RENEWING EUROPE'S HOUSING

Edited by
Richard Turkington and Christopher Watson

First published in Great Britain in 2015 by

Policy Press
University of Bristol
1-9 Old Park Hill
Bristol
BS2 8BB
UK
t: +44 (0)117 954 5940
pp-info@bristol.ac.uk
www.policypress.co.uk

North America office:
Policy Press
c/o The University of Chicago Press
1427 East 60th Street
Chicago, IL 60637, USA
t: +1 773 702 7700
f: +1 773 702 9756
sales@press.uchicago.edu
www.press.uchicago.edu

British Library Cataloguing in Publication Data
A catalogue record for this book is available from the British Library.

Library of Congress Cataloging-in-Publication Data
A catalog record for this book has been requested.

ISBN: 978 1 44731 012 9 (hardcover)

Cover design by Policy Press.
Front cover: image kindly supplied by Richard Turkington
Printed and bound in Great Britain by CPI Group (UK) Ltd, Croydon, CR0 4YY
Policy Press uses environmentally responsible print partners.

MIX
Paper from responsible sources
FSC www.fsc.org FSC® C013604

Contents

EIGHT

Housing renewal in Hungary: from socialist non-renovation through individual market actions to area-based public intervention

Iván Tosics

Introduction

For over 40 years, housing policy in Hungary ignored housing renewal. Socialist policy concentrated on new housing development and the existing stock was neglected until the late 1980s when the first renewal attempts took effect. The transition to capitalism was marked by the large-scale privatisation of housing, following which the renovation of multi-family housing was dependent on decision making games between owners in each condominium. Following a decade of 'non-policy' in housing, new financial initiatives were introduced at the national level from the early 2000s directed towards the energy efficient renewal of condominiums, mainly in large housing estates.

This chapter has five sections. Following an opening review of the history of frustrated urban renewal efforts in Budapest, the second section summarises the conditions underpinning the renewal of residential areas in Hungary during the socialist period and the transition to capitalism. The third section analyses housing policy approaches to renewal in post-socialist Hungary and the fourth focuses on the development of a municipal area-based renewal strategy in Budapest, an exciting story about the battle between market factors and public policy efforts. The final section draws conclusions and considers the prospects for the future.

As the largest city in Hungary, and with unique experience of urban and housing renewal dating back to the 1970s and 1980s, Budapest provides the case study for the chapter. Following mass privatisation, and with problems arising from a complex two-tier local government system, the municipality developed an area-based urban renewal framework at the end of the 1990s. After years of limited success, a new period began in 2007 when European Union (EU) funding began to be available for the renovation of multi-family housing in relatively poor areas. As a result, new integrated and area-based urban renewal programmes were developed, in which the renovation of housing became one of the most important elements. The emerging financial crisis, combined with a decrease in EU funding due to changes in the eligibility of Budapest, and new local government regulation have, however, created an uncertain future for area-based urban and housing renewal.

In this chapter a distinction is made between housing renewal and urban renewal: the latter refers to area-based and concentrated efforts to achieve the renovation of all buildings in a given area. In Budapest, the large scale of renewal problems has necessitated going beyond building-by-building renewal to achieve a more spatially concentrated approach.

Background

Hungary, a country of 10 million people in central Europe has existed within its present borders since 1920. After the Second World War, Hungary fell into the sphere of Soviet influence, and in 1948 a one-party political system and planned socialist economy were established. After initial market-oriented reforms in the 1980s, the country became a capitalist multi-party democracy in 1990.

Hungary, Budapest and the strange career of multi-family residential buildings

With over 2 million people in 1980 and 1.7 million at the present time, Budapest is the only metropolitan city in the country. It is more than eight times larger than the next category of cities which have in the region of 200,000 inhabitants. As a result, the discussion of Hungarian urban and housing renewal is limited to the case of Budapest.

Older residential buildings have had an unusual 'career' in central and eastern European cities. Many existing inner city buildings were constructed in the second half of the nineteenth century when private rental housing was dominant. Private landlords were planning to invest in comprehensive renovation when the First World War was declared. This was accompanied by rent control which was not conducive to investing in renewal. Housing markets began to become 'free' again in the late 1930s, and landlords began to plan for renovation, but then the Second World War broke out.

At the end of the 1940s, although most inner city buildings were already 50 to 60 years old, much-needed renovation was postponed again, this time due to the nationalisation of multi-family houses. Landlords lost ownership of buildings and at best, retained a rented flat for their own use. The new landlord was the socialist state, whose priority was certainly not the renovation of inner city housing. Housing had quite a low priority overall, and only the construction of new housing estates, at the periphery of cities, received political attention.

As a result of many decades without major renewal, the inner city housing stock deteriorated steadily. The idea of the concentrated renewal of older districts did not emerge until the late 1970s; and the 1980s, the last decade of socialism, saw the first small-scale pilot projects. The model of socialist urban renewal applied was based exclusively on public financing, but this quickly collapsed both financially and politically.

Changing times: different models of area-based renewal in Budapest

There have been many attempts to renovate the densely built multi-family housing stock in Budapest and several models can be identified:

- In the inter-war period, the housing system was based on private renting and the private landlord had the decision making power regarding renovation. Residents could not influence this decision and the role of local government was very limited. The important actors in this process were the financial institutions providing loans for renovation with the cost directly influencing rent levels.
- Following nationalisation in the socialist period from 1948 to 1989, the local council and public maintenance company were the decision makers in principle, although in practice, decisions concerning housing priorities and their funding were taken at the central political level. Residents could influence this only indirectly, for example, by lobbying local government for the renewal of their building. Financial considerations were replaced by bureaucratic and political decisions about budget resources and the cost of renovation did not influence rent levels.
- After mass privatisation in the early 1990s, the new condominiums became the main actors in the process and residents' influence on decisions about renovation was maximised. At this time, however,

there were few subsidies available and the role and interest of financial institutions were very limited. Therefore, the cost of renewal immediately increased the cost of housing.

- From the late 1990s, a new model of municipalities 'steering' urban renewal was gradually developed in Budapest. Both the municipal (city level) and some of the city's 23 district local governments initiated area-based renewal in cooperation with condominiums. Through this process, the more public and social aspects were taken into account, the costlier the projects were for the public sector.

A summary of these models in Table 8.1 shows that they differ significantly in many ways including: the key decision-makers; the extent to which residents could influence decisions; whether the costs of renovation were transferred to housing costs; the kind of loans and

Table 8.1: Models of housing renewal in Budapest: 1920 to 2012

Dimensions of renewal	Before World War Two: private rental model	Socialism: a politically dominated model	Early capitalism: condominium-based private renewal	Budapest model for area-based renewal
Decision making on renewal	Private landlord	Central authority, political bodies	Condominium associations (building by building)	Municipal and district local governments
Influence of residents	None	None	Total influence (veto power of individuals)	Minor in market-based model, some in social renewal model
Transfer of renewal costs into the housing expenditure of residents	Direct relationship	No relationship	Direct relationship	Direct in market-based model, little in social renewal model
Availability of loans for renewal	Bank loans, market terms, taken out by the landlord	No need for loans due to full public financing	Bank loans on market terms but individual underwriting	Bank loans in market-based model, some loans in social renewal model
Availability of subsidies for renewal	Little, indirect subsidies (tax exemption)	Large and not transparent subsidies	Central interest rate subsidy, local cash subsidy	Subsidised loans in market-based model, some loans in social renewal model
The size of units for renovation	Individual buildings	Action areas (blocks of houses)	Individual buildings and parts of buildings	Action areas (blocks of houses)

subsidies available and the size of 'units of renovation', from whole districts to parts of buildings.

Changing conditions for the renewal of residential areas in Hungary

Urban renewal in the socialist period

The degradation of multi-family housing is very advanced in the Budapest inner city housing stock. According to estimates, approximately 100,000 flats need major repair, constituting one of the biggest rehabilitation tasks in Europe. A huge number of units exist with extremely low standards, and many have hardly been improved since they were built at the end of the nineteenth century. About half of all buildings are affected by long-term decay and approximately one fifth of the inner-city housing stock (about 30,000 flats) are in such a poor state of repair that tenants would have to vacate them if western standards of acceptable housing quality were applied (Cséfalvay, 1994).

Urban renewal concepts introduced in the late 1970s and 1980s were intended to provide a comprehensive framework for solving the main problems in Budapest. They were based on the principle of public intervention and on the assumption that state resources would be available to fund renewal. Although a pilot project of area-based urban renewal was initiated in 1978, work did not start until 1985 and the impact was very limited (see Case study 1). If the pilot programme had been fully implemented, it would have taken 400 years to renovate all the rundown parts of the inner city of Budapest. This model quickly collapsed, not only because of this impossible time requirement, but also due to the elimination of central state subsidy for the maintenance of the public rental stock in 1990.

CASE STUDY 1

Block 15 in District VII of Budapest: the state-financed pilot project for housing renewal, 1985

In this pilot project, housing was fully renovated while dense courtyard wings were demolished (Figures 8.1 and 8.2). The number of apartments, which averaged 42 m^2 and lacked basic amenities, decreased due to demolition and to flats being combined together. Some new and modern flats averaging 68 m^2 were also built. According to a study undertaken in the late 1980s, this pilot project led to 'socialist gentrification' (Hegedüs and Tosics, 1991, 131; Egedy et al, 2002; Kovács, 2009; Csanádi et al, 2011). Although the buildings remained

Figure 8.1: Block 15, the only block of flats which was renovated under the pilot programme, Budapest

Photo: Iván Tosics

Figure 8.2: Block 15, Budapest, after renovation
The courtyard shows how carefully the work was undertaken, even the smallest details were renovated, such as the 'hat-hanger' visible between the door and the window on the first floor.

Photo: Iván Tosics

in the public rental sector, all the tenants of the state-owned, run-down tenements were re-housed elsewhere. Families living in adjacent housing due for renewal were allocated to two thirds of the flats while the remainder were used to reward higher status groups according to their high political or economic positions.

Market-oriented policy changes in the transition period: large-scale housing privatisation

After 1990, the privatisation of public housing was accelerated with parliament passing a law in 1993 to make it compulsory where tenants wanted to buy their homes. As a consequence of this 'right to buy' policy and within a decade, the share of publicly owned flats decreased from over 60 per cent to below 10 per cent of Budapest's housing stock. By law, privatised residential buildings had to be turned into condominiums. Decisions about the building required a simple majority for 'everyday matters', while 100 per cent of votes were needed for larger issues such as comprehensive renewal. Residents in large, multi-family houses were usually very mixed, with a substantial share of poorer families who could not afford the costs of renewal. As a result, area-based schemes became difficult, if not impossible, to achieve. With the large-scale privatisation of public housing, central government stepped away from housing and urban renewal, and decisions about renovation became a matter for condominium residents, influenced to a limited extent by central and local government subsidy schemes.

In the countries of central and eastern Europe, the transition of the housing stock to capitalism took very different pathways. The approach in the former East Germany was the most effective, the privatisation of flats was very rare as practically no sale discounts were given, while housing associations were turned into efficient actors in the housing market. At the other extreme was the most inefficient model, adopted by Romania, Bulgaria and Albania, where almost the entire housing stock was privatised without the legal or organisational forms necessary to ensure joint actions at the building level. In these countries, the lack of condominium or cooperative structures has led to 'patchwork renovation' by individual households. The Hungarian case can be considered in-between these two extremes.

Housing policy approaches to renewal in post-socialist Hungary

The 1990s can be considered the 'non-policy' period for housing. With privatisation, responsibility for housing was shifted from central to local government, and at any point in the mid-1990s, housing matters were split between six different ministries. In this context, housing renewal had a very low priority and only a few elements of housing policy continued to apply, principally legal regulation and financial schemes.

In legal regulation, an important novelty was the connection of the 1924 Law on Condominiums (originally introduced for newly built multi-family housing) to the process of privatisation. For multi-family privatised buildings to be able to function, it was necessary to provide a legal framework to create a condominium association, elect a condominium manager, hold meetings at least once a year, and decide the monthly condominium fee. It soon became clear that the requirement for unanimous decisions on larger issues such as building renewal made them almost impossible to achieve. The modification of the Law on Condominiums in 2004 made decision making processes more effective such that:

- major decisions, for example, the sale of common properties and larger improvements became possible with 80 per cent qualified majority votes of residents;
- financial discipline was raised with a simplification of the regulation on the debts of residents more than six months in arrears;
- the collection of information on ownership and debts became compulsory.

From the late 1990s, banks became more active in issuing housing loans and after the 2004 Condominium Law modification, access to loans became much easier. The 2000s also brought changes in the financial conditions enabling the renovation of condominium buildings. In the absence of any general subsidy system for housing renewal, the introduction of financial incentives for the energy-efficient renovation of multi-family buildings on large housing estates was a cautious step forward. The initial interest rate subsidies were replaced with the much more efficient Panel Plus programme in 2005. Support to home owners for energy-saving improvements was offered in the following form:

- local governments could establish a framework (bidding system) for condominium renewal and could apply to the relevant ministry to contribute to the financing of the successful bids;
- the costs of energy-saving renovation were shared equally between the national government, the local government through non-repayable subsidies, and the condominium. The 1/3–1/3–1/3 system maximised the amount of state contribution at €1,600 per flat, though in reality the average was €1,000 per flat;
- since 2005, modifications to larger condominiums of more than 10 flats could attract loans to pay for the home owner's one third share without the requirement that each flat owner takes a loan individually.

The improved conditions for public subsidy resulted in a speeding up of the renovation of prefabricated (system-built) buildings on large housing estates. In the town of Miskolc, for example, the owners of 2.5 per cent of all prefabricated flats handed in successful bids in 2002–04, and 9 per cent in 2005. Energy saving improvements became attractive for two reasons: on the one hand, the value of the property increased and, even more importantly, 20–30 per cent of heating costs could be saved.

Compared with previously limited renewal activity, the initial results of the improved subsidy programme were impressive. In 2004, only €5 million was spent by central government on the prefabrication programme but in 2005, this increased to €32 million, enabling energy saving improvements to approximately 15 per cent of the prefabricated stock. A high level of central government spending continued until the financial crisis of the late 2000s and by 2009, approximately 25 per cent of the prefabricated housing stock had been improved.

The decrease in domestic public funding was partly counterbalanced by new opportunities through EU Structural Fund financing. Since 2007, the renewal of existing multi-family housing in deteriorating urban areas became eligible for EU financing in the new member states, and the positive balance of the Hungarian CO2 quota[1] could also be used for energy-saving renewal.

The renewal of prefabricated housing on large-scale housing estates has been a relative success story, but as will be seen in the next section, this is less the case for the spatially concentrated renewal of old buildings.

The case of Budapest: gradual policy development towards area-based urban renewal

While individual building renewal has been supported by national policy, area-based renewal was developed locally, with the longest history in Budapest. In the turbulent first half of the 1990s, state owned public housing was first transferred to local governments and in Budapest to the 23 districts. The municipality retained only some 'strategic' roles, including rent setting, but by the early 1990s, the municipality gave up any attempts to maintain common regulation.[2] As a result, the differentiation of public rental housing between districts became very wide. In the better off areas of the city, for example in the inner city, the public rental stock was sold quickly, while in the poorer areas, for example in District VIII, a substantial stock of the most dilapidated buildings remained in public ownership. The municipality of Budapest could not affect this situation but was entitled to collect half the privatisation revenues to establish a city-wide urban renewal policy.

Different conditions and models of urban renewal in the Budapest districts

Until the late 1990s, the municipality played practically no role in urban renewal. Housing-related decisions were taken at the district level and their relative power decreased with the advance of privatisation. Three types of situations developed in different districts as shown in Table 8.2.

The typical positions can be described as follows:

- Type A areas: the better-off areas of the city with high land and property values including the central business district, green belt and garden city areas. In such areas, privatisation is virtually complete and the dominance of better-off families ensures the financial basis for the renovation of privatised individual buildings.

Table 8.2: Budapest districts in different positions regarding the likelihood of housing renewal from the 1990s

Residents' financial position for building renewal	The share of privatised flats/houses	
	High	Low
Strong	A	(C)
Mixed or weak	B	D

- Type B areas: can be characterised as of acceptable building quality with mixed social composition. Large housing estates and multi-family housing in the transitional belt and outer districts of the city belong to this type. The overwhelming majority of people bought their flats but due to the mix of social strata among the residents of the condominiums, no agreement on renovation could be achieved.
- Type C areas: this type of area does not exist as it would imply areas where residents were eager to renovate their buildings but the share of privatised units was low.
- Type D areas: the run-down areas at the edge of the inner city and in the transitional belt. Residents living in these areas have less money and are less eager to buy their flats which are in largely dilapidated buildings.

Thus, mass privatisation has led to a differentiation in the likelihood of renewal across the city which is determined by a combination of property values and the social composition of residents.

An example of Type A is Belváros in Central Business District V, where the renovation of individual buildings is typical and most condominiums have been renewed since privatisation. High real estate values encouraged residents to take an interest in renewal while poorer people who could not cope with increased condominium fees could easily sell their flats to middle-class families. At the same time, the wealthy district council was able to offer non-repayable subsidies for condominium renovation. In other areas, the likelihood of renovation was very low, and even the 80 per cent majority decision possible since 2004 was difficult to achieve in socially mixed areas. This explains the large number of unimproved buildings across Budapest except in the best areas of the city.

There were in Budapest two exceptions to the above classification which deserve mention, one area-based renewal action avoiding privatisation as explained in Case Study 2, and another was based on large-scale demolition.

CASE STUDY 2

District IX, Middle Ferencváros, regeneration organised by the public sector with substantial private sector investment

At the beginning of the 1990s and just before the Right to Buy policy had been passed in Parliament, the local government of District IX approved a renewal plan for the whole central area of the district consisting of approximately 10,500 flats. Consequently, the Right to Buy did not apply in the area planned for renewal and the buildings remained in local government ownership. In this exceptional situation, the district local government as public landlord launched an overarching urban renewal policy (see for example, Locsmandi, undated).

This was the largest and most successful urban renewal project in Budapest in the course of which the whole central part of Ferencváros was partly renovated using public resources, part was demolished and new housing was built by private investors. This success story was due to the wisdom of local politicians who realised and accepted that renovation should precede privatisation and not the other way round.

The initially very low status of the area increased significantly and mostly middle-class families moved in. The flats in the renovated buildings were offered for sale to their tenants after the completion of the renovation. The poorest stratum of the original residents, including most of the Roma families, was moved out of the area into replacement flats enabling a slight improvement in their housing situation. This was effectively 'gentrifying regeneration' as many of the original residents have been replaced by higher status families.

The results can be seen in Figure 8.3. Today this is the largest renovated area in the historic part of the city, although Figure 8.4 also belongs to this story. It shows a rundown building in the peripheral part of the same district to which the poorest, mainly Roma, part of the original population has been sent. Thus this version of post-

Figure 8.3: Renewal in District IX, Middle Ferencváros, Budapest

Photo: Iván Tosics

Figure 8.4: Rundown housing at the periphery of District IX, Middle Ferencváros, Budapest

Photo: Iván Tosics

socialist urban renewal became gentrifying and exclusionary, in order to attract the private money needed for financing the renewal works.

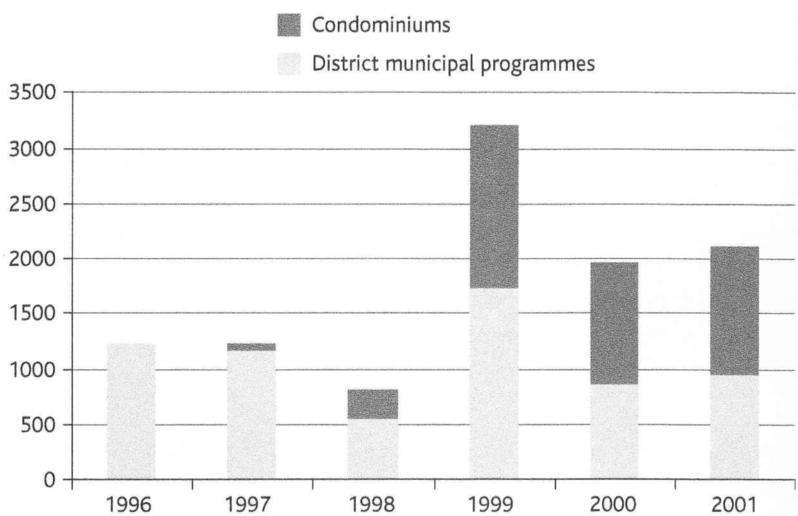
The other exception to the models shown in Table 8.2 involved large-scale demolition in District VIII Józsefváros, Corvin-promenade area. This was a very low status area with dilapidated housing. The overwhelming majority of the housing stock remained in local government ownership as its poor residents had neither the financial means nor the will to buy the run-down buildings. Finally the local government decided to undertake the large-scale rebuilding of the area, all of the original residents were moved, either accepting a replacement flat or financial compensation. The vacant and cleared site was sold to a private developer who built office, commercial and residential buildings for sale. As a result of this market-based and strongly gentrifying model of renewal, the totally rebuilt area will become a middle-class neighbourhood.

The Budapest concept of urban renewal in the late 1990s

As already mentioned, the national regulation of housing privatisation specified an equal split of sale revenues between the districts and the municipality with the stipulation that Budapest municipality had to spend its share on the renewal of residential buildings. Although not all districts complied with this regulation, sales revenues started to accumulate and an initial step was taken in 1994 when the municipality introduced a subsidy system for the renovation of local government owned residential buildings. As the proportion of owner-occupied housing increased to over 90 per cent as a result of the 1993 Right to Buy policy, however, this new system applied to only a small part of the housing stock. As a result, it was considered important to develop an overarching policy for area-based urban renewal which included privately owned buildings.

In 1997, the Municipality of Budapest approved the Budapest Urban Renewal Programme (BURP) and a new policy and financing system was introduced in 1998. Two main forms of renewal were supported: area-based renewal and the renewal of individual condominiums. The total amount of subsidies approved between 1996 and 2001 was 10.5 billion Hungarian Forint (HUF), or approximately €45 million, 62 per cent of which was spent on area-based district municipal programmes although the condominium programme steadily took on greater significance, so that by 2001 it represented 55 per cent of all funding. Figure 8.5 summarises BURP expenditure over the period 1996–2001 and by sub-programme, for condominiums and district municipal programmes.

Figure 8.5: The Budapest Urban Renewal Programme (million HUF)



Source: Metropolitan Research Institute (MRI), 2002

The distribution of planned area-based BURP schemes is shown in Figure 8.6. As can be seen, all the schemes are on the poorer Pest side of the city, to the east of the River Danube. In reality, more than half the money spent on area-based programmes was allocated to

Figure 8.6: The distribution of planned area-based schemes of the Budapest Urban Renewal Programme, 1996–2001, scale 1:46,000

Areas of the BURP
Declining neighbourhoods

1 Central Ferencváros
2 Central Józsefváros, surroundings of Práter street
3 Central Józsefváros, surroundings of József street
4 Inner Erzsébetváros, Király street
5 Outer Erzsébetváros, surroundings of Garay square
6 Central Terézváros
7 Angyalföld, surroundings of Szabolcs street
8 Angyalföld, area of Kassák L. street
9 Angyalföld, area of Reitter F. street
10 Angyalföld, area of Teve street

the Central Ferencváros area (marked 1 on the map) which had the most efficient leadership and planning capacity. A similar imbalance can be seen in the allocation of the subsidies for the renewal of condominiums.

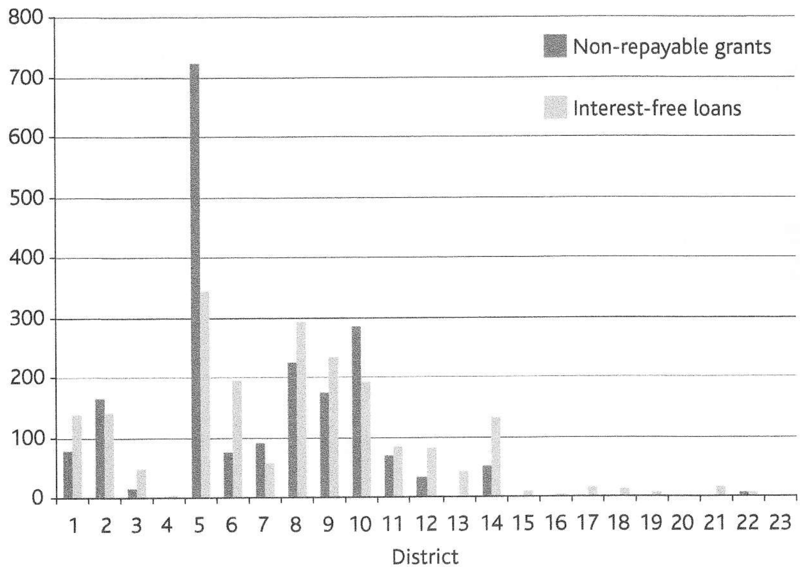
Figure 8.7 illustrates the dominance of District V, the most affluent central business district of Budapest which, as its condominium owners were in the best position to pay their share of renewal, absorbed almost half of all non-repayable grants.

An independent evaluation of BURP (MRI, 2002) identified the conflict between the housing intentions and social consequences of the programme. In the absence of any spatial or social targeting, programme subsidies went to the best organised district and condominiums in the most affluent areas. This allocation of renewal subsidies enhanced existing spatial inequalities in the city.

The critical analysis of the BURP concluded with the following recommendations:

- preserve the two tier distribution system of BURP funds (municipality and district local governments);

Figure 8.7: The distribution by district of the condominium subsidies of the Budapest Urban Renewal Programme, 1997–2001 (grants and interest-free loans in million HUF)



Source: Metropolitan Research Institute (MRI), 2002

- concentrate funds on area-based programmes as opposed to condominium renovation (the latter should be the task of the district local governments);
- develop a normative subsidy system distinguishing three different types of renewal programmes: market-based renewal; socially sensitive urban renewal and renewal to preserve the urban heritage;
- establish a Municipal Urban Renewal Unit;
- continue monitoring urban renewal programmes.

The evaluation led to an important change in the emphasis of the Budapest Urban Renewal Programme, extending it with a new angle of socially sensitive urban renewal.

The emergence of a new public policy with social orientation in the mid-2000s

The BURP evaluation identified three types of urban renewal, which differed as follows in terms of aims, approach, tools, organisational structures and the roles of different levels of government:

- *Market-based renewal*: in high land value areas with a homogeneous middle-class population, renewal could be financed by the population with private investors eager to invest. Examples of this kind of renewal were mainly located in the Central Business District, for example, Fashion Street. The Central Ferencváros type of large urban renewal scheme could be partly classified into this type as private investors played a major part, although the public sector had the decisive role in preparing areas for renewal.

- *Socially sensitive renewal*: in the most dilapidated areas of the city, the requirement for public sector guidance and finance was expected to be greater as the residents, who aimed to stay in the area, had no means for, while investors had no interest in, investing in renewal. The first example of large-scale social urban renewal in the most deprived areas of Budapest was the Magdolna quarter programme (see Case Study 3).

- *Heritage renewal*: apart from some special funding for listed historical buildings, there was no regulation covering renewal in those heritage areas which required special attention and public investment. In the absence of support, private investors either refrained from investing in such areas or chose more profitable options whose outcomes often conflicted with the priority of preserving the heritage value

> of the area. Both problems were apparent in the difficult story of the renewal of Budapest's Jewish quarter.[3]

The model of renewal selected by local government was restricted by many factors. With a two-tier system of local government and an almost entirely privatised housing sector, each model has quite different chances of being chosen. Table 8.3 compares the different dimensions of each option.

By the early 2000s, as a result of decentralisation to the districts and mass housing privatisation to families, the need to manage the growing inequalities in inner-city districts became obvious. It was recognised that more effective urban renewal of the most deteriorated areas would require better coordination between the municipal and district local governments, with the municipality taking the lead role.

Table 8.3: Comparison of the different types of potential urban renewal policies in Budapest

Dimensions	Market-based renewal	Socially sensitive urban renewal	Renewal to preserve the urban heritage
Aim	To include private real estate investors in renewing the better areas of the city	To decrease the segregation of the mostly declining areas and keep the local inhabitants	To extend the city core, preserving urban heritage, improving the image of the city
Initiator	District local governments	Municipality of Budapest	Municipality of Budapest
Approach	Smaller projects in better located urban areas, mixed buildings, 1–2 blocks, based mostly on the demolition of larger contiguous blocks	Complex programme: area-wide physical renewal and social programmes	Improving public spaces, concentration on individual building refurbishment
Amount of public subsidies	Limited	Substantial amount of renewal and social subsidies	Substantial amount of renewal subsidies
Organisation	Real estate developer	Public urban renewal company, with the duty of designing and coordinating physical renewal and social programmes	Local renewal office, to initiate the refurbishment of condominiums, provide for permanent technical assistance, and coordination of public investments
Examples (numbers indicate districts)	V. Belváros; IX. Central Ferencváros	VIII. Magdolna quarter	VII. Jewish quarter (potential model, not existing yet)

By the mid-2000s, experts had developed further the model of 'socially sensitive urban renewal' (Gerőházi et al, 2004) the main aim of which was to improve the most deteriorated areas with and for their residents. It was suggested that renewal efforts should not be targeted exclusively at improving the physical fabric but that equal weight should be given to social, health, educational and other 'soft' aspects. Attempting to manage the social problems of increasingly segregated low-income areas required a more complex approach in which the municipal government had to play an important role, while more effective organisational structures had to be developed to achieve integration and coordination.

As a result, in 2005 the Budapest municipality amended its law on urban renewal to incorporate social renewal and, based on expert recommendations, assigned three pilot areas to receive the first interventions. One of the essential characteristics of the new social approach to urban renewal was the larger role played by the municipal government. This happened only partly in the case of the most successful social renewal project, the Magdolna quarter scheme, as after the designation of this area and some initial financial support from the municipality, leadership went over to the district. District VIII then established the 'Rév 8' local development company, owned and largely financed by the district, with minority shares owned by the municipality.[4] A multi-disciplinary team was established which worked on physical, social, economic and other aspects of the renewal.

CASE 3

Magdolna quarter: the pilot case for 'socially sensitive urban renewal'

The Magdolna quarter of approximately 12,000 people is one of the 11 quarters of District VIII. Due to its location adjacent to the railway station, this was always the poorest part of the city attracting people arriving from the Great Plain, a depressed agricultural region covering much of eastern Hungary. In Magdolna, only 6 per cent of people have a university degree, 12 per cent are unemployed and 42 per cent of the housing (Figures 8.8 and 8.9) consists of public rental flats, compared with a Budapest average of less than 5 per cent. Roma, a multi-layered ethnic group which can include middle-class musicians, make up 30 per cent of the population, approximately four times higher than the average in Budapest (estimates by the local housing management company).

The Magdolna programme was initially financed from very limited public funding provided by the municipal and district local governments. It started with five main policy 'pillars':

Figure 8.8: Constructed 120–100 years ago, buildings typical of the Magdolna area, Budapest which have never been renovated

Photo: Iván Tosics

Figure 8.9: The internal courtyard of an unrenovated building, Budapest

Photo: Iván Tosics

- *A public space programme*: for renovation of the centrally located Mátyás square with the active participation of residents.
- *A programme for creating communities*: involving the creation of a community house located on the central square in a refurbished empty factory and including extensive community development projects.
- *An educational programme*: the totally segregated elementary school, attended only by Roma children, was merged with a non-segregated secondary school, and in this way, turned into a mixed school where Roma children had the opportunity to complete 12 years of education.
- *A safety programme*: a detailed social and crime prevention programme was combined with a programme to change the attitude of the local police.
- *A special programme for public tenants*: treating publicly owned rental buildings as quasi-condominiums in which limited renewal was undertaken for tenants who offered the largest in-kind contributions.

A new phase of the Magdolna programme began in 2008 when EU co-financing became possible and larger renovation works could be carried out (Figure 8.10). This phase focused on the public rental buildings but also offered support to private condominiums in the area. Approximately €8 million of EU Structural Funds enabled the renewal of many buildings, including some 400 flats in the area. Pedestrian areas and community sports yards were created, accompanied by public safety programmes; a training and employment programme; and strengthening the local social and education services.

Present problems and future prospects for urban and housing renewal in Budapest

As the principal financial support for BURP was Budapest's share of housing privatisation revenues, it was clear that this programme could not last for ever. By the second half of the 2000s, such privatisation revenues declined substantially and the municipality was unable to replace them with contributions from the limited municipal budget. Thus, soon after the introduction of social renewal, the most costly sub-programme, it became clear that BURP was in danger of financial collapse. Fortunately Hungary joined the European Union at the best

Figure 8.10: Comprehensive renewal in Budapest using EU funds

Photo: Iván Tosics

time (2004) and from 2007 EU Structural Funds were channelled partly into urban renewal.

The story of the housing element of EU Structural Funds is quite complex (see Tosics, 2008). The new member states, including Hungary, played a key role in convincing the European Commission that housing should be eligible for Structural Fund contributions. Changes in regulations came in three waves. From 2007, it became possible to spend EU money on the renewal of deteriorated areas in the new member states. Since 2009, the energy-improving renewal of residential buildings became eligible in all EU countries and since 2010, new social housing could be built to replace social ghettos as part of programmes to deal with marginalised communities.

The first two waves of EU legislation had special importance for urban and housing renewal in cities. Social urban renewal in deteriorating areas became part of the Operational Programme of the Central Hungarian Region. The Magdolna quarter received substantial support from the programme which made the renovation of deteriorated buildings possible. In addition, the energy-improving renovation of condominiums on large housing estates could be speeded up, and approximately one quarter of buildings have now been renewed.[5]

At the beginning of the 2010s, however, urban renewal reached a turning point. The financial crisis limited the possibilities for the public sphere to influence the development of cities. Urban renewal is usually one of the first victims of reductions in public spending and Hungary was no exception as national and Budapest-level resources evaporated.

There are other factors, however, which point to a bleak future for urban and housing renewal in Budapest. The first is the decrease in municipal revenues as fewer and fewer buildings are privatised by the districts. As a consequence, the area-based dimension of the renewal programme has been almost entirely abandoned and only limited subsidies are available for improving condominiums. The second factor arose from a change in the Law on Local Governments adopted at the end of 2011. This law favours district local governments and ends the limited opportunities for the more strategic municipal influence over the public rental sector and the renewal of residential areas in Budapest.

The third change limits the only remaining source of renewal financing, EU Structural Funds. Besides a probable decrease in the EU budget from 2014, the financial position of the Central Hungarian Region, of which Budapest is part, is set to worsen.[6] Some EU money will continue to arrive and the energy-efficient renewal of buildings might continue at a lower level, but Budapest's share will decrease radically. This drying out of EU money will lead, in the absence of any other public resources, to the end of social urban renewal.

The result of all these factors is likely to be, from 2014, a total collapse in the financing of area-based programmes. As a combined effect of the financial crisis, anti-Budapest politics and decrease of EU funding, urban renewal will again depend on decisions in relation to individual buildings without any area-based policy background.

Summary and outlook

Visitors to Budapest enjoy the architectural unity of the city but quickly recognise the substantial renewal backlog. The renovation of residential buildings was constantly postponed in the twentieth century, either due to the effect of wars or the primacy of the shortage of housing. The first attempts at the area-based renewal of older areas emerged in the last decade of socialism but were limited by the low financial capacity of the state. After the collapse of socialism, large-scale housing privatisation followed and housing lost priority.

In the Hungarian regulation of housing privatisation, privatised multi-family buildings had to be turned into condominiums and the introduction of the 80 per cent benchmark for decisions on renovation ensured the minimum conditions for building renovation. After a decade of 'no policy' in the 1990s, the need for public intervention emerged again, but the development of such policies was slow. In terms of the financing of housing renewal, national programmes were introduced only for the energy efficient renovation of prefabricated buildings on large housing estates.

Budapest, with the remains of the public rental stock often in very poor condition and a dominant stock of market sector condominiums, had to develop its own policy for the renewal of buildings, both public and private. After the mass privatisation of public rental housing and the decentralisation of public administration to the districts, the possibilities for the overarching and spatially concentrated renewal of residential areas vanished.

By the end of the 1990s, the municipality had launched an urban renewal programme based on its share of privatisation revenues, supporting condominiums and areas in need of urban renewal. Both sub-programmes functioned through bidding procedures, favouring those condominiums and neighbourhoods which had clear programmes for renewal and which could raise their own financial share. An independent evaluation of the programme established that the condominium sub-programme largely subsidised the renovation of multi-family buildings in the affluent inner city, while the area-based sub-programme contributed to the redevelopment of one area with poor housing but the best local policy and organisational capacity.

The critical evaluation of the programme led to the launch of a new and effective sub-programme to achieve urban renewal with a social emphasis, concentrating on the most deteriorated areas of the city. This required large-scale public investment where the renewal challenge was the greatest and the ability of the residents and the willingness of investors were the lowest. Recently, a successful programme of social urban renewal has been developed, making use of EU finance in the integrated improvement of one of the poorest areas of Budapest.

Unfortunately all these promising efforts can be expected to come to an end by the mid-2010s, due to the financial crisis of the municipality, the sharp decrease of EU funds and the further decentralisation of local government. There seems little possibility of the public financing of area-based renewal in the near future. The condominium-based model will become the exclusive way of renewal requiring the right pre-conditions of a high value location; a small property; and strong mutual representation and agreement among the co-owners of the building. As a consequence, renewal of the old housing stock will be further differentiated according to land and property values in parallel with a socio-spatial segregation of population. The end of the coordinated renewal of deprived areas will lead to further segregation and deprivation.

The case of Budapest shows the difficulties of (re-)gaining public influence over housing and urban renewal after the mass privatisation of multi-family housing and the extreme decentralisation of public administration. With huge effort, new models were developed which depended heavily on public financing and cooperation between the different levels of local government. Recent developments suggest the end of area-based social urban renewal in Budapest for the foreseeable future. The long awaited third model of urban renewal, focusing on heritage areas, did not even start and its chances are very low in the context of diminishing public financing opportunities. Housing renovations will continue in the future on a building-by-building basis. This, however, will lead to increasing differentiation between the better-off and the poorer parts of the city. Besides, over-arching renewal of the heritage areas is very unlikely, except for cherry-picking some parts of these by the private investors.

To overcome these unfavourable conditions will be very difficult. Changes are needed in legal regulation enhancing once again the role of the municipal, city-wide, level in relation to the districts. The social and the heritage models of housing and urban renewal should be re-introduced, based on substantial support from the public sector. These changes, however, are unlikely in the short term.

Notes

[1] Hungary did not use fully the allowed amount of CO2 emissions and could sell the excess quota to countries which had more emissions than allowed. It was therefore the first country which sold CO2 quota on the European market to Belgium and Spain. The revenue of approximately €100 million was planned to be used for the energy efficient renovation of prefabricated buildings.

[2] This kind of exaggerated subsidiarity has led to extreme consequences, with the rent levels in the best districts being lower than in the worst. In the former, few rental units remain and the district leadership is less concerned about the revenue from them. In the poorer districts, every small amount of income counts and thus rents are constantly increased.

[3] The Jewish quarter is a well known heritage area with many old buildings in the inner city of Pest. In the late 1990s, the district local government started to relocate families and transfer the dilapidated buildings to developers whose

aim was, instead of renewal, demolition and the construction of much larger new buildings which did not fit at all with the character of the area. As a result of growing public protests, the rebuilding of the area was finally stopped by the heritage authority in the late 2000s. Since then, nothing has happened and the deterioration of the area continues. This case is a clear illustration of the problems created in high land value heritage areas when the public regulation and support system for heritage renewal is missing.

[4] See, www.rev8.hu

[5] According to the website of Önkormányzati Minisztérium [Ministry of Local Government], retrieved in 2011 but non-existent since then, by 2007 over 190,000 of the 820,000 flats had been energy-renewed to some extent (resulting in heat saving of 8-50 per cent) on large housing estates in Hungary.

[6] Between 2007 and 2013, the Central Hungarian Region to which Budapest belongs, was in the category 'Phasing out from Objective 1'. After 2014, the Region will be classified as Objective 2, due to the high GDP per capita level of Budapest which means a much lower level of EU financing than before.