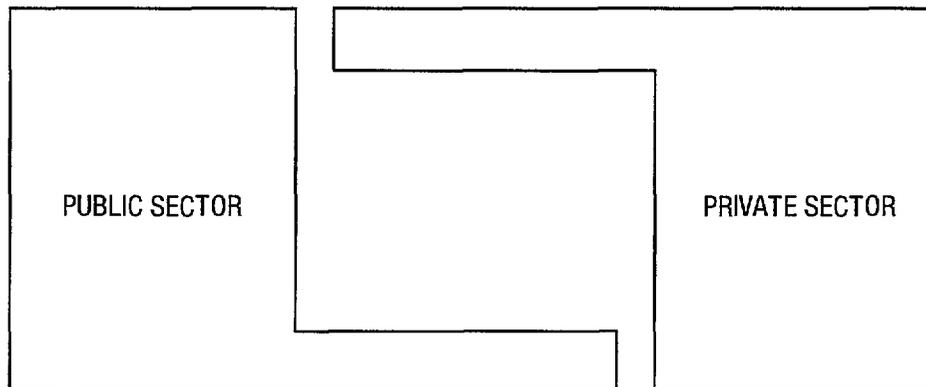
protecting the environment and cultural heritage. If the locality is not to become just a cold and heartless economic engine, the public sector must provide or facilitate, for example, educational, cultural, social and recreational activity. The private sector, although often sympathetic to these concerns, has no unambiguous mandate to deal with them through the commercial market place. Where the market activity is complementary, well and good. Often, however, private market activity will be in direct competition to public policy, especially with respect to social and environmental issues.

However, the City has neither the political motivation nor the public funding to take care of all of these concerns either. Thus, it must limit its activities within its budgetary and political mandate. This means, among other things, careful targeting of its subsidies, sound economic analysis of its projects and programs, and optimal encouragement and facility of private sector involvement. This, therefore, is the requirement for expansion of the Public Private Partnership, in whatever forms are appropriate.

## Appendix 1

In his classic book on the subject Paul Kloppenborg<sup>6</sup> has identified the three broad models of organization of a PPP, in the aspect of what he sees as the crucial issue here – the change in the allocation of property rights and accountability.

**FIG 5 MODEL 1 No change in allocation of property rights and accountability**

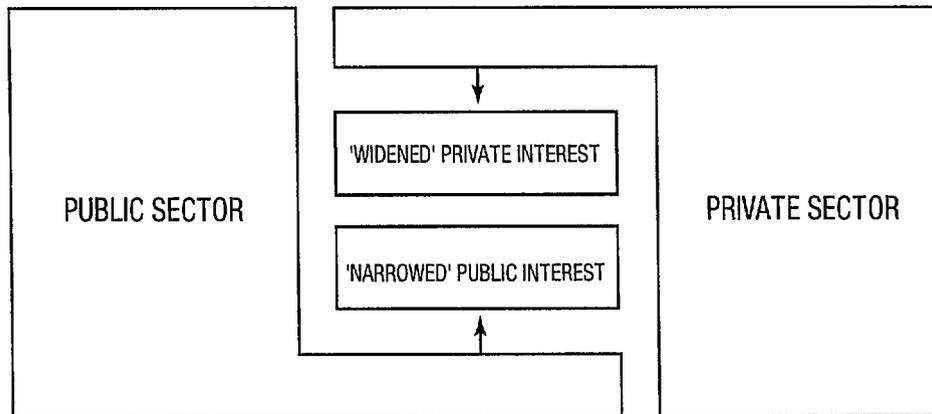


The 1993 contract between the City of Szczecin and the URGN – Urban Renewal Group Norway (the Renovation Project for Blocks 21 and 22) was an illustration of

<sup>6</sup> Kloppenborg, Paul. *The Quest for Utilization Value: Economy as the Good Ordering of Interests*. Amsterdam 1991.

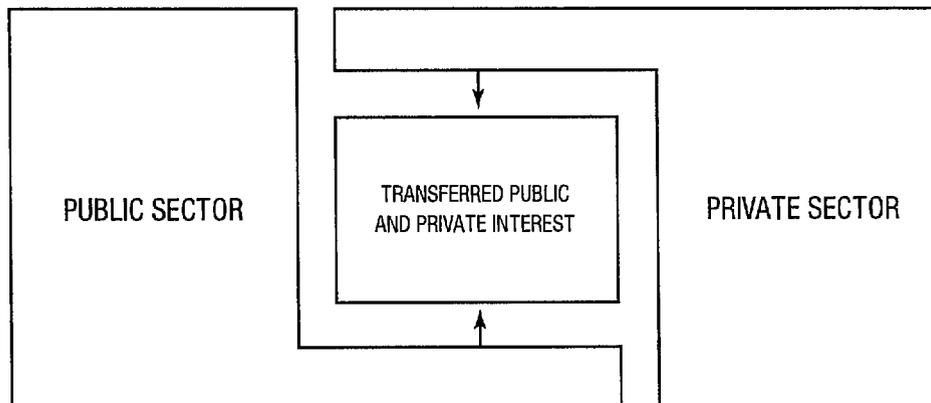
the above Model 1 No institutionalized shift in the allocation of property rights and accountability occurred, and the Contract was the only formal plane of communication between the sectoral parties No structured combination of public and private resources was foreseen

**FIG 6 MODEL 2 Shift in allocation of property rights and accountability**



In this model each sector effects a shift in the allocation of property rights and accountability The public sector 'narrows' its interest and produces a body focused on the specific problem, with a limited mandate and resources The private sector produces a body which is not 100% profit oriented, and allows for a widening of private interests Both bodies cooperate and tie contractually In a variation to the Model 2 the shift may occur on the one side only most often on the part of the public sector Clear examples of the public only variations are UDC (Urban Development Corporations) in the UK and EPA (Etablissement Public d' Aménagement) in France The example of private only variations to the Model 2 are the French consortia and GIE (Groupement d' Interet Economique)

**FIG 7 MODEL 2 Shift in allocation of property rights and accountability**



Model 3 involves sizable transfer of public and private interests to a Project body, where within a framework of a clearly defined mandate and agreed remit the fusion of public and private resources occurs. As examples of the Model 3 we may cite the numerous cases of Dutch development companies in the form of a limited liability private company (BV in Dutch) or French SEMs (Société d'Économie Mixte) public private joint stock companies used amongst others for redevelopment and reclamation of land)

Kloppenborg also refers to the need for a two tiered structure of a PPP organization. The first tier should consist of a quasi public organization with its own legal identity, which would determine policies within the limits of the project. The second tier would involve a non profit organization necessary for carrying out the above mentioned policies, with the main focus on implementing the social i.e. uneconomic components of the policies.

## **Appendix 2**

### **PUBLIC-PRIVATE PARTNERSHIP FINANCING**

Although different types of institutions are involved in the urban development process, many can be characterized, in some way, as public private partnerships. Thus, they have a common concern with financing, albeit achieved through different types of specific institutional and financial arrangements.

While examining the issue of public private partnerships, it is important to look at institutional financing generally, distinguishing among cash flow, profitability, and project development. Cash flow is normally of most immediate concern. It relates to survival, from meeting current payrolls to keeping contractors at work on urban development projects. If necessary, cash must be borrowed – often on short term at high interest costs – to ensure financial survival, because delays are almost always expensive. Nonetheless, for medium to long term sustainability, cash flow, though necessary, is not sufficient. It is essential that the enterprise or entity be profitable, covering all costs in terms of economic resource consumption, including capital costs. This must be done either from commercial charges or from other financing sources. Finally, development projects almost always require the injection of new capital into the entity or enterprise. This will typically be from debt, grant or equity, thereby permanently changing the capital structure. In other words, projects tend to disturb the financial stability of the entity as a going concern.

The standard paradigm for any development project is that capital is invested to produce long term assets. These are either used or disposed of, so that the proceeds from rental or sale, cover the costs of operation, maintenance, administration and taxes, together with recovery of capital investment costs. The

latter comprise fixed asset depreciation the return of capital together with interest, dividend or retained earnings the return on capital Thus, even though some economic and financial efficiencies may be obtained through better management or contracting arrangements, incurrence and recovery of full costs is virtually inescapable Second, if project assets are to be used only in a profit maximizing manner, they can probably be provided, managed and disposed of entirely within the private sector, with no public sector involvement

However, within the framework of urban development, there are always a number of concerns which, almost inevitably, require public sector intervention First, there is the need for provision of long term basic utility infrastructure Second, there are social concerns, such as in the provision of collective goods and other public services, the costs of which will not always be fully recovered from user charges This may be either because it is not feasible, such as in the provision of public goods, or because it is considered socially undesirable or inappropriate, such as in the provision of housing for low income occupants Third, private urban development will create external costs upon the community, such as environmental and social heritage costs, which are not directly borne, through the market mechanisms, by the private sector operators Finally, there is almost always a need for the public sector planning authorities to impose spatial and temporal order and discipline, as well as health and safety requirements, upon the development process, if necessary through exercise of coercive powers This control represents a public good, in the interests of the entire community, but for which individual developers are normally unwilling to pay, at least through normal commercial markets

For these various reasons, therefore, although the overall costs, including economic externalities, are inescapable, the financing of public private partnership arrangements will typically provide for some of them to be partially borne otherwise than directly or immediately through market mechanisms The financing arrangements are, therefore, directed mainly at providing more flexible cash flows than may be possible solely with commercial market systems These cash flow arrangements will typically involve subsidies, from either public or private sources, with responsibility for public subsidies shared between the local communities and the state or national governments

Private sector subsidies, in principle, sound implausible However, they may often be derived from coercive powers of government, well motivated voluntary activity, or contractual obligations Coercive power is typically exercised as compensation for (or as complementary to) the provision of orderly development, through the spatial planning (zoning) process It often results from requirements that private developers pay a linkage fee (through a formal exaction or proffering process) in exchange for planning permission on a particular site It is also quite customary for

the site developer to provide some or all of the on site infrastructure, to be vested in the appropriate utility or government for subsequent use, operation and maintenance

If a developer has entered into some form of public private partnership agreement, initially involving the provision of public assets such as free or subsidized land the contractual arrangements may well provide for a sharing of profits, derived from the ultimate enhancement of land values upon project completion

Private corporations may also make voluntary contributions usually in cash but sometimes in land or other assets towards public sector activity, from a variety of motivations Overall, there may be a recognition by the corporation of its responsibility as a member of the local civil society and social discourse More commercially, contributions may be made to enhance public image, assuage social conscience, or, provide early and necessary financial assistance to the public sector, in exchange for some agreed or expected concession at a later time or on another site

Individuals within a community may also, in certain circumstances, make contributions to public private partnership arrangements These may be in the form of monetary donations or voluntary service In more limited circumstances, especially with the provision of (say) local social services (such as park or playground maintenance) or tertiary infrastructure, it may even involve voluntary physical labor, the classic "sweat-equity" situation

Where contributions come from state or national governments, they will often result from funding provided under legislated programs, directed at specific social concerns, such as low income housing or social heritage restoration There may also be funds of a more flexible nature, such as block grants to local governments, to use with more discretion Finally, local governments themselves, with the most immediate interests in the local urban development process, must often be seen as a major and residual source of subsidy funding

Once the concept of subsidy from cash voluntary service or asset donation has been established and implemented, the actual funds may be used in two principal ways First capital grants or concessional loan funds may be used as complements to market based borrowing or profit seeking equity, to lower the average cost of capital for the provision of physical assets This, in turn, will lower the annual requirement for debt interest and (provided there are also adequately long amortization periods) provide for a reduction in overall debt service requirements If subsidies are provided on a periodic annual basis, these may well be used, as complements to user charges, to contribute towards overall annual operating expenditures

When lower debt service requirements are combined with a lowering of net expenditures for operation and maintenance, this reduced cash flow obligation

permits the possibility that at least some of the operations of the public private partnership be provided at lower than market costs. In other words, not all the costs will be needed to be directly recovered, in full from users, through market prices. This provides the flexibility for subsidy components to be directed at social, environmental or longer term developmental concerns, for which full market pricing may be inappropriate.

At least two cautions are appropriate. First, the fact that either capital or operating subsidies make it possible for user charges to be lowered for selected or all users does not mean that they should be. Subsidies, from whatever sources derived, will almost always be limited. Thus, it is essential that they be well targeted, so as to benefit, as far as is feasible, only those persons or activities intended.

In principle, costs should be recovered in full, by market based user charges, with subsidized charges being regarded as exceptions. Moreover, for each situation where subsidization appears appropriate, there should be careful examination and justification, from perspectives of economic efficiency (such as correction or mitigation of market failure), social equity and overall public policy. In particular, where a public private partnership allows and facilitates the earning of profits by the private sector partners, this should be encouraged and sustained. Misguided attempts to unfairly limit profits for reasons of perceived unfairness may not only be unjust, it may also be economically inefficient. As a result, it may even drive private participants away or discourage them from further participation.

A second caution relates to the fact that subsidies can lower prices. Thus, following normal economic principles, more will be demanded of a good or service than if it were fully charged for. It should, therefore, be ascertained that public policy makes it appropriate for the provided good or service to be financed in this way, usually to correct a market failure or to deliver a needed public or collective good. Where capital grants, or concessional credit, are involved this may also engender policy failures. For example, faced with the full costs of maintaining a partly worn out asset, or of replacing it (too early in its working life cycle) with concessionary capital funding, local policy makers might choose the less economically efficient but more financially attractive option, thereby reducing the availability of capital for more urgent purposes.

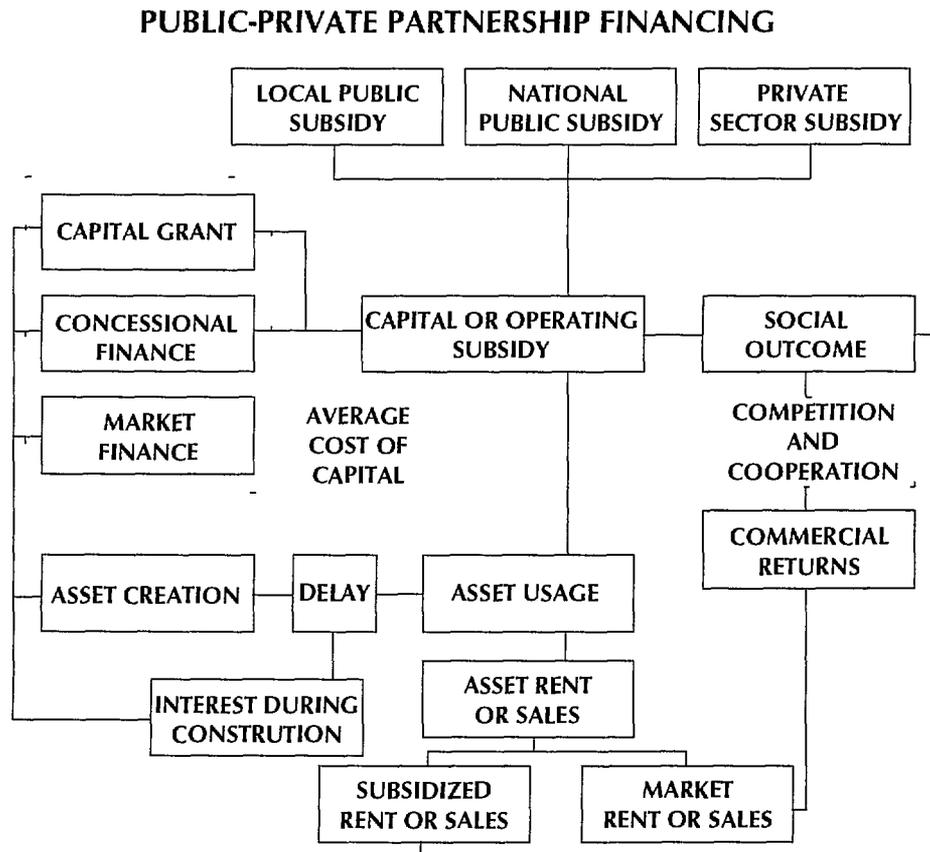
Urban development activity will affect the real values of land. Therefore, it is important to ensure that any likely betterment of land values be equitably shared between the private and public partners. However, although provisions for sharing the profits from land values may be included in the contracts, in practice the changes in such values can be very speculative. Furthermore, because of the time element, economic buoyancies may change dramatically between the start of projects and their final completion and realization. It is, therefore, important that contracts for the sharing of land value increments be drawn in a flexible fashion,

providing a methodology for allocating values fairly under a variety of economic circumstances

Urban development is a process subject to much disruption and delay. This, moreover, exacerbates the costs of carrying unfructified assets, often installed at significant cost. In particular, all delay, between initiating the creation of assets and their final use, sale or disposal, incurs interest costs. These, in turn, add to the overall costs of capital, thus nullifying, to some degree, the advantages of the capital subsidies. Unfortunately, because the capital may be subsidized, the overtly perceived impact of the interest costs will be mitigated, reducing an obvious and immediate financial pressure to expedite development.

Nonetheless, as already indicated, the full economic costs of disruption or delay will impact somewhere in the system, albeit not readily apparent from (say) the financial accounts. This places an additional managerial responsibility upon project

**FIG 7 PUBLIC PRIVATE PARTNERSHIP FINANCING**



management to ensure that the installation of costly infrastructure which is complementary to site development be carefully phased, within the constraints of scale economies. This is so that delays do not create undue economic burdens, by diverting capital funding from more urgent opportunities, as well as raising overall project costs.

Therefore it is necessary that on site infrastructure installation be carefully phased, providing only that which can most promptly and efficiently be used by complementary development of superstructure. This, of course, requires attention to the possibilities for full and prompt financing of the superstructure, as well as of the infrastructure. It also necessitates an adequate marketing strategy for the commercial or public use of the completed buildings.

# 6.2

Municipal Renovation Team, The City of Szczecin

## **Renovation strategy for the inner city of Szczecin - Short Version<sup>7</sup>**

### **1 INTRODUCTION**

Renovation Strategy concentrates on Inner City XIX century housing stock characterized by tightly build up blocks of houses forming street frontages of high cultural and historic value, much diversified standards of flats, vast predominance of communal property and high proportion of low income tenants. The area constitutes the main part of the Central District of the City of Szczecin, consisting of 56 blocks.

### **2 HISTORIC OUTLINE**

Until the last quarter of XIX century today's Inner City area constituted a foreground of the Fortress of Szczecin, and was subject to a strict ban on erection of permanent structures, being used only for the agricultural purposes. There lied the routes of medieval roads linking the (old) town with the neighboring villages of

- Tanowo (on the line of present Wieckowskiego and partly Wojska Polskiego streets)
- Grabowo (along present Matejki street),
- Villages to north of Szczecin (along present Aleja Wyzwolenia)

When in 1873 the Prussian State decided to dismantle the Fortress of Szczecin, it enabled expansion of the city beyond the so far strangling line of fortifications. This was reflected in consecutive development plans produced and partly immediately

<sup>7</sup> The full text of the Strategy is 39 pages long and was approved by the Municipal Council on March 25 1996 (Law Nr XXI/251/1996)

executed between years 1874–1882. In the year 1882, just before the peak of a building boom within the area of today's Inner City, the most salient features of the inner cityscape appeared: the wide alleys lined with trees and star pattern circuses. Separate fragments of the urban fabric and infrastructure utilities were gradually constructed until the end of XIX century.

Basically, the build up consists of tenement houses built in the style of eclectic historic style, with small proportion of buildings of Art Nouveau design. Occasionally, the tight and uniform street frontages are broken and enriched by individual public buildings. Homogeneous character of relatively well preserved structures, interesting pattern of streets and circuses provides the inner part of the Central District with a unique outlook of high historic and urbanistic value.

During the post war period, some individual buildings within the area were repaired, but there was hardly any consistent policy in these repairs. Some more comprehensive face lifting schemes were undertaken in the case of main public spaces (for example upgrading of street space of the lengths of Aleja Wojska Polskiego and Aleja Jednosci Narodowej), but these schemes in principle never touched upon the technical state of buildings nor – which is even more important – the social structure of inhabitation.

During the same period a substantial part of vacant land within street blocks was developed, either in form of residential in fill buildings or public buildings – mostly free standing. Usually such investments had no impact on the immediately neighboring existing houses.

A number of sections of the district heating mains fed from the municipal co-generating plant were laid within the area, but not forming yet a consistent system that could serve the whole of the district.

### **3 GOALS OF RENOVATION**

Since October of 1990, when the City of Szczecin first launched its "Local housing strategy", the structure of goals of renovation matured and became more comprehensive. At present the following principal goals are identified:

- Improvement of residential quality of the area,
  - Prevention of devastation of the inner city and reinstatement of its proper status,
  - Protection of architectural and urbanistic historic values of the area,

Decrease in residential density and elimination of sub standard conditions,

- Improvement in technical conditions of buildings and realistic improvement of parking provisions, green/built up ratio, recreation etc ,

- Introduction of modern sustainable technologies catering for saving of water and energy,
- Strengthening central functions of the inner city,
- Integration of renovation with the privatization of housing and retail premises

Experience gained during renovation of the area may prove to be very useful while attempting similar undertakings in other parts of the city and also should provide useful reference models for similar operations in other cities

Renovation of the Inner City of Szczecin will take many years, and during this period a number of changes will undoubtedly take place in economy, law, politics and ownership structure, creating new problems but also new opportunities

For coming years renovation programme is based on present legal, economic and organizational situation. Bearing in mind changes in Polish economy and limited resources that the city can allocate for renovation from its own budget, it is possible to assume, that no larger scale renovation operations will be possible without involving external sources of finance, in form of private capital both local and foreign, as well as the support from the state budget

#### **4 SELECTING AREAS FOR RENOVATION**

It is likely that external private investors will be involved in renovation of only these parts of the Inner City where retail and service functions occupy or will occupy a substantial part of usable space

As a result of survey and analysis carried out by a Municipal Renovation Team set up within the Municipality of Szczecin in 1991, and taking into account information available from the Municipal Planning Unit, the above mentioned 56 urban blocks of houses have been grouped into two broad categories

- areas of existing or possible high commercial potential, but retaining at the same time a substantial degree of residential function,
- areas where residential function will predominate and commercial functions will remain limited only to basic retail and service

This categorization should in future be constantly monitored and up dated taking into account

- further development and transformation of commercial functions,
- reaction of private sector to opportunities offered by public and private renovation projects,
- current policies of local government reflected amongst others in consecutive amendments and releases of local plans

Reflecting the actual distribution of retail and service functions, a formal classification of streets of high and intermediate commercial attractiveness was introduced (Resolution No XXVII of the City Council) Of areas adjacent to these streets the following blocks were selected as the first priority targets for renovation projects

two blocks in the central part of the Inner City (Nos 21 and 22), within the area limited by the following streets Jagiellonska, Wojska Polskiego, Slaska, Obroncow Stalingradu (currently subject to a renovation contract between the City of Szczecin and a Norwegian developer URGN so called "Norwegian" blocks),

three "central" blocks immediately north of the "Norwegian" blocks (Nos 9, 16 and 17) earmarked for early renovation because of

central location guaranteeing commercial viability of investments,

possibility of creating a strong service and retail nucleus of five blocks converging at Zamenhofa Square (together with the two "Norwegian" blocks)

particularly dense build up inside blocks, requiring a more decisive intervention

- commercially attractive block No 38 ("Kosmos" named after the cinema built within the block) where the intention is to organize a project around a series of coordinated smaller investments available for local investors of lower financial potential, where renovation will be strongly connected with new developments, changes due to sitting the cinema inside the block resulted in spatial unbalance calling now for substantial adjustments,

area of northern section of Tkacka Street, of the unique character and attractiveness characteristic for the Old Town area, where investments can be also divided into several smaller undertakings combining new developments with renovation and conservation, within the limits of the policy of protecting the cultural and historic heritage,

a group of residential blocks within the following streets Krzywoustego, Bohaterow Warszawy, Sciegiennego, Piastow (Nos 7, 26, 27, 30 33 so called "Turzyn" blocks) identified for early renovation due to

relatively high potential of commercial opportunities resulting from favorite location between Turzyn Market and the commercial core of the Inner City, allowing amongst others for relocation of certain activities from more centrally located blocks,

availability of empty plots allowing for a relatively easy construction of in fill buildings to contain temporary and permanent replacement housing,

availability of district heating mains within the area

Further renovation projects should focus on the blocks adjacent to the streets of high and intermediate commercial potential identified in the quoted Resolution of the City Council, encompassing gradually other Inner City areas, according to the future availability of finance and further development of policies

## 5 MODELS OF ORGANIZATION AND FINANCE

Based on recent local experience and taking into consideration renovation projects carried out in other European cities the following broad models of renovation have been identified

### Commercial model

The commercial model which is intended for blocks Nos 21, 22 ("Norwegian"), 9, 16 17 ("central"), 38 ("Kosmos") and the area of Tkacka Street, is based on the following assumptions

- external (from the point of view of the City budget) private investor / developer is responsible for designing, financing and execution of a renovation undertaking, as well as for the maintenance and administration of renovated buildings within an agreed period of time (or indefinitely),

investor/developer finances and provides replacement housing for the present tenants of flats in buildings to be renovated, the city may provide for that purpose its land, and eventually the replacement buildings are handed over free of charge to the city,

- municipality is responsible for terminating all tenement contracts and re housing present tenants, after which empty buildings and land are released to the investor/developer for renovation and subsequent use within agreed time limit (or indefinitely),

it is assumed that ground and first floors will be used for commercial functions to bring sufficient revenue needed for recuperation of the costs of renovation and replacement housing, however, the question of use of buildings after renovation is matter of investor's decision within the limits set by the Local Plan

In principle the sought after scale of operation is a whole block of buildings Nevertheless, in some cases an acceptable alternative will be to divide the block into a series of smaller investments suitable for smaller especially local investors But even in such case particular single undertaking should cover at least a section of the street frontage and a part of the inner courtyard of the block

It is necessary to remember that the above model carries a risk of oversupplying market with commercial premises and flats for rental or sale available in short span of time This must be taken into account while making longer term analysis, and assessing feasibility studies submitted by potential investors

From the legal point of view, the ground and buildings can be leased by investor/developer from the city with an obligation of carrying out renovation. The investor/developer will have the right of subsequent sub renting or sub leasing and in some cases selling the renovated premises/building and land to the end users, in the latter case the sales revenue will be shared between the city and developer according to the formula negotiated within the contract.

Additionally, direct sale of land and buildings with an obligation to renovate clause may also be applied.

### **Public finance model**

The public budget model which is already being implemented in block No 27 ("Turzyn"), puts the financial burden of renovation on the city and when available also on the central budget, with only limited participation of private finance. As a result renovation the total commercial area within the block may double, potentially allowing for the recovery of some 20% of the renovation expenditure.

In 1993 the City has begun publicly financed renovation of block No 27 ("Turzyn"). The undertaking is planned for 4 1/2 years, and will result in renovation of 14 front and several more backyard buildings, construction of underground parking for approx. 80 cars, erection of an in fill building with communal flats, landscaping and general upgrading of inner space of the block. Total number of dwelling units before and after the renovation is almost equal (approx. 390 units). Yearly expenditure required for the renovation works is in range of 4 mln (new) zł, i.e. 1,6 mln USD.

It is expected, that practical arrival of non profit housing associations on the scene of renovation may prove to be especially interesting and far reaching. Such organizations might quickly become main instruments of administering and renovating the existing housing stock. The practical availability of this new form of organization depends on the legal instruments which are still to be developed (the so called TBS formula). The City of Szczecin has preliminary earmarked one of the blocks (No 30), for a possible pilot TBS undertaking.

### **Self help support**

#### **Small Improvements Programme**

When we look at present financial and organizational potential of the City of Szczecin, and bear in mind general state of Polish economy and politics, it is clear that within next 5-7 years it will be not possible to complete or progress renovation of more than the mentioned above 12 out of the 56 blocks forming the Inner City Area. Such a concentration of all available public and partly private funds within a limited part of Inner City leaves open the dramatic question of the future of the remaining blocks where residential function predominates. It is most likely to continue in future.

For these areas a Programme of subsidizing small improvements in existing communal flats, which the tenants themselves may make was developed under the heading of Small Improvements Grants Programme (PMU) Within the provisions of PMU it is also possible to subsidy internal measures in buildings which have been entirely privatized, and to a limited extent to subsidy also owner occupiers

Such partial improvements cannot substitute a comprehensive renovation and repair, but where the latter are at the moment not possible to organize and finance, small improvements at least allow for halting or limiting the social depreciation of the housing stock and to some extent for increase of inhabitants' satisfaction Particularly important improvements supported by the Programme are the replacement of coal stoves used for heating rooms with environmentally sounder heating systems (electrical, gas) and introduction of individual sanitary facilities where they are absent

Another way of mobilizing private funds of inhabitants for financing renovation of houses they occupy is to combine it with privatization If tenants were capable of organizing and financing renovation of whole buildings, they might be buying their flats for a substantially reduced or symbolic price (such a provision was introduced by the City Council in its Resolution concerning the sale of communal flats and premises)

In case like this the final signing of the sale contract might take place only after finishing the renovation and for say the next 5 years an anti speculation clause would bind the new owner

This provisions rely to large extent upon the availability of some form of mortgage financing, without which financial participation of tenants is not very likely Another possibility might be issuing municipal bonds with which the tenants might then buy their flats after renovation

The above mentioned programmes will have to be always related to the availability of credits and to the current housing and rental policy

## **6 PROBLEM OF RE-HOUSING**

At present there are in operation basically two modes of reposing of inhabitants due to repairs of the buildings The first, which is a traditional practice of capital repairs in communal houses, involves temporary resettlement of inhabitants into temporary accommodation facilities within the communal housing stock When the repair is complete, the inhabitants return to their former accommodation, basically without any significant change in the structure of inhabitation This model, with some alterations will be applied to the renovation projects financed from the public budgets Another model of re housing is likely to form a part of commercially

financed renovation. Within this model, all present tenants of communal flats are reposed to new replacement housing provided for by the private investor/developer undertaking renovation. The standard of the replacement housing must comply with the current normative requirements, and some basic sanitation of the present social structure of inhabitation is expected from the investor. Vacant old buildings are then renovated by the developer/investor and leased/rented/sold to new end users.

In the case of renovation of the above mentioned three 'central blocks' (Nos 9, 16 and 17), in principle the second model of re housing is likely to occur, due first of all to the fact that a substantial part of flats on ground and first floors is changed during renovation into commercial premises. Otherwise, investors might offer renovated upper floors flats to the present occupiers if the prices satisfactory for both parties might be negotiated, and in such case a part of the tenants would only move out to temporary resettlement housing for the time of building works. This would be an alternative solution to rather costly provision of permanent replacement housing to all present tenants, but it leaves open the question of temporary resettlement facilities, since those in possession of the city are usually in constant demand.

Block No 27 ('Turzyn') is renovated for its present inhabitants, which means that approximately a 100 temporary resettlement flats is necessary at the same time if the process of renovation is to progress smoothly. Apart from this, due to the loss of approx 10-15% of the dwelling units (partial demolition, elimination of multi occupancy, functional alterations), some 40 permanent re housing units is necessary. The tenants whose original flats are lost during the operation, ought to be offered some possibility of continuing to live within the Inner City or at least the Central District area. It is possible to use for this purpose communal flats gradually 'recuperated' from the municipal housing stock as a result of normal sociological processes. But the haphazard nature of the supply of these substitute flats puts open the question of timing of the renovation process.

An alternative to this might be building new communal housing specifically for the re housing purpose. Another alternative might lie in introducing different forms of stimulating the present tenants to move into the owner occupier sector of housing market, for example by granting them simplified and assisted access to land for erection of individual houses, through system of low interest credits from communal banks and suchlike.

## **7 SOCIAL ASPECTS**

Renovation undertakings strongly affect lives and interests of present inhabitants and other users of land and buildings. The City should be very much interested in making sure that a renovation scheme is carried out in a harmonious fashion, with the acceptance of all affected parties whose interests often conflict.

As an incentive and the means of ensuring a wide participation of all inhabitants and end users in the process of decision making, it is necessary to constantly provide all concerned with full, reliable and up to date information about planned and programmed actions during all the stages of project formulation and implementation

This can be achieved through

- mail shots,
- setting up information points in the immediate vicinity of the renovated area,
- consulting important planning and design decisions with all concerned and enabling participation of inhabitants in the design of both renovation and replacement housing,
- ❖ issuing information bulletins and organizing information meetings during the project development and implementation,
- ‡ individual consultations and agreements with each family and end user in relation to re housing and other issues,  
 assisting the existing NGO's and enabling the emergence of new ones in order to streamline processes of consensus building and community development

Each renovation undertaking will require an individually tailored division of tasks and responsibilities for organization of the above mentioned actions

Of paramount importance is skillful marketing and promotion of renovation activity targeted not only to those immediately affected, but also to the general public and relevant opinion making bodies. Renovated, attractive Inner City will undoubtedly add to the economic revival of the area, to job creation, positive social change, improvement of urban living environment and stimulation of tourism into the city

## **8 RENOVATION AND PRIVATIZATION**

On all fronts there is a universal temptation to privatize municipal housing stock by selling flats to sitting tenants on individual basis, regardless to the technical state of the flat and income category of the tenant. This may have very much adverse effect on the renovation process and future possibility of improving technical conditions of buildings

Dispersed ownership structure will impose considerable organizational and financial restraints on future renovation undertakings. Even if owners occupiers could cope with all the practical problems of renovation, they would have faced the phenomenon of lack of direct increase in the value of their property after spending a considerable amount of money. On top of that, the present owners occupiers often prove to be quite un cooperative in questions relating to renovation. In order to arrive to some form of consensus the municipality has in these cases to make

many efforts, which in turn inevitably hampers and slows down the preparation of a renovation project

It therefore is preferred to privatize larger portions of the municipal housing stock at a time (whole buildings, groups of buildings or entire street blocks), through sale to individuals, non profit organizations or residents' commonwealths (established under the recently enforced law on rental of flats)

The commercial renovation schemes based on the involvement of private capital, ought not to be exposed to changes in structure of ownership before renovation is complete. Hence the privatization of flats in blocks earmarked for commercial renovation is at present frozen. On the other hand, when a renovation scheme is already well developed, the sale of flats should be possible, provided that the contracts of sale contain appropriate clauses stipulating financial participation of a new owner in the scheme. In this way the overall privatization policy would not hamper the long-term priority of renovation in selected areas.

Particularly complex is the problem of privatization of commercial premises in residential buildings. On the one hand they should provide a considerable and steady revenue source for the city, but on the other hand, in the light of new laws regulating the finance of housing benefits, incomes from commercial premises should be used first of all for cross subsidizing the above mentioned benefits, which creates somewhat a vicious circle pattern. This, as well as all other aspects discussed in this chapter are particularly sensitive to any change in legislation and call for a continuous and close monitoring.

## **9 SCOPE OF RENOVATION**

Radical intervention in form of a comprehensive renovation undertaking is justified in case of the street blocks of buildings due to

- too high density and poor spatial quality of buildings in inner courtyards,
- extremely low standards of flats in majority of backyard buildings (small flats, lack of sunlight access, lack of basic sanitary facilities),  
improper use of front buildings due to makeshift subdivisions of large flats into smaller units because of multi occupancy,
- potential high attractiveness of the Inner City Area and its relevance for the city and the region

Less comprehensive and less radical renovation could not lead to the sufficient change of the aspects described in previous chapters, and might not procure private sector involvement.

The previously usual practice of repairing isolated buildings (without any clear criteria of selection), was not conducive to sufficient improvement of living conditions, especially in the case of backyard buildings, because it was not leading to any change in social structure of inhabitation. Since the cost of renovation is not much different from the cost of new building, especially if we also consider costs of temporary re housing of inhabitants, it is perfectly justified to expect the standards of renovated housing to be comparable with the standards of new housing not only in technical sense.

The scope of radical renovation should incorporate

combining small flats in back to back backyard buildings into larger units offering better living conditions,

- upgrading sanitary standards of flats by introducing adequate bathrooms and kitchens,
- wherever possible, providing access to balconies or loggias,
- within the limits of the conservation guidelines, converting attics into flats,
- introducing modern technologies (including solar installations) and providing environmentally sound heating systems, coupled with insulation of buildings and use of environmentally preferable building materials,

In order to achieve a radical improvement of the residential quality of street blocks, it is necessary to include the following aspects in renovation projects

- ❖ improve technical condition of buildings,
  - preserve historic character of buildings, principally by means of careful treatment and conservation of front facades,
  - provide best possible sun access for all dwellings, at least at the level stipulated by the present building bye laws,
  - remove undesirable functions,
  - separate public and private spaces,
- improve as much as realistically possible the situation related to car parking, availability of green spaces and recreation & play,
- introduce optimal central heating systems, with unconditional elimination of coal stoves,
- search for possibilities of introducing lifts, which may require obtaining building regulations waivers

## 10 MID-TERM PROGRAMME OF RENOVATION

The already introduced and still prepared new laws contain mechanisms that will probably enhance and rationalize planned urban renovation process. Nevertheless,

goals and tasks connected with the implementation of the Renovation Strategy call for local initiatives and coordinated action even before the ascent of new legislation, which ought to include

- **Continuation of already commenced renovation undertakings block No 27** further development of procedures involving owners occupiers participation, practical use of new in fill building for a temporary re housing purpose,
- **Central blocks(Nos 9, 16 & 17)** revision of policy, preparing offers for smaller investors, development of a separate sub strategy, possibly development of public private partnership options, further promotion,
- **"Norwegian blocks" (Nos 21 & 22)** monitoring of progress of the project, reporting to the City Council

**Repairing the next block for public budget renovation** (preliminary block No 7)

Developing new forms and opportunities leading to achieving the goals of the Renovation Strategy

- ❖ further development of the Small Improvement Grants Programme,
- ‡ active participation in defining city's housing policy,
- further development of the models of financing and organizing of renovation (involving housing cooperatives, non profit TBS organizations, exploring CEO subsidy opportunities, cooperation with the financial institutions,
- better coordination of renovation programmes with physical planning and development control, programming land requirement for re housing, improvement of cooperation with conservation agencies, identification of consequent renovation projects,
- streamlining of re housing procedures and development of new solutions in this respect (new communal housing, incentives for tenants to move to the private sector housing), promoting tenants participation, land procurement,
- ❖ promotion of renovation to the general public and potential investors (investment opportunities),
- constant monitoring and evaluation of results of renovation projects vis a vis goals, especially in view of changes in the legislation,
- development of a 'catalogue' of possible solutions and models allowing for smooth tackling of different problems according to different standards (also technical and spatial),
- development and modification of programme of privatization of communal housing,
- development of new institutional framework of renovation, which might involve establishing of a private renovation agency responsible for public and private

renovation undertakings, independent financially and organizationally but accountable to the City Council,

- current monitoring of new legislation related to renovation and promoting changes in existing or establishing new laws

In the nearest future the above tasks will be handled on behalf of City's Executive Board by the Municipal Renovation Team, Departments of Municipality and the Municipal Planning Unit, but subsequently also other external actors and agencies should gradually become involved

# 6.3

## NEW LAW ON RENOVATION OF URBAN AREAS (DRAFT)<sup>8</sup>

### ACT

### *On the renovation and modernization of urban buildings*

#### SECTION I

#### GENERAL PROVISIONS

#### Art 1

- 1 The act on the renovation and modernization of urban buildings, hereinafter called "the act," defines the procedures, organizational methods and sources of financing for renovation and modernization activities aimed at the creation or restoration of spatial, functional and technical value in urban building complexes
- 2 The specific way in which the goals listed in para 1 are to be achieved is by means of planned renovation and modernization operations carried out on urban buildings, hereinafter called "renovation operations"

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<sup>8</sup> This version of the draft law is from January 1997. The latest version as of April 1997 contains a few modifications. Of importance are the following:

Individual projects undertaken outside the area of renovation operation are allowed and receive a subsidy amounting to 20% of standard building renovation costs.

From the two versions presented in this version for financing renovation, the second version (dealing with subsidies) was chosen.

There is no longer the guarantee that the funds from the state budget act are going to be as large as the total contribution from Municipalities for the Renovation Fund.

The creation of the renovation board is not obligatory anymore and requires acceptance of more than 75% of property owners or holders of rights perpetual usufruct possessing more than 75% of the total area of the operation.

## Art 2

Certain terms used in this act are defined as follows

- I renovation operation all activities intended to effect the renovation or modernization of buildings in a particular area, including those of the following additional activities that are appropriate given local needs and conditions
  - A transforming the ownership structure of municipal buildings,
  - B improving the condition of the natural environment,
  - C adapting buildings and public areas to the needs of the handicapped,
  - D protecting cultural artifacts,
  - E creating conditions conducive to the increased vocational activity of local residents and their employment in the local area
- II area of renovation operation the area in which renovation and modernization of buildings is to be carried out in accordance with the program of renovation operations approved by the municipal council
- III municipal director of renovation a physical or legal person empowered by decree of the municipal council to undertake preparatory studies for a program of renovation operations, prepare the program itself, and, subsequently, coordinate the plan's implementation
- IV standard building renovation cost the product of the usable area of a building and the degree of wear and tear on a piece of real estate, and the index discussed in art 25 para 4 of the law of 2 July 1994 on rental housing and housing allowances (Dz U nr 105, poz 509, also nr 86, poz 433 and nr 133, poz 654 from 1995)

## Art 3

All tasks included in a program of renovation operations are the responsibility of the municipality

## Art 4

Resolutions of the municipal council passed on the basis of this act must be published in the provincial administrative gazette

**SECTION II**  
**PRINCIPLES FOR CREATING AREAS OF RENOVATION OPERATIONS**

**Art 5**

The proposed borders of the area of renovation operations are set by the municipal council in a resolution ordering the commencement of preparatory studies for a program of renovation operations, the borders of the area are drawn in the resolution approving the program. The area of renovation operations may be subject to change during the course of program preparation.

**Art 6**

- 1 Renovation operations may be carried out in areas marked for rehabilitation of existing buildings and technical infrastructure in the local space management plan
- 2 An area of renovation operations may be a continuous territory or may consist of a number of separate, non contiguous pieces
- 3 An area of renovation operations may include undeveloped land in addition to land with buildings on it

**Art 7**

- I In the absence of the approval of the regional director (in the case of real estate belonging to the State Treasury) or of the municipal board (in the case of real estate belonging to the municipality), an area of renovation operations may not include
  - A real estate in use by diplomatic legations or consular facilities of foreign states,
  - B real estate in use by state defense or security authorities, the state or local self government administrations or the judiciary
- II The following may be excluded from an area of renovation operations
  - A undeveloped land or parts thereof belonging to the State Treasury or the municipality, if said land is designated for public purposes not directly connected with the goals of the renovation operations
  - B buildings and other structures for which a building permit was issued after 1 January 1995,

- C developed real estate not requiring renovation or modernization, provided their exclusion does not impede the implementation of the program of renovation operations in the designated area

**Art 8**

A program of renovation operations should effect an increase in the number of autonomous housing units of at least 20 percent, and an increase in the total usable area of the buildings involved of at least 20 percent relative to their original state

**Art 9**

- 1 The municipality shall have right of preemption over all real estate within the renovation operations area from the day on which the municipal council's resolution approving the renovation operation plan goes into effect to the day on which the resolution on the plan's completion is adopted
- 2 Right of preemption shall not apply to real estate acquired by heirs, descendants, siblings, children of siblings, relatives of the first degree or co owners
- 3 Right of preemption shall be exercised by the municipal board

**Art 10**

- 1 Right of preemption shall be exercised at the price agreed upon by both sides, or at a price equal to the market value of the property if the two sides cannot agree on a price  
Appraisal of real estate shall be performed by qualified real estate appraisers

**Art 11**

- 1 Owners of, or holders of rights of perpetual usufruct to, property in a renovation operation area who intend to sell their property or rights of perpetual usufruct must grant the municipality right of first refusal Failure on the municipality's part to respond to an offer within one month shall be considered the equivalent of renunciation by the municipality of its right of preemption with respect to the property in question
- 2 Should the municipality invoke its right of preemption, it shall be the obligation of the municipality to set a date for the signing of a contract within two months of the date on which the municipality accepted the sale offer If this period expires without a date being set for the signing of a contract, the municipality's right of preemption shall be recognized as having expired, except in cases where para 3 below applies

- 3 Should the owner of, or holder of right of perpetual usufruct to, a property fail to appear within the period described in para 2 above, the municipal board shall exercise the municipality's right of preemption by means of a notarized declaration. Acquisition by the municipality of the property or right of perpetual usufruct shall take place at the moment the declaration is received by the owner or holder of right of perpetual usufruct.

#### **Art 12**

The acquisition of any property or right of perpetual usufruct to any property located in a renovation operation area without the submission, to a notary, of a declaration by the municipality renouncing the municipality's claim to right of preemption, is invalid.

### **SECTION III**

#### **PREPARATION OF RENOVATION OPERATION PROGRAMS**

#### **Art 13**

- 1 The municipal council shall pass a resolution ordering the start of preparatory work on a program of renovation operations on its own initiative, or at the request of at least 25 property owners, provided the properties owned by them constitute a continuous built up area.
- 2 In passing a resolution of the type described in para 1, the municipal council shall instruct the municipal board to prepare plans for a program of renovation operations.

#### **Art 14**

- 1 A resolution on the commencement of preparatory work on a program of renovation operations shall include a description of the proposed borders of the area of the operations, the goals of the operations, a schedule of tasks for the completion of the program, and a description of the principles for consultation with property owners, holders of perpetual usufruct, holders of leases to real estate and tenants of rental properties, as well as organizational units possessing real estate in permanent management. The resolution shall also provide for the appointment of a municipal director of renovation and contain a description of the director's powers.
- 2 A copy of the resolution described in para 1 shall be provided to property owners, holders of perpetual usufruct and organizational units possessing real

estate in permanent management within 14 days of the date on which it goes into effect. The resolution shall also be published in the local press and in the form of announcements posted in public places, and in whatever other forms are customarily used in the community.

- 3 Property owners, holders of perpetual usufruct and organizational units possessing real estate in permanent management shall be required to furnish the municipal director of renovation with information about their properties that is indispensable to the preparation of a program of renovation operations.
- 4 The obligation described in para 3 shall also apply to information in the possession of organs of the state or local self government administrations, or the judiciary.

#### **Art 15**

- I A schedule of tasks for the preparation of a program of renovation operations should provide for the preparation of a program within twelve months of the date on which the resolution on the commencement of preparatory work on a program of renovation operations went into effect. This deadline may be extended not more than an additional six months by a resolution of the municipal council.
- II Work on the program shall consist of
  - A the preparation of a report on the condition of the buildings and public spaces designated for renovation, this report should include a description of the general idea behind the renovation program,
  - B the preparation of a draft of the program of renovation operations

#### **Art 16**

A draft program of renovation operations should include

- I a complete report on the geodesic, architectural and legal status of the area of renovation operations including, in particular
  - A the street addresses of all properties, and their designations in land registers and in land and building documentation,
  - B information about owners, holders of rights of perpetual usufruct, lease holders, tenants of rental properties and organizational units possessing real estate in permanent management designation of real estate,

- C parcel sizes,
  - D cubic measurements, usable areas and number of stories of buildings,
  - E the technical condition of buildings,
  - F the presence and technical condition of building fixtures and equipment,
  - G the condition of buildings' surroundings and land use
- II the balance of usable area, built up area, faulty building and apartment fixtures, and an evaluation of the adjoining public areas and infrastructure,
- III programmatic proposals and general ideas for renovation operations,
- IV operational plans for the restoration, expansion, extension and reconstruction of buildings eligible for renovation, and information about needed demolition and dismantling of old buildings or construction of new ones,
- V ownership restructurization,
- VI n plans for municipally owned buildings,
- VII special plans, including
- A environmental protection plans,
  - B plans for insulating buildings and increasing the energy efficiency of their operation,
  - C plans for protecting cultural artifacts,
  - D plans for adapting buildings and public spaces to the needs of the handicapped,
  - E plans for stimulating the local economy and creating jobs in the community for local residents
- VIII a catalog of the properties affected by the program, including
- A properties located within the area of renovation operations which are to be included in those operations,
  - B properties owned by the municipality or the State Treasury and marked for sale,
  - C properties not owned by the municipality or the State Treasury and marked for sale,

- D properties which the municipality plans to acquire by invoking its right of preemption or by appropriation for public purposes
- IX a schedule for the implementation of the program of renovation operations, especially the course of completion of specific projects, including their starting and ending dates
  - A preparatory work,
  - B resettlement of tenants of rental properties and lease holders,
  - C demolition work,
  - D completion of renovation work and new construction,
  - E infrastructure work and management of public areas
- X a plan for financing the program of renovation operations describing, in particular
  - A the cost of preparing the program of renovation operations,
  - B the cost of assembling documentation,
  - C the cost of purchasing real estate,
  - D the cost of resettling tenants of rental properties and paying compensation to lease holders,
  - E renovation costs,
  - F expenditures for new residential and commercial construction, technical and social infrastructure, transportation facilities, greenery and public spaces,
  - G the method for ensuring the availability of sufficient funds to cover the costs of renovation operations,
  - H principles sharing the cost of renovation operations with property owners and holders of rights of perpetual usufruct

#### **Art 17**

- 1 The draft program described in art 15 para 2 pt 2 shall be made available for viewing by interested persons and institutions for a period of two months, the availability of the draft for viewing shall be announced in the local press and in the form of announcements posted in public places and in whatever other forms are customarily used in the community

- 2 Any interested party may make comments on a draft program of renovation operations during the period in which it is available for public viewing Interested parties shall be informed in writing of the manner in which their comments were taken into account
- 3 Any property owner or holder of a right of perpetual usufruct may raise an objection to a draft program of renovation operations during the period in which it is available for public viewing
- 4 The municipal council shall decide, by means of a resolution, whether to accept or reject any objection
- 5 Any resolution rejecting an objection may be appealed to the Main Administrative Court within thirty days of the date the party who raised the objection receives the resolution

#### **Art 18**

- 1 The municipal council may pass a resolution approving a program of renovation operations if the program receives the acceptance of more than 70 percent of property owners or holders of rights of perpetual usufruct possessing more than 50 percent of the total area of operations
- 2 The acceptance described in para 1 should be documented by means of appropriate written declarations

#### **Art 19**

- 1 Within one month of the date on which the resolution approving a program of renovation operations goes into effect, the municipality shall submit a request for the entry of a record noting the approval of the program in the land register prepared for real estate located in the area of renovation operations
- 2 After the completion of the program, the competent court shall, at the request of the municipality, delete the record described in para 1

#### **Art 20**

- 1 Renovation operations should be completed no later than ten years after the date on which the resolution approving the program of renovation operations goes into effect
- 2 In cases where circumstances warrant, the period of completion of renovation operations may be extended to 15 years by means of a resolution of the municipal council

**SECTION IV**  
**IMPLEMENTING A PROGRAM OF RENOVATION OPERATIONS**

**Art 21**

- 1 On the date on which a resolution approving a program of renovation operations goes into effect, owners of, and holders of rights of perpetual usufruct to, real estate located within the area encompassed by those operations shall, together with the municipality having jurisdiction over the area, create a renovation corporation
- 2 A renovation corporation may acquire rights and accept obligations, sue and be sued
- 3 A renovation corporation is obligated to implement the program of renovation operations in the manner described in this act
- 4 Physical or legal persons who do not own property located within the area of renovation operations may join a renovation corporation with the corporation's approval. Entry into a renovation corporation shall take place by means of a contract describing the rights and obligations of the entering member
- 5 If any real estate or right of perpetual usufruct to real estate located within the area of renovation operations is sold after the date on which the resolution approving a program of renovation operations goes into effect, the purchaser shall become a member of the renovation corporation in place of the person from whom the real estate was purchased. The purchaser shall likewise assume those of the seller's rights and obligations which result from the program of renovation operations

**Art 22**

- 1 A renovation corporation shall, within three months of the date of its creation, elect a renovation board by means of a resolution. The resolution shall define the rights and obligations of the board
- 2 The board may consist of any number of persons belonging to the renovation corporation, or other legal or physical persons
- 3 The renovation board is established to perform work connected with the implementation of the program of renovation operations
- 4 Should a renovation corporation fail to appoint a renovation board by the deadline set in para 1, any member of the corporation may demand that a board be appointed by the court

**Art 23**

- 1 The renovation board represents the renovation corporation in external affairs and in relations between the corporation and its individual members
- 2 If the board consists of more than one member, its decisions in matters entrusted to it shall be published in the form of declarations by at least two board members

**Art 24**

- I The renovation board shall perform the actions of an ordinary board independently
- II A resolution of the corporation shall be required for the board to perform any act outside the powers of an ordinary board
- III Acts outside the powers of an ordinary board include, in particular
  - A establishing a financial plan for renovation operations,
  - B setting principles for sharing the cost of renovation operations with members of the renovation corporation,
  - C establishing requirements for the entry into the renovation corporation of physical and legal persons who are owners of, or holders of rights of perpetual usufruct to, real estate located within the area of operations,
  - D approving a detailed schedule of tasks for the completion of a program of operations,
  - E granting authority to conclude agreements in matters outside the powers of an ordinary board as foreseen by law,
  - F setting board members' remuneration or making other appropriations to cover the costs of the board's activities, or designating sources of financing

**Art 25**

- 1 Resolutions of the renovation corporation are approved at a meeting at which at least 2/3 of the corporation's members are present, by a majority of votes calculated in terms of the size of each voting member's share in the corporation
- 2 The size of each member's share in the corporation shall be the ratio of the value of the real estate possessed by that member and located in the area of

renovation operations, and the value of that member's outlay toward the completion of operations to the total value of all real estate located in the area of renovation operations and the total value of the outlays of all members toward the completion of operations

- 3 The size of each member's share shall be calculated on the basis of the data used in the financial plan for the program of renovation operations and updated on the basis of alterations made to that plan
- 4 Except where art 28 applies, a members' meeting is called by the board at the request of members holding more than one half of the corporation's shares, or at the request of the municipality
- 5 A members' meeting is chaired by the municipal director of renovation, who is the representative of the municipality in the corporation
- 6 Copies of the renovation corporation's resolutions shall be supplied to all the corporation's members

#### **Art 26**

In the event that a majority as described in art 25 cannot be achieved, any member of the renovation corporation may demand that the question be resolved by a court, which shall rule taking into account the goal of the proposed action and the interests of all the corporation's members. The court shall decide the question without resorting to a formal trial

#### **Art 27**

- 1 Any member of the renovation corporation may appeal a resolution of the corporation to a court of law on the grounds of inconsistency with the provisions of law within one month of receipt of the resolution. The complaint shall be lodged against the renovation corporation
- 2 A resolution of the corporation against which an appeal has been lodged shall be executed unless a court orders that it not be executed

#### **Art 28**

Should the renovation board fail to fulfill its obligations or violate the principles of good management, any member of the corporation may demand the calling of a members' meeting for the purpose of considering the board's dismissal. The provisions of art 22 para 4 shall apply in such a case as appropriate

**Art 29**

Every member of the corporation has the right and the obligation to cooperate with the renovation board in carrying out renovation operations. At the request of any member of the renovation corporation, the board is obligated to furnish that member with pertinent information and explanations concerning the board's activities.

**Art 30**

- 1 The renovation board is obligated to conduct its financial affairs in accordance with accepted accounting practices and by means of bank accounts, and to submit a yearly report of its activities.
- 2 The renovation corporation shall pass a resolution approving the activities of the renovation board at the end of each year of its activities.

**Art 31**

A renovation corporation has the right to submit requests to the organs of the state and local self government administrations in connection with the performance of tasks resulting from an approved program of renovation operations and is a party to all administrative cases involving real estate located within the area of those operations.

**Art 32**

A renovation corporation is dissolved, by means of a resolution, upon the completion of renovation operations and after the discharge of its obligations.

**SECTION V****PRINCIPLES FOR FINANCING RENOVATION OPERATIONS AND SUPPORT FOR RENOVATION  
FROM PUBLIC FUNDS****Art 33**

- 1 Work connected with renovation operations is financed partly by the municipality, and partly by owners of, and holders of rights of perpetual usufruct to, real estate located within the area of renovation operations.
- 2 The municipality finances infrastructural investments, management of public lands, preparation of a program of renovation operations, the activities of the municipal director of renovation, purchases of real estate connected with the implementation of the program, and expropriations for public purposes as needed.

- 3 Property owners and holders of rights of perpetual usufruct finances, individually or as members of the renovation corporation, acquisition of replacement apartments for tenants of rental housing, compensation for lease holders, moves, demolition and dismantling work, necessary renovation work to buildings, extension and expansion of buildings, land management, and the acquisition of real estate and the construction of new buildings as needed

#### **Art 34**

- 1 A Housing Renovation and Modernization Fund (hereinafter called the "Renovation Fund") shall be created to support financing projects connected with the implementation of the program of renovation operations and individual initiatives in the sphere of housing renovation
- 2 The Renovation Fund is not responsible for the obligations of the State Treasury, and the State Treasury is not responsible for the obligations of the Renovation Fund
- 3 The headquarters of the Renovation Fund shall be in the city of Warsaw

#### **Art 35**

The Renovation Fund operates on the basis of this act and a statute granted by the Council of Ministers in the form of a directive describing the Fund's organizational structure and financial management principles, as well as the principles by which the Fund's Supervisory Council is to operate

#### **Art 36**

- 1 The supervisory organs of the Fund are a supervisory council and a chairman
- 2 The supervisory council shall consist of eight members. The council is called into being by the Minister of Spatial Planning and Construction in consultation with the Minister of Finance. Half the council's members are appointed by the National Territorial Self government Council
- 3 The chairman of the supervisory council is chosen from among the members of the council and dismissed by the council
- 4 The council's term of office is four years
- 5 The chairman of the Renovation Fund is appointed and dismissed by the supervisory council on the recommendation of the Minister of Spatial Planning and Construction

**Art 37**

The Minister of Spatial Planning and Construction shall exercise general supervision over the Renovation Fund, the Minister of Finance shall exercise supervision over the Fund's financial affairs

**Art 38**

- I The Renovation Fund shall have at its disposal moneys from the following sources
  - A yearly contributions from municipalities (i.e., from property tax revenues, set at a single rate in zlotys per m<sup>2</sup> of usable area of each building or part thereof),
  - B funds from the state budget to be designated each year in the budget act in an amount at least as large as the total contribution from municipalities,
  - C interest on Fund money placed on deposit in banks,
  - D revenues from Fund money invested in securities issued by the State Treasury, the National Bank of Poland, municipalities or associations of municipalities, or other securities provided they are guaranteed by the State Treasury,
  - E gifts and bequests,
  - F other revenues
- II The Council of Ministers shall establish, by means of a directive, detailed principles for setting the contributions described in para 1 pt 1
- III The sum of all deposits (as described in para 1 pt 3) placed in any one bank or group of banks with common capital or organizational structures may not exceed 15 percent of the Renovation Fund's total capital

(variant I art 39 42)

**Art 39**

- 1 Banking services for the Renovation Fund shall be provided by the state bank Powszechna Kasa Oszczednosci
- 2 Powszechna Kasa Oszczednosci shall establish a separate financial plan for the Renovation Fund within the bank's financial plan, and shall prepare a separate balance sheet and a separate profit and loss statement for the Fund

**Art 40**

Renovation Fund money is intended for

- 1 granting loans, under preferential conditions, to municipalities, property owners or holders of rights of perpetual usufruct for the implementation of programs of renovation operations, or to property owners for individual initiatives in the sphere of urban building renovation
- 2 purchasing securities as described in art 38 para 1 pt 4
- 3 covering costs borne by Powszechna Kasa Oszczednosci in connection with the granting and vindicating of loans of Fund money, and in connection with the provision of banking services to the Fund
- 4 covering other costs connected with the growth of the Fund's capital

**Art 41**

- I Renovation Fund money may be given in the form of a loan (as described in art 40 pt 1) for the financing of not more than 70 percent of any one enterprise, provided that the loan is intended for the completion of projects which meet the requirements of art 42
- II The amount of a loan, its interest rate and repayment conditions shall be set out in a loan agreement concluded with Powszechna Kasa Oszczednosci, such an agreement should provide that
  - A the interest rate on the loan may not exceed 50 percent of the National Bank of Poland's rediscount rate,
  - B at the borrower's request, the beginning of the repayment period may be deferred for not more than 36 months from the day the agreement is signed,
  - C repayment of the loan shall take place over a period not to exceed twenty years
- III Borrowers financing projects within the scope of a program of renovation operations are entitled to a premium in the amount of 25 percent of the value of the loan upon repayment of 75 percent of the loan, provided the projects for which the loan was granted have been completed in full

**Art 42**

The Minister of Spatial Planning and Construction, in consultation with the Minister of Finance, shall establish, by means of a directive, detail principles and procedures

for the granting of loans from Renovation Fund money, as well as detailed conditions which must be met by any program of renovation operations or individual urban building renovation project financed with a Fund loan

(variant II art 39 41)

### **Art 39**

- I The Renovation Fund performs tasks resulting from this act, in particular the granting of subsidies
  - A to individuals (called individual subsidies) in the amount of 20 percent of the standard costs of renovating and modernizing buildings, subsidies shall be granted to all property owners renovating apartment buildings or apartments as part of a program of renovation operations,
  - B to municipalities (called group subsidies) undertaking renovation operations for the differentiated increase of subsidies granted to individuals within the area of renovation operations and the personal resources of owners of, and holders of rights of perpetual usufruct to, real estate
- II The amount of a group subsidy is equal to the sum of the individual subsidies granted within an area of operations
- III The completion of at least 50 percent of the program of renovation operations is a precondition for the disbursement of a subsidy
- IV The Council of Ministers shall, in a directive, establish the principles and procedures by which subsidies are to be granted and disbursed

### **Art 40**

- 1 Property owners and holders of rights of perpetual usufruct undertaking the construction of small or medium sized rental apartments as part of a program of renovation operations may make use of loans from the National Housing Fund under the conditions established for social housing associations
- 2 Municipalities constructing small or medium sized apartments as part of a program of renovation operations may also make use of loans from the National Housing Fund as described in para 1

### **Art 41**

The participation of owners of, or holders of perpetual usufruct to, real estate in the costs of renovating and modernizing their own properties may not be less than 30 percent of said costs

**Art 43**

- 1 On the basis of the municipal council's resolution approving a program of renovation operations the council shall establish a renovation operations fund
- 2 The fund described in para 1 shall be created from
  - i) taxes and fees collected from the area in which renovation operations are being carried out,
  - ii) the redistribution of other municipal revenues,
  - iii) revenue from the sale of real estate belonging to the municipality,
  - iv) funds raised by economic units on the basis of separate agreements with the municipality,
  - v) sales of securities issued by the municipality,
  - vi) loans (subsidies) granted by the Renovation Fund,
  - vii) bank loans,
  - viii) loans taken out by the municipality from the National Housing Fund,
  - ix) money from other national or provincial funds,
  - x) gifts and bequests,
  - xi) other moneys
- 3 The municipal council shall approve a yearly plan of revenues and expenditures for the municipal renovation operations fund
- 4 The municipal renovation operations fund is for financing the municipality's tasks as described in art 33 para 2, and for financing the renovation of the municipality's own properties
- 5 The municipal renovation operations fund may also, by means of a resolution of the municipal council, be used for other purposes connected with renovation operations

**Art 44**

- 1 All documents and legal acts connected with the conduct of renovation operations shall be free from treasury fees

- 2 Court orders and entries in land registers connected with the conduct of renovation operations shall be free from court fees
- 3 Legal acts associated with the transfer of rights to real estate performed within an area of renovation operations shall be free from treasury fees, inheritance and gift taxes and income tax on physical persons, if such acts further the implementation of a program of renovation operations

## **SECTION VI**

### **RIGHTS AND OBLIGATIONS OF PERSONS AND INSTITUTIONS POSSESSING REAL ESTATE LOCATED WITHIN AN AREA OF RENOVATION OPERATIONS**

#### **Art 45**

- 1 Owners of, or holders of rights of perpetual usufruct to, real estate located within an area of renovation operations may request that real estate be purchased by the municipality under the conditions described in art 10 within six months of the date on which the resolution approving the program of renovation operations was passed
- 2 The municipality is obligated to purchase real estate at the request of the persons described in para 1 within three months of receipt of such a request

#### **Art 46**

A renovation corporation is obligated to provide tenants of independent apartments with replacement housing for the period during which renovation operations are to be conducted

#### **Art 47**

- I A program of renovation operations should provide for the acquisition of appropriate numbers of appropriately equipped independent apartments by the current tenants of apartments located within the area of renovation operations. In particular, tenants should be given the opportunity to
  - A purchase apartments from the municipality at preferential terms in exchange for taking part in the financing of renovation operations
  - B continue to rent apartments in exchange for taking part in the financing of renovation operations, with rent payments to be considered participation,

- C acquire the right to rent small or medium sized apartments with basic fixtures, including apartments adapted to the needs of handicapped tenants,
  - D receive monetary compensation for renouncing rights to independent apartments arising from the provisions of this act
- II In cases such as those described in para 1, property owners, holders of rights of perpetual usufruct and tenants should come to appropriate agreements with the municipality during the planning phase of a program of renovation operations
  - III The agreements discussed in para 2 may also be concluded with tenants of commercial units and holders of leases to real estate, and with institutions possessing real estate in permanent management
  - IV Persons and institutions whose interests have been taken into account in a program of renovation operations and acknowledged in agreements as described in para 2 and 3 are obligated to cooperate with property owners and holders of rights of perpetual usufruct to minimize the costs of such operations and to ensure the efficient conduct of renovation work

#### **Art 48**

- 1 Rents in new buildings with small or medium sized apartments with basic fixtures built as part of a program of renovation operations may not exceed annually four percent of the resale value of the apartments
- 2 Rents in old buildings renovated as part of a program of renovation operations may not exceed annually four percent of the resale value of the apartments in cases where the owner of the building has, in carrying out renovation work, made use of loans (subsidies) from the Renovation Fund, the National Housing Fund, a provincial renovation operations fund or other public funds

#### **Art 49**

- 1 Tenants of apartments and holders of leases to real estate, as well as institutions possessing real estate in permanent management, whose interests have not been taken into account in a program of renovation operations as described in art 47 are entitled to appropriate compensation
- 2 Compensation shall be made to tenants of apartments in the form of a choice of two apartments in the same municipality as the original apartment whose rents are appropriate to the tenant's financial resources The size and fixtures

of both apartments should meet the conditions for alternate housing set by the provisions of the law on rental housing and housing allowances

- 3 Holders of leases to real estate and institutions possessing real estate in permanent management shall be entitled to monetary compensation
- 4 Costs associated with supplying apartments, moving tenants and paying monetary compensation shall be borne by the owners of, or holders of rights of perpetual usufruct to, the buildings in question

## SECTION VII

### CHANGES IN CURRENT LAW, PENALTY PROVISIONS AND CONCLUDING PROVISIONS

#### — Art 50

In the law of 26 July 1991 on income tax on physical persons (Dziennik Ustaw from 1993 Nr 90, poz 416 and Nr 134, poz 646 From 1994 Nr 43, poz 163, Nr 90, poz 419, Nr 113, poz 547 Nr 123, poz 602 and Nr 126, poz 624 and 626), insert pt 45 as follows in art 21 para 1

“45) revenues from real estate located within an area of renovation operations as described in the law of \_\_\_\_\_ on the renovation and modernization of urban buildings during the period of these operations”

#### Art 51

In the law of 15 February 1992 on income tax on legal persons (Dz U from 1993 Nr 106, poz 482 and Nr 134, poz 646 From 1994 Nr 1, poz 2, Nr 43, poz 163, Nr 80, poz 368, Nr 87, poz 406, Nr 90, poz 419, Nr 113, poz 547, Nr 123, poz 602 and Nr 127, poz 627)

- 1 to art 6 add pt 9 as follows “9) renovation corporations,”
- 2 to art 17 para 1 add pt 22 as follows “22) revenues from real estate located within an area of renovation operations as described in the law of \_\_\_\_\_ on the renovation and modernization of urban buildings during the period of these operations,”

#### Art 52

In the law of 28 July 1983 on inheritance and gift taxes (Dz U Nr 45, poz 207, from 1989 Nr 74, poz 443 from 1990 Nr 39, poz 225 and Nr 66, poz 393, from 1991 Nr 26, poz 108 and Nr 82, poz 368, from 1992 Nr 73, poz 363, from 1993

Nr 59, poz 271 and from 1994 Nr 55, poz 230 and Nr 126, poz 622) to art 4 para 1 add pt 15 as follows

“15) acquisition of ownership or right of perpetual usufruct to real estate located within an area of renovation operations as described in the law of \_\_\_\_\_ on the renovation and modernization of urban buildings, provided such operations have been initiated ” during the period of these operations”,

#### **Art 53**

In the law of 12 January 1991 on local taxes and fees (Dz U Nr 9, poz 31, Nr 101, poz 444, Nr 116, poz 502 From 1992 Nr 21, poz 86 and Nr 94, poz 467 From 1993 Nr 121, poz 540 From 1994 Nr 123, poz 600 and Nr 132, poz 675) to art 5 after para 1 add para 1a as follows

“The rate described in para 1 shall be increased by the contribution made by the municipality to the Fund for the Renovation and Modernization of Housing Stocks created on the basis of the provisions of the law on the renovation and modernization of urban buildings” The Minister of Finance shall establish, by means of a decree, the amount of the contribution ”

#### **Art 54**

Refusal to supply information or knowingly supplying false information (as described in art 14 para 3) to the municipal director of renovation shall be punishable by a fine

#### **Art 55**

This act shall go into effect one month after its publication

## JUSTIFICATION FOR ACT

The act presented in draft form above is needed for two principal reasons

- 1 The high degree of depreciation of parts of the country's urban housing stock
- 2 The special nature of old urban building restoration, when a building is worn out and old enough it can no longer be renovated in simple undertakings by individuals

According to evaluations conducted by the Housing Institute in the early 1990s, the state of urban housing stocks with respect to their renovation and modernization needs was as follows

- total number of apartments in cities 7,040,000  
number of apartments in buildings qualified for liquidation (dismantling) 820,000 (of which 630,000 are in buildings qualified for urgent liquidation, i.e. by the year 2000)
- number of apartment in building qualified for urgent renovation and modernization (i.e., by the year 2000) 570,000

Given the slowdown during the 1990s in housing construction, and especially in so called socialized housing, these figures remain valid and the total of 1,390,000 apartments in buildings marked for demolition or modernization is the operational area of the draft act over the next 20-30 years

Objective problems associated with the initiation or completion of renovation and modernization projects in urban buildings arise from the following causes

the degradation of parts of the urban housing stock are usually accompanied by the degradation of adjoining public areas and the technical infrastructure. Thus, renovation and modernization of housing must be synchronized with the restoration, reconstruction or completion of accompanying infrastructure. Many older buildings (a significant number in some cities as a result of those cities' historical character) are or should be protected, which increases the cost of (and complicates) their renovation or modernization.

- most of the urban buildings requiring restoration and reconstruction are contiguous buildings. Major intervention in one building exerts a definite influence on the legal, financial and social character of neighboring structures.

- ♦ a significant part of the total urban housing stock qualified for replacement or modernization is made up of rental apartments in private buildings, the total number of such apartments is estimated at 560,000 nationwide
  - individual buildings within large urban building complexes belong to different owners (whose whereabouts are often unknown), and while the majority of these buildings are currently under the management of municipal housing corporations or private owners' associations, their legal status is often unresolved
- the financial resources of owners of rental housing, private and municipal, is severely limited
- housing in older, highly depreciated urban buildings in Poland is overpopulated, in contrast to the situation in Western European countries 20-30 years ago, when such housing was largely depopulated. The tenants of such housing in Poland today are mainly people with low incomes and older people who are retired or semi-retired.
- the renovation or modernization of urban building complexes is inevitably accompanied by the organizationally and socially difficult problem of temporarily and even permanently removing current residents.

Because of the complexity of the problems associated with renovating and modernizing urban building complexes, then, the entire process requires financial encouragement in order to begin and the creation of special organizational and legal conditions in order to be completed effectively.

The construction of these special conditions in the draft act presented above is based on the following basic principles:

### **In the organizational sphere**

- I renovation and modernization projects in urban building complexes are carried out primarily on the basis of so-called programs of operations in areas marked for renovation and modernization on municipal land management plans (art. 1 para. 2, art. 2, art. 6)
- II a program of operations is prepared on the orders of the municipality by a professional (the municipal director of renovation) in such a way that the interests of owners and tenants are taken into account (art. 2, art. 14 para. 1, art. 47)
- III an area of renovation operations is defined elastically, i.e., in such a way as to give the operations a high probability of successful completion (art. 5, art. 6, art. 7)
- IV a program of renovation operations should include an increase in the number of independent apartments of at least 20 percent and an increase in the total

amount of usable building area of at least 20 percent relative to the original state (art 8)

- V besides the main goal of restoring housing stocks in the designated area, renovation operations may have any of the following additional goals as appropriate given the needs and conditions of the local community
  - A transforming the ownership structure of municipal buildings,
  - B improving the condition of the natural environment,
  - C adapting buildings and public areas to the needs of the handicapped,
  - D protecting cultural artifacts,
  - E creating conditions conducive to the increased vocational activity of local residents and their employment in the local area (art 2)
- VI A municipal council may pass a resolution approving a program of operations only when the program has been accepted by more than 70 percent of the owners of, or holders of rights of perpetual usufruct to, 50 percent of the ground within the area of operations (art 18)
- VII the obligatory organization structure for implementing a program of renovation operations is a renovation corporation created on the basis of the act presented above by owners of, and holders of rights of perpetual usufruct to, real estate located within the area of operations, and by the municipality with jurisdiction over the area of operations (art 21)

### **In the financial sphere**

- 1) The act establishes a National Renovation Fund to stimulate financially the process of renovation and modernization of housing stocks (art 34) The Fund's principal revenues will be contributions from municipalities proportional to the amount of housing in each municipality and coming from real estate taxes at a single rate per m<sup>2</sup> of usable area of a building or part thereof, and subsidies from the state budget set annually in the budget law at a level not less than the total contribution from the municipalities

The Fund would support renovation programs by means of

#### **variant I**

long term, low interest loans granted to owners of real estate and covering up to 70 percent of the total cost of a renovation project with a premium of 25 percent of the loan if the project is carried out as part of a program of renovation operations

**variant II**

subsidies not subject to repayment and covering 20 50 percent of the standard costs of renovating and modernizing buildings, such subsidies would be granted to property owners renovating apartment buildings or apartments as part of a program of renovation operations

- 2) On the basis of a resolution of the municipal council approving a program of renovation operations a municipality creates a renovation operations fund using
  - taxes and fees collected in the area of operations
  - revenue from the sale of municipally owned real estate
  - redistribution of other municipal revenues (art 43)

**In the sphere of legal mechanisms**

- 1) the act strengthens the municipality's ability to use its right of preemption in the area of renovation operations (art 9, art 10, art 11)
- 2) the act protects the interests of tenants and lease holders, tenants have the right to replacement apartments and lease holders to compensation (art 49)

The general intent of the act is to create conditions for the voluntary participation of property owners in renovation operations through a system of financial incentives and organizational/legal assistance from the municipality. The program of renovation operations approved by the municipal council constitutes a sort of social contract which brings the interests of property owners, tenants and lease holders into line with public policy goals. A second possibility provided for by the act are ownership changes, which the act encourages and makes easier, and which in turn make it possible for outside investors to participate in renovation operations. The possible use of force, by mean of a resolution of the renovation corporation or a court order, is only the third option.

The creation of an office of municipal director of renovation and the creation of a municipal renovation operations fund are very important to the success of a program of renovation operations. For this reason, these two provisions of the act should not be construed as an attack on municipal self government, but rather as the logical consequences of the passage by the municipal council of resolutions ordering the initiation of preparatory work on a program of renovation operations and approving the program of renovation operations. The municipal director of renovation (who may be a physical or legal person) ensures that the program of operations is professionally prepared and exercises control and supervision over its implementation, the municipal renovation operations fund ensures that the municipality's tasks are financed in accordance with the approved multi year financial plan for renovation operations.

### Impact on the state budget

The principal burden which the state budget will have to bear in connection with this act will be the subsidy for the Renovation Fund. Expenditures for both variants (variant I - loans, variant II - subsidies) for the first ten years of the Fund's operations are given in the tables below.

#### Variant I

Year	1	2	3	4	5	6	7	8	9	10
Fund subsidy in millions of zł	37	74	111	148	185	185	185	185	185	185
Real estate tax deductions in millions of zł	37	74	111	148	185	285	185	185	185	185
Revenues from repayment of loans and interest in millions of zł		8	24	42	50	82	106	138	168	200
Total in million of zł	74	156	246	338	430	452	476	508	538	570
Result Number of Apartments renovated in thousands	3.4	7.3	11.5	15.8	20.1	21.1	22.2	23.7	25.1	26.6

#### Variant II

Year	1	2	3	4	5	6	7	8	9	10
Fund subsidy in millions of zł	37	74	111	148	185	185	185	185	185	185
Real estate tax deductions in millions of zł	37	74	111	148	185	285	185	185	185	185
Total in million of zł	74	148	222	296	370	370	370	370	370	370
Result Number of Apartments renovated in thousands	6	12	18	24	30	30	30	30	30	30

The above simulation was performed with the following assumptions

- 1) that, during its first five years of operation, the Fund will achieve its nominal level of about zł 370 million (zł 185 million from municipal contributions and zł 185 million from the budget), and that the rate on which municipal contributions are based will grow during this period to 0.3 zł/m<sup>2</sup> of usable area of a building or part thereof (in 1995 prices)
- 2) that the standard cost of renovating or modernizing a building is, on average, 60 percent of the cost of a new building (i.e., 850 zł/m<sup>2</sup> × 0.6 = 510 zł/m<sup>2</sup>)
- 3) that the amount of a loan averages 70 percent of the standard cost and the amount of a subsidy averages 40 percent of the standard cost
- 4) that interest on loans will be as follows: 1 = 11 percent, 2 = 9 percent, 3 = 7 percent, 4 = 5 percent, 6 = 10 = 3 percent

The simulation does not take into account the Fund's own costs or the costs of banking services, nor does it take into account expenditures for premiums during the first ten years of the Fund's operations

Other burdens to the state budget resulting from this act were considered insignificant and have been omitted from this report

**Prepared by**

*the Department of Economy and Real Estate of the Ministry of Spatial Economy and Construction*

**Director**

*[signature and name illegible]*

**In consultation with**

*the Legal Department of the Ministry of Spatial Economy and Construction*

**Director of the Legal Department**

*[signature and name illegible]*

**Approved by [?]**

*Undersecretary of State  
Andrzej Urban*

**Warsaw, April 1996**