

## Budapest: restructuring a European metropolis

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# Budapest – Restructuring a European Metropolis

ZOLTÁN KOVÁCS and REINHARD WIESSNER

## Introduction

When the restructuring of the socialist systems commenced some fifteen years ago, the question arose on many levels as to what form of transformation would occur and how rapidly it would proceed. In this context, there was the question of how to deal with the frequently problematic structures in urban development that had been inherited from the socialist era. There were also the questions of whether the required process of economic catching up would succeed and what the relative positions of the cities in the competition between European and international cities.

These questions will be dealt with in the following using Budapest, the capital of Hungary, as an example. Based on a discussion of specific circumstances of urban development in the transformation process, we will analyse intermediate processes of economic restructuring and the development of the socio-spatial structure of the housing market.

The authors' own research work forms the basis of this, along with studies carried out by colleagues and the long-term monitoring of the local development. There are several studies available on the urban development in Budapest concerning the transformation of the housing market (e. g. KOVÁCS a. WIESSNER 1995a, 1995b, 1999; SAILER-FLIEGE 1997), the labour market (e. g. DÖVÉNYI 1994), the structural transformation of the economy (e. g. KISS 2000; KISS a. TAKEUCHI 2002) and the consequent regional transformation processes (IZSÁK a. PROBÁLD 2001; KOVÁCS, SÁGI a. DÖVÉNYI 2001). At the moment, there is no extensive synthesis of the progress on restructuring yet.

It appears sensible within the framework of a Hungarian-German cooperation programme to compare the urban development processes in

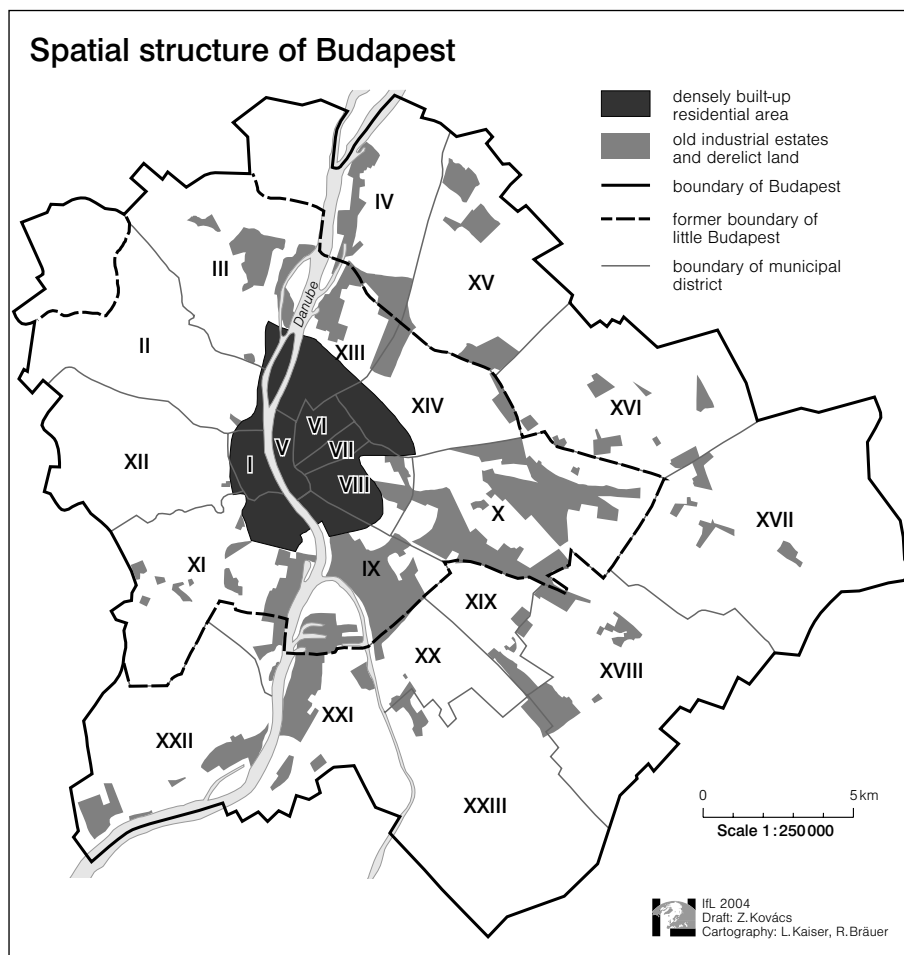


Fig. 1: Spatial structure of Budapest

Budapest with development in Germany and other Western countries, instead of viewing them in isolation, as well as putting them in the context of international trends.

## Conditions of the urban development in the transformation process

### *Starting situation: socialist and pre-socialist legacy*

The socialist phase of urban development left behind structures and sometimes considerable problems, which we can see in a similar extent in other major cities of central and eastern Europe in the post-socialist era.

The collapse of large swathes of the industrial sector and other sectors of

the economy due to an inability to compete on an international scale led to economic and social problems and also left huge industrial areas within the cities unused. In Budapest, the industrial downscaling slashed the number of people working in industrial employment from 342,000 in 1985, 277,000 in 1990 to 127,000 in 1995 and 101,000 in 2002. Accordingly, the proportion of people working in industrial employment compared to the total number of jobs fell from 36 % in 1990 to 18 % in 2002. There was therefore an emergence of large expanses of derelict industrial space, above all in the industrial and commercial belt established in the late ninetieth century (period of promoter-

ism) between the residential areas of the inner city and the outer zone that was incorporated in 1950 (s. Fig. 1).

The residential districts in the inner urban area are mainly older buildings from the late nineteenth century. They have been neglected for years and were and are in some cases slipping into dilapidation. The expansive new residential areas of the socialist construction era, the tenement blocks, dominate the urban periphery. There is also a considerable need to redevelop these areas. During the socialist era, the state-controlled construction of new housing was largely restricted to the city itself. Although residential suburbanisation in Budapest was more pronounced than in other major socialist cities (among other things due to restrictions on moving to urban areas), it still remained on a comparatively modest level compared to the suburban sprawl processes in urban regions of the West (compare BERÉNYI 1986).

Unlike in other formerly socialist states, the stock of housing in the districts with older buildings was almost entirely nationalised in Hungary during the fifties. Contrastingly, the housing policies, which focused on the construction of new space, were increasingly liberalised after the start of the eighties. Financially potent and privileged groups in the population were able to purchase single-family homes and dwellings in condominiums; these were constructed primarily in favoured districts of the city (compare SZELÉNYI 1987; KOVÁCS 1994).

The private construction of housing in particular led to the emergence of segregation processes in Budapest that were pronounced by socialist standards. The neglected districts of old buildings were increasingly inhabited by socially underprivileged groups and older people. There was additional segregation between the districts of old buildings. It had ultimately been created in the structural and social circumstances of the period of promoterism and it persisted into and beyond the socialist era. The representative buildings with generous apartments that were constructed for the upper middle class around the turn of the twentieth century in the district of Buda (to the West of the Danube), the eastern banks of the Danube and in

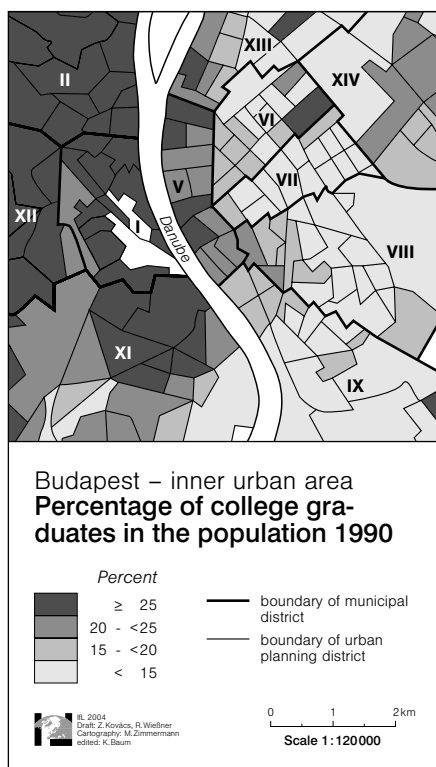


Fig. 2: Proportion of college graduates in the population of the Budapest inner urban areas in 1990

Source: KOVÁCS a. WIESSNER 1999, p. 27

the city centre were able to preserve a large proportion of their residential prestige. Conversely, the working class districts in the East and South-east of the city centre, which had always been impoverished (compare LICHTENBERGER et al. 1994, p. 71ff.), had unfavourable structural and social status. Figure 2 emphasises the social disparities in the inner urban areas in 1990 on the basis of the proportion of college graduates in the population.

The large housing estates also had different statuses and corresponding social structures as early as during the socialist era, depending on their location, structural state and the proportion of owner-occupied dwellings (compare EGEDY 2000).

#### *Reform process and starting advantages on a national level*

When the system was transformed and there was a switch to free market economy mechanisms, the hope arose that the known problems of urban and economic development would be overcome quite quickly. Indeed, Hungary did have better initial conditions for this than other reform states.

Economic reforms during the socialist era had already led to succes-

sive distancing from centralised planning and guidance of the economy, and the gates to the West had been opened moderately (“goulash communism”). The cornerstone of this process was the New Economic Mechanism, implemented in 1968. The reform acknowledged the multi-sector nature of the economy, meaning that state, co-operative, and private small-scale economic activity all had an equal right to exist within the socialist economy. From the New Economic Mechanism of 1968 and the Local Government Act of 1971, Hungary had emerged as the most liberal part of the communist Eastern Bloc. The process of liberalisation was further strengthened in the 1980s by new economic and political measures. The private ‘second economy’ was seen as providing much-needed services and as a source of revenue for the government. It was therefore recognised by the government who sought to include it into the mainstream economy by introducing new ‘socialist’ forms of small scale enterprise. Furthermore, Hungary built up good relations with its western neighbours and gradually joined several transatlantic organisations, though not questioning its membership in the COMECON and the Warsaw Pact. Thus, Hungary was the first country of the Eastern Bloc which could join the GATT in 1974 and the IMF in 1982. It was also Hungary which started negotiations and made contracts with the European Community in the mid-1980s.

Hungary also assumed a pioneering role in the political process of reform. The principal reforms of the social and economic systems took place in the second half of the eighties under the governance of socialist reformation powers. They were completed on October 23, 1989, when the new state constitution was passed. This took place even before the Berlin Wall fell and before the other transformation states had undertaken their main steps for reform (compare LIETZ 1992; WIESSNER 2001, p. 109ff.). After all, Hungary was the first Eastern Bloc country to open its borders to the West.

#### *New economic impulses*

The stability in political and economic structures made Hungary interesting

for foreign investors. Over the course of the first few years after the Eastern Bloc collapsed, Hungary secured the lion's share of foreign direct investment in Eastern Europe. The country is still an important target for foreign investors, although serious competitors have emerged with Poland, Czech Republic and also Russia (compare SAILER 2001, p. 38f.; WIESSNER 2001, p. 111). Budapest benefited from this development to a considerable degree. Roughly one half of the foreign direct investment that has poured into Hungary to the amount of 23 billion US \$ were made in the capital and its surrounding regions. The economic standing of Budapest as capital of Hungary, which had always been extremely prominent, was strengthened additionally as a result.

The positive economic effects of the foreign direct investment and the increasing activities of local firms and start-ups were nonetheless insufficient to generate the rapid upswing that had been hoped for. The collapse of the old economic structures, heavy foreign debt from socialist times and high inflation slammed the brakes on the development of the national economy. Indeed, the economy did not consolidate until the second half of the nineties. Registering economic growth of between 3 % and 5 % in the last few years (s. Fig. 3), Hungary and especially the capital of Budapest can now look into the future with optimism.

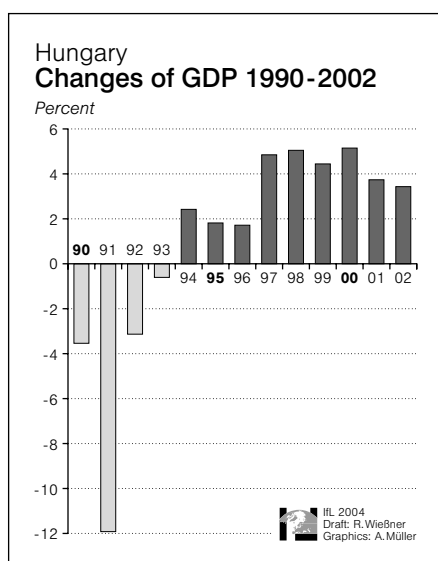


Fig. 3: Changes of GDP in Hungary 1990 - 2002

In this respect, a distinction can be made between two phases of transformation: a first phase, which was strongly characterised by dismantling and economic transformation, and a second phase of constant consolidation in the developments.

#### *Socio-economic polarisation – new prosperity – new poverty*

Relatively favourable, average economic figures, however, should not mask the fact that the transformation process led to considerable socio-economic differences, and a drop in real income and the standard of life for large sections of the population. Unemployment rose sharply, the high inflation led to a loss in real wages and the population became increasingly impoverished (compare DÖVÉNYI 2001, p. 208ff.). The state had also lost much of its power of governance in social policies. Conversely, smaller groups benefited from the transformation (in some cases also due to the economic reforms of the socialist era) by operating in the free market and as social climbers in the environment of the new, foreign companies. Even if the material emergency of many households relaxed as the country became increasingly stable in an economic sense, Hungarian society remains today characterised by socio-economic polarisation, which is considerably more pronounced than in the societies of Western Europe. The differences between the new rich and the new poor collide most strongly in the capital of Budapest, where the effects of the transformation are strongest.

There are two social groups which were especially hard-hit by the transition: the elderly and the Roma. Ageing is a long lasting problem in Budapest similarly to many metropolises of Europe. The proportion of the population 60 years and older was already 21.6 % in 1990, and it reached 23 % by 2002. In January 2003 31 % of the total population of Budapest lived on some kind of pension, the majority of whom were much below the poverty line.

Another social group that suffered from multiple disadvantages during the transition are Roma families (KOC SIS a. BOTTLIK 2004). According to estimations the number of Romas

in Hungary is about 600 thousand, i. e. 5 per cent of the population. They still preserve their predominantly rural character, the rate of urban population among Roma is much lower than for the total population, however, their presence in some run down inner-urban neighbourhoods cause severe problems. The number of Roma in Budapest is approximately 60 thousand (ca. 3 % of the population), however, the majority of them live in a few deteriorated neighbourhoods such as Józsefváros or Kőbánya.

#### *Leeway for policies and planning, and administrative restructuring*

High foreign debt, empty coffers and insufficient tax revenue placed considerable restrictions on the actions of public institutions during the first phase of transformation in Hungary. The state and the local government authorities, which had been strengthened in their competencies as part of the decentralisation of state power, were barely able to set policies. The rules of the free market and the interests of the investors were much more significant. With the economic consolidation and the stabilisation of the financial situation, in the late nineties the public sector was enabled to lay structural foundations.

A specific feature of the new administrative structures in Budapest is that extensive tasks of autonomous administration are transferred to the 23 city districts. As relatively autonomous parts of the city, the districts determine the main thrust of urban development within their administrative limits. The state stock of housing was also transferred to the districts along with the responsibility for privatising housing according to state guidelines.

The privatisation of the state stock of housing in the districts with old buildings and the large housing estates is a significant reform measure in the urban development (compare HEGEDÜS a. TOSICS 1994; KOVÁCS a. WIESSNER 1995b). Until today, over 80 % of the formerly state-owned dwellings in Budapest have been sold (s. Fig. 4), primarily to their former tenants, who were entitled to purchase their apartments at preferential rates, generally 15 % of their current market value. There was never a question

of returning the buildings to their expropriated owners, who received sparse compensation.

This practice, in addition to no restrictions on resale of the dwelling, made privatisation of public dwellings very attractive among residents and meant that some public dwellings – especially in green environment or with inner-city location – were able to be resold at prices of multiple of the market value paid. This system of privatisation resulted in that the better-off households occupying the most valuable, best quality segments of the social housing stock were able to gain huge profit upon resale of the newly acquired dwelling. Accordingly, the process of privatisation was much faster in the more upmarket residential districts than in the problematic urban districts.

The considerable competencies that the districts have make it significantly more difficult to implement any plan-

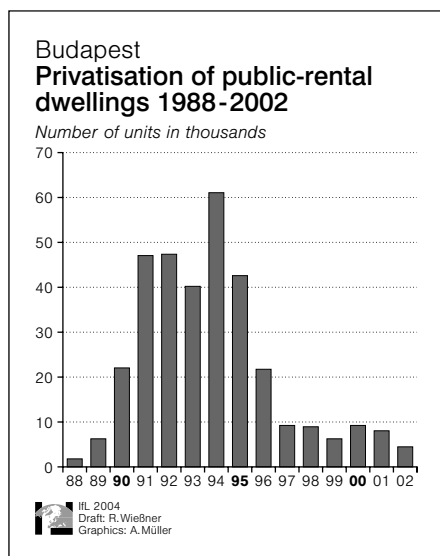


Fig. 4: Privatisation of public-rental dwellings in Budapest, 1988 - 2002

ning and development concepts that refer to the entire city. For example, there are no housing or social policies that refer to the whole city. Until today, a binding urban development plan remains to be passed.

### Economic restructuring and urban development

#### *The emergence of the tertiary sector in the city centre*

During the first few years of transformation, there was a boom of free

market investment in the tertiary sector, especially by foreign capital. Initially, the main focus of investment was on the city centre (compare KOVÁCS 1994; KOVÁCS a. WIESSNER 1995a, 1999; KLUCZKA 1996; SMITH 1996; DINGSDALE 1997).

- There were considerable numbers of new commercial construction projects in the city centre of Budapest, most of them financed by foreign capital and used by foreign companies. In addition, the renovation of commercial property led to a considerable appreciation in the value of the commercial properties. As early as 1993, we observed that about a quarter of all mainly commercially used buildings in the inner urban areas had been newly constructed or redeveloped (compare KOVÁCS a. WIESSNER 1999, p. 45).

- Shops or other commercial spaces on the ground floor or in the basement of multi-storey residential buildings in the districts with older buildings were constructed and renovated on a large scale, in most cases by local entrepreneurs. A frequent feature is the contrast between the optically renovated uses in the lower storey and the non-renovated state of the residential storeys located above. In the course of this process, too, outlets of international retail and fast food chains opened along the main shopping streets.

- Another process in the emergence of the tertiary sector was the rededication of housing space to accommodate commercial uses, mainly in the city centre and the upmarket inner urban residential areas. In many cases immediately after being privatised, apartments were rented out to commercial parties, sold or used by their owners for small commercial operations.

- In addition to the development of the market economy, planning measures on the part of inner urban districts also contributed to the gradual establishment of commercial operations in residential areas. The districts were trying to take the opportunity of tapping the economic boom by expanding the city centre and implementing revitalisation projects; however, many of these plans have only been partially

implemented to date, depending on the interests of investors.

By the expansion of the city centre and by spreading tertiary functions into representative residential areas on the edges of the city centre, Budapest caught up with processes that have characterised the last decades in a similar manner in the development of major cities in the West.

There is an obvious connection between the functional change and commercial revitalisation of inner city neighbourhoods and the growing integration of these places to the world economy. The upgrading of these neighbourhoods is generated primarily by the corporate and commercial expansion of the global market. New corporate headquarters, business and commercial centres, hotels and tourist facilities have flooded the city-centre (SMITH 1996). The symbols of the capitalist market economy and consumer society have appeared extensively sweeping away the remnants of the “shortage-economy”. The restless urban landscape of post-socialist Budapest is dominated by steel and glass Western-type post-modern buildings most often for the purpose of office, shopping and tourism (GRIME a. KOVÁCS 2001).

#### *Revitalising industrial blight areas, new commercial estates, shopping centres and commercial suburbanisation*

After a drop in the investments around the middle of the nineties, there was renewed activity once more in the second half of the nineties. Since then, we have seen more pronounced developments that are targeted mainly at locations outside of the city with good infrastructural connections. Once more, international companies are at the forefront of major investments.

- To an increasing extent, the expansive industrial blight areas that snake around the city centre are being revitalised. However, they are rarely used for industrial or commercial purposes, but are instead also part of the tertiary sector.

A particularly dynamic example for the revitalisation of old commercial estates is the Váci-út corridor in the traditional industrial estate of Angy-

alföld, which is directly connected to the Northern side of the city centre. The blight areas that developed after the collapse of the old industrial and commercial enterprises are now almost all occupied by new users, in some cases in the old, renovated company buildings, but more frequently in new buildings. Duna Plaza, a large shopping and entertainment centre, has a pilot and magnet function in the development of the area. In addition, varied retail outlets, for example many car showrooms, office and administrative functions including the main headquarters of the OTP Bank (Hungarian National Savings Bank), have settled there. There is also a development of upmarket housing construction in the commercial estate. The considerable upgrading of the Váci-út corridor was favoured by its proximity to the city centre, but also mainly due to its good infrastructural accessibility via the new Metro line 3 (compare FRITZSCHE 2003).

- In addition to the revitalisation of old sites, there are also new commercial estates being constructed. The InfoPark, a state of the art centre of science and research, is a remarkable example of this.

The InfoPark project was initiated and partly financed by the central state with a substantial contribution of private firms. The project goes back to the original idea of the Budapest-Vienna joint Expo which was proposed in 1987 and would have taken place in 1995 (KERESZTÉLY 2002). The main objective of the Expo was to enhance collaboration and communication between East and West, which was also reflected by the slogan of the Expo ("Bridges to the Future"). Due to the fall of the Iron Curtain the Expo lost its original aims. Therefore first Vienna (1991) and later Budapest (1994) withdrew from the accomplishment of the project. Soon after the cancellation of the Expo the government decided to convert the Lágymányos site of the Expo area into a new university campus and a science park. The area lying west of the Danube covered 21 hectares and comprised green-field and industrial derelict land. The first three buildings of the university campus were completed by 1996, providing space for

the Faculty of Science of the Eötvös Loránd University (ELTE) and a combined Information Technology Centre for the University of Technology and ELTE.

On the remaining site the government decided to develop an Information and Technology Innovation Park (InfoPark). In order to implement the project the government established the InfoPark Co., a shareholding company where the shares are owned by ELTE and Technical University (25 %), the National Committee for Technical Development (25 %), the Hungarian Investment Bank (49 %) and the Ministry of Economic Affairs (1 %). InfoPark Co. became the owner of the land and only rents it for 99 years to the investors. The state majority guaranteed that the area could not be used for other purposes (e.g. commerce). The first investor was AIG/Lincoln, a German company who signed the contract in 1998 and constructed the first building with 14,500 m<sup>2</sup> office space. Among the clients renting offices in the new Infopark Research Centre we can find IBM, Panasonic, Nortel Networks, Hewlett Packard etc. In 2000 the research centre of MATÁV (Hungarian Telecom) was completed with 18,300 m<sup>2</sup>. In the meantime two new buildings are being constructed with a total of 20,000 m<sup>2</sup> floor space and three others are in the planning process. According to the plans the InfoPark project will be completed by the end of 2004 and by then it will comprise seven buildings with altogether 103,800 m<sup>2</sup> office space.

InfoPark can be considered the first Technopolis of Hungary, a successful joint venture of the public and private spheres. The connection between the companies sitting in the InfoPark and the two universities is very strong, newly graduated people have good job opportunities at these companies, and there is also an increasing collaboration in the field of research and development. The example also shows that Budapest is not only of interest as a production site for international companies, but also as a site for high-level research and development centres in competition to countries of Western Europe.

- New commercial estates are also emerging as part of the recent

process of commercial suburbanisation, which started tentatively after the change of system along the Western motorway leading to Vienna, but which has expanded strongly since after the construction of the ring motorway M0. Expansive retail trade centres, logistics firms and also production companies all find adequate, accessible sites here.

The suburban companies are less frequently relocations from the inner urban areas, although there are examples of this (e.g. Pannon GSM), and more often new, commercial investment, mainly by foreign companies. The industrial sector is represented by large companies such as Sony, Lear Corporation, Caterpillar, General Electric, Tetra Pak or Astra Zeneca. The service sector should be emphasised with its shopping centres (Auchan, Tesco, Metro, Praktiker, Brico Store, Baumax), office complexes and investments in tourism (hotels, recreational facilities) (KOVÁCS, SÁGI a. DÖVÉNYI 2001). Four poles of dynamic growth can be identified in a regional sense, each of which has a sector-related specialisation: Budaörs-Törökbálint in the West of Budapest (services and industry), Szigetszentmiklós-Dunaharaszti in the South (logistics), Dunakeszi-Fót in the North (retail trade and other services) and Gödöllő with its neighbouring communes in the Northeast (industry).

- Retail trade has experienced an extraordinarily dynamic development and westernisation since the end of the nineties. Facilities that had previously been effectively unknown in Budapest such as superstores, shopping malls that offer a joy-shopping and other inner urban shopping centres have since emerged in large numbers. A survey by TERPITZ (2002) recorded a total of 36 centres of this kind in Budapest and its immediate surroundings. The investors are foreign companies, which more or less construct copies of their shopping centres in Western Europe in Budapest. The firms represented in the shopping malls are also mainly international retail chains. The sites are on the periphery of the city and in the green belt, but also in central locations and dispersed across the city. They generally have good infrastructural connections to main roads

and public transport lines (compare TERPITZ 2002).

The new retail trade facilities, which offer products in medium to high price brackets, are also an expression of the rise in purchase power, certainly in parts of the population, for the increasing availability of cars for shopping and ultimately for the transformation in shopping habits. The older, more impoverished and less mobile households, which represent a large section of society, are still dependent on the inexpensive products, which are still found in Budapest on a large scale in traditionally small retail trade outlets, in markets and in small and very small companies that opened after the change of system. A characteristic feature of Budapest is a clear differentiation of products on offer and shopping behaviour, depending on which social group one belongs to. It corresponds with the social polarisation found in the whole society (compare TERPITZ 2002).

In general, a clear influence by international companies can be felt in the rate of growth in Budapest. In the second phase of transformation – after a more “sustainable” development in the first phase that concentrated on the inner urban areas –, this internationalisation leads to progressive decentralisation and suburbanisation and therefore to an approximation of Western patterns of urban development.

#### *Growing urban tourism*

Urban tourism is an additional economic segment with an international flavour. Budapest is traditionally one of the most outstanding tourist attractions and the main centre of tourism in Hungary. At the end of the 1990s with slightly more than 4.5 million tourists' nights Budapest concentrated 28 percent of the total tourist turnover of the country officially registered by commercial accommodation establishments (MICHALKÓ 2001a). A typical feature of the transformation of tourist sector in the 1990s was that the proportion of foreign guests within the total tourist turnover has been continuously increasing. At the end of the 1990s already 85 percent of the turnover was realised by foreign tourists as compared to 72 percent registered in 1990. During the transition

the number of tourists arriving from the post-socialist countries has halved, whereas the share of those from the European Union and overseas countries has dramatically increased. Nowadays the tourist turnover of Budapest is dominated by Germans (17 %), Americans (10 %) Italians (7.4 %) and British (6.7 %) (MICHALKÓ 2001b). Analysing the tourist turnover we can also point out that the total number of visitors staying at hotels has been growing dynamically (23 percent growth between 1990 and 2001), on the other hand the share of lower quality accommodations (bread and breakfast, youth hostels, camp-sites etc.) within the whole sector is decreasing. As a consequence the size of profit made by the city on tourism has been considerably increasing over the last 15 years, and now this is one of the main economic branches of the city. Due to large scale foreign investments the hotel and catering sector has gone through a rapid modernisation in Budapest with expanding hotel (Novotel, Radisson, Mercure, Hilton etc.) and fast-food chains (McDonalds, Pizza Hut, Burger King). In addition there are large numbers of traditional Hungarian and fashionable international restaurants in the city. Cafés, once so typical features of Budapest's life, have been reappearing. Budapest's tourism with its vibrant dynamism is one symbol of the rapid post-socialist transformation towards the outside world.

#### *Economic performance in an international comparison*

If one attempts to express and compare the level of economic development of European regions using an indicator, the factor of “per capita GDP in purchasing power standards” (PPS), which was developed by the EU on the level of the NUTS regions is a suitable tool. In it, the real GDP is standardised using the national purchasing power. The indicator can therefore be taken as an approximate yardstick for the average standards of life quality, even if it does slightly overestimate the circumstances in the economically weak countries. The GDP in PPS is applied among other things as a main criterion in the EU regional policy for the definition of regions that require subsidisation.

The PPS value for the City of Budapest in 2000 was 22,046 PPS, which was only slightly lower than the EU average of 22,603 PPS. The PPS value for the region of Central Hungary (Budapest and the surrounding county of Pest) is 17,270. In this comparative yardstick, Budapest and Central Hungary have already exceeded the level found in the East of Germany. In East Germany, for example, Berlin has a value of 21,616 PPS and the region of Leipzig, the most economically powerful NUTS2 region next to Berlin, has a value of 16,959 PPS. Naturally, the prosperous cities and regions of the EU are quite some way ahead. For example: Hamburg 41,025 PPS, Vienna 35,483 PPS, Region of Upper Bavaria (with Munich) 34,890 PPS, Region of Madrid 24,855 PPS (Data according to Eurostat).

This data, and the aforementioned inclusion of Budapest in the investment decisions of international corporations, are positive proof that the Hungarian capital is already an important player in the competition between European cities.

#### **Socio-spatial differentiation of the housing market**

##### *Development problems in the areas with old buildings and large housing estates*

The socio-economic polarisation of the population that went hand in hand with the economic transformation is expressed extremely clearly in the socio-spatial development of the housing areas in the inner city (compare among others LICHTENBERGER et al. 1994; HEGEDÜS a. TOSICS 1994; SAILER-FLIEGE 1997; KOVÁCS 1998; KOVÁCS a. WIESSNER 1995b, 1999).

- In Budapest, we find residential districts that group the elite of the new wealthy class in generous, new villas. These districts are found primarily in the attractive residential sites of the Buda Mountains. There are also new housing estates in other upmarket locations, mainly on the periphery of the city and in the suburban areas, where we principally find better-off households.
- Unlike this, time appears to have passed by largely unnoticed in the districts of the city with old buildings. Stabilisation trends with regard

to the preservation of the buildings and the population structure can be recognised in the more representative, formerly bourgeois residential neighbourhoods. The privatisation of the housing in these districts took place rapidly and has now progressed quite far. Significant structural and social upgrading in the style of gentrification in major cities in the West has only recently been seen.

- The traditional working class districts in the Eastern and South-eastern areas of the city centre periphery are stuck in a vicious circle of negative development. Structural dilapidation and social erosion are magnified in a worrying manner in these disadvantaged districts. This is where we find the post-socialist ghettos in the city. People on the edges of society, those who cannot find work and above all the unpopular ethnic minority of the Roma, move into these city districts. The districts are becoming regional flash-points of growing social conflict (compare LADÁNYI 1993, 1997; KOVÁCS 1998).

A large proportion of the dwellings in these districts were also privatised. However, the least attractive dwellings (very small apartments, apartments in buildings with a desolate structural substance) remained mostly the property of the districts, however. The dilemma of urban development in these districts is that neither the new owners nor the districts themselves have the funds required to make any sustained improvement to the problematic circumstances.

- We find similar differences as in the inner urban districts in the large housing estates of the socialist era. Here we also find residential estates with a relatively stable population structure, e.g. in the older housing estates. On the other hand, there are large housing estates that were constructed in a particularly monotonous manner and in a bad residential location. These areas are now – like a part of the inner urban areas – melting pots for problematic social groups (compare EGEDY 2000, p. 180ff.). At the moment, there are no programmes in Budapest for the revitalisation of these large housing estates, which is why we must fear a

further social decline of these residential districts.

In general, these aforementioned tendencies in the different residential districts confirm a process of socio-spatial polarisation and a process of disassociation with considerable segregation tendencies within the city. The phenomenon of socio-spatial division in the city, which has been postulated repeatedly for the development of Western cities as part of the transition from Fordist to post-Fordist economic and social formation and which can already be observed in initial stages, has already become reality in Budapest.

#### *Projects and opportunities for revitalisation*

In Budapest, the greatest problems of urban development are found in the city centre's impoverished districts. As we have already mentioned, it appears fair to assume that these districts will be unable to revitalise themselves using the endogenous potential of these poorer districts and their population. The privatisation of parts of the stock of apartments, which are therefore out of the direct reach of the authorities, has also proven counter-productive with regard to the implementation of redevelopment measures.

One revitalisation project in the IXth district (Ferencváros) has proven to be a remarkable exception. In this redevelopment area, a development company, which is run as a public-private partnership by the local government (with 51 %) and a Hungarian-French consortium of investors (OTP-Bank and the French Caisse des Dépôts Consignations with altogether 49%), has succeeded in securing capacities in the local construction firms in order to reconstruct housing. Roughly 100 mainly smaller buildings with approximately 700 dwellings were torn down. In their place, new buildings have since been constructed with over 1,000 apartments, and almost as many apartments again have been renovated. New infrastructural facilities were also constructed. The consortium also created an attractive residential environment with green inner courtyards and a small pedestrian zone (compare KOVÁCS a. WIESSNER 1999, p. 58f.).

However, if one considers the level of renovation that would be necessary in the old building areas of Budapest, the measures that have been undertaken in Ferencváros can only be seen as the proverbial drop of water in the ocean. Comprehensive redevelopment measures in the problematic districts will certainly require the whole city to share the load, thus also tapping the resources of the prosperous districts of Budapest.

The City of Budapest's revitalisation strategies are in principle targeted at this. In recent times, it has become possible within the framework of the consolidation of economic foundations for the whole city to provide funds for redevelopment programmes. In May 1998, the city council approved the new "Urban Rehabilitation Programme for Budapest".

Within this programme local housing condominiums can apply for 50 % of the actual costs of regeneration from a special central fund set up by Budapest City Government. The rest of the sum should be provided by the local community (e. g. residents). Since housing policy and property management belong to the responsibilities of the local governments of the 23 districts, the decentralised administrative system provides a good opportunity that urban regeneration activities are elaborated and implemented locally, adjusting carefully to the local circumstances. As a consequence of the decentralised regeneration strategy we can observe a proliferation of different housing initiatives among the districts depending on their local circumstances and opportunities.

One of the latest developments in the field of urban regeneration occurred in Józsefváros. Józsefváros could not simply follow the same path as Ferencváros because Józsefváros is widely regarded as the most problematic area in Budapest with the poorest segments of the society. In addition to that the quality of housing stock here is even worse than in the Ferencváros, therefore private investors did not show too much interest towards this area. In 1997 the local government (60 %), together with the Budapest City Government (40 %) set up an organisation, the RÉV8 Co., to cover all the activities connected with the



rehabilitation. As the resources of the local government are limited the project is basically financed from the incomes of selling building sites and dwellings in the given area. Another kind of resource is the local awareness of traditional architectural and community values that provides real meaning of regeneration. In the end of 2003 the project is still far from its end, however, some spectacular results are already perceivable. Investors, as well as young families started to show more interest in coming to the area, all the partners involved are optimistic, they believe that the process of upgrading in the area will continue. There are similar examples of successful regeneration in Kőbánya, and Újpest too. These small scale area based urban initiatives indicate that after the first ten years of transition local governments as well as the private sector show increasing interest towards the revitalisation of old run-down neighbourhoods.

It remains to be seen to what extent the publicly funded measures of urban redevelopment will also provide the required incentive for private investments, which – as we have seen in countries in the West – are necessary for a more comprehensive revitalisation of the areas with older buildings. It is important to consider in relation to the problematic districts of the city that there are above all considerable social problems that need to be solved in addition to the urban problems.

*Preferred residential locations: Buda Mountains, residential parks, suburban regions*

The most preferred residential areas among the population of Budapest are mainly focused in the attractive locations on the periphery of the city and increasingly in the suburban residential areas around the city. Conversely, the desire to live in the city centre is much less pronounced, even if the aforementioned revitalisation projects have created first signs of a gentrification.

The construction of new housing, which is supported on the demand side by the financially prosperous households, is therefore concentrated on building new family homes and condominiums in the preferred pe-

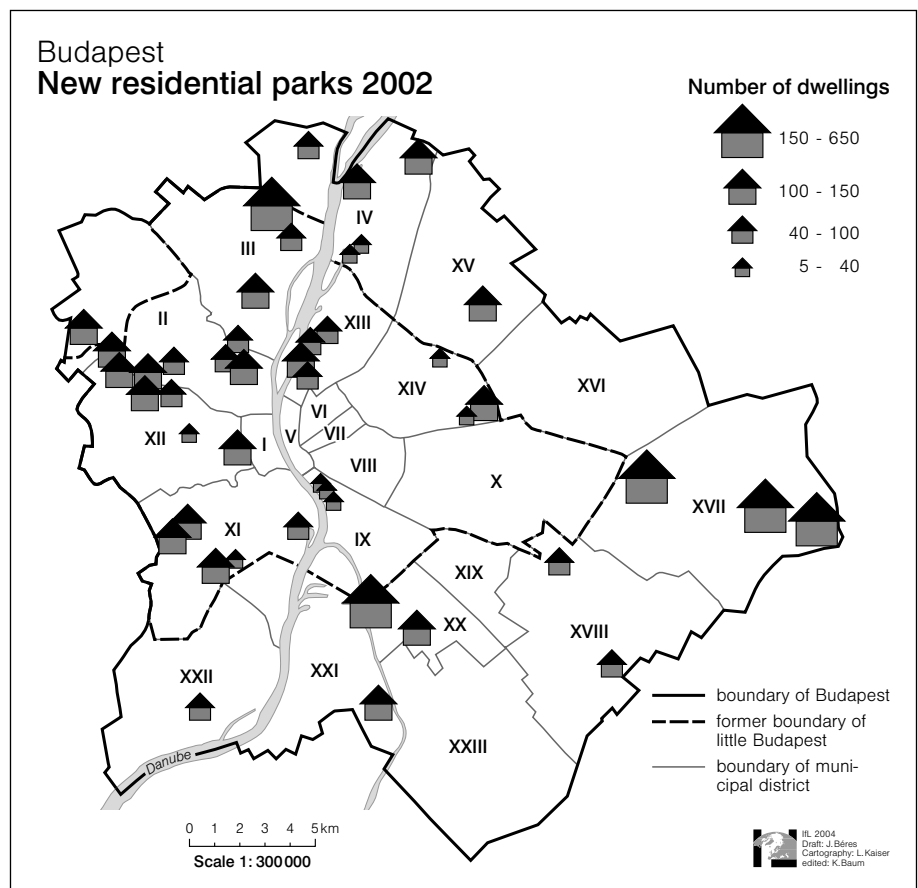


Fig. 5: New residential parks in Budapest

ripheral and suburban areas. The attractive Buda Mountains, which offer local recreational facilities and which have always been the most upmarket residential area in the city, is successively being overgrown with, and dominated by, new housing.

Many areas of the city have also seen a new phenomenon: so-called residential parks, which are smaller residential estates with relatively expensively furnished, larger apartments. These residential parks are very similar to the North-American "gated communities", as they are perfectly cut off from the surrounding areas and provide lots of additional services for the residents (e. g. guard and security system, parking and sport facilities, play-ground). According to BÉRES (2002) the boom of residential parks started around 1998/1999 as part of the general investment boom on the real estate market. By now about 50 residential parks have been constructed in Budapest (s. Fig. 5) and another 30 in the agglomeration. Most of the residential parks are located on the Buda side and at the periphery of Pest, fitted into green. The average size of residential parks is about 130

dwellings, but there are much larger units containing 500 - 600 dwellings as well. Most of the investors are foreign firms like the Bayerische Hausbau which financed the MOM Park project, containing a complex of high quality dwellings, first class offices and a new shopping mall. Dwellings of such residential parks are sold by the developer on the free market at a price level which is 2 - 3 times higher than the average.

Like in the development of commercial estates, recent years have seen a strong growth in suburbanisation processes in the housing sector. The residential ideal of having a house in the country, which is also the dream of the majority of Hungarians, is feasible in the government districts around Budapest, as the land prices are inexpensive and the property owners are able to do a lot of the work themselves (compare KOVÁCS a. DÖVÉNYI 1998; IZSÁK a. PROBÁLD 2001).

The main thrust of suburbanisation principally affects villages located to the North and West of Budapest in the mountainous and hilly landscapes that offer a countryside residential environment far from any industrial

centres. The construction of housing in these villages has boomed over recent years, above all in the form of detached family homes, terraced housing and some residential park projects. Most inhabitants are younger families with children from the middle and upper classes that move away from the core city. The residential suburbanisation caused the population of some municipalities to swell considerably between 1990 and 2000: e. g. Telki (125 %), Nagykovácsi (52 %), Veresegyház (45 %), Budajenő (42.5 %) and Csobánka (40 %).

The population figures in the municipalities to the East and South of Budapest, where the plains offer less attractive residential environments, stagnated and even fell in this same period. During the sixties and seventies, these towns were the target of lower class migration from the rural districts. Therefore, we can also observe a social segregation in the towns and villages surrounding Budapest.

As a consequence of the suburbanisation, Budapest has suffered considerable migration losses. Although the city's general migration balance in 1992 was positive due to new arrivals from other regions, it turned negative in 1993 and has been around an annual loss of over 10,000 inhabitants since the second half of the nineties due to the intensive suburbanisation. Between 1990 and 2003, conversely, the population in the areas surrounding the capital city agglomeration rose by around 20 %. On the other hand, the population of Budapest fell in the same period by 15 % from 2,016 million to 1,719 million (January 1, 2003). Suburbanisation is responsible for roughly half of these losses, while the negative natural population development is responsible for the other half.

### Concluding remarks

The last 15 years have brought about fundamental changes in the urban development of Budapest. Right after the political changes of 1989/1990 Hungary, and particularly Budapest, became one of the most important destinations of international capital in the former Communist bloc. The growing infiltration of global capital as well as large scale privatisation programmes put the country irrevers-

ibly on the way of transition from a centrally planned to free market economy. In addition the transformation of the labour market and the housing market launched far reaching societal changes in the form of increased social disparities, growing residential segregation and social exclusion. As a consequence, the spatial pattern of Budapest has also undergone spectacular changes, where upward and downward processes are equally apparent.

There are two major areas where upward processes are most evident in metropolitan Budapest: the central business district and the suburbs. Due to the massive inflow of capital and the take off of the service sector the city centre has been the place of rapid upgrading processes since 1990. Commercialisation, functional conversion from residential to business use as well as spectacular physical regeneration have completely reshaped the face of downtown Budapest. Another rapidly growing area is the urban periphery where residential and commercial developments go hand in hand, mostly in the form of green field investments. This process resulted in rapidly expanding suburbs, new growth poles, and edge-city type settlements at the boundary of the city.

However, neighbourhoods lying between these two dynamic zones reveal some more controversial development processes.

In addition to expansive industrial blight areas that are relics of the post-socialist deindustrialisation, we also find upcoming developments of restructuring and revitalisation in those areas and new commercial estates in selected areas of the city (e. g. Info-Park and Váci-út corridor), in which renowned international companies have set up business.

In most of the inner city residential neighbourhoods that were severely affected by disinvestment during the Communist period a further decline can be observed. In some of these neighbourhoods, physical deterioration is accompanied by extreme forms of social segregation (ghetto formation). These inner city slums are clearly the enclaves of the socially most disadvantaged groups, the elderly and the Roma. Only a limited number of neighbourhoods provide

examples for upward trajectory, these are mostly the core areas of urban rehabilitation actions, designed according to the western models of public private partnership (e. g. Ferencváros). Neighbourhoods affected by rehabilitation programmes are going through rapid population change, a gentrification process well-known from West European and North American cities is obvious. The large scale, monotonous housing estates built during the 1970s and 1980s and their society belong to the losers of the transformation, where no initiatives have been implemented yet to prevent further physical decline and social deprivation. The big issue of urban development in the next few years is how the urban administration can solve the problems of these areas.

Budapest as the capital city of Hungary and a major hub of international trade and tourism is a rapidly modernising city. This modernisation is market-led and mainly linked to the growing attention of international capital. Budapest has become an important player in the competition between European cities. However, modernisation brings about not only positive processes, the shadow effects of the transformation have become also evident by now. Urban policies of the coming years should focus and address these problems in order to put the city on the pathway of sustainable development.

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