

Masterthesis

Fighting against dilapidating and deteriorating neighbourhoods: the case of housing in Budapest



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COLOFON

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Foreword

This thesis is a result of a study in Budapest. The thesis is part of the master Real Estate Management. Before going to Budapest, the city was quite unknown for me. The period I lived in Budapest was a period to discover and learn new things. New culture, language and place.

Hungary is one of the most mono-linguistic countries in the world, this made contact with many organisations difficult. Most of the people working for the municipalities don't speak English. So it was a challenge to get in contact with people who could share with me the necessary information.

Without the cooperation and support of several persons it would have been harder to succeed. In the first place I would like to thank my supervisor, drs. Paul van Steen. My supervisor in Budapest, habil. Mary Redei for getting me in touch with several experts. Of course the interviewed persons I would like to thank for their contributions.

Groningen, August 2009

Summary

In Europe Hungary is demographically one of the oldest countries. The housing market have experienced different policies. The switch from socialism to capitalism made the housing market undertook a transformation. During the communist period the Hungarian housing policy had two objectives. It should maintain the public ownership of social housing for the poor. Second it should provide the people with somewhat higher incomes subsidies to build private housing. Hegedüs and Tosics described this as an example of a typical East-European housing model.

After the collapse of the socialist system the general thought was housing could be seen as a sector of the economy. Linked with this transformation is the evolutionary theory which was emphasized by Hungary. This meant institutional and market economic patterns were copied from the West. This policy led to the EU-membership, but the too sudden and drastic transformation had its consequences. Due to the consequent governmental approach to privatisation its economic and social structures still feel the consequences. The social and welfare system were untouched and not transformed. Polarisation of the society was greater than before.

Three stages can be distinguished after the transition. In the first stage the government tried to cope with the housing crises. The second stage legal background and institutions were established. The third stage was the start of a more active role of the state and local governments. During this period cooperation between the private and public sector became more normal. In Budapest the most comprehensive urban renewal of Hungary can be found. Budapest is a special case as it's the only Hungarian city with a two-tier administrative system. Public utilities are in hands of the municipality of Budapest, other functions like local planning, building permits and healthcare were delegated to the districts. But most important also the public housing is in hands of the local governments.

This let after the transition to privatisation and this strengthened the effects of segregation and polarisation. Social and economic disparities which occurred due to the privatisation have become key issues in the renewal programmes of the local governments in Budapest. There are critics on neighbourhood revitalisation and rehabilitation programmes. Most heard critic is that rehabilitation leads to gentrification. In the end this is causing, following tenants right groups and low-income advocacy groups, displacement, due to condominium conversion and similar activities.

For some neighbourhoods which do not draw much attention of private actors, problems may occur. Local communities and governments are not always able to rehabilitate/renew their area and as a consequence their environment is deteriorating. In some cases it might be more efficient to delegate more tasks and responsibilities to the market sector. It can be expected the progress of the procedures will be handled more efficient and faster, because the financial consequences are for the responsible market parties. Nonetheless in general the overall quality of the housing is improving, also the number of dwellings is decreasing. Concluded could be that the rehabilitation programmes are showing results.

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In-depth interview Dávid Valkó, Chief analyst Otthon Centrum Zrt **Fout! Bladwijzer niet gedefinieerd.**

In-depth interview Krisztián Karácsony, senior consultant Ecorys. **Fout! Bladwijzer niet gedefinieerd.**

In-depth interview Pal Baross, FRICS, ING Real Estate Development.. **Fout! Bladwijzer niet gedefinieerd.**

In-depth interview Laszlo Bajnai, director Városfejlesztés Zrt..... **Fout! Bladwijzer niet gedefinieerd.**

In-depth interview Gábor Füle, development director Városfejlesztés Zrt **Fout! Bladwijzer niet gedefinieerd.**

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1 Preface

In Europe Hungary is demographically one of the oldest countries. It has a long history. Therefore it's an interesting country to have a closer look at. Especially the housing market in Hungary is an interesting phenomenon. It's an emerging part of the economy (Rédei, 2008). To understand the current situation of housing in Hungary there's the need to have a look at the post-war communist period.

During the communist period the Hungarian housing policy had two objectives. It should maintain the public ownership of social housing for the poor. Second it should provide the people with somewhat higher incomes subsidies to build private housing (Bokros, 1998). Hegedüs and Tosics (1996) described this as an example of a typical East-European housing model. This model exists of: one-party political control over the housing sector, the control of housing agencies, subordination of market mechanisms, subsidies which weren't transparent and were part of the state control of housing services. In paragraph 2.1 the East European housing model will be explained in more detail. In the long run the East European housing model was one in which both the private- and state-sphere were working (Hegedüs and Tosics, 1996).

Already during the communist time there were changes in the housing sector and policy, however the biggest changes occurred during the post Soviet-period in all the former Soviet-countries. Hegedüs and Várhegyi (2000) pointed out that the change of the housing policy resulted in a quickly transformed real estate market. The policy of the government after Hungary became a democratic country could be divided in three stages. These stages are described in paragraph 3.2.

The transitions in the housing policy have had of course its consequences. The switch from the state to local governments resulted in a low-price and fast privatisation of the public housing stock. The continued struggle to restructure the public sector and improve neglected housing is a challenge for the local governments. It's obvious the housing market and in special the social housing sector are interesting.

Structure of this report

In the end this thesis aims to advise local governments how to deal with the situation of the (social) housing market of Budapest. A description of the situation of the housing market in Budapest together with establishing the maturity of the housing market in Budapest will result into an advise for the governments.

To get to know more about the housing, the policy and the market the following questions will be answered in the next chapters:

Chapter 2: ‘How has the housing market in Budapest developed?’

Chapter 3: ‘What’s the current and future housing policy in Budapest?’

Chapter 4: ‘What’s the effect of the housing policy on social and economic disparities?’

In chapter 5 influences on neighbourhoods will be discussed. The basic question for this chapter is: *‘Which relation is there between the actors on the housing market?’* After all in chapter 6 the findings of the disparities with regard to the housing policy and housing market will be used for a case study on district level. Merely this is done by interviews, conducted with professionals in the housing market field.

Finally in chapter seven the findings will be used as a basis for the advise for local governments, together with the most important findings from the previous chapters. .

2 The housing market in Hungary and Budapest

The government undertakes many initiatives to improve the housing. In this chapter the housing market in Hungary and in special Budapest will be described. Of course the current market situation is the result of the former and current housing policy. To understand how the housing market is developed in Hungary and in special in Budapest it's useful to know how it has evolved since the post-socialist period but as well to know its characteristics during the Soviet-period. How housing was organised during the communist period is explained by the East European housing model.

2.1 The East European housing model

The East European housing model has its origin in one common feature of the Soviet-Union; the extension of the area of influence after the WOII. As a result a common housing system developed within this system, though every country had their own housing system. Despite this fact all systems showed the same signs of crisis arising from the East European path of development. Following Hegedüs and Tosics (1996) there was a common logic of housing policy, despite the differences. This has established the rules of behaviour of the private and state sector, the state institutions and the several economic and social groups (Hegedüs and Tosics, 1996).

After WOII there was the introduction of an economic development system with the aim of a fast restructuring of the economy, increasing economic development and strengthening the political and military potential of the region. In this economic model the main aim was to increase investment in the production sphere. The drive was so big that holding back internal consumption was not a problem (Fehér et al., 1983). The so-called non-productive sector, which included housing, was pushed back into the background, behind other political and economic priorities (Hegedüs and Tosics, 1996).

As mentioned in the beginning of the 50's a model from the Soviet-Union was imported in almost all East European countries. The most important economic decisions within this model were made by a small elite group of politicians, bearing in mind the framework of the so-called planning system. One of the most important features of this system was income regulation. The income regulation did not include the costs of housing, health care, infrastructure and education. The costs were paid by the enterprises. The enterprises paid by a kind of taxation which was redistributed through the state budget. All market relations were intended to be replaced by central planning in this way (Hegedüs and Tosics, 1996).

The preconditions of a system where all aspects with importance for housing, like exclusion of the market, centralisation of all important investment decisions and the omission of the costs of housing from incomes, were meant to be under control of state institutions. Housing was meant as a form of public service. There should not be a role for the private sector, neither in housing distribution nor production. The social housing model has not reached this pure form (Hegedüs and Tosics, 1996).

Several reasons are assignable, one of the reasons arises from the longstanding nature of housing as a good, stocks are almost always high in comparison to flows. Each country had its stock of housing from times before the socialist times. A complete redistribution of ownership

would not have been possible to carry. Extensive administrative and political costs would have involved which practically no system was willing to pay, besides for a period of drastic redistribution, the best quality dwellings mostly involving. Where no total redistribution took place, the foregoing social and economic relations continued to influence the housing system in the long run (Hegedüs and Tosics, 1996).

Extreme administrative costs to control the private transactions of citizens is another reason why the social model never has realized its pure form. As an effective and strict control were missing, governments had the alternatives of either accept it till a certain level while maintaining a formal policy of control depending on the political determination and costs or completely prohibit private transactions (Hegedüs and Tosics, 1996).

To pursue a state monopoly in construction was also difficult in practise. In certain periods and in certain countries the prohibitions of private initiatives caused political tensions and therefore the housing policy chose to use indirect means of regulating housing constructions. E.g. control over the supply of building material, land policy et cetera. It turned out that there was a part of the sphere of construction which was not centrally controlled, but kept existing while officially prohibited. As it was a part of the underground economy it was logically missing from official statistics (Hegedüs and Tosics, 1996).

In the long run the East European housing model was one in which both the private- and state-sphere were working, however in each country there was a different combination and interaction of market and state. One of the main characteristics of the East European housing model was that the economic mechanism was not influenced by the private sphere (Hegedüs and Tosics, 1996).

The other main characteristics of the East European housing model were:

- State dominance (50-60 % of the housing stock was owned and another 20-30 % was organised and built under control of the state) (Wiessner and Kovács, 1994)
- State control over land use, leading to specific land-use patterns. These patterns expressed the preferences of the socialist state (Tosics et al., 2001)
- A significant state ownership of land and the housing stock in cities as a result of the confiscation
- Administrative limitation of housing consumption
- Administrative limitation of size and development of major cities
- Certain housing policy factors were under state control (e.g. loan origination, social housing policy and materials, etc.)
- Indirect regulation of the self-financed form of housing construction and the control over the private housing market
- Direct control over the political decision-making process and over financial resources of the cities (Tosics et al., 2001)
- Low level of segregation (Wiessner and Kovács, 1994)

Already during the communist time there were changes in the housing sector, however the biggest changes occurred during the post Soviet-period. The post-socialist countries changed their policies, adjusted it to the local circumstances and its legacies of the policy followed before (Balchin, 1996).

2.2 Perspective post-socialist period

Hegedüs and Somogyi (2005) called the first period the period of ‘crises management’ (see also chapter 3). The government introduced several measures with the goal to withdraw from the housing sector as fast as possible. Decreasing subsidies, reducing its direct role and introducing laws on the privatisation of the rental sector and other social issues showed that the central government didn’t take it’s responsibility any more (Földi, 2005). In the second period the establishment of institutional and legal background took place. However changes implemented in the subsidy system were not really efficient as an inflationary environment was existing (Földi, 2006).

The third stage started in 2000 when the government launched an active housing program. One of the priorities was the support of the construction of new housing units, with success see figure 1. It’s notable that in 1993 according to the data of the CSO 2,5 % of the GDP was spent on housing construction and in 1997 it was almost doubled and reached 4,7 %. Also notable is the fact that the role of loans in financing housing constructions indicated by the loan/investment ratio dropped to just 2 % in 1997 from about 10 % in 1991 (Hegedüs and Várhedyi, 2000). Concluded can be that an increasing volume of housing construction was financed from other sources than loans.

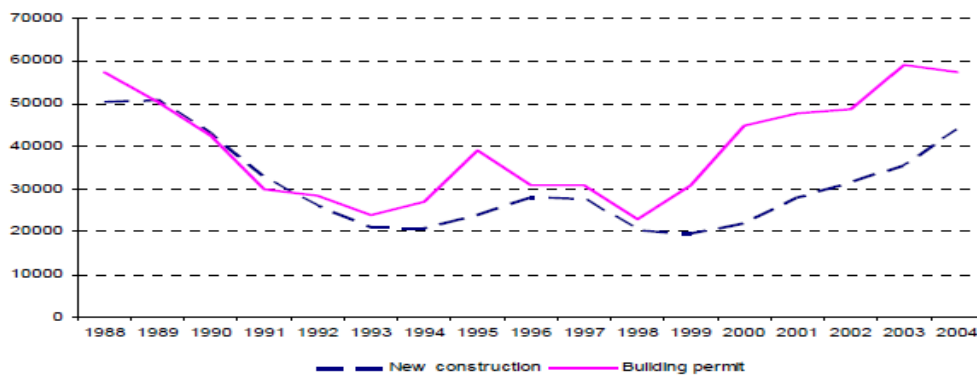


Figure 1: New construction and building permits between 1989 and 2003 Source: Kovács and Rózsavölgyi, (2005)

Kovács et. al (2005) state that the following factors are responsible for the changes regarding the housing market, including construction of housing:

- appearance of foreign capital
- economic recession
- polarisation of incomes
- decreasing Hungarian population
- the age structure of the population, according to Hegedüs and Somogyi (2005) there was no demographic pressure on the housing sector

2.3 Housing forms in Hungary

In Hungary there are three different basic forms of tenure. See also table 1 where a clear evolution of the housing market is notable. The most dominant form is owner-occupation. In the countryside it is almost the only form of tenure. Nowadays 94 % of the housing stock consists of owner-occupation housing (Cecodhas, 2008). Almost half of the owner-occupied dwellings can be found in single-family houses, the others are in multi-dwelling buildings (Kovács et. al, 2000).

	Hungary
Total housing stock (2007)	4134000
Social rental stock as % of the total housing stock	4%
Social rental stock as % of the rental stock	66%
Number of social rental dwellings per 1000 inhabitants	16
Share of ownership (1990-2005)	+24%
Share of private rental (1990-2005)	-49%
Share of social/public rental (1990-2005)	-81%

Table 1 Facts about the housing stock in Hungary. Source: Cecodhas (2008)

For the maintenance of the building the residents of the multi-dwelling buildings have to form condominiums. They are forced by the law to form these condominiums. The residents choose a representative for the condominium and pay the common utility costs, maintenance and reparation of the dwellings (Vajda, 2008).

The second housing form is private rental. Private persons rent their owner-occupied dwellings to private persons. Following Cecodhas (2008) only 2 % of the housing market consists of private rental. Nevertheless the share of private rental will be higher as in Hungary there is still a second economy, the black-market. When people follow the rules they have to pay a lot of taxes, so they try to avoid it by renting their dwellings out on the black-market (Vajda, 2008).

In Budapest the private rental market is according to Kovács et. al (2000) a well established market. The presence of students and foreigners are mostly responsible for this. The rent levels are not controlled. The only influences on the level of the rent are the demand and supply (Kovács et. al. 2000).

The last form of housing are the public rental flats. These flats are owned by the local governments and can be considered as the left over of what was an extensive state housing sector before. The share of public rental is 4 % (Cecodhas, 2008). The rents are low and depend on the size and quality of the dwelling. Mostly the neglected and disadvantaged social groups occupy public rental. Contracts for public renting are made for indefinite periods. Besides the actual income of the households are not considered when the rents are estimated and as a result the system is subsidizing all tenants who happen to live in local governmental owned rental flats (Kovács et. al, 2000).

2.4 Situation sketch housing market Hungary/Budapest

For a good situation sketch it's good to know more about the demographical characteristics and the factors which have an effect on the housing market. In this paragraph also the developments of the housing in general will be described. In figure 2 the male and female population is divided by age groups. Also the development of the population is given. It's clear the life expectancy of the people in Hungary is growing. However, there are regional differences. A younger age composition seems to be found in less developed regions and metropolitan agglomeration (Karácsony, 2008).

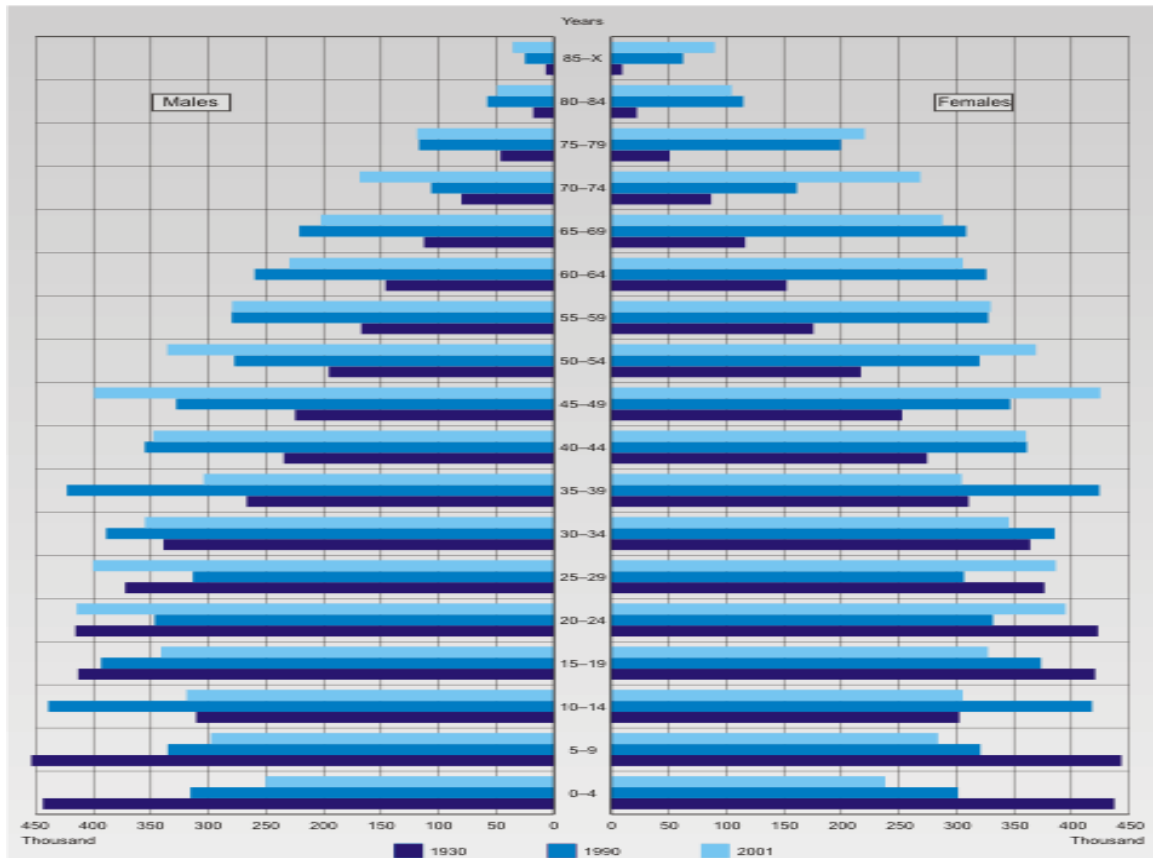


Figure 2: Male and female population by age groups, 1930, 1990, 2001, for Hungary. Source: CSO (2001)

Notable is also the fact that the Hungarian population is decreasing. See figure 3. Slowly the natural decrease of the population is getting slowed.

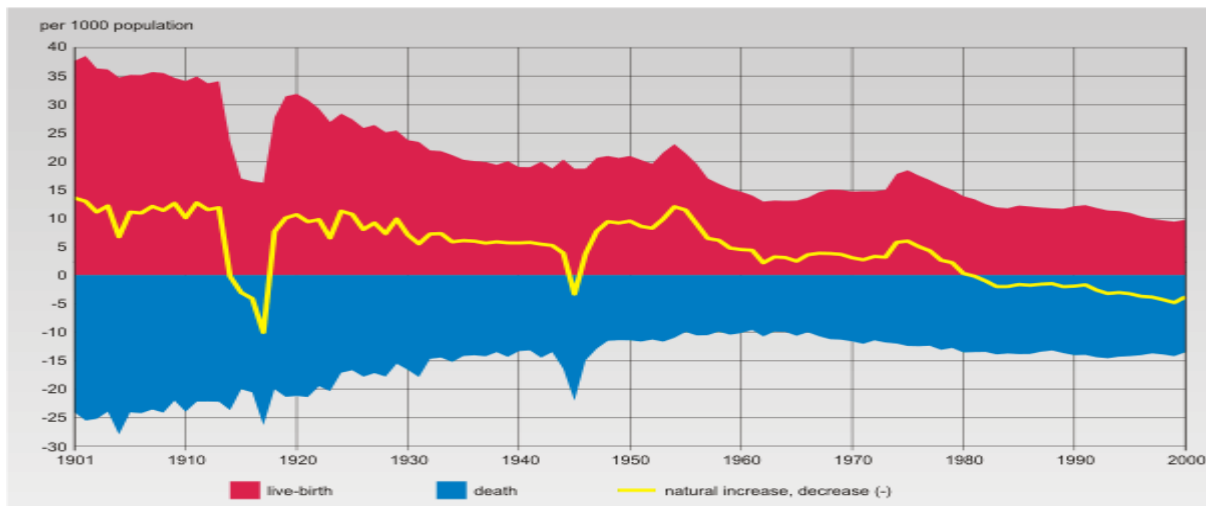


Figure 3: Natural increase and decrease Hungary 1901-2000. Source: CSO (2001)

Also there is the trend the composition of the households is getting smaller and smaller, see figure 4. Less couples are living permanently together. The number of divorces is also increasing and as a result the demand of residential units remains high (Karácsony, 2008). This means an increasing demand for smaller dwellings and a higher pressure on the housing market. In the period 1980-2001 the share of single-person households has increased with more than 6 percent.

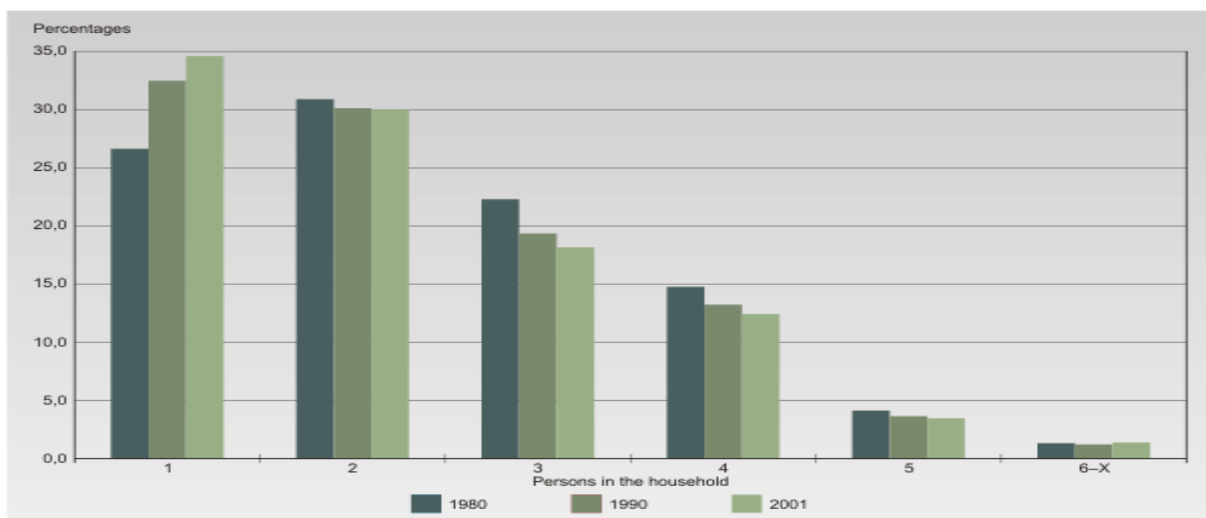


Figure 4: Changes in the number of household members in Budapest, 1980-2001. Source: CSO (2001)

General economic development makes it possible for more and more people to purchase a dwelling in their younger years. The age cohort of 20-24 years old, entering the housing market as first time tenants/buyers is the biggest group in Hungary. This gives also some pressure on the owner-occupation market (Karácsony, 2008). The economic development raises also the demand for higher quality housing and in figure 5 it's clear the amenities are increasing.

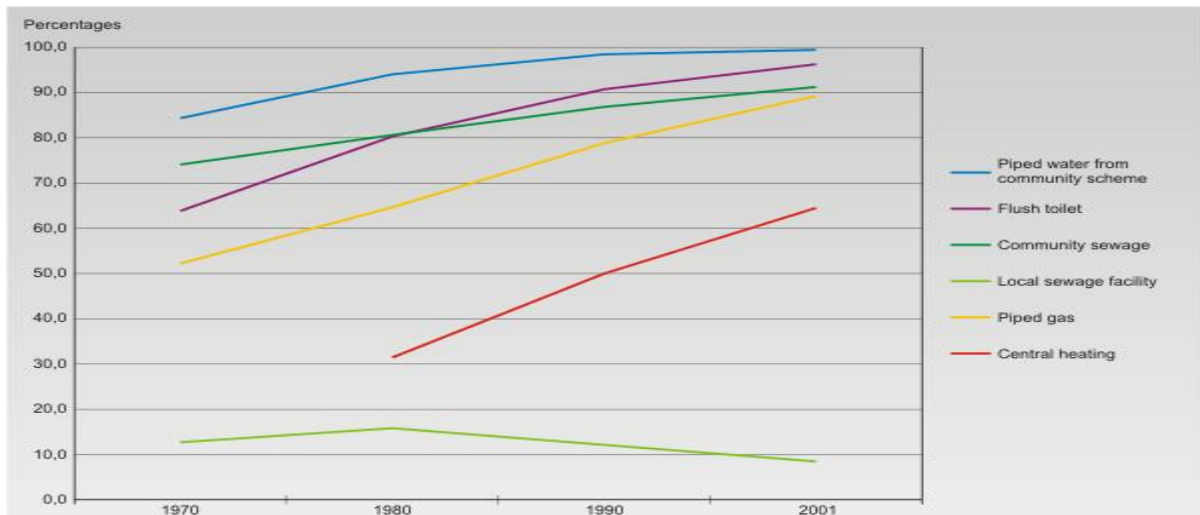


Figure 5: Equipment of occupied dwellings in Budapest, 1970–2001. Source: CSO (2001)

This becomes even more clear in figure 6. An increase of more than 200.000 thousand housing units with all amenities means that the total share of housing units with all amenities in the period 1980-2001 increased from about 30 percent till more than 60 percent. In the coming years the share of housing units with all amenities will increase as deteriorated housing units will be demolished and newly constructed dwellings will contain all amenities.

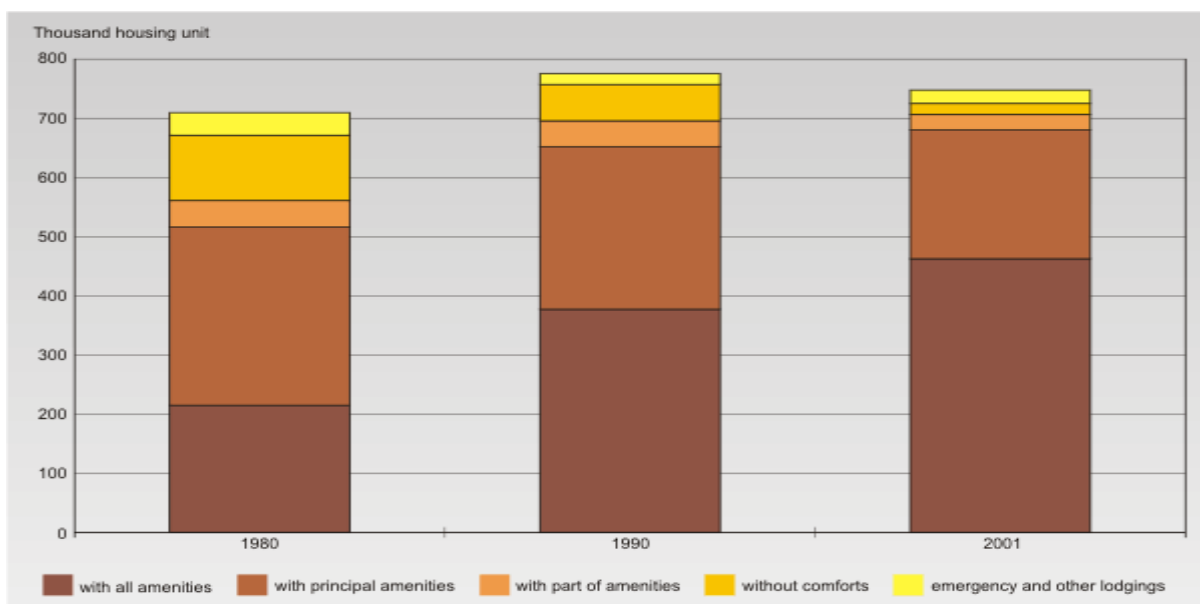


Figure 6: Budapest Occupied dwellings by level of comfort, 1980–2001. Source: CSO (2001)

When comparing figures 3 and 7 about the natural increase and decrease of the population for the period 1901-2000 it's notable the natural decrease since 1980 is higher in Budapest than the national statistics. However the populations decreases the amount of one-person households is increasing. This compensates partly the natural decrease. Also the amount of housing units has increased in the period 1980-1990, nevertheless in the period 1990-2001 the housing stock decreased.

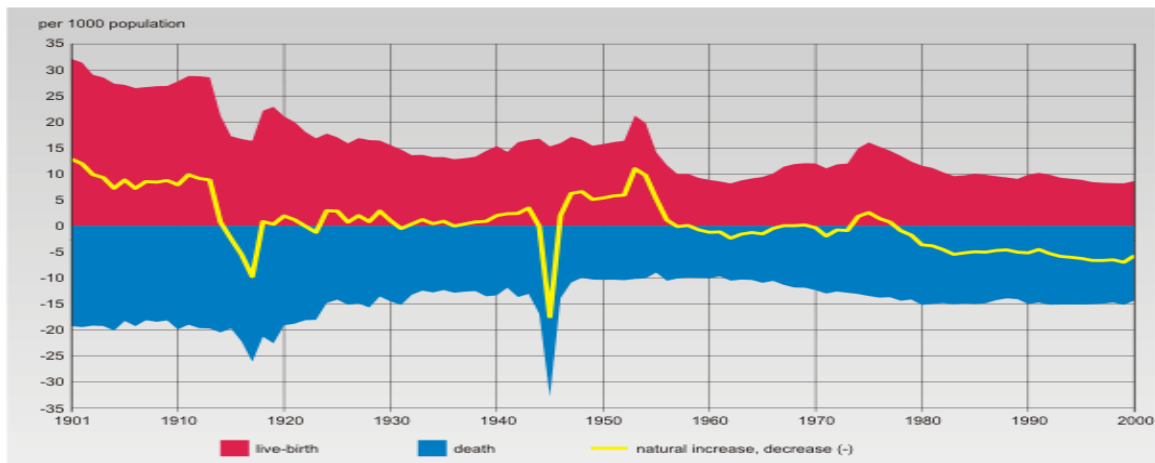


Figure 7: Natural increase, decrease, 1901–2000 Budapest. Source: CSO (2001)

2.5 Remarks concerning the housing market

The condition of the housing stock in general is slowly improving. Not only because of economic developments, but also because of demand and housing policy. In the next chapter the housing policy in the past and the present will be described. Concerning the demographical data, the natural decrease and the fact the share of one-person households is increasing, the demographical pressure won't be high.

The biggest problem relies in the high share of owner-occupation. This is probably being one of the greatest structural tensions on the housing market. This means that many poor households are forced to live in a dwelling they can't even maintain properly. Because the institutional housing allocation ceased to exist in the 1990s, the private rental sector has become the only possibility for young people if they don't have the financial support from their family and can't afford an own dwelling.

In the next two chapters successively the housing policy and its influences on social and economic disparities will be described.

3 Housing policy

The housing market has undergone many changes just like the housing policy. The housing policy since the transformation will be the subject of this chapter, to start with the national policy and ending with the situation in Budapest.

During the socialist period all important decisions on the supply side and on the control of demand side were taken at the central level. Thus in the central State and party institutions. When the socialist system collapsed the general thought was housing could be seen as a sector of the economy that could quickly change towards market principles. Of the post-socialist countries Hungary was one of the predecessors to adopt privatisation or lift rent control. This resulted in a more or less market-oriented housing policy (Erdösi et. al, 2003).

3.1 The sole of transformation in East-Central Europe

The two theories linked with the transformation in the post-socialist countries of East-Central Europe are: the involutory and the evolutionary. The involutory transformation theory consists of nationalistic tendencies, rejects cosmopolitanism, protectionist economic measures and strong feelings and preservation of national culture. The evolutionary transformation theory is the opposite and emphasizes that the East-Central European region is on its way to capitalism. Institutional and market economic patterns are copied from the western countries. Assumed is that people are willing to learn, adapt and change the things they have built in accordance with western supporter expectations. (Eyal et al., 1998)

What connects the post Soviet countries is the fact that in all of them the transition leded from state socialism to capitalism, however the way towards and the form of capitalism varies because of different historical legacies and current conjunctures (Harloe, 1996). The evolutionary theory was emphasized by Hungary, however nowadays Hungary feels the long-term consequences of its too sudden and drastic transformation. Due to the consequent governmental approach to privatisation, strengthening the domestic market and investor friendly decrees its economic and social structures still feel the consequences (Földi, 2006).

Though this policy led to the EU-membership. But the social and welfare system were untouched and not transformed and as a result the polarisation in the society was greater than before. In chapter 4 there will be a closer look at the effect of the housing policy on social and economic disparities.

After 1989 Hungary struggled with its economy. It required reforms which were structural. The government undertook these reforms soon after the political change (Hegedüs and Somogyi, 2005). An economic recession was the result due to the shock caused on the foundations of the economy because of the political and social transformation (Salamin, 2004). In the housing policy three stages can be identified after the political changes at the end of the 1980s.

3.2 Housing transition in Hungary

During the communist times housing policy already changed, the real change came in the end of 1989 when Hungary became a democratic country. Hegedüs and Várhegyi (2000) point out that the change of the housing policy resulted in a quickly transformed real estate market. Former huge construction companies were split and privatised, a considerable share of the state owned housing sector was privatised, the selling of construction materials was liberalised and restrictions on owning property were lifted. Due to the privatisation and liberalisation of the economies, the formal and informal, social and economic disparities became palpable features of Eastern European societies (Kovács, 2000). The policy of the government after Hungary became a democratic country can be divided in three stages:

- The first stage (1989-1994) is characterised as the period of crisis management
- The second stage (1995-2000) is characterised by the establishment of new institutions and the improved framework for the local governments
- The third stage started in 2000 when the government launched an active housing program supported by the fact of promising macro-economic changes (Hegedüs and Somogyi, 2005)

In the first stage the government tried in the period 1989-1994 to cope with the housing crises which was a result from economic decline and the subsidy system. As mentioned before the state subsidized in housing development in the socialist period (Scanlon et al., 2007). In 1991, when the property rights of the public housing stock switched from the state to the local governments, 22% of the housing stock received new owners. However in Budapest this percentage was 53%. Local governments could now distribute the public housing, decide about privatisation and decide about the rental fee (Günther, 2003).

Part of the decentralization was that the local governments were appointed to manage the housing allowance program partly financed from their own resources (Karácsony, 2008). In 1993 the government introduced the Law on the Rented Sector and the Social Law. This meant that the government moved out of the housing sector and decreased subsidies. Besides these two actions the government reduced its direct role (Scanlon et al., 2007). The switch of the state owned housing stock to the local government already started the privatisation process, but thanks to the introduction of these new laws the process speeded up till 1998 (Hegedüs, 2003). This period of housing policy is characterised as crisis management (Erdösi, 2003).

Consequences of the transitions in the housing policy were the fast privatisation and low-price of the public housing stock. Two reasons are given by Günther (2003). The first is that selling the dwellings for a low price meant political support from the residents as most of them wished to buy their dwellings. Second reason for the fast privatisation was that the high costs of renovating deteriorated dwellings switched from the government to the owners. The dwellings were sold for about 25% (!) of the market value. The costs for renovating the neglected dwellings were about 30 to 50 percent of the market value of the dwelling (Bokros, 1998).

Nevertheless some of the local governments didn't want to go along with the 'give away privatisation' (Bodnár, 1996) from the very beginning. They wanted to keep these dwellings as the basis for future projects, but these dwellings were mostly located in the worst areas and in neglected buildings. The lack of money also made the governments not able to invest in maintenance (Günther, 2003).

In the second period, between 1995-2000, legal background and institutions were established. The subsidy system was still part of the housing policy and because of the decline of the construction of houses the total level of subsidies fell (Scanlon et al., 2007). There were two basic financial institutions set up: mortgage banks and contract saving banks. However the law on contract savings banks was notorious as there was no direct relation between the subsidies and the increase in housing investments. Also there was the matter that the housing subsidy system was getting more regressive as subsidies were given to the savers. The changes in the housing finance were an element of this period. The subsidy system was not efficient as an inflationary environment surrounded the attempts to implement changes in the subsidy system according to Hegedüs and Somogyi (2005). The government tried to solve the problem of inflation, but basically there was only a temporary effect on the housing sector (Karácsony, 2008).

The third stage began in 2000 when the state and the local governments started to play a more active role. A new housing programme was introduced. The government was backed by the positive macroeconomic changes (Karácsony, 2008). The program had two priorities:

- 1) to support new construction and the purchase of private homes through subsidised housing credit;
- 2) to support the public rented sector through targeted programmes (Hegedüs et al., 2005).

Co-operation between the private and public sector became more normal and new housing programmes were initiated on local as well on national level (Kovács, 2000). The government tried to increase the effect of the program by increasing the subsidies step by step, this resulted in a burden for the new government in 2002 facing the problem how to restructure the controversial system as there were no resources to meet the demand for the continuation. Also there were a couple of weaknesses of the program: there was no monitoring due to the lack of administration, discretionary elements and for the poor people the cost rent is high (Karácsony, 2008). The housing policy stayed one of the main topics of the new government.

3.3 The housing program of the new government

As a result of the subsidies the volume of housing loans increased. The biggest Hungarian bank (OTP) entered the market. OTP issued private bonds to optimize its position on the market (Hegedüs and Struyk, 2005). On the mortgage bond market it became a leading institution, see also figure 8.

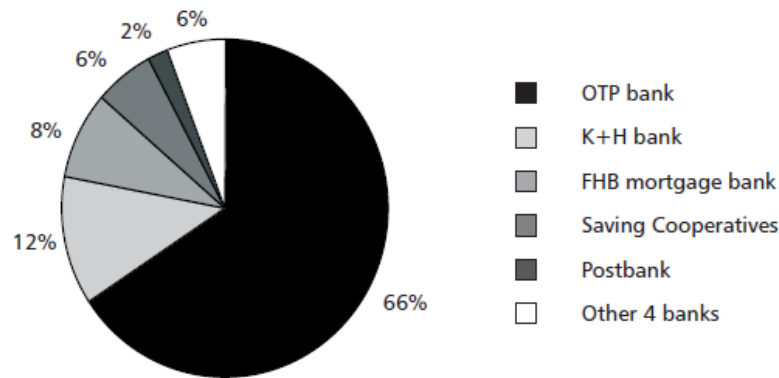


Figure 8: Loans issued in 2002 by different banks in Hungary. Source: Monitor Report (2003)

This resulted in an upswing of the construction industry and for the middle class it was easier to access the housing. However after the elections of 2002 the government modified the conditions of the housing subsidy system in the end of 2003 (Valko, 2005/1). Already before, the old government was pointed by experts at the fact that the program would not be sustainable for a long period, but the old government didn't change the policy. Macroeconomic indicators warned the new government it would be bad policy not to change the conditions of the mortgage program. The macro-economic cost of the program became clear as well during that time (Földi, 2005). See figure 9 for the outstanding loans. Besides the introduction of the substantial changes, VAT on building plots was introduced by the government in 2004 (Valko, 2005/1).

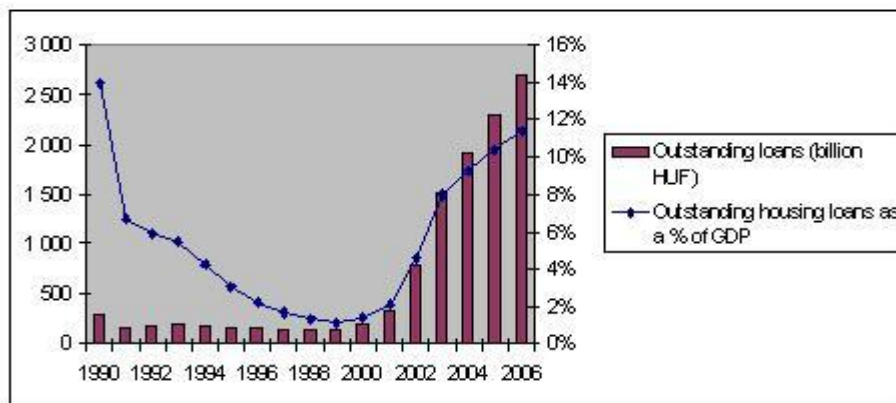


Figure 9: Outstanding housing loans 1990-2006. Source: Hegedus (2003)

As a reaction to the criticism that the mortgage subsidy program was more in favour of the relatively rich the government introduced a subsidized mortgage and the foreign exchange dominated mortgage (Hegedus and Struyk, 2005). Immediately banks responded by the introduction of the foreign exchange based housing loans, also because of the drop in demand caused by the increase in credit interests (Földi, 2005, Valko, 2005/1). In figure 10 it's obvious the system was not in favour of the lower income groups as it was regressive.

Throughout the beginning of 2005 the government introduced a 'Nest Building Program', this was meant for couples under 30 and it primarily should help young adults in setting up homes (Földi, 2005, Valko, 2005/2). It's clear the housing policy kept an important focus of the government.

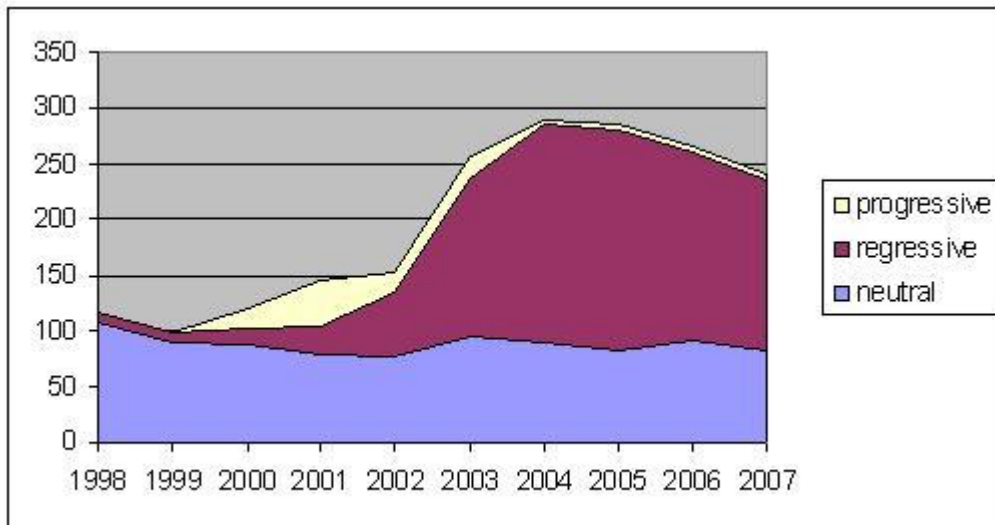


Figure 10: Housing subsidies 1998-2007. Source: Hegedüs (2003)

Due to the increase of various housing related taxes and the withdrawal of state subsidies the position of the supply sides as well as the demand sides of the market in 2004-2005 was worsened. Following Varjasné (2005) ‘the reasons for the shrinking housing market were deduced from the uncertain, instable situation created by the government as reactions to the macro-economic warning signs’. At the end of 2005 the government was trying to cope with this situation and in the beginning of 2006 they introduced a reduction of the upper rate of the value added tax. The government hoped this had a significant influence on the willingness of the households to buy houses (Valko, 2006/1)

During the end of 2007 the government introduced a couple of amendments in the taxation law. The government wanted to rescind the home acquisition allowance (that is, the tax allowance for the amount invested into a new home, out of the proceeds from a sold home), this happened in the beginning of 2008 (Valko, 2008). Also the government changed the period in which the sale of a house would be taxable. The period is reduced with ten years to five years. VAT should be paid by private individuals in the case they sell for a fourth time a plot or a new property that is less than two years old within two calendar years (Valko, 2007/2).

Nowadays there are some rehabilitation programmes, that both municipal or private condominiums can participate. These programmes are financed by the metropolitan municipality or partly by the EU (Karácsony, 2009). In this sense Hungary could benefit from the Structural and Cohesion funds of the European Union for the period between 2007 and 2013. The government is trying to gear up to get the most out of these resources (Karácsony, 2008).

3.4 The situation in Budapest: the two-tier structure

The most comprehensive urban renewal program of Hungary can be found in Budapest. The program is collected with some district level initiative. However it’s important to know the

political structure in Budapest. The only Hungarian city having a two-tier administrative structure with elected municipal and district local governments is Budapest. The real two-tier system was established by the Local Government Act in 1990, however the two-tier structure dates back to 1950 (Erdösi et. al, 2003). During the communist period the system didn't function really as a two-tier system, because the districts didn't get real roles and rights. Also the important decisions were taken at the municipal level, however in most cases even at national level (Tosics, 2005).

For a better understanding of the housing policy/programmes in Budapest it is good to know more about the two-tier system. One of the first measures the new democratically elected parliament, the first elections were held on the 25th of March 1990, was reorganising the administration of the country. The parliament introduced the Local Government Act, this means that there are no subordinated relationships between the counties and the municipalities (settlement local governments) (Földi, 2006). In spite of this the system had two in-built conflicts: the first is between the municipality and the districts and the second between the mayor and the assembly.

The Act made that the municipality became the owner of the public utilities, while important functions were delegated to the lower district level e.g. local planning, building permits, healthcare etc.. Besides this the districts and the municipality became independent in an economic sense as they acquired their own assets and the right to establish their budget independently. The reinforced structure contained elements of three different models simultaneously:

- it was centralized, because the big infrastructure networks and public works became municipality owned
- it was federal due to the negotiations on the allocation of normative state subsidies between the districts and municipality
- it was decentralized as the districts obtained substantial independence (Tosics, 2005).

It is not a surprise there were several ongoing debates between the actors and this resulted in several adjustments of the system. In the period 1990-1994 equal rights in municipal-district relations meant that the two actors could successfully block each other (e.g. the municipality had zoning rights, while districts issued building permissions) (Tosics, 2005). In 1994 an Amendment should reposition a part of the power to the county, but through hard debates on the protection of the interests of the municipalities the Amendment didn't change a lot in the position of the counties (Földi, 2006). During the period 1994-1998 a modification of the Local Government Act resulted in more rights for the municipality in especially planning for the whole city (Tosics, 2005).

3.5 The duties of the Municipality of Budapest and districts

On many issues the districts have the right to implement their own decrees. Privatisation is one of the issues that was also decided on the accord of the districts (Földi, 2006). The city government is with regard to the housing policy the one that establishes a regulating framework, which makes it possible for the districts to implement their needs and conditions in their policies. The Act on Local Governments contains a non-exhaustive list of the duties and powers of the Municipality of Budapest. Two of them on the website of the municipality of Budapest are closely related to housing:

a) *The tasks and responsibility of the Municipal Government of Budapest in particular is that it determines the city development and renovation program and the general settlement plan of the capital. It creates the city planning regulations of Budapest, and by decree it protects the built environment concerning the cityscape and the history of the city. In particular, it protects the buildings, structures and territories that are part of the world inheritance. It regulates the conditions of the maintenance and renovation of these protected values.*

b) *It performs the tasks of housing management, and within this: prepares the home building and rehabilitation program, co-ordinates its implementation; determines and establishes a system of home building assistance; marks out the house-rent zones of flats owned by the Municipal Government: determines the principles fixing house rents and flat maintenance assistance; and regulates the conditions of the acquisition and exchange of flats owned by the Municipal Government.*

(budapest.hu, visited at 19-01-2009)

Urban renewal is one of the hot topics on the political agenda of the municipality of Budapest. The major initiators of urban renewal are municipality owned companies with special purposes (property management, construction or rehabilitation), but they aren't the most active actors on the housing market. Private organisations (landlords and developers) are mainly the most active ones. Following Karácsony (2008) the 'third sector' in the Hungarian housing system is lacking. The third sector can be defined as non-governmental organizations. According to Communities and Local Governments (2009) the third sector organisations 'are value driven and which principally reinvest their surpluses to further social, environmental or cultural objectives. It includes voluntary and community organisations, charities, social enterprises, cooperatives and mutuals. We also include housing associations within the third sector'.

In cooperation with the districts, the municipality of Budapest has set up social district renewal programmes. According to the framework of the programmes not only the condominiums and buildings will be renovated. The programmes try to enhance also the social, economic and cultural opportunities of the dwellers (read: the poor and outcast) on areas which are deteriorated (Karácsony, 2008).

The goals of the renewal program are:

- the programmes elements are based upon the communicative approach. Those living in the districts should be involved actively. In the end this approach should catalyst public participation
- improve the living standard, this should be reached by ensuring appropriate living conditions, by involvement of the current residents, by retaining the social diversity and by strengthening the local community cohesion
- on environmental level public and green spaces the quality and size should be lifted by building new houses and retaining the architectural values

Included in the program, besides the renewal of the municipal housing stock are the establishment of social rental housing, creating plots for private investors and the renewal of the public spaces. More recent a new code for housing is prepared and it is supposed to regulate the three basic laws for condominiums, for rental and for selling. The new code

should be more flexible in selling a flat in a condominium, but also the barriers in the process of building permissions should be weaker (Karácsony, 2008).

3.6 Conclusion housing policy

The changes in the housing policy had of course its consequences and influences. Privatisation was one of the most important issues after the political change. Privatisation of the former social housing stock took place in whole Hungary, but the impact was biggest in Budapest. The local governments had political and financial reasons for selling the social stock to the tenants. It's obvious the national government has also contributed to this due to the two-tier system.

The privatisation strengthened the effects of segregation and polarisation, especially in Budapest this was the case. Social and economic disparities which occurred due to the privatisation have become key issues in the renewal programmes of the local governments in Budapest. The privatisation made that the local governments all have different programmes as some of the districts didn't want to sell most of their housing stock as they already had foreseen the disadvantages of too much privatisation, nevertheless the government didn't take measures to avoid the outcomes of the privatisation process.

In short the impact of the governmental policy on housing renewal was state budget dependent, indirect and demand oriented. Budget problems were the reason the subsidy system was narrowed. The policy was indirect and the only housing developers were private companies. The impact of the housing policy was demand oriented and as a result the buyer of a house was the beneficiary (Karácsony, 2008). The problems and effects of the followed policies and the current policy will be described in the next chapter.

4 Effects housing policy on disparities

'There's a big gap between the social groups in Hungary and like most of the people in Budapest, also I wouldn't like to live close to the people with a low-income' (Vajda, 2008)

This quote reproduces the view of most of the people from the middle and higher incomes. In the communist times more or less everybody was equal, but people's demand concerning housing in the post-communist period depends on the position they achieved in the transformation process. This also meant that where and in what kind of housing and neighbourhood people live has become a real issue (Földi, 2005). This resulted in a polarised society and the housing privatisation strengthened the process of polarisation. The association for house building is aware of this situation and tries to lobby for more social housing construction in projects, to mix the society again, however home-ownership is what the Hungarian society wants (Valko, 2008a).

4.1 The housing privatisation

The disparities in the Hungarian society nowadays are not only the result of the post-communist period and its transformations. It also has roots in the period before. During the communist period privatisation already occurred. For example the best housing, mostly owned by the former nomenklatura (a small, elite subset of the general population in the Soviet Union and other Eastern Bloc countries who held various key administrative positions in all spheres of those countries' activity), had been sold before the switch (Günther, 2003).

The privatisation of the social housing was one of the main characteristics of the transformation. Nevertheless it was not exclusively the result of the change of the system. Already before the change privatisation took place, this was taken into account during the formation of the privatisation policy after 1989. Privatisation is explained by the consequences of the new economic mechanism introduced in 1968. This resulted in an ordinance to give free way to tenants of tenement buildings of certain types. The buildings were in mixed public and private ownership (Lampel and Lampel, 1998). In 1969 the government issued a new ordinance about the extension to privatise, however there were some restrictions. The process of privatisation didn't go fast till 1983 when the Housing act made privatisation more practicable with greater discounts (Lowe and Tosics, 1988). The use of all media to announce the privatisation made the privatisation going a bit faster than the period before. See figure 11 for the declining share of rental housing in Hungary.

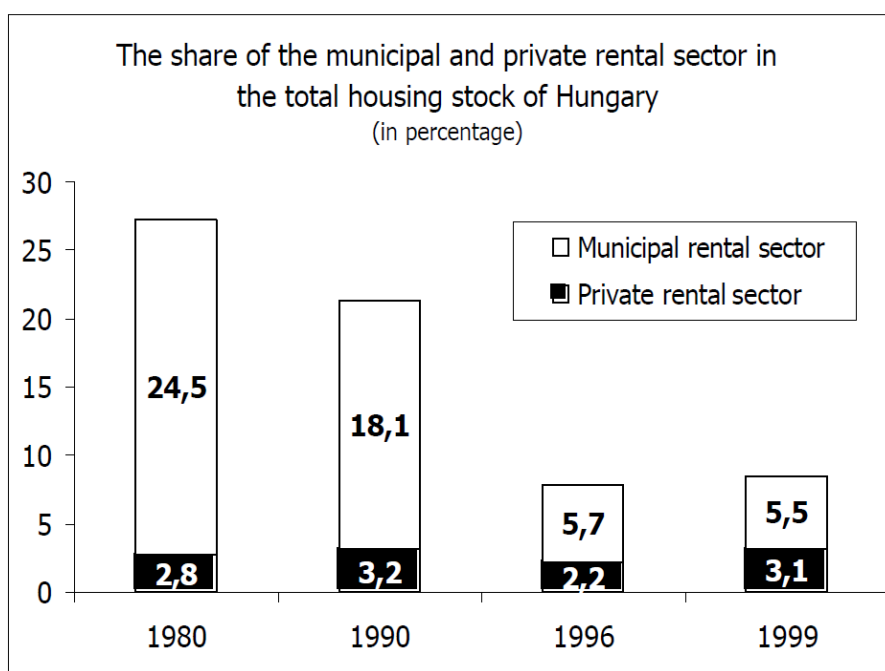


Figure 11: The share of the municipal and private rental sector in the total housing stock of Hungary in percentage. Source: Tosics (2004)

In 1991 The Property Transfer Act meant that the public housing stock transferred from the central government to the local governments. The responsibility of maintenance switched too. The characteristics of the social rental stock at the beginning of the 1990s were:

- the ownership rights of the tenants
- low rents
- neglect of maintenance

The lack of maintenance of the public rental stock is a result of the low rental fees. It covers approximately 30-40% of the costs. (Hegedüs, 2003). The local governments had besides political reasons, financial reasons to privatise the public housing stock, the shrinking subsidies from the national budget and to reduce the maintenance costs (Földi, 2005).

4.2 Consequences transitions

By the end of the 1980s the more wealthier families started to leave the estates and this process continued since then. The operation and maintenance costs of estate housing are far more than the costs of other housing types, mainly because of the expensive district heating. This led to a difficult position for the ones who didn't have the opportunity to move out (Erdösi, 2003).

In the beginning of the 1990s the local governments knew very well only a small part of the public rental stock was in good condition, most of the qualitative better stock was already bought before the real privatisation process started by the elite. Not yet mentioned is the fact there was also a short-term advantage for the new owners as they got their dwellings for sometimes 25 percent of the value; they could pay off their debts soon (Hegedüs and Tosics, 2003). The local governments have the rights to sell parts of their stock, but in some cases

tenants claimed everybody should have the right to buy, despite of the local government's ideas. As a result the process of privatisation was criticised and this resulted in a topic on the governmental agenda (Günther, 2000).

Mentioned in the chapter about the housing policy is that dwellings were sold for about 25 percent of the market value. During the privatisation process the regulations of privatisation already led to unequal advantages from the beginning (Günther, 2000). The location of the dwellings was not taken in consideration at all when selling the dwellings. This was one of the most criticised aspects of the process. A small dwelling in the worst area of Budapest could have been sold for the same price as a huge dwelling in the best area of Budapest. Several local governments decided to put a hold on the privatisation process in 1992 and 1993, see also figure 12 where a temporary decline occurs in 1993 in Budapest. They decided to do so as they wanted to avoid more favourable regulations. However the local governments had to sell the rental dwellings if the tenant wants to buy it, due to new rules (Günther, 2000).

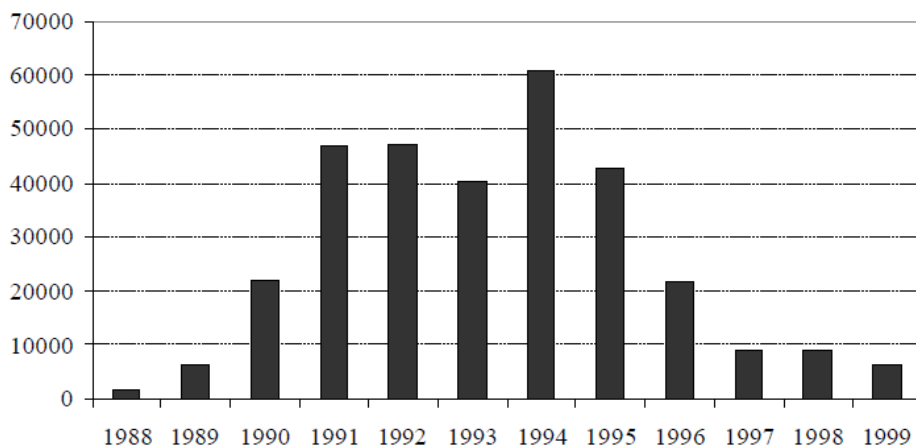
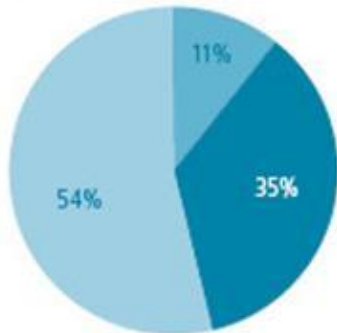


Figure 12: Privatisation of public dwellings in Budapest 1988-1999. Source: Kovács et. al (2000)

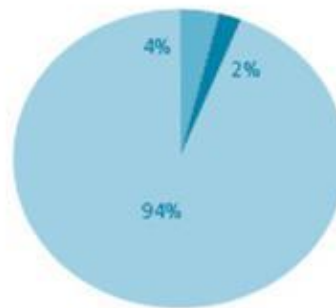
A deadline for privatisation was also set with the introduction of the new regulation, the right to buy ended in December 1995. Many tenants bought as soon as possible a dwelling as they felt under pressure. Decisions were based on future uncertainties caused by the transitions and economic difficulties (Günther, 2000). As a result Hungary has nowadays one of the weakest public housing sectors in the European Union. The fast privatisation resulted in to a share of 4% of the public housing of the total stock in 2001. See figure 13 where the stock is compared with the Netherlands. In the end of the 1980s it was around 21%. Even when the programmes were introduced the privatisation continued.

54% Home ownership
11% Private rental
35% Social rental



The structure of the housing stock in the Netherlands

94% Home ownership
2% Private rental
4% Social rental



The structure of the housing stock in Hungary

Figure 13: Distribution of the total housing stock in the Netherlands and Hungary in 2006. Source: Cecodhas (2008)

As a good example: in the years of 1999-2001 10-13 thousand units were sold yearly by the local governments, built were around 200 new units. The potential need for social housing following Hegedüs is 750.000 rentals units and round 500.000 of them need social support. Though the demand for the rental stock is influenced by the opportunities in the owner occupied sector. The fact that owner occupation has financial advantages; the tax and subsidy system, interest rate subsidy, tax allowances and housing construction subsidy implies that the demand on the rental side is depending on if somebody cannot afford to own a house (Hegedüs, 2003).

The interest subsidies were one of the main elements of the housing subsidy scheme. Of course the implementation of the new subsidy scheme had both positive and negative economic consequences. It contributed to the increase in household borrowing, it made it possible to develop the mortgage market. The negative aspect was the weight on the government budget. This led to the decision to cut back the housing subsidies substantially in 2003 as result of the fear about internal and external economic stability and fiscal constraints (Kovács and Rózsavölgyi, 2005). As a consequence of cutting back the housing subsidies, many households decided to opt for foreign-currency loans. The choice for foreign-currency loans is not without risks. Csermely and Máger (2004) distinguish in order of The Magyar Nemzeti Bank three financial risks:

1. External shock might be a cause for add to the vulnerability of the financial sector when faced with external shocks;
2. it imposes a greater exchange rate risk exposure on borrowers;
3. an interest rate or exchange rate shock might increase the debt burden of households, which may lead to a slowdown in aggregate consumption.

This led to a call for a stronger policy co-ordination. This included careful fiscal, supervisory and monetary policies. This should reduce the prevailing and potential risks in the economy (Kovács and Rózsavölgyi, 2005).

4.3 The residualisation

In Europe the terminology social housing is widely used, in Hungary the terminology ‘municipality owned dwellings’ is commonly used. The tenants living in the public stock are those who could not afford to buy their own houses, despite the low prices after 1990. Thereby neither they were able to access owner occupation, although the state had the housing subsidy. As a result the dwellings are occupied by households with multiple disadvantages, for example: no regular income, disabled, families with many children and Roma families (Cecodhas, 2008).

The quick and give-away privatisation changed the comprehensive public rental sector into a residualised one. Following Földi (2006) the social housing stock nowadays shows signs of residualisation. She describes residualisation as the consequence of over-privatisation when finally only the housing stock of the worst quality remains with tenants who, because of their low status in society, are unable and/or not willing to buy their rented flats. Tosics (2004) adds two more characteristics of residualised municipal housing:

- the share of the poor families is much larger than the share of the remaining public rental sector. This led to forced ownership for many of the poor people
- insignificant is the share of other types of rental housing e.g. housing associations and private renting by institutional landlords.

The people who didn’t take part in the privatisation process live mostly in the neglected public housing and due to the mismatch on the private rental sector and any chance of finding a better and affordable rental dwelling is almost considered to be impossible (Günther, 2000). Consequently social problems are attached to the left-over public housing stock. Egedy (2000) distinguish two types of a residual housing stock, The first are built during the turn of the century and the second during communism:

- inner-city tenement blocks
- high-rise housing estates

Related with this is the fact that future developments of the public housing stock will be difficult, because most public rental dwellings can be found nowadays in mixed-ownership buildings (Kovács et. al, 2000). Therefore it’s difficult to start a renovation process due to the scattered decision making system (Tosics, 2004).

4.4 The municipal rental housing in Budapest

The municipal rental housing stock is playing a very minor role in Hungary and only a little bit bigger role in Budapest. In Budapest the major part of the rental housing is owned by the district municipalities and they have to maintain it. Since the municipal housing plays a minor role on the housing market and the municipal budget is underfinanced, the policies concerning the municipal housing are very general, besides they don’t mind so much about updating the stock (Karácsony, 2009).

The framework of a market housing system was not functioning, which increased the uncertainty related to homeownership. E.g the information of the housing prices was not

reliable and the land and real estate registration were incomplete. However the biggest problem was the increasing housing costs and the income of the households. The gap between them was increasing. The government tried to bridge the gap by a housing allowance system, which was not efficient (Karácsony, 2008). As a result of the increasing costs many of the new owners were willing to sell their newly purchased dwelling back (Bodnár, 1996). The lack of a general housing allowance system is also likely to be one of the causes of an increase of arrears cases in both the owner occupied and the rental sector, growing inequalities between different parts of the city and growing spatial segregation. It's not helping that the districts all have different rent regulations and housing allowance systems (Tosics, 2004).

The low quality of the stock usually lies in the fact that municipal rental housing is based on social issues and the city does not calculate with profit in this sector. Nowadays subsidies can be obtained by condominiums who have ideas and money for co-financing (Karácsony, 2009). But there's a growing differentiation between condominiums as some of the people cooperate. In the condominiums where the owners don't cooperate they are not able to compromise about the burdens (Tosics, 2004). Problems occurring for most of the owners is the increase of utility prices and the costs of management and maintenance (Vajda, 2008). Already mentioned in paragraph 3.2 is that the local governments were influenced by financial motivations to sell parts of the public housing stock due to a lack of maintenance. See table 2 for the characteristics of the social housing stock in Budapest right after the change from communism towards capitalism.

Another reason why tenants bought the dwellings was the security of homeownership. This resulted in an unequal distribution of the housing assets and as a result of the unequal distribution the insecurity aspect of homeownership for the lower incomes increased (Karácsony, 2008).

Aspect of social housing	Data
Number of social units	400 000 units
Income from rents	4,6 million HUF
Total value	625 billion HUF
The estimated costs of maintenance work deferred	95,5 billion HUF
Rent subsidy	21,3 billion HUF
Value gap (disparity between possession value and tenanted investment value)	168,8 billion HUF

Table 2 Characteristics of the social housing stock in Budapest right after the transformation. Source: Hegedüs et. al (1993)

4.5 Conclusion effect housing policy on disparities

The privatisation was one element of the transformation. The lack of a framework led to the mass give-away privatisation and social conflicts became visible. Social polarisation and residualisation were not a necessary and unavoidable consequence of the privatisation. It could have been foreseen if the governments would have established a stable and good framework.

The rate of owner-occupation is extremely high in Hungary. The free housing market which has developed since the transformation period started in 1989, is predominantly a market for dwellings offered for sale, while the supply side of the rental market is extremely small, both the social as private rental. Notable is that at the private rental market the landlords offer their dwellings for a price too high for the average Hungarian provider (Valko, 2008a).

The many renewal programmes are a good initiative, on the one hand due to improvement of the public areas and housing the neighbourhood gets better, but on the other hand lower income families have to leave the better neighbourhoods where the costs increase due to the improvements. Besides there is the matter of the neighbourhoods. There are growing inequalities between different parts of big cities. Some of them improve due to subsidies and investments of the people living there, but in other neighbourhoods people don't have the finance to contribute and here deterioration is continuing (Tosics, 2004).

Nevertheless the mass privatisation met the desire of the people for personal security and the local governments were in most cases eager to get rid of their public housing stock. In chapter five a start will be made with the influences on neighbourhood in Budapest.

5 Influences on neighbourhoods in Budapest

Privatisation made that the responsibility of maintenance was transferred to the new owners. There was no guarantee the new owners could maintain the neglected housing as they didn't have the insurance of proper administrative, financial and legal conditions. In table 2 the estimated costs of deferred maintenance costs are about 95 billion HUF. The socialist regime postponed the maintenance and wanted to sell the dilapidated housing because of economic reasons. The economic reasons to sell the public housing can also be seen by the owners. Economic changes could make households postpone investments in the dwelling and maintenance expenditures.

The rental stock has a small share on the housing market in Hungary. The stock is not managed by building management organisations, they don't possess any flats. The organisations are characterized by the fact that the flats of the residential buildings they manage are in the private ownership of the owners of the condominiums or the members of the cooperative (Cecodhas, 2008).

The municipality and the local governments try to improve the housing sector and the neighbourhoods. They introduce revitalisation and rehabilitation programmes as they know when neighbourhoods become less attractive, because of obsolescence, worsening of the public areas will be easier. These programmes have their influences and of course there are always complaints.

5.1 Displacement and gentrification in neighbourhoods

There are some critics on neighbourhood revitalisation and rehabilitation programmes. The critics say both rehabilitation and revitalisation leads to gentrification. In the end this is causing, according to tenants right groups and low-income advocacy groups displacement, due to condominium conversion and similar activities. Displacement can be explained in two ways. The first is that the rehabilitation programmes and processes involve the invasion of high-income households into formerly low-income neighbourhoods and force many individual residents, mostly renters from their units (Kain and Apgar, 1985). In line with this is the fact the new tenants enjoy a higher status than the original population, because for the refurbished flats the new tenants accepted higher rents (Sýkora, 2005). The second explanation is that gentrification, condominium conversion and similar processes reduce the amount of affordable dwellings for the low-income population. (Kain and Apgar, 1985)

According to Vajda (2008) the low-income tenants are highly mobile, that's why most landlords work with at least one year contracts. Therefore it can be questioned that most people are forced to move by the upgrades in their neighbourhoods. They would probably move out as well if rapid deterioration, abandonment or arson occurs. In neighbourhoods with a high share of rental housing mobility is also quite high (Kain and Apgar, 1985). When the mobility of residents increased, a pursuit of social prestige started. Investment in real estate in developing suburban areas was increasing. In many older urban areas it was declining (Tosics, 2006). Nowadays in many big cities like Budapest a new trend is being recognised next to the suburbanisation process. Gentrification is the trend.

Gentrification is a process leading towards an investment into certain parts of the city, mostly characterised by a diverse cultural offer. The housing dates mostly from the 19th century till

the beginning of the 20th century. At first the neighbourhoods are attractive for young people, mostly high educated, a starter and single. Besides the young people the neighbourhoods are interesting for foreigners, in most cases expats. These 'newcomers' contribute to the revitalisation of the neighbourhood, however their incomes are not always substantial. Despite this fact their presence leads to displacement and social segregation. Therefore it's the task of the local governments to govern the negative effects of revitalisation and try to integrate this into the field of spatial planning. An obvious reason for this is the mismatch between the supply and demand of social and affordable housing (Vandermotten et. al, 2007).

5.2 Involvement neighbourhood processes

During the period of the centralised planning system the urban development processes were determined by the public sector. Nowadays the task of the governments is to regulate the market processes. The new subordinate position of the government has not been easy. There are still problems every now and then. Tosics (2006) gives four reasons:

- persisting financial problems
- authority and power relations are constrained
- limited capacity to deal with urban issues under market conditions
- increased responsibilities

In Budapest the municipality tries to generate public involvement, despite its lack of control over market processes and of public intervention. The municipality is criticised by other stakeholders (read: major developers) for constraining developments due to unnecessary regulations. There are more complaints, the environmentalists say that the public sector is corrupt and not adroitly enough to regulate private development (Tosics, 2006).

As known the state has almost fully withdrawn from construction activities. The housing construction is mostly dominated by private actors. Since the local governments are not acting as developers they start tenders for developers to build (social) housing units, however this is very rare. Instead the governments are taking more care about property management or rehabilitation. There are some banks in Hungary who have their own developer companies (e.g. Raiffeisen and OTP) and build flats (Valko, 2008a).

In Budapest social polarisation is already a process that occurred before the switch to capitalism. Hence the polarisation enhanced. Rehabilitation programmes recently make that inner-city neighbourhoods on the Pest side have been and are undergoing population change. In special the neighbourhoods with low status and aging population have been subject of these programmes. The clearest example of polarisation in Budapest are the homeless. After the change in 1990 homelessness became a visible aspect of daily life in Budapest. Official numbers are not available and can only be estimated. Around 5000 persons are staying in social institutions for homeless people and shelters which are temporary (Kovacs, 2007).

The affordability of housing in Budapest compared to the rest of the country has always been worse. In average the prices were about 45 percent higher, while the incomes were about 20 percent higher (Kovacs, 2007). Prices of the dwellings have been growing constantly and in the period 1999-2003 they even doubled (Hegedüs & Teller, 2005). Despite the wages didn't follow the same trend as the housing prices, the affordability improved after the new financing system was launched in 2000 (Kovacs, 2007).

This greatly influenced housing mobility in Budapest, but left the spatial pattern of housing prices almost untouched. Up to 2005 the housing market didn't show any signs of levelling out of the prices. Spatial disparities remained a characteristic in Budapest. Families with lower incomes cannot move out of their neighbourhoods and this results in the tendency of growing spatial segregation (Kovacs, 2007). In addition Tóth (2005) claims that the skyrocketing prices act as an invisible wall around the higher income groups.

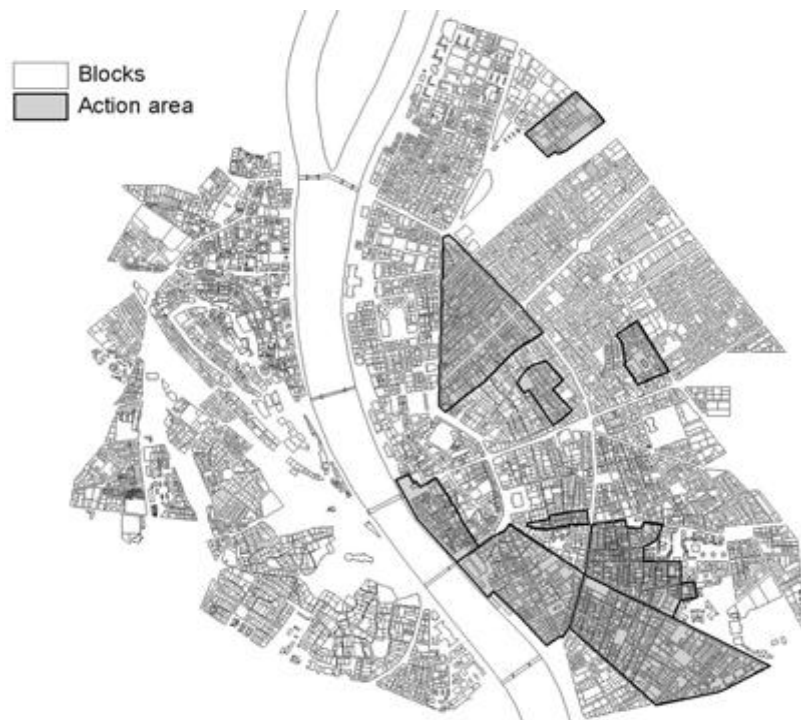


Figure 14 Rehabilitation areas in Budapest. Source: City Government of Budapest (2005)

In figure 14 the action areas of rehabilitation processes are highlighted. Because of the rehabilitation process inner-city neighbourhoods, especially the ones near the city centre, are experiencing more interest of investors. The high rent gap makes that the developers are not so interested to stop the dilapidating process and renew the old houses, but are more interested in the buildings sites. Because of this the privatised housing stock was often sold to developers. The developers mostly chose to replace the existing housing stock by new constructions (Kovacs, 2007). On the one hand this policy means the improvement of the housing conditions, but on the other hand a loss and damage of the historical physical structures. Especially the districts six and seven have been transformed in this way, in spite of several protests of the third sector. A more systematic and local government supported PPP renewal is applied in the 8th and 9th district. The districts 8th district Józsefváros and the 9th Ferencváros will be part of the case studies in chapter six.

5.3 Modeling neighbourhoods processes in a global context

Every city consists of neighbourhoods. Every single of them is a fuse of urban artefacts from the recent or remote past. As seen in figure 15 the model shows the neighbourhoods are shaped (in)directly by global and local economic en socio-economic mechanisms (Földi and van Weesep, 2007). It's obvious the residential environment is not a closed system. Figure 15 represents a global-local relationship as a combination of indirect and direct interactions. Földi (2006 and 2007) stresses this by quoting Giddens (2001): 'Local transformation is as

much a part of globalisation as the lateral extension of social connections across time and space. What happens in a local neighbourhood is likely to be influenced by factors operating at an indefinite distance away from the neighbourhood itself.’

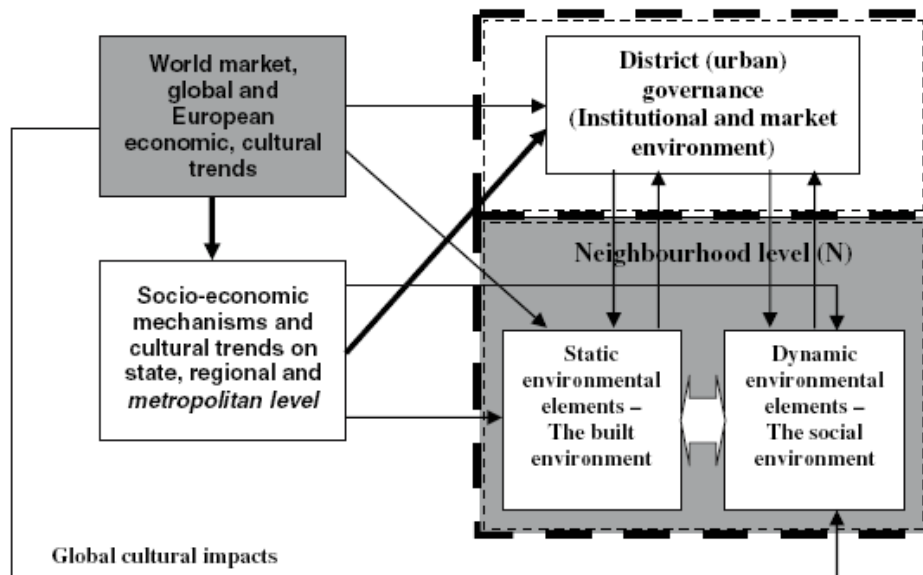


Figure 15 Realist interpretation of neighbourhood dynamics. Source: Földi and van Weesep (2007)

This is the case in Budapest. Hungary is also known as a kind of gateway. It lies in the heart of Europe and cultural exchange has been an ongoing process. Budapest has never been able to protect itself from international cultural and economic influences. According to Földi and van Weesep (2007) the extent of such inroads and the delayed urbanisation are related to the degree of integration in the European economic and political space as well as to the global status of the city.

After the liberalisation of the housing market and the privatisation of the housing stock at the level of the neighbourhood social segregation and suburbanisation became visible. Contrary to the suburbanisation and developments in the greenbelt areas, a trend of re-urbanisation appeared in deteriorating historic residential areas in specific neighbourhoods. All these processes came with the involvement of local governments or it relied totally on the private sector. For example the continuous increasing number of foreigners, mainly professionals, resulted in investments in luxury housing in the Buda hills (Földi and van Weesep, 2007). Visible became also signs of gentrification, not only in the dilapidated historical neighbourhoods but also in scattered locations in the historic residential zone, because of housing renovations and social upgrading (Vandermotten et. al, 2007).

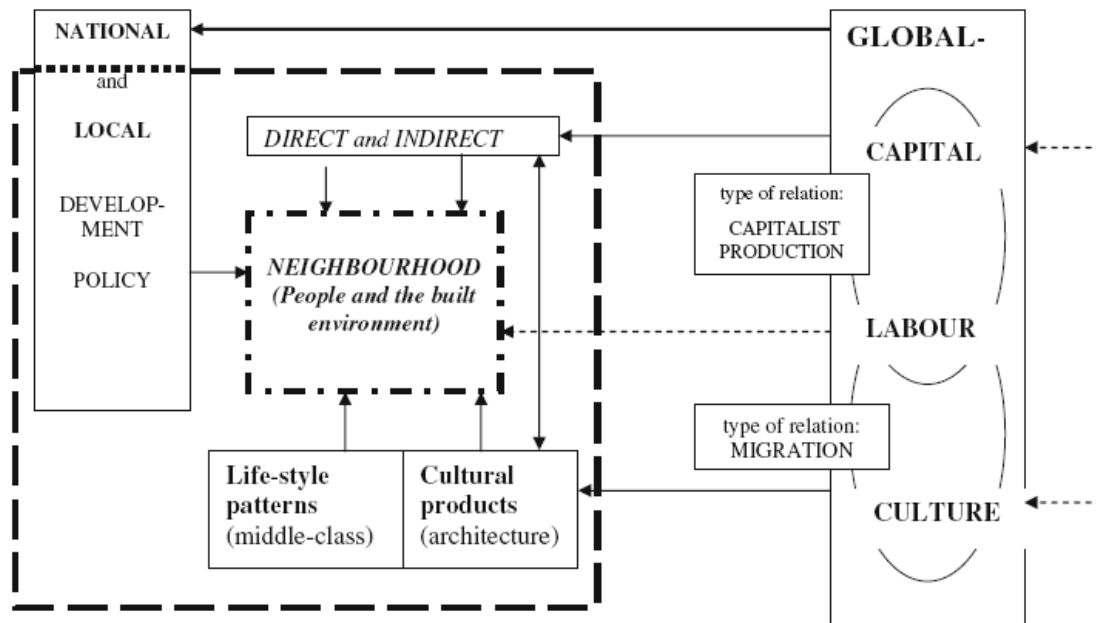


Figure 16 Global impacts influencing neighbourhood transformation. Source: Földi and van Weesep (2007)

Figure 16 can be abstracted from figure 15. The second diagram shows the local-global interplay. Stated earlier, neighbourhood transformation is influenced by the process of globalisation through the flow of the closely to each other related capital, labour and culture. It's hard to distinguish the global impacts from economic and cultural influences that would be part of a transition to a market economy normally. The global capital and culture have had a bigger influence in Hungary than elsewhere in the region. Compared to the other East-Central European post-socialist states Hungary has been following the more neo-liberal track of development (Földi and van Weesep, 2007).

Budapest has as a city of regional importance therefore more experience with foreign capital investments, immigration and multi-culturalism. The followed neo-liberal track let to contradictions and imbalances in the distribution of the 'fruits' and 'chaff' of globalisation as Földi and van Weesep (2007) call it. For a better understanding of this influence a closer look is needed on what attracts the basic global flows and who are the recipients. A wide variety of ways in global culture, labour and capital can be distinguished in how they shape the neighbourhoods by interacting with one another and of course with the local characteristics. Two ways of potential influences on neighbourhood transformation due to foreign capital flow can be mentioned:

- direct investment in the residential environment
- and
- the indirect way; generating either a downgrading or upgrading process, depending on local factors, and the construction of commercial developments.

When commercial development projects (e.g. office complexes, shopping centers, conference centers, etc.) appear in the neighbourhoods, it's a signal for the housing developers the area might be interesting as these commercial projects imply the area will be upgraded. In the end the upgrading process will start at the neighbourhood level too (Földi and van Weesep, 2007).

Next to capital, labour is also a global flow. Indicated in figure 16, labour flows are inevitable connected with both the global and cultural flows. Budapest has not yet experienced global labour flows at a scale typical of global cities. Forecasts predict they never will. However the labour flow will show signs of increase as a consequence of the recent accession to the EU of Hungary. The integration of the Hungarian economy in both the European and global networks will have its influence at the neighbourhood level. International migrants have a cultural and socio-economic influence (Földi and van Weesep, 2007).

The last global flow is the cultural one. It reveals itself in three ways at the neighbourhood level:

1. the range of cultural products, mediated by urban planners and architects who adapt global forms
2. the change of life-styles, especially the spread of middle class norms in daily life, housing etc.
3. the import of own products by immigrants

This leads towards differentiated neighbourhoods which are already showing different social and physical qualities (Földi and van Weesep, 2007).

5.4 Neighbourhood dynamics in Budapest

The neighbourhood can be seen as the vital level where processes can help or hamper to reach certain qualified goals as the societies have grown more diverse and unequal. Integration, cohesion or how to reach greater equality are examples of goals. Economic and environmental goals are at the same time goals which need greater neighbourhood vitality in order to make more people live in cities.

Figure 17, based on figures 15 and 16, will be the guideline for the case studies in the next chapter. Rehabilitation projects in the neighbourhoods of two districts in Budapest will be part of these case studies. How do the on-going processes in the neighbourhood connect to each other, do they change the vitality of the neighbourhood and what are the influences of the rehabilitation programmes on the spatial and social structures? Did the local governments succeed with their approach and should others follow their approaches? There is a theory of neighbourhood renewal. Grigsby argues in Megbolugbe et. al (1996) that the newest housing and the best is built for higher-income groups, but ultimately passes down to lower-income groups until it has reached groups who can't afford to cover maintenance costs. When this stage is reached the government should intervene, either by restoring the neighbourhood to good conditions or to clear it for reinvestment in new structures.

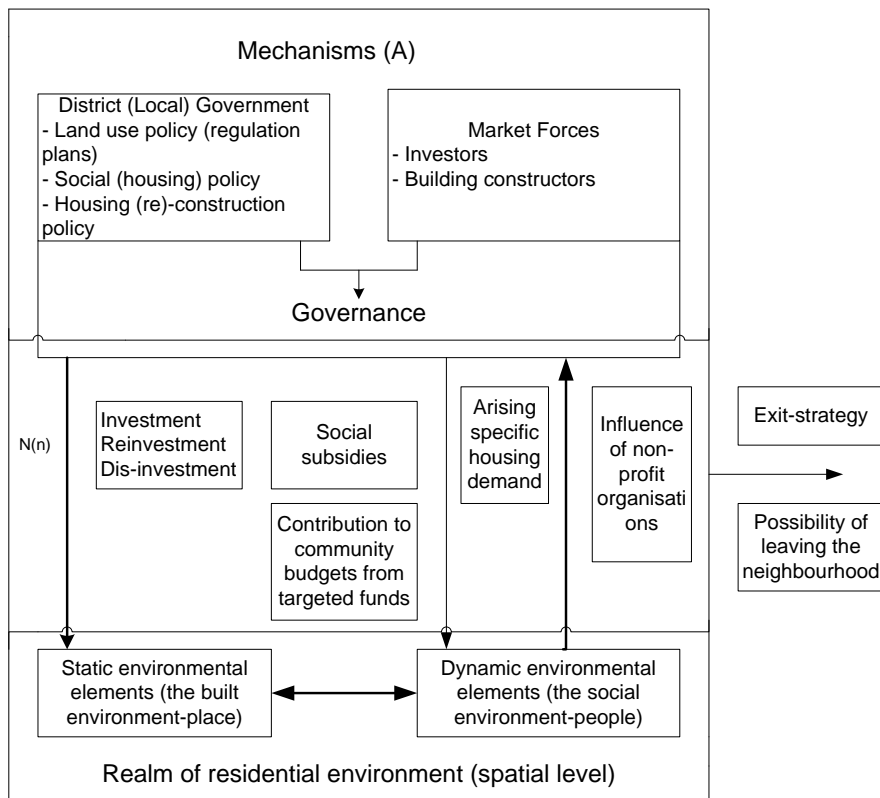


Figure 17 Neighbourhood dynamics- interactions of the internalities on district level in Budapest. Source: Földi (2006)

Neighbourhoods are dynamic. Their vitality depends on various processes over time and space. Economic, social, environmental and physical processes are dynamic and within neighbourhood revitalisation plans those should be considered as one component within an uncertain and complex context (Skelton et. al, 2006). The mechanisms are on the district level as the policy is not being made at the level of the neighbourhood. The model suggests that there are a certain number of neighbourhoods (N) under influence of one circle of mechanisms. Local government policies, private developers and till a certain extent civil organizations are mechanisms with direct influence on the neighbourhood transformation.

In the model the term 'governance' is not always existing and operating according to Földi (2006). The co-operation between the local government and the market forces is not always comprehensive and it depends how the two work together every project. There is no clear institutionalised form of cooperation between the private and public actors. This is the reason why the model separates the private and public sector. Both case studies endorse this.

The municipality of Budapest is an externality, as explained in paragraph 3.4, the municipality is the owner of the public utilities, while important functions e.g. local planning, building permits, healthcare etc. are part of the districts tasks. Therefore the municipality is left out of the model. The neighbourhood dynamics model leaves, next to the municipality, the third sector out of the circle of mechanisms. In paragraph 3.5 about the duties of the municipality of Budapest and districts it was mentioned the third sector is lacking. As a result its influence on the processes in the neighbourhoods is limited. The role of the local government is leading when applying the model as this thesis aims to advise local governments how to deal with the situation of the (social) housing market of Budapest.

The low-incomes of the residents of deteriorating neighbourhoods is an underlying cause of the lack of maintenance. Obsolescence occurring in low-income neighbourhoods is also one of the causes. This case advocates a policy of the local government of supporting rising incomes, increasing maintenance and housing expenditures, increasing governmental expenditures in order to meet the housing needs of special groups and desegregating the housing market (Megbolugbe et. al, 1996).

5.5 Conclusion influences on neighbourhoods

Processes in neighbourhoods are being influenced by global impacts. Every single neighbourhood will adopt the global processes in a different way. This was already emphasized by the quote of Giddens. Not every neighbourhood will be interesting for every market actor or private actor. For some neighbourhoods which do not draw much attention of private actors, problems may occur. Local communities and governments are not always able to rehabilitate/renew their area and as a consequence their environment is ramshackling. Nonetheless in general the overall quality of the housing is improving, also the number of dwellings is decreasing, as presented in figure six. Concluded could be that the rehabilitation programmes are showing results. Besides the pressure on the housing market is less as a result of domestic migration towards the suburbs around Budapest (Trocsanyi, 2009).

In the next chapter the neighbourhood dynamics will be subject of the research how Ferencváros and Józsefváros try to improve their neighbourhoods. The focus will be on the internalities of the general model of neighbourhood dynamics shown in figure 15.

6 Case studies neighbourhoods Budapest

How are the local governments of Ferencváros and Józsefváros tackling the problem of their deteriorated neighbourhoods? For a better understanding a start will be made with a brief description of the background of the districts and neighbourhoods. After that the mechanisms of the model in figure 17 will be described, just like the goals of the projects of respectively Middle-Ferencváros and the Magdolna quarter. The latter will result in a description of the static and dynamic environmental elements, before drawing the conclusions.

6.1 Background districts: Ferencváros and Józsefváros

The sole of the transformation is the transition from socialism to capitalism. This was a turning point for the whole Hungarian society, but a turning point too in the development of Ferencváros. The historical part of Budapest experienced gradual deterioration and Ferencváros became one of the most disreputable districts of Budapest (Local government of Ferencváros, 2006).

For the location of Ferencváros see figure 18. The boundaries of the district are the three main elements of Budapest's radial urban structure, Vámház Boulevard, Határ Road and Üllői Road. The last border is the Danube. Inner-Ferencváros is the interior section of the district. Middle-Ferencváros reaches to the railroads intersecting the district in a ring structure. The last section is called Outer-Ferencváros and is bordered by the railroads and Határ Road (Local government of Ferencváros, 2006).

The rehabilitation projects in Józsefváros started about ten years later than the first projects in Ferencváros. The buildings in Józsefváros were of even poorer quality. Most of the housing was in hands of the local government, however mixed ownership also existed within the buildings. This resulted of course in a different rehabilitation strategy compared to the one used in Ferencváros. The gentrification process is ongoing in Józsefváros, but within strict limits due to the presence of public ownership, which has prevented radical displacement till now (Karácsony, 2008).

Józsefváros is located in the South-East central part of Budapest, see figure 18. This is the intermediate area between the city centre and the peripheries. The district covers 685 hectares. Traditionally Józsefváros is the district of workers, owners of small industries and retail. Apart from that its inner part was a higher status area with palaces of the aristocracy and other institutional buildings.

	Ferencváros	Józsefváros
Area	12.53 km ²	6.78 km ²
Population	62,995	81,787
Population density	5,638 persons/km ²	12,063 inhab/km ²
Housing stock built before 1945	60%	88.3%
Social housing	23.3%	25%

Table 2 Characteristics of the districts Source: CSO (2001)

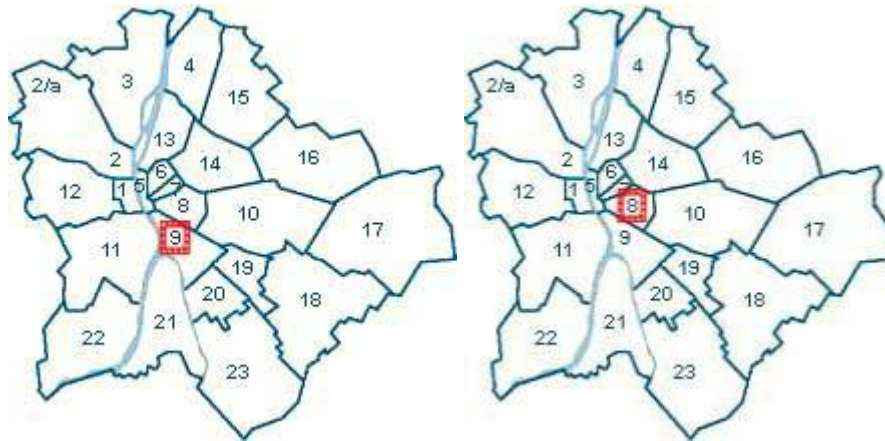


Figure 18 The city of Budapest and the location of Ferencváros (9th district) and Józsefváros (8th district).

6.1.1 The rehabilitation areas: Middle-Ferencváros

Middle-Ferencváros has 20.000 inhabitants on 73 hectares. The area is located in Central Budapest and to be more specific in the centre of the Pest-side of Budapest and it's part of the historical city. The good location in spite, physical, social and economic decline occurred in the action area, before the urban rehabilitation programme started in 1992 (Füle, 2009). The decline made that segregation occurred, people with social disadvantage have been concentrated in the area and buildings showed physical decline. Due to the changes in the political system the middle-class inhabitants, the ones who generated the local tax income, started to move from the area to settlements outside Budapest. It was in the interest of the municipality of Budapest and the local government to rehabilitate the area and stop the decay and make it attractive again for living (Bajnai, 2009).

A long-term strategy had to be created by the local government of Ferencváros to increase the districts livability despite the complex issues. E.g. the rapid privatization of factories didn't help the districts efforts to solve the unemployment issues. The district decided to do the opposite as the other districts and decided to stop the privatisation of neglected housing without any public utilities. Instead the district introduced urban rehabilitation programmes following French examples. The focus was on renovation of the buildings owned by the district, construction of new flats partly financed with private equity, renewal of public space and non-refundable aid to condominiums (Local government of Ferencváros, 2006).

6.1.2 The rehabilitation areas: the Magdolna Quarter

The Magdolna quarter is 34 ha and it has approximately 13.262 inhabitants. The area is following the local government the largest continuous metropolitan poverty area of Budapest, or in other terms a ghetto (Rév8, 2007). About 15 percent of the population of Józsefváros lives in the Magdolna quarter. About a quarter of the population are Roma families (Fayman and Keresztély, 2009). Deterioration and social segregation started in the Magdolna neighbourhood after WWII, due to the migration of low-status and partly Roma families, too low rents to cover the maintenance, which was as a result of this poor and lack of renewal. The local government tried to stop this process by demolishing a part of the housing stock and construct a housing estate. However the process of deterioration and segregation wasn't stopped. The unemployment rate is the highest in Budapest and the districts share of

economically active population is the lowest. The share of people with only primary school qualification is high. This is resulting in one of the weakest areas in the districts (Rév8, 2007).

The building stock has a high ratio of small flats without any amenities. An other characteristic of the stock is the very bad condition. The continuing social segregation and worsening physical state make it the quarter for the poor. Though there is still a middle class group living there. They didn't want to or weren't able to move to better parts of Budapest. This results in one of the tasks the programme has: retaining and strengthening this group. The inhabitants of the Magdolna quarter should love living in the area again and this is one of the most important goal of the programme (Rév8, 2007). Since 1996 urban renewal has been an issue. Ever since it has been on the political agenda and for this purpose the local government set up a specific company, Rév8 (Fayman and Keresztély, 2009).

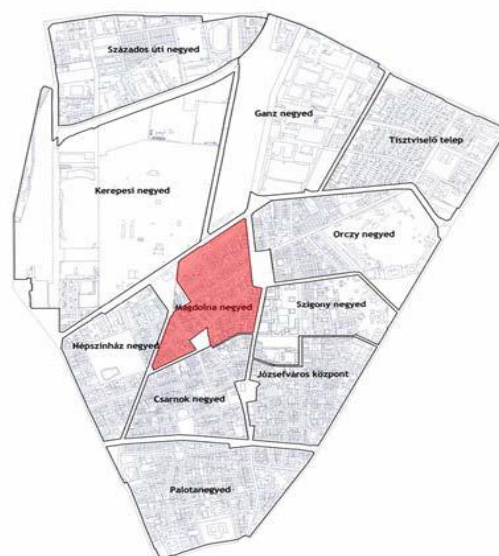


Figure 19 Location of the rehabilitation area within the district. Source: Rév8 (2007)

6.2 Mechanisms Ferencváros

Quite soon after the transition SEM IX (Société d'Économie Mixte IX) was established, to be exact in 1992. SEM IX is responsible for the urban development as a management company in the name of the local government. To be more precise it's responsible for the planning and accomplishing of urban development actions. The aim is carrying out the complex development and rehabilitation for the action area (Füle, 2009). SEM IX is a non-profit organisation owned by the local government and Városfejlesztés (Urban development) Zrt.. The projects are financed in a public-private cooperation. Városfejlesztés is an example of a third sector organisation. Because SEM IX is a non-profit company the profit it makes has to be reinvested in the rehabilitation projects. The company has 4 employees and an annual budget of 51 million HUF (approx. 20.000 Euro). The district controls the tasks of SEM IX. Városfejlesztés develops development plans and acts in this way as an operational agency (Fayman and Keresztély, 2009).

SEM IX formulated a complex urban development action plan to rehabilitate Middle-Ferencváros in 1992 which will end in 2012. The plan was approved by the local government and hence SEM IX carries out the plan. Ever since SEM IX reports about the performances of

last year and proposes the schedule for the programme for the actual year for approval (Bajnai, 2009). In this way the local government can control the rehabilitation and intervene when necessary.

There are several advantages of the construction of SEM IX, the cooperation with the private sector as it takes out some responsibilities of the local governments politics and delegates them to a more neutral actor. In addition, the more economic point of view of the market actors make that more revenues can be generated for the district. Last but not least it helps to avoid mixing up the money assigned for the rehabilitation with the districts budget (Karácsony, 2008).

6.3 Mechanisms Józsefváros

The origins of Rév8 lie in 1997. It was founded as a public company. For the structure of the company see figure 20. The district is financing Rév8 on project basis. The goal of Rév8 is to work out proposals for urban development and urban renewal strategies and to manage projects. What is special according to Karácsony (2008) in Rév8 is that it's a profit-oriented venture which is responsible for public issues as well. The responsibilities of Rév8 are the whole process from moving out residents till the development of public spaces.

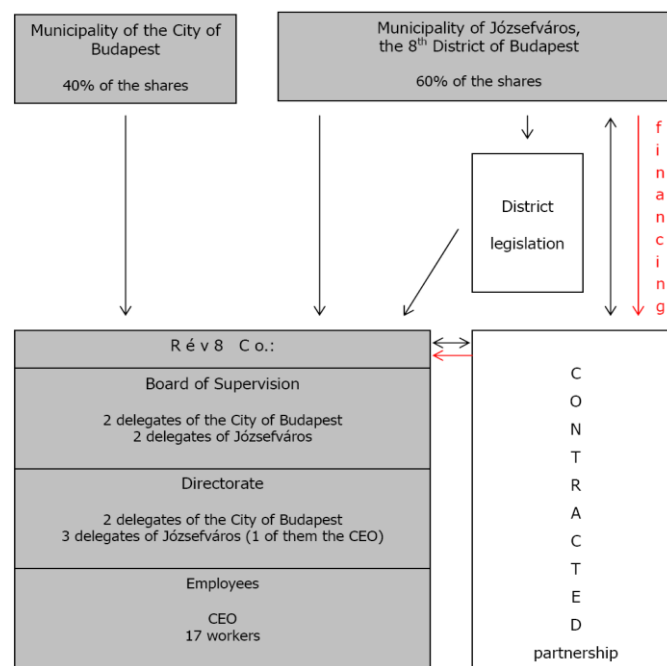


Figure 20 Structure of the ownership, decision making and financing of Rév8 Co. Source: Kiss and Schanz (2004)

The company did not stand still, it grew from 2 employees to 25 nowadays. Some of them work on project basis, but the staff consists of a wide variety of specialist: architects, engineers, a geographer, technicians, economists, a sociologist, urbanists and social workers (Rév8, 2004). Rév8 is a multifaceted company. The company acts in different ways. In one of the ongoing projects it acts as a mediator between the investor of the projects and the municipality and in the Magdolna project as a direct operator putting public social and urban policies into practice. The latter will be the case study project. The case of putting urban

policies into practice is concerned with some constraints, because the area has relatively seen not much to offer to attract private investments and public intervention has also its limits (Fayman and Keresztély, 2009).

6.4 Goals of the rehabilitation project: Middle-Ferencváros

Middle-Ferencváros is known because of its low prestige due to the bad conditions of the environment, serious social problems (a high rate of crime per head of the population), low economic activity and the presence of Roma and other minorities who have problems with their integration (Füle, 2009). The local government prepared an urban development plan and showed even 12 years before Hungary joined the EU an European-style approach towards urban rehabilitation. In 1992 when the development plan started the partners on behalf of the private sphere were Caisse des Depots et Consignations and its organizations of development, and OTP. From the public side the local government and the municipality of Budapest were participating. Since the EU accession of Hungary also the Hungarian government and the EU became public partners (Bajnai, 2009).

The following objectives were formulated by SEM IX:

- To stop the physical and social decay of the area and rehabilitate it;
- To upgrade the prestige of the area;
- The developments cost will be shared between the public and the private sphere;
- To ensure long term income of taxes for the local government
- To apply an European urban development model on the basis of Hungarian-French cooperation;
- To build public buildings and social housing blocks both owned by the local government (Civitas, 2007).

To achieve the objectives more outlined objectives have been set:

- The maintenance of the urban structure;
- To rehabilitate the public areas;
- To develop green areas by the rehabilitation of the area in the way of creating new public parks and common spaces;
- Creating a new economic impuls by the settlement of commercial facilities, offices and hotels;
- To protect and preserve architectural heritage
- To make the area pedestrian friendly by creating pedestrian ways, restrictive zones and parking lots for the cars;
- To search for and get additional financial sources such as bank loans, support of the EU etc.
- The purchase of real estate that is needed to accomplish the objectives (Civitas, 2007).

The local government tries to run the operative development process till the point the private actors can participate in the project in the most efficient way. This means the possible construction lots and building opportunities are prepared and are available for the private actors to finish and carry out the plan (Füle, 2009).

6.5 Goals of the rehabilitation project: The Magdolna Project

The Magdolna quarter is a neglected one. The renewal programme has been chosen as one of the three pilot projects of social urban renewal in Budapest. Rév8 acts as the developer for the local government. Rév8 is in direct contact with the inhabitants of the buildings affected by the project. The first phase took place between 2003 and 2008; the second phase will take place from 2008 to 2010. The overall goal of the project is to transform the neighbourhood by maintaining its physical elements instead of demolition. Every action is with involvement of the inhabitants. Other goals are keeping the original inhabitants and increase their possibilities (Fayman and Keresztély, 2009).

This is the first time this kind of integrated renewal programme is implemented in Hungary. The experience so far is that it's difficult to manage a programme based on public participation as the inhabitants never have been asked before about their ideas and thoughts. For the second phase of the programme this participation method will be refined (Fayman and Keresztély, 2009). So cooperation and participation is the main focus of the programme. The local governments supports the idea that a city is a very complex system which is changing constantly and to manage the conditions in this system an integrated programme is needed. Programmes should integrate the social, economic and environment elements (Rév8, 2007).

The renewal programme consists of the following components:

- Building renewal by involvement of the tenants
- Greenkeys project – Renewal of the Mátyás square
- Mátyás Square Community House ‘Glove Factory’
- Educating program
- Crime prevention program
- Employment, entrepreneurs program
- Community development program

6.6 Environmental elements of the projects

The project in Middle-Ferencváros is already ongoing since 1992. As a result the project is successful in upgrading the prestige of the district, see figure 21. The created buildings could be sold at an increasing value. This resulted in higher revenues that SEM IX used to finance the above mentioned objectives for 90 percent by itself. So far 25 hectares of the 73 hectares of the area has been renewed in social-economic and physical terms (Civitas, 2007). The outcome of the project is a change of the population caused by the project. The demolishing of the neglected housing and developing new buildings plan with higher quality housing make more affluent people being attracted to the area. But it's questionable how many of the original population could come back after the rehabilitation. There are estimations of 50 percent, but others think it's lower (Tosics and Györgydeák, 2009).



Figure 21 A street in Ferencváros before and after rehabilitation

The district gains a permanently increased tax income since the start of the rehabilitation process. While in 1992 Ferencváros was one of the poorest districts, nowadays is the situation the opposite; it belongs to the upper middle level. The sustainability of the results of the rehabilitation are assured due to the increasing tax incomes since the rehabilitation started (Civitas, 2007).

The Magdolna project distinguish itself from the rehabilitation in Middle-Ferencváros by the fact the rehabilitation of the housing is partly done by the residents, they have to empty and clean the cellars and participate in adding plants to the courtyards. The role of Rév8 is to install intercoms and replacing doors and windows. Interesting to notice is the role of the private sector. The project is solely based on direct public intervention as the objective is to make them physical renovated their buildings on a voluntary basis (Fayman and Keresztély, 2009). This is in accordance with one of the goals the municipality of Budapest has formulated to involve those living in the districts actively. Based upon the communicative approach.

To get more cohesion in the neighbourhood public spaces will be renewed and a community center will be established in an empty factory building. The center will act as a place for cultural, recreational and educational activities. Besides the district will support inhabitants in order to empower them so they can reach their goals. To create better opportunities for the inhabitants, but in special for the minorities like the Roma there will be new programmes introduced at a school, training for social workers and cooperation with the police to prevent children and teenagers for juvenile delinquency. Economic and employment activities are there to help the Roma residents to set up their own companies. The local government takes care for the conditions for such enterprises if the Roma take care for the rehabilitation (Fayman and Keresztély, 2009).

6.7 Conclusions case studies

In Middle-Ferencváros the public-private partnership resulted in no overconstruction as SEM IX can plan the projects in a stable environment and get the building lots at a realistic price. The fact the local government controls the plans assures expectation in terms of quality are met (Füle, 2009). The role of the local government is underlined by Bajnai (2009). Within the frames of the urban physical plan and knowing the details about the building projects as this makes the details of the buildings projects clear for the contractors. The risk is lowered,

because the focus of SEM IX is on making building projects profitable for the commercial actors as they don't have the finances.

The role of the inhabitants is limited, their participation is only restricted to discuss the rehousing options. The manner is questionable, when a house gets selected to be part of the rehabilitation project, representatives of the Rehabilitation Bureau talk to the tenants, but not in a clear way. Sometimes they opt for a building meeting, or just inform the tenants face-to-face. The information is however also spread by a free monthly newspaper of the local government (Bajnai, 2009).

The success of the renewal in Middle-Ferencváros is based on the adaption of the French model of the public-private partnership. This might prove this model can be applied in other dilapidating neighbourhoods. Most important is that the local government is clear and consequent towards all the different actors. For the local government there are financial, structural and legal means to keep the rehabilitation process firmly and as mentioned take it to a point where the commercial actors can enter and carry out project of where the public sphere benefits from. The model based on the structured cooperation of the public and private actors increase the professional and financial effectiveness.

When looking at the Magdolna project it's interesting the project relied on the public interest and their willingness to contribute to the project. This has been difficult as the people are used to low standards of their dwellings and therefore feel vulnerable if the local government tries to achieve improvements, because of their negative historical experience (Baross, 2009). Rév8 managed to get in contact and encouraged the public actors like NGOs, but also with several professional associations. As an example the Magdolna project is partly financed by the National Committee for the Prevention of Delinquency (Fayman and Keresztély, 2009). Nevertheless the biggest achievement is the involvement of the local people. The local government managed to make clear for the local inhabitants the proposed programme is different than all the previous rehabilitation programmes (Rév8, 2007).

The proceeding of the public spaces is a good policy as people share these places, however it doesn't ensure the residents will take care of their own public spaces. It might be true the involvement of the local inhabitants may create feelings the place is a community place to meet the local people and it's their own property. However that this is hard in Hungary underlines Baross (2009) with his statement when looking deeper in the Hungarian society; people take relatively more care of their own property, less on collective property and non for the public property.

Finally the overall programme emphasises the importance of sharing information with all the involved actors. The programme is designed together with the residents, where the renewal works and proposed tasks are defined together every year in colloquy with the property management organization. The budget for the renewal project can be expanded with the approval of the tenants (Rév8, 2007). Important for both projects is the rehabilitation of the public spaces. Bajnai (2009) stresses the importance of adding some 'humanity' to public spaces in the course of rehabilitation of centrally-located action areas.

A comparison can be made of the two projects. See table 4. The project in Middle-Ferencváros is already on-going for a longer period than the Magdolna project. Therefore it's not strange both projects differ. In the table below several aspects are selected and compared. The Magdolna-project relies on public participation while the project in Middle-Ferencváros

is in total control of SEM IX and is focused on physical renewal instead of a more social urban renewal. As the Magdolna area hasn't much to offer it's hard to attract private investments. Therefore it's also costly to demolish the existing housing.

Connected with the demolition of the housing in Middle-Ferencváros is the displacement in this neighbourhood. The new and better housing makes that the rent and/or price of a dwelling increases as the image of the neighbourhood improves. The housing prices in the Magdolna neighbourhood will also increase as a result of the improvements, but the improvements are mostly done by the residents, which is in their own favour. In the case of Middle-Ferencváros the new housing will be more expensive and the old residents, mostly low-income families, are not capable of paying the new prices. They won't return. This is called displacement. In the Magdolna neighbourhood the local government tries to prevent the neighbourhood from displacement. Gentrification is not avoidable as not all the residents are able/willing to contribute to the rehabilitation and decide to leave the neighbourhood.

In the long run neighbourhood renewal will always result in people leaving the neighbourhood. Functional and quality changes make the neighbourhoods more attractive for the higher-income people. Ultimately the housing of the higher-income people will pass down to the lower-income groups as Grigsby argues. The way Rév8 tries to commit the residents to the project is one to keep the original residents in the neighbourhood. The fact the rehabilitation in Middle-Ferencváros started 12 years earlier plays a role, of course, in the way the local government treats the problems. The trend is going from a technical rational (in Middle-Ferencváros) approach towards a communicative rational approach (in the Magdolna quarter).

Aspect of project	Middle-Ferencváros	Magdolna-project
Public participation	No	Yes
Demolition of housing	Yes	No
Gentrification	Yes	Yes
Displacement	Yes	No
Influence civil organizations	No	Yes
Finance projects	Public-private	Public

Table 4 Comparison neighbourhoods by different aspects

7 Conclusion

The current housing market of Budapest shows some differences and similarities with the East European housing model. Paragraph 2.1 described the East European housing model as one where the economic mechanism was not influenced by the private sphere. However in the long run the private-sphere was working as well. The East European housing model never reached its pure form, 100% state dominance.

On the housing market nowadays it's interesting to notice there's the matter of a market which shouldn't be there just like the private market during the socialist period: the black market. Another similarity is the state control over land use, though it's less strict nowadays as it's not needed anymore to express the preferences of the socialist state. However the transition made that the housing market differs a lot from the former East European housing model. The biggest difference nowadays are:

1. The high share of owner-occupation instead of state dominance
2. The high level of segregation
3. Introduction of financial institutions like mortgage banks and contract saving banks
4. Local governments have their own roles and rights
5. Demand oriented market

Especially the high level of segregation is a concern. This is a result of the followed policies in the post-communist period. The governments try to stop this process by introducing rehabilitation programmes. The renewing of a neighbourhood often implies changes in neighbouring neighbourhoods. Positive developments like the two projects show will be a stimulus for newly set-up rehabilitation programmes by the districts. Changes of the social structures will not be noticed that fast but the improvements of the physical structures will be. There have been many debates on how housing could be improved in Budapest and in special social housing.

In the last years, housing policy became only a marketing tool for the government, time-to-time, there are press conferences about the start of a new policy, but after they get not any budget for it. The major reason for non-policy making is the state budget deficit (Karácsony, 2009). Despite this fact projects are launched and the commercial sector shows interest in developing certain areas.

7.1 The global forces

Outlined in paragraph 5.4 are global impacts influencing neighbourhood transformation. Budapest is more influenced by global capital and culture flows than labour flows. This has its specific influence on the neighbourhoods in Budapest. The global capital resulted in Budapest for functional changes in the inner city. This resulted not only in a further population decline, but also the impact on the physical environment is inescapable. The impact on the environment depends not only on the developers intentions but also on the local governments.

Neighbourhoods are sometimes experiencing negative effects of economic interesting projects like the implementation of shopping malls. Mostly because developers are fixated on short-term returns. The developers concentrate on the projects instead of concerning about the fact if the project fits in the neighbourhood and integrate the project. Upgrading of the immediate

surroundings didn't come up in their minds. Commercial developments didn't always cause an upswing for the neighbouring residential areas. Actually the neighbouring residential areas could have a negative effect as run-down neighbourhoods could influence the popularity of the shopping mall (Vajda, 2008).

A critic on the projects that are managed or financed by global forces is the role of the Hungarian architects, they only play an instrumental role. Földi and van Weesep (2007) point out the Hungarian architects are mostly not involved at the planning stage. During this stage the harmonisation with local expectations could take place. Often the foreign investors bring their own architects. For neighbourhood projects this means global uniformity, apart from exceptions.

There are more private investors getting interested in urban renewal programmes. Of course there's more to it than meets the eye. Most of the programmes are concerning renovation of buildings of specific interest, e.g. prestigious buildings or former industrial buildings where new developments can take place. Most of the large real estate developments in Budapest are carried out by international companies. This could be explained of course by the wish of the high-income groups. If there is a demand the market reacts by creating the supply. Despite the general task to take care of the well-being of their district, it depends on how determined the authorities are and as Földi and van Weesep (2007) say 'in the course of negotiations are willing to ensure that the projects will benefit the local community'. This perfectly sustains the example Vajda gives of the shopping malls.

7.2 Effects rehabilitation projects

Since the beginning of the 2000s a change in dwelling types could be observed within the private sector. In the beginning of the 2000s construction took place in large and empty suburban areas in an intensive way, despite the decreasing demand for this type of housing. More recent developments take place closer to the city centre and instead of the large housing estates, cultural, commercial, recreational functions and other types of services are integrated in new building projects. Interesting to notice is that of the total number of dwellings in Budapest about 3 percent is listed as precarious dwelling, also about 3 percent of the dwellings are without any amenities on a total dwelling stock of 863.330 in 2007. About 9 percent is vacant, but more than 10 percent is in critical condition (Fayman and Keresztély, 2009).

In regenerated areas social mix is not yet integrated as a method of renewal policies. Fund allocation is therefore also ranked low for urban renewal to finance the projects. To cover the running cost local governments use a high percentage of their budget expenditures. As a result a low percentage remains for investments and renewal. The municipality expenditures are more concerned with the large-scale infrastructure developments (Fayman and Keresztély, 2009). The overall effects on the socio-spatial structure of the city are difficult to portray. Physical changes are visible but the effect on the social structures is more difficult to outline, partly because this is studied rarely. Besides the lack of cooperation between the districts and research of the effects of the rehabilitation projects makes it hard to portray the overall effects. Nevertheless a positive sign is the fact urban renewal is included in the policies of the state. The renewal of urban neighbourhoods has been integrated into the national development plan, besides it has obtained an increased importance in the Regional Operative Programmes for the period 2007-2013 (Fayman and Keresztély, 2009).

7.3 The housing policy

There should be one basic goal of housing policy according to the United Nations (2006): ‘provide the whole population with adequately equipped dwellings of suitable size in a well-functioning environment of decent quality at reasonable cost.’. For the policy makers in Budapest it’s important to understand not everything can be achieved straight away. It’s a process and therefore it’s necessary to prioritise goals and improve the housing stock step by step as well as the public spaces.

The UN stress the point the higher-income groups are able to afford good housing and therefore housing policy instruments should include special support for lower-income groups. It should also be pointed out that all instruments tend to have unintentional negative side effects. For example the use of housing allowances. It might be a good solution for the situation in Budapest as the rental sector is rather small and especially the social rental sector; it makes private rental affordable for the lower-income groups. There is however a but, if there is a relatively high level of housing allowances this could lead to higher demand of rental housing and also result in higher rents. And it’s also the question if the local governments can afford these allowances.

In Hungary there’s a grey economy and a problem with housing allowances is it might be difficult to build a sufficient, fair and effective housing allowance system. It should be acknowledged, in Budapest the total amount of rental housing is still vague as there is also the ‘grey’ rental market mostly for tax avoidance (Valko, 2008a, Vajda, 2008). Landlords buy poor housing and rent it out to low-income groups. There’s the trend high- and middle-income groups move out of Budapest and the lower-income groups move in, when there was the situation the housing market couldn’t absorb these people there would be a bigger share of homelessness than now (Baross, 2009).

Though the rental housing market has not a big share on the housing market, the prices in average are low, for about 20.000 HUF a dwelling could be rented. This is about 15 percent of the low-income groups income (Baross, 2009). In this sense it might be considered if there’s the need for additional social housing. Also because the people see owner-occupation as the only secure saving option. Then it’s hard to introduce and advertise rental housing. Besides in Hungary there’s the matter of income-transfer. Parents buy the house for their children, but this doesn’t work if they don’t have the money.

The introduction of mortgages made people treat housing like cars (Baross, 2009). Rental housing is not in the mind of the people and the government doesn’t really subsidise (social) rental housing (Valko, 2008a). Initiatives from the market to implement the Dutch style housing cooperations didn’t succeed. Partly because the bad experiences of the private sector with a non-reliable and not transparent public sector (Baross, 2009). A solution for the housing sector in Budapest might be the expansion of the social rental sector. However there are constraints. The local governments don’t really have a policy concerning social housing, they can not monitor as they are under pressure of the middle class. Following Hegedüs (2007) this is the same pressure as the one of the privatisation. Besides there is a lack of political commitment.

The private sector isn’t that interested in the social rental sector, tenure rights, rent arrears, high amenity costs etc. make that investors are afraid to invest. Besides the investors the individual owners are scared of the tax consequence, which is a problem of the informal

sector. In the end it's cheaper to buy than to rent, the structure of housing finance subsidies and taxes should change. Now it's a user cost problem (Hegedüs, 2007). In condominiums and housing estates a lack of cooperation is causing problems with decision-making and the financing of the renovation, maintenance and modernization plans (Hegedus and Tosics, 2003).

7.4 Advise for districts public-private and public-public partnerships

The advantages of PPP are: reduction of cost during the project, faster services and realisation of public works. The spread of risks should not be forgotten. However during most of the projects the government is responsible for the biggest part (Weiler, 2006). It is important that governments, citizens, third sector and commercial actors are invited to think and to do so to achieve the following results: area-and regional and local broad-based vision and implementation of policies in both the urban and the more rural areas (VROM, 2007). This is lacking in the case of Middle-Ferencváros.

The local government and the municipality should be reliable partners. Neighbourhood renewal is based on realisation, therefore the policy should be fixed and not change all the time. The governmental organisations should not be a hamperforce but a developmentforce as they say in the Netherlands. Governments and market actors should have a common financial approach for the execution of the plans: the acquisition and issuing of the ground and projects. For private actors and commercial parties the government should act more and more as a partner.

In the case of Budapest it's important that in the future there will be a policy to stop 'free riders' (ACG, 2005). Rehabilitation projects are a good initiative, but make sure neighbour districts will collaborate when projects take place at the borders of the district. Because the tasks have relatively often cross-border influence, particular governmental agreements should be made. The two-tier structure in Budapest is causing problems in this sense. There is the lack of coordination between the different strategies of the districts, but also between the districts and the Budapest municipality. This means it will be difficult to implement a shared policy and they will follow their own strategy. In spite of this, cooperative planning is being hampered according to Fayman and Keresztély (2009): 'by the overlapping of competences and the competition between and within municipalities, especially in the light of their endeavour to obtain EU financing'. In this sense there should be cared about the case the responsibility will be in the hands of the right persons. Rehabilitation projects requires overall attention, communicative and connection skills, perseverance and daring.

The local governments should collaborate more with commercial actors. This should result in less work, while on developments the governments still will have influence and authority. It's namely the local government who is checking the plans on preconditions as mentioned in paragraph 3.4. In the end this means the government is doing what originally is expected: taking care of the public interest during neighbourhood renewal

The EU advise for PPP-projects is that the financial risks should be carried by the party which is able to deal the best with it. Despite the fact not every actor is willing to carry these risk it's favourable to do so. The advantages of contracting the private sector should be used in an effective manner. The local governments should be warned if they forget about this, the realisation of PPP-projects out of wrong reasons, e.g. the improvement of the balance on the

short- term at the expense of a solid long-term finance (Weiler, 2006). Especially in the case of Middle-Ferencváros. The Magdolna project is only in hands of the government. In some cases it might be more efficient to delegate more tasks and responsibilities to the market sector. It can be expected the progress of the procedures will be handled more efficient and faster, because the financial consequences are for the responsible market parties.

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