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Gentrification and Rescaling Urban Governance in  
Budapest-Józsefváros

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### Abstract

The most stigmatised area of Budapest, the Eighth District (Józsefváros) has been undergoing significant urban and social change since 1989. However, compared with what rent gap theory would have forecast, gentrification took off relatively late. After a historical narrative of how rent gap in Józsefváros had been produced throughout the 20<sup>th</sup> century, we will argue that examining the mechanisms and outcomes of the three dominant dynamics of rescaling urban governance in Hungary – decentralisation without the redistribution of resources in the 1990s; EU accession and Europeanisation of public policies from the 2000s; and recentralisation after 2010 – help us understand when, where and how gentrification has been unwinding in Middle-Józsefváros, the most dilapidated area of the Eighth District. The article will present three case studies of local urban regeneration as paradigmatic for the three rescaling dynamics: Corvin Promenade, Magdolna Quarter Programme, and the ongoing Orczy Quarter project. It will show the underlying revanchist policies and discourses in each case. The main aim of the current paper is to illustrate how a scale-sensitive political economic approach can go beyond the mainstream public and political discourse in scrutinising gentrification, through shedding light on structural factors contributing to exclusion, criminalisation, displacement, and othering.

*Keywords:* Józsefváros, gentrification, marginalisation, rent gap, uneven development, rescaling.

## *Introduction*

The most stigmatised area of Budapest, the Eighth District (Józsefváros) has been undergoing significant changes in the last fifteen to twenty years. Numerous newly constructed condominiums were built, bohemian and artsy bars began to appear, and a fancy shopping mall was erected – all within the space of a formerly impoverished neighbourhood. Public posters throughout the district display the local municipality's slogan to promote the new image: 'Józsefváros is being rebuilt'. The only question is, for whom? Who are the real beneficiaries, and who are the victims of these processes that have been taking place in various forms?

During the decades of state socialism inner-city districts experienced severe disinvestment, resulting in an overall very poor quality housing stock (Szelényi, 1990; Lichtenberger et al., 1995). The post-1989 district governments<sup>1</sup> then desperately sought to get rid of the loss-generating dilapidated stock on the one hand, and on the other, to attract young professionals, the so-called creative class, as well as Western tourists – either to move in, or just to visit and spend – and to become magnets for more and more capital investments in their areas. Not unlike other examples of inner-city urban change worldwide (Smith, 2002), such processes in Budapest tend to entail the displacement of socially marginalised groups, including many poor Roma residents.

There are already studies on how physical infrastructure revitalization in inner-city neighbourhoods leads to gentrification, and the displacement of the underprivileged families from the redeveloped central districts of Budapest (Csanádi et al., 2007; Dósa, 2009; Ladányi, 2008; Tomay, 2008). Yet, there are only a handful of critical analyses of the mechanisms and outcomes of the current social and spatial change in Józsefváros (György, 2012; Lepeltier, 2012; Nagy, 2010). The current article, studying a part of one district, Middle-Józsefváros<sup>2</sup> within the Eighth District (see Figure 1), adopts a critical political economic perspective, and aims to explore how gentrification (Atkinson, 2004; Slater, 2009) may reproduce urban marginalities through the intertwined multi-scalar processes of urban governance (Brenner, 2011). We seek to understand this specific case as embedded in the complex scalar relations of uneven economic development not only within the city, but also within Europe (Smith, 1990).

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<sup>1</sup> Budapest has a two-tier local government system: the Budapest level administration, and 23 independent districts with councils and directly elected mayors. The districts have a relatively high autonomy vis-à-vis the city.

<sup>2</sup> Józsefváros is usually divided into three bigger areas: Inner-, Middle- and Outer-Józsefváros (see Figure 1). Inner-Józsefváros has always had a substantial middle-class population and better reputation thanks to its closeness to the city centre and due to its better quality housing stock. Outer-Józsefváros has large areas with non-residential functions and most of its residential area has a suburban character. We chose Middle-Józsefváros as our research field, since it has been the most stigmatised part of the district and it has had the worst quality housing stock within the District; thus Middle-Józsefváros has had the widest rent gap in the Eighth District.

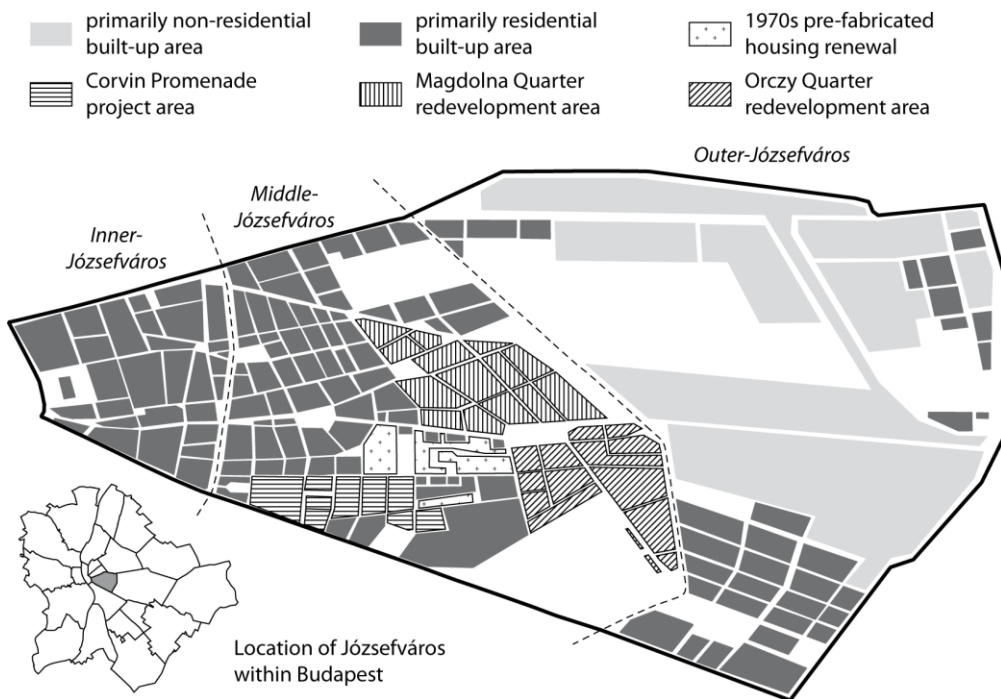


Figure 1: Neighbourhoods of Józsefváros. Source: Authors' own compilation.

In the first section of the article we will outline a theoretical framework combining rent gap theory with recent literature on state rescaling. In the second section we will provide a historical overview of political economic conditions that have structurally positioned Józsefváros. This will set the ground for studying urban regeneration projects in Middle-Józsefváros in the framework of three phases of scalar restructuring, illustrated through three different cases of urban redevelopment. These three cases (also depicted on Figure 1) will be discussed in the third section. Finally, we will show the means through which the image of Józsefváros is attempted to be reconstructed, highlighting the fact that the narrative repositioning (rebranding of the district) is often carried out to the detriment of the already underprivileged. Special attention will be paid to revanchist urban policies, which legitimise gentrifying regeneration plans.

### *'Closing' the rent gap through the scalar restructuring of urban regeneration*

In his seminal book on gentrification<sup>3</sup>, Neil Smith (1996) devoted a whole chapter to three case studies different from the well-known North-American cases on which he based his theories. Besides Paris and Amsterdam, Budapest was one of these three cases. In a very concise but dense analysis Smith argued that in 'Budapest gentrification did not begin as a largely isolated process in the housing market, but came fully fledged in the arteries of global capital following 1989' (Smith, 1996: 172). But instead of this, 'the wholesale gentrification of Budapest - for all of its dramatic momentum amassed in barely a decade - should not be taken entirely for granted. Various economic, social and political forces might well limit the process' (Smith 1996: 174-5).

The theoretical issue at stake here is to what extent the core of Neil Smith's argument - namely the mechanism of rent gap<sup>4</sup> as the manifestation of uneven capitalist development on the urban scale - can universally explain urban processes occurring at different localities. He admitted circa 15 years after the publication of this book in an unpublished interview in Budapest that 'I am a little bit surprised that gentrification has not gone so far I thought it would have gone. I have been tricked by the institutional issues: the complexity of publicly owned vis-à-vis privately owned housing'<sup>5</sup>. In his view the theory of rent gap is applicable both to Budapest and to other European localities, but as the two quotations show, he left space for different processes to explain the nature of particular instances of gentrification. However, in the literature on post-socialist cities this space has so far remained largely unexplored (some of the few counterexamples include Badyina and Golubchikov, 2005; Nagy and Timár, 2012; Sykora, 1993).

In the following we would like to focus on this unexplored terrain: our main aim is to show how in different historical periods different institutions in various scalar arrangements were able to shape the way in which gentrification - that is, the process of closing the rent gap - has unfolded in a symbolic area of the Hungarian capital. Throughout presenting our cases from the Eighth District of Budapest, we will juxtapose rent gap theory with theories of rescaling. Our main argument is that the more or less canonised political economic approach focusing on rent gap and uneven development (Smith, 1979, 1987, 1990), supplemented with the more recent theory of rescaling and scalar restructuring (Brenner, 2011; Mackinnon, 2010; Smith, 2003;

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<sup>3</sup> We define gentrification through four parallel processes. An area is being gentrified if the following things are happening at the same time: 'reinvestment of capital; social upgrading of locale by incoming high-income groups; landscape change; and direct or indirect displacement of low-income groups' (Davidson and Lees, 2005: 1170). For a critical overview of gentrification research see Slater (2006).

<sup>4</sup> Throughout the article we use the original concept described by Neil Smith, where the rent gap is defined as 'the disparity between the potential ground rent level and the actual ground rent capitalized under the present land use' (Smith, 1979: 545). For a recent overview of the rent gap literature see Slater (2015).

<sup>5</sup> The interview was conducted on 15 June 2010 in Budapest by Zsuzsi Pósfai, Kacper Poblocki and Csaba Jelinek before a lecture delivered by Neil Smith at the Central European University. The interview has never been published.

Swyngedouw, 1997) gives a useful theoretical framework to understand and disclose contemporary Hungarian discourses on urban policy and urban change.

The literature on scales and scalar restructuring has been rapidly expanding in the recent decades. In this article we follow the international literature in human geography and other social sciences which understand social processes as operating on different territorial levels, or *scales*. This approach, furthermore, conceives scales as not fixed, and looks at how social processes are constructing or producing scales (for an overview see Herod, 2011), or how the roles of different scales are changing over time (cf. Brenner, 1998). For example, classic urban theory mostly explained urban social change as happening on the scale of the urban, not taking into account the role of national policies or individuals' decisions in those processes. The booming globalization discourse throughout the 1990s, and the second wave of decentralisation in numerous European states in the early 1990s reinforced the emphasis on supranational and subnational scales in urban studies. A complex, intricate process of rescaling took place in Europe (see for example Kazepov, 2010) - with slightly different dynamics and directionalities in different regions and countries. Urban policies were also deeply affected, which redefined the context of gentrification at different localities and under different institutional settings. Understanding rescaling as a dynamic process of continuously re-regulating the institutional setup of neoliberal capitalism, and putting a special emphasis on cyclical crises and on the resulting scalar restructuring processes (Brenner, 1998), we will identify three different rescaling dynamics in the case of Middle-Józsefváros, which significantly shaped the ways in which rent gap could be opened or closed.

Our starting point is that while rent gap has been unequivocally present in inner-city Budapest due to systematic disinvestment during socialism, the pace, locality and institutional context of gentrification varied widely within the inner city. We will argue that examining three dominant dynamics of rescaling urban governance in Hungary - decentralization without the redistribution of resources in the 1990s, EU accession and Europeanisation of public policies from the 2000s, and recentralisation after 2010 - will help us understand when, where and how gentrification has been unwinding in Middle-Józsefváros. All of these dynamics are characteristic to a certain historical period, although there are important overlaps. Through three exemplary projects, we will show how these dynamics allowed private and public actors to 'close' the rent gap resulting from the longer history of Middle-Józsefváros.

Although our argument attempts to expand the political economic theory of urban social change based mainly on empirical work carried out in 'Western countries', we do not want to dismiss the universal features of gentrification. Given the homogenising tendencies of uneven development of global capitalism, the commodification and securisation of inner cities go hand in hand with the displacement of the relatively poor and 'undeserving' population, which can also be observed - and should be examined - in our cases. However, as homogenisation is inseparably connected to differentiation (Smith, 1990), we aim to highlight the specificities that first hindered the gentrification of Middle-Józsefváros until the early 2000s, then later made it the testing ground and exemplary case of intensifying urban revanchism (Smith, 1996) in Hungary. These specificities will be explored through a historical approach, understanding the role of different institutions (i.e. different market as well as state actors) linked to different scales. We will find that the rescaling

we can periodically observe has important consequences to how the closing of the rent gap is hindered or supported at different points in time.

### *A historical overview of the production of rent gap in Józsefváros*

In order to understand current urban change in Józsefváros, longer historical development of capitalism and its relationship with state rescaling must be taken into account. This section gives a broad historical overview of how the district had become Budapest's most stigmatised part by the 1980s, with extremely dilapidated housing stock in the Middle-Józsefváros area.

Since capitalist development took impetus in Budapest in the 19<sup>th</sup> century, rent gap has been a stable and powerful driving force in urban development. The Eighth District of Budapest is a remarkable example of how capital flows have materialised in the physical fabric of the city and how these processes have always been interconnected with state rescaling, social change and the production of urban marginality.

The initial urbanisation in today's Józsefváros were driven by the excess of capital after the Napoleonic wars: landowners exported Hungarian agricultural products during the war, profits were invested in buying land in the current Eighth District's area, then the outskirts of the city (Pilinyi, 1997).

Urban development accelerated after the economic crisis of the 1870s, and was also defined by the political-economy of the state structures in the Austro-Hungarian Empire. As a result of the lobbying force of landowner elites, legislation favoured high-density construction, which in turn led to the construction of tenement houses that combined upper class (street-front) and lower class residents (backyard) in the very same building (Gyáni, 1992). Wealth and marginality existed within the same house - although inner-city rents were high even in sub-standard backyard flats, keeping away the poorest families from these neighbourhoods (Csanádi and Ladányi, 1986; Bodnár, 2001). According to 2011 census data 57 per cent of the district's flats were built before 1919, during the construction boom of the turn of the century.<sup>6</sup>

In the inter-war period upper classes resettled into newly-built tenement houses outside the district, leading to slum-formation. The renovation of the Eighth District's housing stock (that is, a plan to close the rent gap) was already on the agenda of both national and city-level politicians, as well as the general public in this period (Csanádi and Ladányi, 1986; Kocsis, 2009), but no significant action was taken in the aftermath of the Great Depression.

Buildings then suffered significant damage during World War II. Moreover, the post-war period was characterised by an acute housing shortage, due to the massive inflow of labour force responding to state-led industrialisation. The shortage was initially tackled by splitting larger apartments into smaller ones, and moving multiple households in a single flat as co-tenants. Although housing was partly decommodified in the classical sense (nationalisation of residential buildings began in

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<sup>6</sup> Source of all official census data referred in this article is the Hungarian Central Statistical Office (HCSO). The HCSO is not responsible for any results and conclusions drawn from this dataset. We thank for the HCSO for providing access to the census micro-data.

1952), housing market dynamics were still a driving force of inner-city development. As Szélényi (1990) pointed out, the state's housing redistribution policy and the allocation of newly-built houses on a district level, from the late 1950s onwards, indicated and contributed to deepening inner-city socio-spatial inequalities (better-off families were put at the top of the allocation lists). State housing investment was dominant, and almost exclusively concentrated on housing estates (i.e. outside Eighth District). At this time, 'inner slum-formation' took place in Józsefváros – that is, within the district middle-class people were living in larger and better buildings, in flats with bathrooms, and in better locations within the buildings (Nemes and Szélényi, 1967).

The outmigration of higher classes from the district continued: privileged groups (including the middle class) moved out, and people with some savings or credit received from state owned banks built private family houses in the outer districts (Ladányi, 1989). This resulted in the further deterioration of housing conditions and a concentration of poor inhabitants in Józsefváros.

The initial answer to these socio-spatial changes at the national and city level was a complex regeneration plan for Middle-Józsefváros, accepted in 1963 (Brenner, 1965). The original development area was planned to reach more than 30,000 people in around 10,000 flats in 550 buildings (three quarters of the latter were to be demolished). The development project slowed down following the lack of state funds due to the 1970s economic crisis and the excessively high costs of the demolishing. Eventually only 4,000 new flats were built until the late 1980s.

The regeneration of the early 1970s was characterised by a displacement of vulnerable groups into unchanged overcrowded living conditions. Investment and renovation of the old housing stock was strictly forbidden in the foreseen development area. The local paper (aptly titled *Józsefváros*) reported:

*'Some years ago residents (...) might have hoped for a brighter future, since there are people who were notified ten years ago that they would be receiving a new flat within a year. But the reconstruction stopped, as if the time did: the neighbourhood is in limbo, there is almost no hope for new flats. [At the same time], because of the reconstructions, the [municipality's] maintenance company does nothing, prohibits renovation and modernisation by the tenants, being it a reconstruction area.'* (*Józsefváros*, 1986/1: 7.)

This together led to a change of the local society for lower-class and more marginalised residents, including poor Roma people. Although Roma had been living in the district for a long time (Józsefváros had also been the home for many well-educated Roma musicians since the early 20<sup>th</sup> century), a state-led programme which dismantled impoverished Roma neighbourhoods in the outskirts (once a stepping stone for people arriving from the countryside to work in Budapest) forced many families to move into run-down flats of inner-city neighbourhoods, including Józsefváros (Ladányi, 1989). Marginalisation of the Roma was driven by different forces at different scales. Firstly, as a direct means, the majority of Roma were considered not deserving newly-built flats: authorities argued that they would damage the dwellings. Secondly, there was a scarcity of multi-room-flats for the needs of larger families. Thirdly, after the crisis deepened in the 1980s, real wages diminished, lower-

class families could not afford the higher rents of the new buildings any more, thereby were forced towards the lower spectrum of the housing stock (Ladányi, 1989).

Following these processes, Józsefváros became highly stigmatised by the end of the 1980s due to its very poor quality housing stock, a comparatively higher proportion of low income Roma population, and the relatively high rates of criminal activity.

The political changes of the end of the 1980s found the Eighth District in social and physical decline, with high levels of stigmatisation and poverty. This, together with the inner-city location of the district, inevitably meant that the rent gap was extensive by this point.

Following the regime change of 1989, privatisation of the housing stock and the change of the local government system have only worsened the situation. From the 1980s, but more intensely in the 1990s the formerly publicly owned flats were privatised to sitting tenants at favourable prices (Dániel, 1996; Bodnár, 2001); better quality dwellings were quickly privatised by more affluent dwellers.

Usually the impact of the radical transformation of the local municipality system on housing outcomes does not receive adequate attention. Several tasks and competences were delegated to lower scales of governance because of the prevailing ideology of subsidiarity in neoliberal economies in the 1990s (Sassen, 1994). This decentralisation also meant the transfer of the state owned housing stock to the municipal scale – together with the responsibility for social housing provision, but without the necessary financial resources to fulfil these tasks (Vigvári, 2008).

Inner-city districts in Budapest opted for different rehabilitation policies (for an overview see Kovács, 2009; Keresztély and Scott, 2012). For example, Ninth District (Ferencváros) chose to carry out a long-term ‘block rehabilitation’ project, regulated by the local authority based on a French model (cf. Jelinek, 2010). In (Inner-) Erzsébetváros (Seventh District) the process of gentrification was largely unregulated by the municipality, and has proceeded in a less planned, and more market-led way (cf. Csanádi et al., 2011).

In case of Józsefváros the situation became critical in the early 1990s. As one council member described the situation at the time: ‘[...] we had no chance at all to acquire funding either from the central state, or from the Municipality of Budapest for developing at least one block in the district; moreover, we had absolutely no financial resources’ (Molnár, 2013a). Since Józsefváros experienced the most worrying tendencies of urban marginalisation in Budapest<sup>7</sup> (Ladányi, 1992), and since no ‘spontaneous gentrification’ took place in the district, the local municipality had to create their own approach. In the first few years, municipal leadership aimed to focus on the inner, more developed parts of the district (the best located Inner-Józsefváros on Figure 1). For the changing ownership structure and the usage of the flats in the Eighth District see Figure 2. Then, from 1994, a lobby within the municipality emerged arguing for the development of the ‘slums’ in Middle-Józsefváros (Molnár, 2013b). Although a plan was already published in 1992 proposing to renovate run-down buildings and to build residential buildings on empty lots (Perczel, 1992), it was evident that no funding would be available for such investments in the most

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<sup>7</sup> For example in 1992, 24-25 per cent of the families were poor in Middle-Józsefváros compared to the 10 per cent Budapest average, while 21 per cent of the flats in the district had no toilet and bathroom (Echter, Iván and Molnár, 1995).

stigmatised areas of Budapest. It was clear that in order to achieve the desired urban and social change, input (financial and other) from institutions other than the local municipality would have to be involved. This leads to the story presented in the next part.

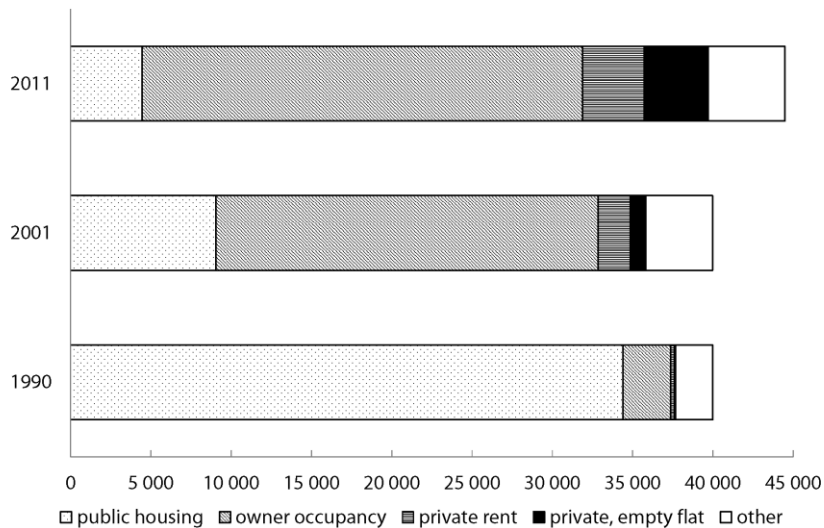


Figure 2: Ownership structure and usage of flats in Józsefváros (1990, 2001, 2011). Source: HCSO data, authors' own compilation.

### *Three phases and three cases of rescaling urban development in Middle-Józsefváros*

In the following we are going to show how the scalar structures of urban development have changed since the late 1980s in Budapest. We identify three phases of rescaling urban governance: decentralisation without resources in the 1990s; Europeanisation from the early 2000s onward; and recentralisation efforts since 2010. These different, overlapping phases and scales of governance can be well illustrated through the examples of three urban development projects of Józsefváros. Besides the different dynamics of scalar restructuring, we identify in each example how different strategies of closing the rent gap are enabled by the new scalar arrangements.

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*Decentralisation without central financial resources: private-public partnership in the Corvin Promenade Project*

The rent gap in Middle-Józsefváros could not be ‘closed’ throughout the 1990s due to being a highly stigmatised area, and private actors found it too risky to invest in a neighbourhood that may discourage clients. Recognising this constraint, the same lobby that started to push for the development of the ‘slums’ within the municipality in the mid-1990s started arguing for a more drastic solution: to demolish buildings on a larger contiguous area, and to replace them with buildings attractive to middle-class residents – with the involvement of a larger private investor. Accordingly, the municipality started to create an institutional and legal framework in which the business potential, that is, the conditions of profitably closing the rent gap could be achieved. A new institution, RÉV 8, was set up in 1997 to coordinate urban redevelopment projects, and to facilitate negotiations between the municipality and private investors. The majority owner of RÉV 8 was the local municipality, but both the Budapest Municipality and the largest Hungarian bank, OTP<sup>8</sup> had shares in it. Potential investors were invited to an open tender for reconstructing the largest run-down inner city area in Central and Eastern Europe. The municipality offered to demolish the existing poor quality public housing stock and to relocate the tenants, in exchange for upgrading the urban fabric and providing amenities for middle-class people (cf. Figure 2). While the first tender was unsuccessful, the second was won by a consortium of four large Hungarian construction companies. Finally, they managed to sell the rights to implement the country’s largest urban redevelopment project to *Futureal*, a Hungarian real estate developer. The project was started in 2000, and its estimated total cost will be EUR 850 million, including EUR 72 million in public investment.

Although the global financial crisis slowed down the development in 2008 – similarly to the 1970s, when the socialist redevelopment plan right next to the newly built Corvin Promenade was halted because of the crisis at the time –, it now seems that the project will be carried out by 2017. So far more than 1,100 old flats were demolished, 70 per cent of which was social housing. These were replaced with a mall, 2,700 new flats and 130,000 sq.m. of new office space. Former inhabitants (or more precisely the ones who had official tenure) were compensated either in kind (exchange flat located in the district but often further away from the inner city), or in cash. Though there was no systematic study to follow up on displaced residents, it is very likely that many of them, including numerous Roma families, ended up in similar or worse conditions. Figure 3 and Figure 4 show how the area of the Corvin Promenade Project became socially ‘upgraded’; and how urban marginality, concerning many Roma, was reproduced and deepened in other parts of the district. The cost of closing the rent gap in the renamed – and rebranded – Corvin Quarter<sup>9</sup>, that is, to gentrify the area was thus the further intensification of urban marginality elsewhere in the district (see Figure 4), in Budapest, and in the countryside (Ladányi,

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<sup>8</sup> In 2000, Józsefváros Municipality took over the shares held by the OTP.

<sup>9</sup> The district was divided into 11 administrative ‘quarters’ in 2005, which has not only helped to appoint the different areas of regeneration (i.e. Magdolna Quarter, Orczy Quarter, Szigony Quarter), but also ensured closer control over them.

2008; Ladányi and Virág, 2009). The institutional preconditions for this to happen were, on the one hand, the radical decentralisation of public tasks carried out in the 1990s, without necessary resources allocated from the central budget, and the reintegration of Hungary's economy to the global financial markets after the regime change, on the other. This resulted in a situation where local municipalities are forced to compete for thin state funding, as well as for the relatively scarce private capital by making the investment opportunities more favourable, and – if need be – occasionally even adopting pro-investment measures at the detriment of their current population. These institutional arrangements could only be set up by the beginning of the 2000s, which also corresponded to a period of global capital expansion, a large part of which was channelled into real estate development. The convergence of these factors at this given moment also partly explains why the gentrification of Middle-Józsefváros started relatively late compared to what the rent gap theory would have forecast – and what Smith expected (1996). The interplay of transitional recession, the depleted share of public housing even in the District 8 due to rapid privatisation, the stigmatisation of Józsefváros, and possibly even the relatively lower level of capital available to real estate development (compared to Western European or North American counterparts) significantly delayed the process. It could eventually take off nonetheless, once the national economy picked up, municipal governance began to undertake a more proactive coordinating role, and could offer an investment area of a scale large enough to be interesting for a national investor, and when capital available for real estate investment expanded on a global scale, including the boom of foreign currency loans on the Hungarian credit market.

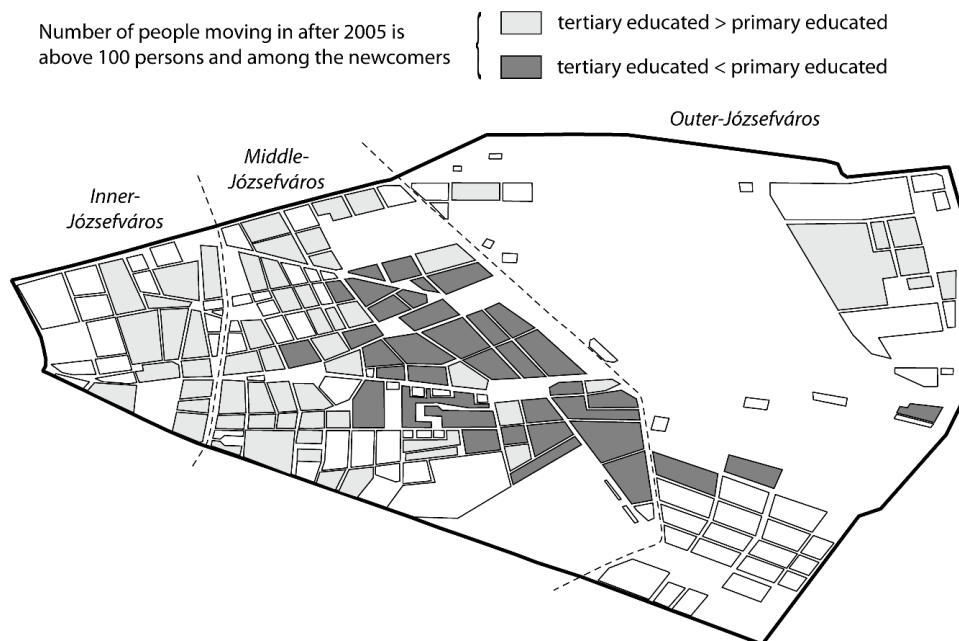


Figure 3: Population change and changing social status in Józsefváros (2011). Source: HCSO data, authors' own compilation.



Figure 4: Share of the Roma population in Józsefváros on the block level (2001, 2011). Source: HCSO data, authors' own compilation.

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*The role of the European Union in local urban development: Magdolna Quarter Programme*

While municipalities' intense competition for financial resources in the 1990s was principally articulated as a quest for private investors, the preparation and achievement of EU accession in the 2000s opened up a new opportunity for funding, introducing a new, supra-national scale in urban governance. In the case of Middle-Józsefváros the major project illustrating this restructuring of scalar arrangements, where EU funds have had an overwhelming role in the regeneration of certain neighbourhoods is the Magdolna Quarter Programme (MQP).

The MQP is one of the few so-called 'socially sensitive urban rehabilitation programmes' in the city, and has consisted of three phases: the first one between 2005 and 2008, the second between 2008 and 2010, and a third one, which was deferred after the change of both the local and national government until 2013, to be finished this year (2015). While the majority of the funding for the second and third phase of the Programme was covered from the European Regional Development Fund and the European Social Fund, the first phase started with a cca. EUR 2.3 million contribution of the Municipality of Budapest.<sup>10</sup> To continue, around EUR 5.3 million was allocated for the second phase, then around EUR 12 million for the third phase of the programme from EU funds; which have clearly significantly exceeded the support of the central city government, let alone that of the district municipality.

MQP truly applied a new approach in Hungarian urban renewal politics, as it has been trying to put more emphasis on the social aspects and the participation of local inhabitants in the urban regeneration process. Based on our interviews with urban developers and chief architects both in Budapest and outside the capital city, the programme is typically considered a pilot project and 'best practice' for an integrative form of urban renewal. Nevertheless, according to others, the presumed success of the Magdolna Programme needs, at least, further scrutiny.

Part of the critiques claim that despite the integrative framework, several local civil group representatives were not involved either in the planning or the implementation process, with special attention to Roma as well as migrant organisations (Jakab, 2005; Szabó, 2015). While the so-called *Kesztyűgyár* – which is a former glove factory, turned into a local community centre in relation to the Magdolna Quarter Programme – could not meet its original goal, namely, to become an inter-ethnic space, used both by local Roma and non-Roma dwellers (György, 2012).

As a study shows, the precondition for carrying out the Magdolna Quarter Programme was not only the availability of EU funds, but also that it was preceded by the gentrification of two other neighbourhoods. Namely, even the people in charge of planning admit that had the gentrification of Inner-Józsefváros and the Corvin Promenade first not attracted private investors, and up-and-coming young middle class inhabitants, the Magdolna Quarter Programme would not have even been conceptualised (György, 2012: 190). The sad irony of the situation is that – as mentioned above – most people displaced from the gentrified areas appeared in the margins of the Magdolna or Orczy Quarters (on the latter, see the next section).

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<sup>10</sup> The whole budget of the Magdolna Programme I. was cca. EUR 2.8 million.

While the Magdolna Programme has undoubtedly had positive effects on a selected group of Józsefváros inhabitants, recent developments in its third phase still suggest that the municipality seeks to close the rent gap under the auspices of its single ‘socially sensitive’ rehabilitation project as well. The privatisation of its commercial real estates (particularly the pro-middle-class redevelopment of the local Teleki Square market) as well as offering tax allowances for selected retail activities (i.e. catering business in Népszínház street bordering the Magdolna Quarter) could very easily result in a form of commercial-led gentrification in the neighbourhood (Rankin, 2008). Furthermore, this emblematic social rehabilitation project, ongoing for about 10 years now, has arguably changed the image of the area. In the private housing stock it started to increase rental prices, and induced a wave of ‘spontaneous’ gentrification (see also Figure 2).

‘Closing the rent gap’ with the aid of EU funds is not a particular case, though. In a general national and regional context of scarcity of resources, it is a prevalent approach applied by municipalities in shortage of direct capital investments – where the significance of and competition for international transfers (such as the funds available based on EU Cohesion Policy) increases. Thus, compared to the 1990s when private capital was sought by local municipalities (through direct investment and privatisation) on the scale of individual investment projects, from 2000 onwards (when Central and Eastern European countries gained access to EU funds) the European Structural Funds have gradually become the main source of investment in urban regeneration. This shift also brought about important changes in the structure of urban governance, which is coined as a process of Europeanisation in the literature (see for example Bukowski et al. 2003).

### *Return to the national government: the Orczy Quarter*

Lastly, we turn to the analysis of the currently ongoing urban social change of one of the Middle-Józsefváros neighbourhoods, called Orczy Quarter. This most stigmatised neighbourhood within the district also accommodated a large part of marginalised populations displaced from other, ‘developing’ areas – not only from within, but also from outside of the district. In the Orczy Quarter housing conditions are worse than in other parts of Józsefváros. Many families live in energy poverty, most typically those living in municipally-owned flats. Socially marginalised and especially vulnerable groups, like Roma people represent a higher proportion of the population than the district average. But the fact that the number of empty flats rose significantly between 2001 and 2011 suggests that this area is at the next forefront of rapid urban change (see Figure 2, 3 and 4).

The renovation of the area is currently on the agenda of the local municipality, but concrete plans and funding sources are not yet made public. However, it seems very probable (based on public statements of the district mayor; lastly, for example at the annual public hearing on the 10<sup>th</sup> of December 2015) that the district plans to acquire state funding for the planned Orczy Quarter Project. Common scenarios of gentrification to fuel this process in the neighbourhood seem not to be possible for various reasons. The local municipality lacks public money to initiate gentrification, and since this area has remained the most stigmatised part of Józsefváros – after partly

upgrading both the Corvin and the Magdolna Quarters –, private capital investment is also limited; further hindered by the scarcity of loans after the 2008 crisis in Hungary. Furthermore, in the current seven-year long programming period (2014–2020) EU funding for urban rehabilitation became very limited in the capital.

Nonetheless, ‘closing the rent gap’ in the Orczy Quarter seems to become possible by a large-scale university redevelopment project financed from the central government budget, as well as potential direct government support for regenerating the area around the new university of public administration. The National University of Public Service – founded by the state in 2012 to educate the future generation of civil servants, police and army officers – was moved to its new campus in the Orczy Quarter area in 2014. The whole campus redevelopment project is estimated to cost around EUR 100 million, financed mainly from the central budget.<sup>11</sup> The official brochure of the project emphasises that the investment will potentially result in a boom in the local real estate market (NKE Szolgáltató Kft., n.d.), and as the project website describes:

*‘Urban green area will increase by one hectare, the constant presence of the police strengthens public security, cultural-recreational opportunities of Budapest residents expand, a declining neighbourhood renews.’<sup>12</sup>*

The whole project seems to mobilise a mix of policies for marginalisation: displacing lower-class people by the studentification of the area (Smith and Holt, 2007), demolishing housing estates, and using enhanced policing (e.g. building a dormitory of the police academy next to the houses in which many of the poorest families of the neighbourhood live). While the district municipality clearly wishes to secure funding from the state for a regeneration of this kind, it also uses the university development project to frame its exclusionary policy measures, which we will discuss in more detail in the next section. The growing importance of the national scale in urban redevelopment processes corresponds to the general context of scalar restructuring of governance in Hungary in the past few years (Szelényi and Csillag, 2015). Since 2010 the right-wing government – which came to power in the aftermath of the economic crisis – has carried out a number of reforms of state administration. Important elements are the further decentralisation of costly tasks – such as the provision of social aid (see more on this in the next section) – and the recentralisation of decisions on the allocation of large-scale investment funds. Since the mayor of Józsefváros is a prominent representative of the governing party, the Eighth District seems to be able to secure relatively more public resources for investment than many other districts of Budapest.

As one of its consequences, the Orczy Quarter project will most likely end up in future demolitions, and further displacements, too – often of municipal tenants who will have been displaced twice or more within only a decade.

### *Policy framing for closing the rent gap*

<sup>11</sup> <http://ludovika-campus.hu/a-campus-projekt/kiemelt-allami-beruhazas>

<sup>12</sup> <http://ludovika-campus.hu/a-campus-projekt/kiemelt-allami-beruhazas>

One of the explanatory factors why the gentrification of Józsefváros started relatively late compared to other inner-city districts is the strong stigma attached to it. Apart from the need to attract investment and create adequate institutional structures, altering the image of the district was conceived as a necessary precondition for closing the rent gap by local policy-makers already from the 1990s. However, this need felt for rebranding the district has often led to the ‘othering’ of a particular group of locals, either along ethnic lines, or by the systematic differentiation between ‘deserving’ and ‘undeserving’ poor (Gans, 1995); where the latter may also suffer from certain selective policies that tend to criminalise poverty. These framings of policy measures coupled with the gentrifying processes discussed above, then, result in a radical version of urban revanchism which leaves a very limited space to discuss structural factors behind the marginalisation and displacement of vulnerable groups of residents. By urban revanchism we understand, more generally, the intertwining of urban politics with punitive politics. Important elements of this process are the further retreat of the welfare state, the scapegoating of poor populations and ethnic minorities, as well as regulations directly supporting spatial exclusion and the criminalisation of poverty.

In fact, there is a rather ‘positive’ narrative of the local municipality legitimising gentrification and urban revanchism: as the mayor most recently claimed, the municipality wants to convert Józsefváros into a ‘new university town’, instead of a ‘ghetto full of criminals’ (Kocsis, 2012). That is, studentification, as a rebranding strategy is seen to be a key factor in the competition for investments. An often proudly cited fact is that the density of university buildings in Budapest is the highest in Józsefváros. Indeed, in all three above mentioned urban regeneration projects students (as potential tenants), or university buildings (as catalysers of socio-spatial transformation) play a crucial role.

However, the local discourse – along with the dynamics of widening and closing the rent gap – is very much influenced by a wide range of ‘negative’, revanchist social policies. For example, the district council decided a few years ago to force out NGOs dealing with serious drug addicts from Józsefváros. This proved to have a significant impact on the increase of Hepatitis C patients and the risk of a national epidemic (TASZ, 2015). In 2011 the municipality – in the name of reinforced public security – started to finance a local paramilitary group. Not too much later, though, the group had to be dissolved as its members were reported for abusing power and harassing the most vulnerable population in the district.

As for the national policies influencing the local scale, the enforcement of the so-called ‘mafia law’ in 1999 – which allowed local municipalities to install CCTV cameras, and ordered the designation of ‘tolerance zones’ for street prostitution – was considered an ‘indispensable support’ for ‘the development of the district’ by urban planners (Alföldi, 2008: 3). Since then, the number of CCTVs has been multiplied, while on some streets mobile police stations were also installed. Last year, the former most notorious places of street prostitution were redesigned, and became well-maintained public transportation hubs for the city’s new underground line.

Similarly, the 2015 reform of national welfare regulations decentralised the competences for numerous housing and social benefits – as also above mentioned – to the municipality scale. It has entitled locally appointed committees to decide on the

eligibility criteria – whether an applicant is ‘deserving’ or not –, and on the actual amount of the benefits. This has made underprivileged groups particularly exposed to and dependent on local politics, leaving the needy without a minimum of welfare guaranteed.

As a result of the ‘negative’, revanchist policies framed by ‘positive’, student-oriented readings of urban change, today Józsefváros has not only become a terrain of ‘development’, but also a symbolic site for both the local and the national government to demonstrate power and control over poverty and delinquency – both within the district and the whole country. In addition to the reconstructions that have attracted students, investors, public resources and middle-class consumers to Józsefváros, the Eighth District was also the first where the mayor – also being in charge of issues of homelessness in the national government – banned dumpster diving and rough sleeping. These measures, then, were up-scaled to the national level: penalising homelessness has become a legal option for all municipalities in Hungary, and in 2012 the regulation was inserted into the country’s Fundamental Law (Constitution). This example shows well how the importance of urban revanchism in Józsefváros reaches far beyond the borders of the district, and how the dialectic relationship between local and national policies influences the characteristics of recent recentralising tendencies.

## *Conclusions*

In our paper we sought to explain the ongoing gentrification processes in the Eighth District of Budapest by combining rent gap theory with an analysis of scalar shifts in urban governance. The Eighth District is an important case to study from several points of view. It is both typical in terms of the historical trajectory of the inner-city neighbourhoods of Budapest, and exceptional due to its highly stigmatised nature. In recent years urban change has been going on here in a very intense manner, performing mainly different forms of gentrification. According to our argument, since the collapse of state socialism there have been different kinds of resources available for channelling investment into closing the rent gap, evolving by different phases of scalar restructuring. Resources and competences have been shifted between different scales of governance; not only supporting different forms of gentrification and of closing the rent gap, but also prompting new power constellations that fuel these processes.

We described different instances of rescaling through three different urban regeneration projects in Middle-Józsefváros. The Corvin Promenade project, the largest urban development project in Hungary realised with private funding, but in close cooperation with the public sector, was introduced as a result of decentralisation and liberalisation throughout the 1990s. The Magdolna Quarter Programme, an exemplary project regularly cited as a ‘best practice’ of EU funded urban regeneration in the country, was presented as a paradigmatic case of Europeanising urban interventions. The planned renovation of the Orczy Quarter is emblematic of the way central resources are channelled into urban development in the current period of recentralisation in Hungary.

There have been important processes of revanchist policy making and policy framing presented, underlying all of these projects. New policies were introduced – sometimes mutually reinforced by national policies – of criminalising poverty and marginalising ‘others’, such as prostitutes, drug addicts, the homeless, and ‘antisocial’ behaviour prompted by marginalised social positions (e.g. dumpster diving), as well as a potential for the covert discrimination of Roma, or migrants in policy implementation practices. The penalising regulations were introduced in the framework of a more general discourse about the ‘undeserving’ and delinquent poor populations, used as references to foster gentrification and changing – ‘studentifying’ – the image of the district. Some of these policies – most notably the criminalisation of homelessness – have been ‘up-scaled’ to the national level as well. This dialectic relation between local and national policies and policy narratives proves to be an important factor in facilitating the gentrification of the area.

To conclude, after a closer scrutiny we can see that although on a general level rent gap is an important explanatory factor of gentrification in Middle-Józsefváros, there are important institutional factors that also shape the spatiality and temporality of particular forms of gentrification. Different processes of scalar restructuring of urban governance have a huge impact on when, where and how the rent gap is closing in a city. Hence, with a scale-sensitive political economic approach not only the mechanisms of gentrification are more understandable in the case of Middle-Józsefváros, but also the misleading narratives of studentification and of ‘othering’ are tackled, and put into a more historical and broader context.

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