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**IMPLEMENTATION OF HUMAN SETTLEMENTS POLICIES ON URBAN RENEWAL AND HOUSING  
MODERNIZATION - EVALUATION OF FOUR CASE STUDIES**

Discussion paper prepared by the Task Force on  
Urban Renewal and Housing Modernization \*/

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## Introduction

1. At its fifty-sixth session, the Committee on Human Settlements, endorsed the report of the Seminar on Renewal and Modernization of Human Settlements: Strategies for Policy Implementation held in Vienna in 1994. It decided to continue work on these issues and to establish a task force to work out strategies for the implementation of urban renewal and housing modernization policies and to carry out case studies.

2. Four case studies on urban renewal and housing modernization have been carried out: Vienna (ECE/HBP/106), Bratislava (ECE/HBP/112), Budapest and Ljubljana (both to be finalized). The Task Force held hearings with representatives from both the public and the private sector who are involved in applying urban renewal policies. It also took part in study visits to housing and renewal projects to better understand the local conditions and the players in the process. It based its conclusions and recommendations on the information received from experts and at the hearings. The conclusions and recommendations were included in the case studies and presented to the national governments.

3. The Committee also decided, at its fifty-ninth session, to conclude its work on case studies and requested its Task Force on Urban Renewal and Housing Modernization to prepare a discussion paper to wrap up the experience on the four case studies. The Committee also envisaged to organize a workshop in the year 2000 with the participation of other actors involved in the housing sector, such as local authorities, the private sector and the business community, to discuss the implementation of renewal policies and their impact on the ECE countries. This paper could serve as a background

paper for the workshop, once the Committee has discussed it and agreed on its contents at its sixtieth session.

4. This paper analyses the cases of Bratislava, Budapest and Ljubljana. Each represents a very different model of a central European city in transition from a planned economy into market society. All faced political and economic upheavals that also affected the conditions for urban renewal. Vienna (under tight public control) represents one version of urban renewal in western Europe. Although there are several other models, ranging from even stronger public regulation at the local level to much less power given to the public authority, the Committee agreed to concentrate on examples in countries in transition.

5. For this paper the Task Force has also taken stock of the outcome of past workshops on urban renewal and housing modernization. Despite the differences, the case studies followed an established outline as reflected in the Strategies to Implement Human Settlements Policies on Urban Renewal and Housing Modernization (ECE/HBP/97) to make them easier to compare.

6. Many of the issues the Task Force analysed occur in all cases. Others are more typical for countries in transitions. This paper concentrates on those topics that the Task Force found to be the most important in the context of the four case studies, and crucial for a successful urban renewal and housing modernization policy, both at a national and a local level:

- The problems of urban renewal;
- The legislative and institutional frameworks for urban renewal at central and local levels;
- The (public and private) financing of housing renewal;
- The influence of residents on urban renewal.

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7. Delegations are invited to discuss the paper and comment on it. They may also wish to organize a workshop on urban renewal and housing modernization towards spring 2000. The Committee may wish to decide that, once approved, this paper could serve as a background paper for the workshop.

## I. PROBLEMATIC AREAS AND FORMS OF TENURE

8. All properties deteriorate. In an ordinary process the deterioration is caused by wear and tear. Owners do mostly compensate for this deterioration by frequent maintenance and modernization. (ECE/HBP/97, chap. III). If regular maintenance and renovation do not take place, or are neglected for a longer period, problematic deterioration occurs.

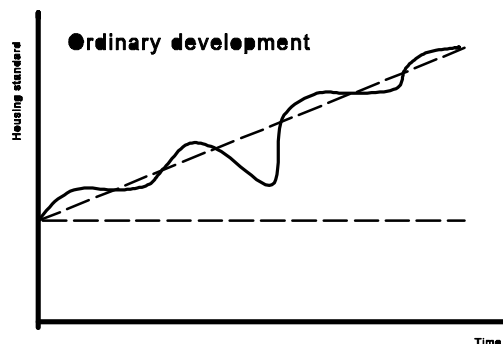


Figure I

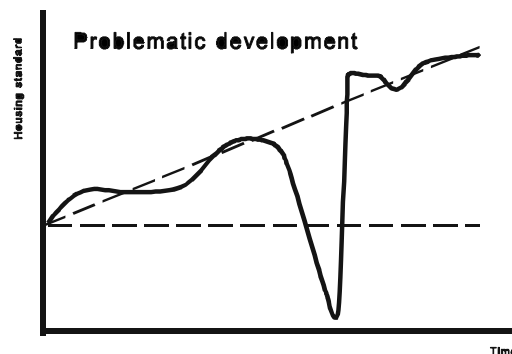


Figure II

9. If there is serious deterioration, i.e. the starting point is at the lowest point of the curve (see fig. II), ordinary regulations are not enough to remedy the situation. Some extraordinary regulations (e.g. compulsory intervention, subsidy, technical support) are necessary to improve the building's conditions.

10. The case studies have shown that the causes of deterioration are often a combination of:

- Physical conditions (age of the building, technical standards);
- Institutional conditions (division of responsibilities, lack of financial resources for individual or municipal renewal and modernization projects);
- Regulatory conditions (inadequate legislation for newly established forms of mixed ownership, over-protection of tenants and/or owners in the new economic situation, exclusion of certain social groups from subsidized housing, etc. and
- Social and economic processes (unemployment and its impact on the growth of lower-income households; more affluent households moving out of run-down neighbourhoods, thus increasing segregation) (see ECE/HBP/97, chap.II).

11. Housing represents a relatively stable sector of the economy, its products have a long-term character and require regular and permanent maintenance and modernization, supported by the appropriate instruments in the legal, institutional and financial framework. Clear allocation of responsibilities in the sector is necessary and should be accompanied by at least a middle-term policy.

12. All the case studies reflected different combinations of economic, social, institutional, regulatory and physical conditions. However, the

following two aspects were found to influence the most problematic deterioration:

- Location in the city structure; period and type of construction;
- Tenure form.

**A. Location in the city structure; period and type of construction**

13. The first type of problematic housing stock is old housing in often densely built-up inner-city areas. The private sector is exerting pressure to convert residential buildings into non-residential space in the historic and most valuable locations. This trend appeared to different degrees in all the cities studied. There are also specific problems in housing and residential areas built at the onset of industrialism, in the late 19th and beginning of the 20th century, e.g. in Budapest and Vienna.

14. In Vienna, these areas are concentrated in a semi-circle west of the historic city centre. They are still characterized by private rental housing, mainly in the low-standard sector. Technical problems (small and insufficiently equipped flats, neglected maintenance) abound; environmental conditions are poor (traffic congestion, lack of green areas) and there is much social segregation (higher proportions of unemployed, low-income or single-parent households, elderly and immigrants). Improving such areas requires an interdisciplinary approach, and adequate platforms to discuss potential conflicts and to empower all actors (especially the socially weaker groups) to actively participate in the renewal process. Different ways have been developed to meet these demands, such as Area Renewal offices, the Vienna Integration Fund, etc., while taking into account existing local initiatives.

15. In Budapest, inner-city areas around the historic core of the city were rapidly built with high-density housing by private landlords at the end of the 19th century. In the first half of the 20<sup>th</sup> century, major renovation cycles were postponed owing to the wars. In the second half of the century, the whole housing stock was nationalized and inefficient State management caused further deterioration. Without any comprehensive solution to the lack of urban renewal, the whole housing stock was privatized in the 1990s. So the same buildings are now on to their third type of tenure form without ever having been renovated since their construction roughly 100 years ago.

16. The second type, typical for countries in transition, are the high-rise neighbourhoods constructed in the 1960s and 1970s with prefabricated panels. These neighbourhoods mainly lack technical quality, consume too much energy and were built on such a large scale that they are anonymous and monotonous. These areas are becoming less and less popular and cause segregation. More affluent households are leaving for other, more prestigious parts of the town. Because these buildings are still recent, their degradation is not yet so visible. But since most were privatized to the sitting tenants with a disparate income structure, it is likely that problems will become acute in the near future.

17. There are also other types of problem locations, depending on the city. These are the heterogeneous, mainly former industrial, nowadays transitional

city parts, originally situated on the urban fringe, but now becoming part of the wider central areas. These appear in all studied cities, to a lesser extent in Bratislava, Ljubljana and Vienna and to a larger extent in Budapest. Another type is represented by individual housing in suburban zones, sometimes constructed without building permission, as in Ljubljana.

## **B. Forms of tenure**

18. The effectiveness of urban renewal policies is strongly influenced by the forms of tenure. Support to or regulation of certain forms of tenure can affect the housing market.

19. All the three major tenure forms, public renting, private renting and owner-occupation, are in principle able to offer good conditions for urban renewal, provided that their regulation prescribes the rights and duties of the landlords, tenants or co-owners and creates the necessary incentives to finance urban renewal. The following basic requirements must be fulfilled:

- The monthly fee paid by the users of the flats must be high enough to cover the costs of ordinary maintenance;
- Well established organizational forms and decision-making systems must be in place for everyday management, as well as for major renewal, to ensure the participation of both owners and users;
- Well functioning financial system must be in place for extraordinary expenses for renewal;
- Efficient legal regulations must be available to settle disputes and enforce payments to contribute to covering the expenses;
- Well elaborated housing maintenance system with competing companies must be in place.

20. Besides having to satisfy these criteria, the three mentioned forms of tenure have their specific problems, which could also hinder renewal. The potential problems of public renting and private renting will be set out only briefly. The focus will be on the problems of co-ownership in multi-family housing, as they have come to the fore in all the central European cities studied.

### **1. Public rental housing**

21. In the socialist period the potential problems with renovation in these three cities was with the public rental sector. The most important decisions were taken at the highest level (municipal, national or even party committee) with no involvement of tenants into any discussion. Rents were based more on political than on economic considerations, and did not even cover the running costs of buildings. Maintenance was mostly decided on an ad-hoc basis and carried out by public monopolies, State-owned maintenance companies.

22. The public rental sector in western countries operates quite differently. There are examples of public sectors functioning as efficiently as the private sector. This is the case in Vienna, where council housing together with the non-profit rental sector account for more than 40% of the total housing stock. In countries in transition the public rental sector has almost disappeared as a result of mass privatization, and become the tenure

form of the most disadvantaged. This has made it even more difficult to charge cost-covering rents.

## **2. Private rental housing**

23. This is not a common form of tenure in central European cities (with the exception of the grey market, whose size is difficult to estimate), although as a secondary effect of housing privatization it may become more important in the future. In Vienna, a small segment of the private rental seems to be problematic, partly because of past rent control and partly because the landlords tend to be more interested in making a profit than in improving the quality of housing.

## **3. Co-ownership in multi-family housing**

24. After the upheavals in the countries in transition, this form of tenure became common in Hungary and Slovenia, owing to mass the mass privatization of public rental housing into owner-occupation. By 1995 about two-thirds of the Hungarian public rental housing stock had been sold. In 1990 Budapest's rental stock accounted for nearly half the total stock; in 1995 it represented a mere 15%. In Slovenia there was a similar change: around 1994 two-thirds of the rental housing stock was sold and in Ljubljana 75%. It is expected that only 11% of the housing stock will remain rental. The same development is to be foreseen in Slovakia. The process in Slovakia has been slower, mainly because the new owners had to repay all the outstanding loans in cooperatives and because of the low capacity of the land register to register all public renting.

25. This radical change in the tenure structure was led by a strong political force striving for a market-oriented society. In this transformation, the future management of the housing stock was not considered. In the three countries in transition of the case studies, condominiums or housing with other co-ownership tenure forms suffer significant deficiencies, which are a serious obstacle to renovation. Through this mass privatization, the public lost most of its direct influence on urban renewal. Although the housing stock became almost totally owner-occupied, the national and municipal legal instruments were rarely detailed enough to enable the new owners to cope with their responsibilities.

26. The creation of owners' associations was not always an obligation in east and central Europe. In Hungary and Slovenia it is obligatory; in Slovakia it is optional. Another option is for each owner to enter into a contract with a maintenance company, normally the public company which existed before privatization. In 1996 in Slovenia less than 40% of legal agreements which regulated the relationship between the owners in multi-ownership buildings were signed. In the absence of an owner association, much of the decision-making power is transferred to the management company. This could create difficulties when different owners have different interests. Common problems may remain unsolved.

27. Besides the tenure form, the management company structure has also changed in recent years. Most of the former large public companies were

dissolved, and after the transition many new private companies emerged in Hungary and Slovenia. There are also examples of large public companies splitting into smaller companies - some private. In Hungary, owners are usually more satisfied with such management, i.e. one of the owners or a private person taking responsibility for management. The new private management companies are also better accepted. Satisfaction is lower with the remaining larger public companies, which are more likely to operate in larger condominiums and in condominiums with a majority of public rental units.

28. In the three case studies in central Europe, it was noted that there were procedures to collect ordinary fees, including fees for normal maintenance. The amount - decided by the owners themselves without any prescribed minimum - is however mostly too low.

29. It is important that the owners' organization should be able to collect the fees from the individual owners, even if they refuse to pay. Ultimately, that should imply that the association can evict the owner and realize the value of the flat. However, in most countries this is a difficult and lengthy procedure.

30. Raising additional money for renovation would be easier if the owners' association were a legal entity. This is not the case in any of the three transition countries studied. For this reason lending to a condominium is very difficult. In practice it requires the approval of all the co-owners (as they have to offer their flat as collateral for a bank loan). For cooperatives this process might be easier as they may be considered as commercial units by the banks.

31. Many new owners have not yet understood that the role of an owner differs from that of a tenant. Many do not really think it is their task to contribute to the management of the property and cover the maintenance and rehabilitation costs. They do not take their role as decision-makers as seriously as they should. Few owners participate in owners' meetings to discuss renovation.

32. A privatized building that becomes a condominium may for many years have mixed ownership. If a public body is still the biggest owner, representing all the unsold rental flats, the traditions and structure from the socialist period may continue, e.g. leaving much of the responsibility for maintenance to the traditional public maintenance company. It also means that the public entity has to pay for maintenance and modernization according to its share of the property, even if its income from rents is insufficient.

#### **4. The special case of area renewal with different tenure forms**

33. An area can encompass buildings with different forms of tenure. Vienna's case study shows that, if there is a systematic approach to area renewal and an overall policy and instruments for area renewal, it is possible for those involved to achieve better cooperation and, hence, better results.



## II. LEGISLATIVE AND INSTITUTIONAL FRAMEWORK FOR URBAN RENEWAL

34. Urban renewal is one of the most complex urban development processes. It requires very well established relations between the different levels of the public sector (central government, local government, regulatory bodies, public or semi-public development companies, etc.). Not only must the legal regulations be in place and coordinated between the actors, but there must be a system of institutions responsible for renewal at different levels as well.

35. This chapter will highlight the striking difference between the carefully designed and detailed system of responsibilities of the different levels of public bodies (central and local government, rent-setting office, semi-public renewal fund) in Vienna and the situation in the three central European metropolises. In Bratislava, Budapest and Ljubljana the centrally planned, top-down executed and politically determined system of urban renewal of the socialist period was transformed in the 1990s into a market-oriented system with few public responsibilities. Unlike Vienna, they have no special, "urban-renewal-relevant" elements of their institutional systems or, where these do exist, they are still in their infancy. There is no direct central regulation/law on urban renewal, and even legal acts indirectly influencing renewal give public bodies only very limited rights/responsibilities to intervene in the market processes. In recent years some new legislative, regulatory and financial rules/systems have been developed at the local (city) level for urban renewal. They differ much from one city to another, and even across the lower level of the same city administration (city-parts or districts).

36. There is no "best" legislative and institutional framework for urban renewal, each country and city has to develop its own system, based on traditions and the structure/conditions of its housing stock. Vienna represents an "organically developed" urban renewal model. It introduced its first comprehensive renewal strategy in 1974 (around the time when urban renewal started to become important for European cities following the decades of new construction according to post-war housing policies). In the other three, post-socialist cities, urban renewal started as a top-down, centrally organized and State-financed activity, mainly in the public rental stock of the historical areas of the cities. There was very little organized renewal in "normal" residential areas in the socialist period. In the 1990s - the period of transition from centrally planned to market-oriented housing policy - the need for renovation of the existing housing stock became more and more pressing, while the conditions for organized, coordinated urban renewal mostly worsened.

### A. The changing conditions for urban renewal in the central and east European cities in the period of transition

37. The transition from the centrally planned to the market system brought important changes to the institutional framework for urban renewal in the cities of the central and eastern Europe. One of the key processes was decentralization, which led to the development of a really independent local level within the government system. As a result, the new local governments became the central actors in the local development processes, including urban

renewal. Contrary to the socialist period, when a substantial part of the financial resources allocated to the local level was earmarked, i.e. its use was predetermined by the central government, in the new system democratically elected local governments are increasingly independent. They have become the main decision makers about the use of local budget resources. The development of local financial resources (e.g. local taxes) has further strengthened their decision-making position. From a legislative point of view, however, the local governments are very much constrained as they cannot go against national regulations.

38. There have also been important changes in the inner structure of local government decision-making. Replacing the previously very strong - and politically determined - executive committees, the new local assemblies have become the most important players at the local level. The full development of a new local institutional and power structure, however, is a longer process, especially the separation of strategic, political decisions (the task of local assemblies) from the handling of everyday, management problems, which should be the task of the mayor's office or of publicly controlled non-profit organizations.

39. While decentralization has in general boosted the influence of local government on urban renewal, the other main process of transition in the housing sector, privatization, played a very different role. Due to privatization - and in several central and east European countries also restitution - the direct control of local governments over the local multi-family housing stock has decreased, in some countries almost totally been eliminated. Multi-family owner-occupied houses, or condominiums, have replaced public rental buildings.

40. With these changes, the chance of publicly-organized renewal has decreased substantially. Instead of the direct influence of the public sector, there is now the potential of using indirect, regulatory tools and financial incentives. In general, chances of area renewal have decreased, and those of renewal of individual buildings become more polarized, depending on the social structure and financial means of the residents.

## **B. The legislative-regulatory framework for urban renewal**

41. The legislative framework for urban renewal is very much country-specific. One of the major options is to have a national act on urban renewal setting the framework for local legislation and also defining the framework for the rights and responsibilities of the public sector. This is the case in Austria, where the 1974 national Urban Renewal Act was the country's first piece of legislation dealing specifically with this problem. Even if the options set out by this Act were practically never used, its existence led to local (regional, local) legislation on urban renewal.

42. It is very rare for the central European countries in the case studies to have national legislation directly addressing urban renewal (some do not even have consistent national legislation on housing policy or only a very weak one). Their most common model is to have a broad national law on housing and real estate development (e.g. a building law), regulating the rights and

responsibilities of the public and private actors in the development of the residential sector. These national regulations differ greatly in the direct regulatory power that they grant public bodies in connection with the urban renewal process. In some countries broad interventions are possible, while in others direct intervention of public bodies is allowed only in extreme situations (e.g. building conditions deteriorating to a dangerous level).

43. If there is no legislation on urban renewal, the main level of regulation for the rights/responsibilities of the public sector might be found in the legal regulations of the different tenure forms (as discussed earlier). These regulations can, however, rarely be used as compulsory orders for normal maintenance or renovation. They tend to be applicable in extreme situations (e.g. very poor conditions of the building, making it unfit to live in). The legal regulations of the tenure forms might have a direct effect on urban renewal only in the case of public rental housing and if financial incentives are connected to the obligation to renew.

44. Besides national legislation directly connected to urban renewal, it is very important to mention other areas of legislation that at first seem to have little relevance. Urban renewal needs many "side regulations", such as clear legal regulations on the level of fees (rent, condominium fee), on eviction and foreclosure in the event of non-payment, on a compulsory reserve fund for future renovation in the owner-occupied sector, etc. The lack of efficient regulations in these areas - which is often the case in central and eastern Europe - may seriously compromise efficient urban renewal.

45. In Austria, legislative and regulatory power on the national level is changing (1974 national Urban Renewal Act; national and municipal rules for rent setting (Tenancy Act)).

46. In central Europe there tends to be neither direct legislation nor an overall concept for urban renewal on the national level. However, national-level legislation often contains some financial tools (e.g. interest-rate subsidies) directly or indirectly connected to urban renewal.

47. There are different models of regulating public rental sector. In Slovakia, the national level still has the right to set rents setting. In other countries total decentralization in rent policy means that the lowest, district (city-part) level is responsible for setting rents.

48. The case studies show that it is much more common for the central European countries to have regulation on urban renewal at the local level, where the planning and financial and subsidy aspects of urban renewal mainly are regulated. Local governments often decide to establish a local renewal act and/or programme, including rules to establish a fund for renewal, rules on its use, methods to assign priority, etc. Local land-use regulations also influence the chances of urban renewal, as do regulations on the relationship between different levels of local government (in the case of two-tier local government systems).

49. The main problem with local regulations is that they cannot exceed the scope given by the national laws: individual tenants or owners would

immediately turn to the court if the local government tried to impose measures not legally established at a higher level of legislation. Therefore, local regulations tend to be incentive and contain compulsory elements only for areas that are predominantly in public ownership (housing and/or land).

Legislation on urban renewal on the city level

Vienna: 1984 Vienna Housing and Housing Renovation Act

Central European capitals: renovation acts on city level are generally still under discussion

Budapest: 1998 Act on Urban Renewal in Budapest, including the establishment of the Rehabilitation Fund and a system of action areas

**C. The changing institutional framework for urban renewal**

50. On the national level it is very rare to have one ministry responsible for most aspects of urban renewal. In the central European examples countries this responsibility is very weakly defined (most public responsibilities have been transferred to the local level) and even if some responsibility remains at national level, it is very much dispersed between different government ministries.

51. The restructuring of the local institutional set-up in these countries in the 1990s brought along new types of conflicts, which also apply to the process of urban renewal. The allocation of rights and responsibilities between the different actors has not yet been clarified. For example, in many cases the new, more powerful local assemblies want to control all aspects of local development, including the future use and owners of individual plots in renewal areas. There are, however, examples of more sophisticated models, leading to a better split between strategic decision-making and decisions affecting individual plots, buildings, projects.

52. Vienna offers a model where the powerful local government (one of the biggest public landlords in Europe) transferred all important decision-making rights on urban renewal - except for determining the basic strategy - to a quasi-governmental non-profit city-owned institution, the Vienna Land Procurement and Urban Renewal Fund. Having received substantial seed money from the local government, this Fund is responsible for organizing urban renewal, for assigning action areas, for deciding about individual building renovations, and for involving private actors in the process.

53. Another potential prototype of a new institutional system of urban renewal is the case of Budapest's District IX, where a non-profit joint-venture development company has been established (with the participation of a Hungarian and a foreign bank, as well as a majority stake held by the local government). The responsibility for renewal was transferred to this company, and only the right of broad, strategic decisions remains with the local assembly.

54. The essence of these new systems is that the different functions of the local government have to be separated. The local government in general:

- Has the right to decide about building permits (for demolition or substantial reconstruction of existing buildings and construction of new ones on empty sites)
- Is the landlord of public rental housing, can thus decide about renovation, replacement flats, etc. and has the right to determine (within the limits established by national regulations) the rent level in the local public rental housing stock
- Is the owner of a substantial part of empty plots.

55. In Budapest's District IX, the local government kept the legal functions of a local authority (rent setting, issuing building permits) at the assembly level, established a separate unit within the local government office for the renovation of publicly owned rental housing, and transferred the development rights of empty plots and buildings with changing functions to the newly established non-profit joint-venture company. In this way the local government kept control over all aspects of urban renewal, but managed to separate the different types of control. Thus a much clearer and more efficient system has been achieved.

56. Urban renewal also needs special organizational elements, whose concrete form depends on the tenure forms and legislative structure in the given locality. Area offices seem to be of key importance if the aims of renewal go beyond the renovation of individual buildings. The coordination between the buildings of a street (which might belong to different tenure categories) and the renovation of public spaces need public interventions, which can, however, be efficient only if fine-tuned locally, in everyday consultations with the other actors.

57. The authorities must also set up institutions which help the smooth functioning of the other actors and their participation in the renovation. One such example is the public institution for arbitration in Vienna. It acts as a mediator between the private landlords and their tenants regarding the change in rent level due to renovation.

58. These special institutional elements take years or even decades to develop and are therefore only in their infancy in most of the central European cities. An example of the transitory period is Budapest, where a municipal decree established the act and programme for urban renewal but the institutional background is still not complete. The establishment of a programme office (which could later develop into a similar organization as the Vienna Fund) has been under discussion for many years. At the moment there are no area offices either.

Institutional responsibility for urban renewal at the city level

Vienna: Urban Renewal Fund (as institution and also financial tool) since 1984 and area offices since 1974, public institution for arbitration;

Central European capitals: some financial means are generally available but there is no responsible institution at the city level nor any area offices

Budapest: some districts have established renewal departments and in two districts special renewal enterprises have been created with area responsibility

**III. FINANCING OF HOUSING RENEWAL****A. Main problems of financing housing renewal**

59. In the three countries in transition, the ownership structure of the housing stock and with it the conditions for financing housing renewal changed dramatically after 1989. In the socialist period, much of their housing was publicly owned and the (central) State had responsibility for financing repairs, maintenance and renewal. Housing was perceived as a public good, rents were mostly symbolic and did not even cover the current costs of repair and maintenance. Investments in new housing or (seldom) housing renewal came from the State budget and had to compete with other investments, which were usually regarded as more urgent. As a result, investment in new housing was sometimes insufficient and investment in renewal activities was usually neglected.

60. The shift in the ownership structure went hand in hand with a shift in the responsibilities for financing the repair, maintenance and renewal. The withdrawal of the central State as a landlord and investor left a vacuum: there was no competitive banking system that could function as an intermediary and turn savings from private households into housing production or renewal. So, first, the foundation for a housing finance system in market conditions had to be laid (for instance, establish secure property rights and cadastral systems, legal basis for financial institutions and for lending instruments like mortgages, etc.). Today, all three countries in transition have some form of new housing finance system.<sup>1/</sup> But in the meantime, the new owners of the housing stock were left on their own to finance the often very urgent maintenance and renewal.

61. In two of the four cities (Budapest and Ljubljana), the owner-occupied sector, in the form of condominiums, is now dominant. This means that renewal investment depends largely on the financing capacity of the individual owners. As a result of the previous political system, the social structure of the resident community is very heterogeneous. The privatization at very low prices meant that very poor tenants could also become homeowners. However,

<sup>1/</sup> See United Nations Economic Commission for Europe, Housing Finance: Key Concepts and Terms (1998). Sales No. E.97.II.E.14

they are rarely able to afford a condominium fee that is high enough to cover not only repairs and maintenance, but also to constitute a reserve fund for future renewal. These poorer owners can determine the financial capacity of the entire condominium, as they are not able to pay the condominium fee and the co-owners have no right to enforce it. In good locations there are also "rich" condominiums (Ljubljana) or condominiums with extra revenues like in Budapest, which sell the cellar or rent out the roof for advertising. In such cases it can happen that the owners do not pay a common fee, because the extra revenues cover all expenditures.

62. In Bratislava there is still a relatively big cooperative sector. Here each cooperative - i.e. the community - is now responsible for all financial matters. Their investments in housing maintenance and renewal depend - like in condominiums - on the saving capacity of the members.

63. In the remaining public rental sector (relatively significant in Bratislava, small in Budapest and Ljubljana), the local government is now the landlord and its financing capacity determines the renewal investments. Housing renewal has to compete with other, equally urgent needs like urban infrastructure, transport or education. As the Budapest and the Bratislava cases show, apart the local government budget, the new local public landlords can use their own sources for renewal investments: revenues from privatization, which are - due to the give-away privatization - rather small and the rent income.

64. In Budapest, the local authority is allowed to set the rents in its buildings. However, as it has to consider the financial means of the tenants, the rent income does not normally cover the costs of repair and renewal. The same is true for Bratislava, where the publicly owned dwellings are under strict rent control (like private rental).

65. In Vienna there is a relatively big private rental sector, in Budapest and Ljubljana it is very small. Except for a small luxurious sector in Vienna, the rent in this sector is also determined by legislation. Budapest has no national rent legislation. In Ljubljana, the rents are estimated to be only about 5% of the average family income. This means they cannot cover operating and maintenance costs. Also partly due to the former rent control, many of the private rental dwellings in Vienna are in a bad condition.

## **B. Private market instruments for financing housing renewal**

66. It is clear that, across all tenure categories, overall renewal activities cannot be financed by the owners' capital alone. Even in Vienna, where rent income is regarded as the first source of financing for regular maintenance and improvement, it is rarely sufficient. This means that almost all actors depend on external resources, namely bank loans and/or public subsidies.

67. Austria has a well established banking sector with many financing products that can be used for new housing and renewal. Bank loans with a maturity of 15 years and an interest rate of 6% to 7% are usual. Normally the banks refinance their lending with bonds. Nevertheless, commercial banks

often regard the financing of housing renewal as a risky affair so long as there is no State guarantee or other form of public support to make the investments more secure. Private bank lending occurs also in Ljubljana, but the financing costs (interests) are for most households too high and the commercial banks remain very reluctant to enter the "normal" housing finance market without any State guarantees.

68. In the former socialist countries, the banking sector is being completely overhauled (privatization). In Hungary and Slovakia, housing finance has traditionally been dominated by their former State Savings Banks, which still remain the most important financing institutions. In Hungary in the early 1990s, the former State Savings Bank started a renovation loan programme, which is supported by the central Government. The programme is directed to condominiums, but the subsidized loans are given to the individual owners. Until recently, the State Savings Bank had to reach a loan agreement with all the owners in a house before lending to any one of them. This procedure meant that loans, which covered maximum 70% of renewal costs, had a duration of 5 to 10 years and the same interest rate as loans for new housing, but they had few takers.

69. In Slovakia, the National Savings Bank in 1995 introduced loans with a 15-year maturity and a 12.5% interest rate. The loans can be used for the purchase or the renewal of a dwelling.

70. Bausparen as a mutual savings system has a long tradition, e.g. in Austria and Germany, mainly for single-family housing. Contract saving systems have been set up in Slovakia and Hungary. Their introduction is being discussed in Slovenia. In principle, such systems of mobilizing capital for housing purposes (purchase and renewal) could function on a private market basis, but in practice they often function only with high State subsidies. Bausparen could be an important additional source of finance for renewal, although secondary to direct financing.

#### **C. Public support for financing housing renewal**

71. The extent of public financial support for housing renewal in the four analysed cities reflects, on the one hand, their different ideological backgrounds and, on the other, differences in the national income level.

72. In Vienna, the renewal of housing has for a long time been seen as a public task on which all political parties agreed. The Vienna Land Procurement and Urban Renewal Fund grants object subsidies to individual owners of rental housing, if the rent income of the last 10 years does not allow repair or improvement of a building of low quality (defined in the Tenancy Act). The subsidies are provided partly as direct, non-repayable contributions, partly as annual subsidies to bank loan repayments. In total, subsidies may amount to 80 to 90% of the building costs, a very costly strategy.

73. Vienna - and Austria in general - has the advantage that this financing is secured. Funds for housing renewal are collected through earmarked State taxes and distributed to the provinces. In addition, Vienna



provides resources from its regular budget to cope with the need for housing and renewal. The countries in transition do not enjoy such a stable financing system.

74. A very concrete help in Vienna consists of city guarantees for loans which banks give to tenants who want to renew and modernize their flats. Moreover, Vienna also subsidizes individual improvements carried out by tenants.

75. In the analysed countries in transition the ideology behind housing privatization policies is dominated by the perceived superiority of market mechanisms and the desirability of private ownership. According to this approach, the State is no longer responsible for financially supporting new construction or the renewal of the housing stock. In Slovenia, although a relatively rich country, this seemed to be the main reason for the State's reluctance to support financially new housing construction and renewal. In Hungary and Slovakia, budget constraints seemed more important. But in all three countries it became obvious that without State assistance the housing situation would deteriorate very fast and hamper overall economic development. So, the three countries or cities introduced new forms of public support. New instruments were introduced, but all of them suffer a lack of funds, which reflects the low importance given to housing and/or the general financial constraints of these countries. The following forms of public support have been introduced or still exist from the former period.

76. In Bratislava, Budapest and Ljubljana the renewal of historically important buildings - located mostly in the inner city - is subsidized through special funds.

77. A second type of renewal supported by the State is thermal insulation. In Hungary, the State subsidizes insulation projects. In Bratislava, a small energy-saving pilot project has been carried out. It was financed by the State and municipal sources and did not affect the rent level.

78. All three countries have created national or local housing funds. In Bratislava, the fund created with the privatization revenues is - due to the give-away process - very small. In Budapest some district governments also use a share of the privatization revenue to help finance the renewal of condominiums. In Slovenia and Ljubljana, respectively, the existing national and municipal housing funds are intended to be used almost exclusively for securing loans to non-profit housing organizations for the provision of non-profit rental housing.

79. Hungary and Slovakia support "private" schemes to finance renewal. In Hungary, the State covers 50% of the monthly repayment in the OTP programme with subsidies paid directly to OTP. In Slovakia, there is a tax-free State premium of 30% of the (capped) individual savings per year.

80. One of the most important obstacles to housing renewal is affordability. Austria has subject subsidies which strengthen demand. The three countries in transition have no such systems. Allowances are granted only as welfare benefits.

81. The overview shows countries in transition do have private and public instruments to support housing renewal financially. But because the conditions offered by the free market are not favourable and public funds are very small, the impact of these instruments on renewal is very limited. Almost everywhere those responsible for repair and renewal try to make some savings first and then carry out the most urgent work step by step, without taking out any (subsidized or unsubsidized) loans.

#### **IV. RESIDENTS' INFLUENCE IN URBAN RENEWAL**

82. All the case studies recognized the importance of residents' participation in developing and implementing renewal and as a tool for conflict management. Residents can participate in:

- Day-to-day management of buildings: setting priorities in maintenance, and partly functioning as an "early-warning system" for repairs;
- Small repairs: setting priorities and avoiding future renewal measures;
- Overall rehabilitation: setting priorities, developing resident-oriented (sometimes low-standard or step-by-step) renewal schemes, which may help to increase residents' satisfaction and their sense of responsibility;
- Area renewal: increasing residents' identification with their neighbourhood, developing overall strategies for area improvement, often reducing costs by early conflict management and by carrying out some work themselves.

83. The case studies showed that participation strategies were developed and were successfully implemented both in the rental and in the homeownership sector. The degree of residents' influence depended, however, on the presence of a well-developed and established system of planning and of (housing) management. In other words, those cities that faced an upheaval in their housing system have not yet worked out an appropriate framework for residents' participation. This is very clearly reflected in the current situation of new homeowners in formerly public housing in Bratislava, Budapest and Ljubljana. The present system of residents' participation in Vienna has been worked out over a longer period.

##### **A. Information**

84. Active resident participation depends largely on the support provided by legislation and/or help from public authorities, especially by providing appropriate information (see: Strategies, ECE/HBP/97, chap.III, sect.C). In the cases analysed, information was given at various levels and by various means, mostly by:

- General or specialized media (Vienna; partly Budapest, Bratislava and Ljubljana);
- Publicly organized residents' meetings (Vienna, Budapest);
- Local planning offices (Vienna);
- Specialized information teams (Vienna, Ljubljana);
- Housing associations or (private) developers, etc. (all cities).

**B. Legal basis for residents' participation**

85. Legislation regarding residents' influence and participation in urban and housing renewal is established on the national level (e.g. State Rental Act, Condominium Act) or the local level (Municipal Planning Law, etc.). In all the analysed cities, legislation at both levels can be found. There is a clear trend towards decentralization. Certain responsibilities, however, rest with the State to guarantee that the national housing policies are carried out and as an overall framework for participation, leaving its application to the empowered consumer. Rules are increasingly worked out by residents' groups themselves. On the other hand, privatization programmes (especially in Hungary) have not always taken into account the necessary participation rules, thus creating a gap between renewal needs and the decision-making process. Examples of legislation that encompasses residents' rights to participate include:

- Rental acts, e.g. Austrian State Rental Act, defining tenants' influence in housing maintenance and renewal;
- Subsidy legislation, e.g. in Vienna and Slovenia, connecting subsidies to certain participation procedures;
- Condominium laws, e.g. in Hungary, defining the decision-making process;
- Local planning laws, e.g. Budapest, Vienna, Bratislava, with institutionalized participation of a broader public, via information leaflets, exhibitions, public hearings, etc.

**C. Platforms for residents' participation**

86. Both urban renewal and housing modernization need platforms for participation. In single buildings there are some operational systems (tenants' meetings in Vienna, owners' meetings in Ljubljana). This means that residents can have meeting facilities and support from experts. In Budapest the new Condominium Law may bring some improvement, but until now the influence of homeowners has been left to informal procedures, which in some cases work well, in others not.

87. With area-based renewal, it should be kept in mind that deteriorating parts of cities need more than just better housing. Often poor housing, though certainly a significant sign of deterioration, is not the most urgent problem. Depending on the complexity of the situation, area-based renewal schemes therefore include local job-creation programmes, improvement of educational possibilities and of the social infrastructure, etc. This is only possible if residents are actively involved in the process, and if programmes address the respective target groups. A participatory approach to area renewal must rather be seen as a political process in which the various actors - especially the socially weaker groups - are empowered and receive professional support. Local renewal offices and other intermediary organizations (Vienna) can help, but do not always succeed in integrating all groups.

**D. Professional support**

88. Residents in the four analysed cities receive some professional support, but it is not always free or easy to access. This may exclude less informed weaker groups (like immigrants, minorities) from the renewal process. There are successful examples, however: tenants' hotline (Vienna, Budapest), tenants' protection organizations (Vienna, Budapest, Ljubljana), ethnic integration support teams (Vienna), condominium organizations (Budapest, Bratislava), and others. An example of such support is the Ljubljana Council for the Protection of Tenants' Rights. The City of Ljubljana has shown clear responsibility for protecting tenants in the (rather small) private rental sector. Advice and support are provided free of charge to tenants. This is a form of public intervention, however, which considers residents as passive clients rather than as actors in a participatory renewal process.

89. Information has also been given via school education programmes. In the four cities the necessity to focus on integrating minorities or socially weaker groups into the participation process was stressed.

**E. Resident-oriented renewal schemes**

90. When establishing renewal schemes, affordability and different lifestyles should be taken into account. Residents should be encouraged to make an active contribution to the renewal process and have the possibility to influence the renewal standards (see: Strategies ..., ECE/HBP/97, Conclusions). A step-by-step approach should be taken, instead of introducing high standard in a run-down building (sweat equity works). Vienna has developed a system with "shared responsibilities" in the rental sector, leaving the decision about works within individual flats mainly to the tenants. The influence of residents on the standards of area renewal in Bratislava, Budapest and Ljubljana is quite low. As a result, the improvement of public spaces (streets, green areas) often ignores the needs and wishes of residents.

91. Decentralization (Budapest, Vienna), however, can increase residents' influence on area planning, as there is usually a closer relation between the residents and the local (district) authorities, which are held responsible for the costs and the results of such works. This requires, however, that the local authorities have the competence and/or are provided with the necessary know-how by experts from the central (municipal) level.

92. Vienna has established a comprehensive system of tenant participation in housing renewal. The Vienna Housing Rehabilitation Act of 1984 not only guarantees public grants for the renewal of private and public rental housing, it also defines the various actors' roles in the process of planning and rehabilitation. Overall housing renewal includes the renovation of the common parts of the building, and at the same time the improvement of the flats according to the tenants' wishes. To discuss the rehabilitation scheme, tenants' meetings are organized by the housing management, and it normally takes 3 to 4 meetings to reach an agreement. At the beginning of this negotiation process, tenants are mostly opposed to the renewal project

(finding it unnecessary or too expensive). The discussion and information about the scheme and its estimated costs, individual allowances and the offer of temporary or permanent substitute dwellings usually lead to the opposite: as soon as these instruments can be offered the tenants want more, e.g. not only renewal of the building but also better and safer open spaces. In most cases renewal schemes have been significantly influenced by the residents. On the other hand, this influence is mostly limited to the rehabilitation phase itself; participation declines rapidly when the works are finished. As a result, the City of Vienna and several housing associations have introduced a permanent model of tenants' participation for their respective housing stock.

93. Management by the new homeowners (Budapest, Ljubljana) is another possibility, although the new homeowners of multi-storey buildings are not obliged to cooperate. There are, however, successful examples of condominiums managed by the owners themselves or by management companies commissioned by the owners. Of course, residents' influence is ineffective if they do not have sufficient financial resources, and limited when it comes to area renewal; but it seems that with the perception of residents as empowered consumers the local authorities could use existing local initiatives as a starting point for participatory (area) renewal schemes.

94. One example are the Vienna "Gebietsbetreuungen" (Area Renewal Offices), which have gradually developed into very active neighbourhood centres and into platforms for informal local conflict management. Area Renewal Offices were established first in 1974 to stimulate area-oriented renewal programmes by actively integrating all actors involved - owners, local authorities, local businesses and, above all, the residents. The offices, run by either private architects or housing associations, are commissioned by the City of Vienna and concentrate on encouraging housing renewal, improving public or semi-public spaces, ecological measures, communal facilities, transport, etc. Moreover, they have become an important platform for informal local conflict management and intermediaries between the residents and the public authorities.

95. Area renewal officers have developed their own negotiation structures, organizing discussion groups, citizens' meetings - often with existing initiatives and ethnic groups - focusing on a self-help approach. Other activities include multi-cultural neighbourhood festivals, cooperation with schools, exhibitions and regular newsletters to all residents of the area. Today, 14 such offices work in Vienna's renewal areas.

96. On a smaller scale, self-help activities can in some cases help to start a renewal process. This is true especially in Slovakia, where do-it-yourself activities have a long tradition - not only in rural areas, where nearly the whole single-family housing stock has been built and maintained by the owners themselves, but also in many multi-family housing estates. As energy consumption is one of the urgent problems especially in panel housing, the most typical work done by the tenants or the (new) homeowners is the glazing of loggias. They also carry out other improvements inside the flats, like the conversion of sanitary installations from plastics to masonry.

97. However, tenants have almost no influence on the renewal of the building itself. In the newly formed condominium sector, it would seem that the owners are taking more responsibility for the improvement of the building and its surroundings. However, with housing expenditures rising dramatically, the used self-help activities on a broader scale to meet the needs of urban renewal will depend on whether extra money can be found.

**F. Incentives to participate**

98. Participation always involves costs as well as benefits, for both parties (Somerville, 1996) - residents' costs mainly refer to time-consuming procedures. On the other hand, residents benefit from active participation in several respects, which can be observed in Vienna:

- An improvement of the building and/or area in accordance with the residents' wishes increases the quality of living of each resident (comfort, security, value of the house, etc.);
- Active influence of residents helps to avoid luxury renewal, which for many inhabitants may be unaffordable and may lead to eviction;
- Renewal costs may be reduced by lower standards or self-help;
- Running costs may be reduced by better thermal insulation and by other means defined by the residents.

99. Finally, participation may empower the participants (Cairncross et al., 1994), increasing the residents' influence on local policy decisions in the future, even if this intention has not been explicitly expressed in one of the four cities. Examples in the cities analysed show that while the main incentives to residents in the beginning of the renewal process have been the prospects of cost reduction and higher security and value, empowerment and an increased active interest in local affairs (day-to-day housing management, area matters) have often been positive side effects.

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