

Appendix: In-depth interviews

In-depth interview Eszter Vajda, Landlord in Budapest 24-09-2008

How do you maintain your flat?

There's a law for the maintenance of the building the residents of the multi-dwelling buildings they have to form condominiums. We've to choose a representative for the condominium. Every month we pay a monthly fee to pay the common utility costs, maintenance and reparation of the dwellings. I've been experiencing many times an increase in the utility prices. For many owners this is a problem the increasing of utility prices and the costs of management and maintenance.

How do you think about social housing?

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. There's not much social housing, but I think there are enough houses available because of the black-market. When landlords follow the rules for renting out their houses they have to pay a lot of taxes, so they try to avoid it by renting their dwellings out on the black-market.

In Hungary the bad condition is also a big disadvantage of the social house, mostly these houses was built before the World War II, there is no bathroom in. Only the poor want to live there, because it is cheap

The reason for the low stock could be the wish and desire of independence, bad experiences with the public services as a result of the socialist period. Of course the conditions of social housing aren't that good. Most of the housing was built before World War II. The amenities are poor or absent. This is why the social housing is really cheap and only the poor want to live there.

How is the situation for you as a landlord?

I've a contract with the BME university, so I've students. Before I signed a contract with the university I had a German couple for a long time. I decided to opt for the construction with the university as it's more secure. Most landlords are experiencing surprises with suddenly disappeared tenants. This is because they are on the black-market. Low-income tenants are highly mobile and that's why most landlords work with at least one year contracts.

What do you think about the rehabilitation initiatives?

It's good as the city will be more attractive for investors and therefore the economy. Only I think most of the initiatives are for making money, not for the normal residents. I can give the example of a newly built shopping mall here in Budapest. Because developers were fixated on short-term returns, they only concentrated on the project instead of if it fits in the neighbourhoods and integrate the project. Commercial developments didn't always cause an upswing for the neighbouring residential areas. Upgrading of the immediate surroundings

didn't come up in their minds. Actually the neighbouring residential areas could have a negative effect as the image of the public of that area is negative.

In-depth interview Dávid Valkó, Chief analyst, Research Division, Otthon Centrum Zrt. 09-10-2008

What kind of company is Otthon?

Otthon is the biggest franchise in Hungary, from developing to sales. Our company publishes articles and researches 1-2 times per month on the main trends, prices, etc on the housing market. These info's are very useful for both the owners and the buyers.

What are the main problems occurring on the housing market?

The demand and supply don't meet. Owners want to sell their homes for unrealistic prices. There is not information available for the public on real and market prices. Another big problem is the high proportion of ownership level. It doesn't allow the renewing of the stock. 100% accordance is needed in condominiums to carry out any kind of renovations.

Is it only commercial?

Yes, because of the high ownership. This can lead back to the socialist period. The governments needed immediate finance, so that's why they sold their stock for a large part, which was rented before it for very favourable prices. E.g. in condominiums 100% ownership vote of general board meeting is needed for renovation, but always there's a 10-15 who doesn't have their own equity for this, so renovation is not carried on.

There is also the rental market, but this is a grey part of the economy, because of the tax avoidance. The rental market is therefore risky too as a result of this tax avoidance. Sometimes there are tenants without any contracts. A large part of the rental market cannot be estimated, as it's an unknown part of the economy. For developers the rental market is not interesting and as a result they don't built it so much. Rental housing is not in the mind of the people and the governments don't subsidise it.

If there's need for social housing, they (read: local governments) can built and set up a local company to start the project. Nowadays many developers have problems with selling/renting out their projects. However there are still many developers with plans. They know about certain plots and are having something in mind, but they need guidance as they don't know all the information about the plot and rules for that plot.

What's the status of social housing?

I am really not an expert in social housing. Recently many systems are known and there are associations and even private companies lobbying for a new method in giving an impetus for the rental sector. The most common is how to make the developers activated and inspired in it.

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.

In this case I think it's good to mention the role of the local governments is limited in providing attractive environment for the developers. Besides, to accelerate the permission period.

What is the situation of the mortgage banks?

There's a big competition going on, you could get a loan for favourable conditions in the beginning of this decade. There was the need to bring in own equity. The early set conditions couldn't be continued because it burdens the finances of the government. The people are stimulated to invest the surplus of their selling in their new dwellings.

The local governments don't act as developers. They start a tender for developers to build social housing units, but this is very rare. Some banks have residential developer companies (e.g. OTP, Raiffeisen) and build flats. OTP is (was) one of the largest residential developers. The government companies had been privatised and mainly deal with infrastructure, administration building developments, not residential.

In-depth interview Krisztián Karácsony, senior consultant ECORYS Hungary 19-01-2009

How does the political system looks like?

As the municipal system, so the planning system has two levels in Budapest. The metropolitan municipality defines the so called frame-regulation, that includes the different functions of the areas. The district municipality is responsible for the detailed regulation (building height, cover ratio etc.). So the developer gets the building permit from the district municipality. If there is a larger scale (area) development - the developer should change the metropolitan frame-regulation too.

What is the role of social housing?

Municipal rental housing stock is playing a very minor role in Hungary. Major part of the stock is owned by the district municipalities.

So in Budapest the major part is owned by the district municipalities and they have to maintain it. Since the municipal housing plays a minor role in the market, and the municipal budget is underfinanced, policies are very general and they do not care so much about the updating.

Current municipal rental housing is based on social issues, so the city does not calculate with profit in this sector, usually that results the low quality of the stock. Nowadays subsidies can be obtained by condominiums who have ideas and money for co-financing.

What is the housing policy of the districts?

Housing policy started in 1999 contained mortgage allowances for new home buyers, the main goal was to stimulate the real estate market and the connecting industrial branches. In this phase the government supported the municipal rental house developments, but it was a minor part of the programme. After 2002 the government decreased allowances and other supports, nowadays the housing market has only slight governmental elements.

There are some rehabilitation programmes, that both municipal or private condominiums can participate. The programmes are financed by the metropolitan municipality or partly by the EU.

In the last years, housing policy became only as 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. So the major reason for non-policy making is the state budget deficit.

In-depth interview Pal Baross, FRICS, CRE ING Real Estate Development, 25-04-2009

How is the situation on the housing market?

Important to know is the share of social housing is low, theirs is a high share of owner-occupation and only in Mediterranean countries. A friend of mine, Douwe Rijtsma from Copron did a research on psychology of housing. The advantage of housing finance for the people was they could treat housing like cars. If people would think about housing as an ownership thing mobility would be low.

Also because of the increasing housing prices people could move fast as they could afford a new house of the same level. The rental value is low and the reason is that housing is the only secure saving option. The rental housing services are bad and for the government it's hard to introduce and advertise rental housing.

How do the local governments think about (social) rental housing?

It's not easy for the government to call for more rental housing as it has a little appeal. Plans are not worked out really well and people don't like social housing as they associate it with low status, low quality and segregation.

The owner-occupation market has been stimulated with banking arrangements, people could pay 90 % and then look for additional financing and think they will accumulate the money. Another important aspect is the older to younger people transfer of wealth or income transfer: parents will buy the house for the children but this doesn't work if they don't have the money and that's the actual problem.

The bad housing stock is much of socialist time, people are used to low standards and the low-income people feel violable with the marginalized housing because of their historical experience.

However looking deeper into the society, it's structured. There is something individual, public and there are shared spaces, people take care of their own, less on collective and non for the

public. Who takes care of the different aspects? In the Netherlands most on the collective level but individual less, in Hungary it's the opposite. From the outside condominiums can look neglected, but the interior of the dwellings can be surprisingly good.

What about the housing estates?

In the socialist period it was inherent there was not real segregation, poor people lived together and there was a social mix, it was integrated. People start to think alike if problems remain and keep coming and of the same economic means.

How to make the social housing affordable?

I really don't know. There are landlords buying really poor housing and rent it out to low-income groups. High and middle-income groups move out and low-income groups move in. If there's wasn't housing for the low-income there would be a huge amount of homelessness. Rental housing is cheap in Budapest, for 20.000 HUF, about 15 % of low-income groups income. There's not much evidence of deterioration.

What is the role of ING? How is the co-operation with the local governments?

Usually ING works only with private market forces, because local government is not transparent. Also projects are not so big, it doesn't add big value to the economy of the local government and also doesn't add much to the governments prestige.

There's an overall planning framework, but only for certain size, but above you've to show certain impacts like noise or something else. No zoning like in the Netherlands, but unstructured. A mall was seen as refurbishing of the area in the district, mostly complains of the environmentalist.

Why is ING not involved in residential housing projects?

It's a local aspect. ING hasn't to offer something specific and also there's the demand for special prestige housing, it's more for the local developers.

What's your perspective on PPP?

There have been many attempts to implement the Dutch way with housing cooperation, but less receptiveness. People see the public as untrustable as they only take out money. Every partnership should have some risk, but public is afraid of that, there's no trust. And the private experiences the public sector in that way not as reliable.

In-depth interview Laszlo Bajnai, director Városfejlesztés Zrt 03-06-2009

Where is the rehabilitation area located?

Despite its favourable location, the action area's situation physically, socially and economically deteriorating in the decades before the starting of the urban rehabilitation program in 1992. As a result of certain tendencies of segregation area the environment and the

buildings has been consumed physically in the action and people with social disadvantage have been concentrated in the area.

At the same time, from the beginning of the 80's, suburbanization began and later became more severe in Budapest. It was further boosted by major political changes in 1989-90. Middle-class people who generated the local tax income, had moved from Budapest to settlements near to Budapest. The municipality of the city and the local one had in the early 90's major interest saving the action area from decay. It was important to set up a sustainable development through urban rehabilitation and to make it attractive again for living and.

What are the characteristics of the area?

The district already has low prestige. Partly because of the bad conditions of the environment. The high share of never renewed apartments is high. Also the maintenance of green areas per head is low. Besides this the high crime rate feeds also the bad reputation of the area. The presence of minorities, I can say the Roma people, and their bad integration. Also the share of people over 60 is high.

What is the role of SEM IX?

SEM IX is the management company for urban development of the Local Government of District IX., Ferencváros. When the urban development program was started in 1992, the partners on behalf of the public sphere were: the local Government of the Capital Budapest, and after 2004 when joining the EU the Hungarian Government and the European Union. From the private sphere the partners were Caisse des Depots et Consignations and its organizations of development, and OTP . The company is responsible for planning and accomplishing urban development actions based on the local government's urban development conceptions.

In the year of its establishment the complex urban development action plan for regenerating Middle-Ferencváros was completed by SEM IX. This was approved by the representatives of the local government. The action plan ends in 2012. SEM IX is carrying out urban rehabilitation based on this action plan. SEM IX reports each year about the previous year's accomplishments to the Representative Body of the Local Government. On these occasions SEM IX also proposes the timely schedule of the whole program for the actual year for approval.

Besides SEM IX is focusing on making building projects profitable for the private sector. The most important reason is that we don't have the finances. The result is the lowered risk for the commercial actors because of this policy.

What are the goals of the rehabilitation?

Through applying the European spirit of cooperating and partnership with the private and public sphere the local government figured out the means of successful urban rehabilitation, organisational, financial and legal. Using the organisational, financial and legal means in a coherent system and the cooperation of the private and public sphere is the way to urban rehabilitation. By adding humanity to public spaces they will be popular places to meet, especially for centrally located spaces.

Are the residents also involved?

Well, the locals aren't that involved. There are possibilities for discussion but this is more or less limited to the re-housing option. 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. To keep the residents involved and informed a free monthly newspaper is spread by the local government.

In-depth interview Gábor Füle, development director VÁROSFEJLESZTÉS ZRT. 08-06-2009

What are the characteristic of Ferencváros and the project area?

Well, Middle-Ferencváros is known because of its low prestige. 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. There are serious social problems because of the bad conditions of the environment. We've 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 in the neighbourhood.

About 20.000 people are living in this 73 hectares area. The good location in spite, physical, social and economic decline occurred in the action area, before the urban rehabilitation programme started in 1992. We try since then to carry out the complex development and rehabilitation for the action area .

How does the local government try to carry out this complex development?

As you know 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 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

Is the rehabilitation successful so far?

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

When you are trying to rehabilitate a deteriorating area, which is lagging behind in social and economic aspects, it's good to share the investment costs between public and private sector to increase the prestige of the area. Besides it is to ensure long term incomes for the municipality.

The local government realised that the development objectives set in the physical plan should be carried out. This implementation process is the operative settlement/town development. Town development should be controlled and managed by the municipality and that's what the municipality does. The approach we use is based on European methodology since 1992 and onwards with French assistance.

How does that work?

The municipality should run the operative development process to that point, where the private actors can be involved the most efficient way. It means that the possible construction lots and building opportunities are prepared and made available for the enterprises.

In this view the operative settlement development results in the partnership between the municipality and enterprises: the market possibilities and aspects of the enterprises should be taken into account. The cooperation during the implementation should be regulated by correct contracts and conditions.

The results of the partnership are creating a stable environment for the enterprises to plan the projects and build on lots at a realistic price. As a result the enterprises can estimate more or less their profits. The question is not anymore how to spend the money of the state, but how to find new sources of financing. The philosophy we have is partnership in the implementation and financing between the public and private sector.