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Recreating residential property values in the inner city – an adapted ‘old’ institutional approach

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This paper argues that old institutional economics (OIE) is well-placed to provide a conceptual framework for the analysis of issues surrounding property price developments. This is particularly true in arenas where qualitative factors cause a change that is discontinuous from the previous structure, such as amid urban regeneration. In this paper first the basic principles of OIE are outlined and a meta-theoretical position established. Then it is argued how this approach has potential applicability for explaining the house price impacts of decision making regarding urban regeneration. The study tests an OIE inspired typology of price and quality changes on processes of urban renewal within localised housing market areas. In doing so, empirical material is presented through two case studies: one from Amsterdam and the other from Budapest. Findings from these circumstances illustrate the value of an OIE approach for analysing house prices, quality elements and neighbourhood specific characteristics of urban regeneration. More generally, the study shows that OIE has plenty to offer for a ‘patchy’ and evolving problem area such as the analysis of urban property price development.

Keywords: old institutional economics (OIE); property prices; urban regeneration

In some property regimes formalized rights and punishment structures dominate while in other situations culturally embedded rules and practices have the upper hand. Even in highly formalized regime structures the wider sphere of social embeddedness is important. (Vatn, 2005, p. 267)

1. Introduction

Urban regeneration may be defined as various forms of targeted active or passive government effort to bring about a physical, economic and/or social change in an urban area. It includes both large-scale block- and area-wide urban renewal programmes as well as piecemeal rehabilitation of buildings, and can therefore be either more comprehensive or more fragmented in nature (e.g. Van Gent, 2010). According to Couch and Fraser (2003), urban regeneration refers to the management and planning of the existing urban tissue as opposed to new areas. It comprises many different dimensions, and is carried out differently in each country depending on the particular roles of state and local government, the private sector, as well as the community itself. While the frameworks for carrying out urban regeneration are vastly

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different across Europe, at least consensus appears to exist on one issue: those cases where the state or local government remained in possession of the developed land are considered the successes of urban regeneration (see also Kovács, 2009).

In Europe the earliest urban regeneration experiences are from the UK, following the first urban policy initiatives laid down by the Labour government in the late 1960s in response to the poor industrial competitiveness and dysfunctional social structures of British cities. Since the early 1980s in this country, urban regeneration has mainly comprised private sector-led, physical property development projects such as enterprise zones, urban development corporations (UDCs), grants and subsidies for development. This period coincided with a property boom. However, since the early 1990s property market downturn the urban regeneration activity in the UK has taken a holistic, people-oriented focus. The key here is how to restore private sector confidence, given the downgrading of physical projects caused by the recession. (Adair et al., 2005; Adair, Berry, Hutchison & McGreal, 2007; see also Rosenberg & Watkins, 1999).

It can be argued that the contextual element of urban rehabilitation is different in each city, and also largely different in each neighbourhood within one and the same city. This contribution reports case studies from Amsterdam and Budapest, but in principle any city context would do well here to exemplify the points made, namely the role of informal institutions in directing urban regeneration. Specifically, the objective of this study is to investigate whether any urban regeneration outcome brings (or can be associated with) price changes (cf. Baumont, 2009). The paper argues that an institutional approach which focuses on the informal institutions is well-placed for this purpose.

While institutions have recently drawn attention in general economics and social sciences, Hodgson (2006) warns that there is still too much emphasis on *mechanisms* at the expense of *sensitivity to agents*. It is important to be sensitive to the motivations of various actors too and not just on the mechanisms operating, as too often is the case, amidst the recent ‘institutional turn’, Hodgson (2006) argues. Institutional analysis of the built environment potentially concerns a broad variety of topics, even when the objective is narrowed down to urban regeneration. New institutional economics (NIE) centres on reducing market friction, in other words minimising the transaction costs. Consequently the economy is prioritised, and often (but not always) a passive government purported. The urban policies advocated by such a stance logically lead to sprawl. Old institutional economics (OIE – Classical IE) in turn centres on the social structures and habits that constitute the market; applying the OIE approach, the economy often (but not always) needs to be regulated by active efforts made by a supposedly enlightened government or other public sector body.

When defining the ‘institutional approach to urban regeneration’, Van Gent (2010, p. 66) argues that the housing context of interventions in the built environment constitutes a relevant institutional framework. The corresponding method to use here is based on comparison of city cases that are sufficiently different to highlight various categorisations. This implies going beyond more commonsensical notions such as those of ‘welfare state’. However, the selected cases must also share some common ground to be able to tackle a specific issue of interest, such as whether the regeneration is of the large-scale or piecemeal type. For neighbourhood upgrading, institutions matter, but the issue is not straightforward, as organisational capacity varies across city regions (Van Gent p. 64).

Institutional circumstances matter also in a more evaluative sense. For instance, Guy, Henneberry and Rowley (2002) purport that local independent investors are

more important than institutional investors for the long-term viability of a project. Ideally any empirical material should be supported by apt theory – even in case of ‘half-way theory’ such as OIE. In the OIE approach designed for the present study, the general objectives comprise actor motivations including coercion and conventions; public/private balance in given processes; and a context dependent definition of what is considered ‘rational’. In the empirical part of the present study, urban regeneration processes in different inner-city neighbourhoods in two dynamic European metropolises, Budapest and Amsterdam, are evaluated based on the development of house prices and quality characteristics of the dwellings in the study areas in question, together with other development processes taking place there. The case studies are aimed at showing how the observed price development can be linked to housing market behaviour as well as to housing and neighbourhood quality improvement in different circumstances.

In order to examine property prices in an OIE framework, an analytical tool for empirical investigation is designed, based on the price-quality development in relation to urban regeneration processes in given neighbourhoods. This explicit treatment of quality factors as determinant of property prices does not however preclude another type of price formation that is based on an ‘artificial element’ (Kauko, 2009). The often cited problem in institutional analysis is that it is too descriptive, and that OIE is too fluid conceptually and too vague a framework to allow rigorous empirical analysis. Here the aim is to design a more robust analytical framework as an alternative to neoclassical economics (NCE).¹ The arguments put forward propagate the theoretical integrity of OIE; namely, this stream of theory offers a socio-culturalist view of property price development, local housing market behaviour, urban regeneration activity, and dwelling and neighbourhood improvement. Such a view is based on the assumption about market and development behaviour being triggered and shaped by informal norms and cognitive frameworks involving specific attitudes, values, beliefs and expectations. More specifically, the analytical model, consistent with an OIE theoretical approach, is based on the assumption that local property price dynamics can be categorised into various cases depending on how the price increase is associated with a simultaneous quality increase in the same residential area. Subsequently, this framework is made operational and applied to a multiple case-study on Amsterdam and Budapest circumstances². The applied method is based on recorded data on actual sales prices and assessed quality indicators together with narratives of how the area in question has developed.

The paper is structured as follows. Section 2 outlines a conceptual framework for examining the property development in the inner city following the meta-theoretical ‘old’ perspective to institutionalism. Section 3 presents an analytical framework, coherent with the OIE perspective, for such an empirical undertaking. Section 4 presents case study evidence on property development and urban regeneration practices from two city contexts (Amsterdam, Budapest), with a generalising discussion in the end of the section. Section 5 draws conclusions.

2. Approaching institutions of inner city property development from an OIE position

According to ‘institutional meta-theorists’ such as Richard Scott (1995) and Arild Vatn (2005) institutionalism is a heterogeneous body of thought in social sciences.³ Sociology and classical institutional economics underpin a variant that begun more

than 100 years ago in the US. There is also a modernised variant of classical institutional economics. And then there is NIE and even a ‘neoclassical economics (NCE) with institutions’. This setting is illustrated in Figure 1. Following OIE theory normative action ought to be viewed in relation to the particular consequences; and what is evaluated as ‘good’ is objective and negotiable rather than subjective (as in the Austrian Economics view which in a simplified scheme as Figure 1 would fall into the same category with NIE and NCE, see Vatn, 2005, pp. 192–203). This conceptualisation has particular implications for property development: what the motivations of actors are; whether the project is run as predominantly private or public; and as to what extent we can speak of a context-dependent element of rational market – and indeed non market – behaviour.

In Figure 1 the degree of formality increases from top to bottom: thus OIE in general is informal, whereas NIE is completely formal in its strictest variants (see Vatn, 2005). In most if not all institutionalist perspectives it is accepted that transaction costs generate market friction. Transaction costs can be information costs, search cost, power asymmetries and government intervention. According to the principles of NIE, transaction costs are to be reduced.⁴ OIE, on the other hand, takes its starting point in social structures and habits.

The theoretical framework of the present study, where the objective is urban property development and neighbourhood revitalization, is inspired by work on *motivations* by Thorstein Veblen (1898–1919). This tradition was subsequently developed by J.R. Commons (1930s) in such a way that transactions became the focus of the analysis. While these two founding fathers of institutionalism complemented each other, OIE was (and still is) criticised for not developing a coherent theory. To some extent this criticism has been overcome by modern-day social scientists such as Anthony Giddens, Richard Scott, Daniel Bromley and Geoff Hodgson, who have proposed that institutions also *enable* and not just *constrain*

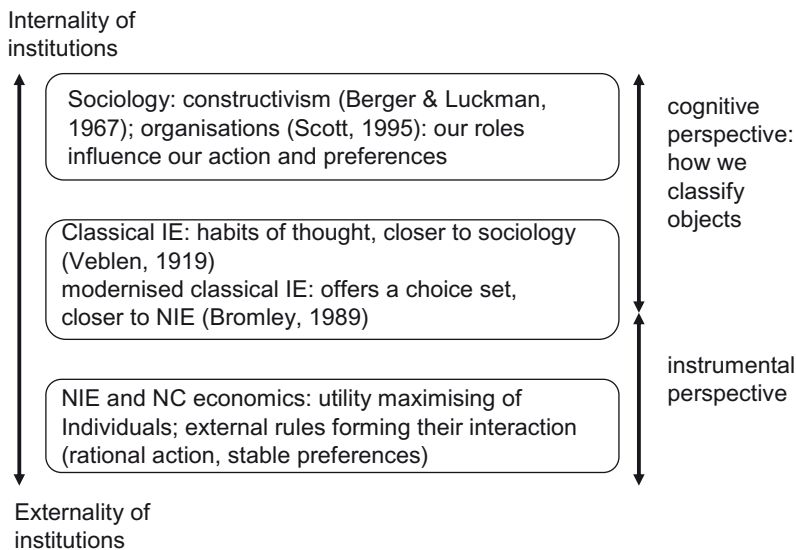


Figure 1. The definition of institutions in different perspectives (cited in Vatn, 2005).

choices. It should furthermore be recognised that power relations matter, as some groups get more protection than others, according to this view (see Bromley, 2008).

The issue concerning motivations is a key aspect of the present study. Vatn (2005) distinguishes between four different kinds of societies: I–I, we–I, I–we and we–we societies. The categorisation depends on whether or not individual market actors on one hand and policymakers on the other, are motivated by individualistic or common values. In the I–I society (where individual actors pursue individual interests) control and punishment motivate the decisions, whereas in the we–we case (where policymakers pursue common interests) the corresponding decisions are motivated by trust. Motivational ‘rationality’ as perceived by agents and implied by policy instruments then determines the type of society. One could at the first instance, for example, categorise the contemporary Hungarian/Budapest case into the I–I box and the Dutch/Amsterdam case into the we–we box – this is merely based on casual observation and common (undoubtedly somewhat stereotypical) perceptions of each case. It is best, however, to bear in mind that cases where one of the two actors is about the individual and the other about the common good also exist, although these situations (I–we and we–I) tend to be less stable than the I–I and we–we cases according to Vatn (2005).

Scott (1995) considers an institution a combat-zone for debating the ‘rational choice’ theory of human behaviour: is it about instrumental logic, or about a broader, socially embedded practical logic? Bromley (2008) rejects rational choice and other similar rigidities of neoclassical theories, and focuses on ‘what people seem to be able to get’. Bromley criticises NIE for endogeneity which precludes the capability of explaining a phenomenon by the structure within which it is embedded. According to Bromley, institutional change modifies our ability at the market place..⁵ He defends public policy and states that ‘... tough choices cannot usefully be turned over to God, or to philosophers, or to welfare economists’ because ‘... there is only us’. In this model of theorising institutional change there will always be a surprise element that shatters the ‘status quo’ policy and beliefs.

More into the urban realm, economic theory predicts that changes in the social or physical qualities of an area will cause the property prices and rents to either increase or fall. This occurs with a lag and through the market dynamics of the segment. In the absence of further interference of the government, this effect is tractable to the supply demand equilibrium, and thereby is straightforward and measurable in neoclassical economic theory. However, this ‘organic’ situation changes when the local authority is responding to the unfavourable neighbourhood effect – the strategy could be about reducing the income inequalities or about improving the overall quality level. When a specific policy instrument such as rent control or expropriation of the property is put into use, the local price dynamics also enters a new mode of regulation and the resulting effect on property prices is discontinuous. Following the general line of institutional economic argumentation (e.g. Vatn, 2005), the next question is: which one of the two price effects ought to be the focus of the analysis: the one stemming from market driven, organic neighbourhood change, or the one stemming from government interference in the form of either direct provision (through implementing expropriation and zoning measures), subsidies or taxes? The answer is: both of them.

The study comprises an analysis of urban regeneration and revitalising of the inner city residential stock and market, and is as such more aimed at property than planning audiences. Here it can be noted, however, that public planning and the

housing market are not to be seen as polar opposites. On one hand, today the private developers have increased their influence in the planning process. On the other hand, the advent of the sustainable development paradigm has begun influencing the ways property is managed, valued and developed (see Lorenz et al., 2008).

This mode of analysis – or world view – is borrowed from institutionalist thought within general economics. An institution is a collectively accepted system of rules that not only regulate but also constitute the behaviour of individuals (Searle, 2005). While OIE and NIE perspectives contain some general similarities, their main difference is that the basic deterministic powers in OIE pertain to the institutional design including informal relations and in NIE to the market itself. Within real estate applications making this kind of discrimination is not very widespread (but see, e.g., Diaz, 1993; Adams, Dunse & White, 2005a; Watkins, 2008; Wallace, 2008). A further elaboration on the differences between OIE, NIE and other related lines of inquiry such as Austrian economics is beyond the scope of the present contribution, but, nonetheless, already the brief exposition of world views helps in grasping the distinction between essentially market- and actor-led institutional theory frameworks that enable analysis of motivations and behaviour.

Yet another way of distinguishing institutions is based on *the balance of private and public spheres*. As discussed by Vatn (2005), private property is a type of institution invented by the Western world; it had no real meaning in ancient civilizations (e.g. the Near East) where man merely had a relation towards God and towards Nature. In a given time and place, the issue is to decide the appropriate institution. Let us consider, for example, the convention of speech. It brought a competitive advantage for humans over other species as it enabled communication about hunting, dangers and so forth. This prompted the concepts of *us* and *ours*, which subsequently led to the establishment of third-party institutions to settle resource conflicts. This in turn necessitated formal rules. It was only after this chain of events that private property came to become recognised as a social, economic and legal entity.

However, the standard application area of NCE fails to recognise this defining role of institutional context, and sticks to the assumption that private property rights for all goods are exchanged in competitive markets without transaction costs or information costs. Here is a gross inconsistency; the state must guard these rights, but the question ‘how?’ is outside the analysis; how is the coercion of the rules taking place (police, courts, inspection of quality control and so forth)? The function of the state is to settle conflicts and enforce institutions. Contrary to neoclassical welfare economics, where it is assumed that the benevolent planner maximises utility for all, and also is contrary to public choice theory, a close relative of NIE, where it is assumed that market-like processes prevail in politics too, the OIE view assumes that institutional processes define the particular logic and rationality in question.⁶ The key issue in this dispute is how to ‘rationalise’ when we don’t know which economic structures are best at economising on transaction costs? If transaction costs are higher than zero, other kinds of allocation may be cheaper than market allocation. In such situations we can predict – in the spirit of Karl Polanyi – that a command structure such as state or firm emerges and replaces the market-place (see also Vatn, 2005).

Given an assumed variation in the allocation circumstances of property development at both intra-urban and inter-urban levels, the challenge then is to

recognise situations of *context dependence* – as opposed to situations where ‘general models’ apply.⁷ The logic here supports bounded rationality (as opposed to strict economic rationality), in other words, transforming intractable decision problems into tractable decision problems using short-cuts and ‘satisficing’ – a concept established by H.A. Simon. ‘Satisficing’ means that we ought to choose the first solution passing a preset target. Thus there is no equilibrium, and all outcomes are related to status quo. This argument lends itself particularly well for the applied field of housing and property market analysis, where optimising is notoriously difficult.

The main point in this conceptualisation is that, on one hand, institutions affect what we consider rational; on the other, at the same time the institutions are moulded by action based on some form of rationality. According to Vatn (2005), rationality can also be ‘social’, which means going far beyond the concept of individual rationality. It is important to see that this is not irrationality, but rationality defined by commitment and moral reasons. One is obliged to follow orders in a hierarchical organisation; and one tends to help ones’ friends, even if no immediate material rewards are to be expected.⁸ What is acceptable (reciprocity) and what is allowed (norms)? For example, is it rational or not to lead an old man over the street when one is late for a business meeting? If it is not strict ‘rationality’ that counts, it is ‘the argument’. Here it is to accept that the definition of ‘rationality’ can shift depending on the social sphere, and that norms are followed even when no coercion exists.⁹ This proposition can easily be translated into a problem relevant for property development, as it is plausible that large variations in investment behaviour of private as well as public actors prevail. That is to say, follow the codified norms of the profession or follow more intuitive guidelines learnt from practical experience? It is furthermore to note that institutional change – including technological change – can to a large degree be explained by changes in the prevailing power structure (see Vatn, 2005). Especially in the post-socialist context of urban transformation are such processes strong, with implications for establishing the legal system, policy formulation, economy and landscape – with similarities to both Western European institutional functions and urban regimes in the US (Nedović-Budić & Tsenkova, 2006.) On the other hand, also a specifically Western model of urban development is recognisable (see Van Gent, 2010).

To sum up the argument so far, OIE approaches are propagated as versatile attempts to explain behaviour based on social, political, administrative and cultural factors that constitute external conditions as well as internal non-economic determinants of the market process. What is common for such analyses is a preoccupation on three key issues that define institutionalism: one, the crucial actor motivations; two, the public–private balance, that is to say, the role of the public sector vis-à-vis the private sector, in a situation where these begin converging; and three, context dependent definitions of what is considered ‘rational’ market behaviour. Here it is reasonable to believe that Eastern and Western European urban neighbourhoods show different paths of urban renewal and housing market development, and that such a difference also lends itself to empirical scrutiny. The next section discusses the outlined conceptual OIE model in a systematic manner and, in doing so, moves towards a more explicit analytical framework.

3. Systematising the institutional effects in relation to the empirical analysis

3.1. *Institutions and urban property price development*

How are the appropriate (but perhaps not optimal) rules and regulations that govern private development and public policy and planning arenas set? The obvious answer is that we need ‘sticks’ to determine the institutional mix as well as ‘carrots’, to realise actor motivations. This issue of course is both political and economic, and in some sense we can speak about ‘socialist’ and ‘capitalist’ biased models to solve urban, housing and real estate related issues. Thus institutions are not organisations, but *rules of the game*. Here a caveat by Jäger (2003) is worth a mention; fixing a specific perspective for convenience reasons is unwise as regulative changes are likely to occur periodically.

Looking at how a property marketplace is regulated, price setting and subsequent developing through market clearing varies across different macro-economic, institutionally mediated and place-specific contexts (e.g. Haila, 1990). This variation results from the pathways of how different territorial tiers of policymaking mediate the global or local investment processes. Evidence tells us that these processes are everything but straightforward (see, e.g., Kruythoff & Priemus, 2001). Whether the local government sits through such a process as a predominantly ‘active’ or ‘passive’ player, whether it is predominantly the supply or demand side that is the driver, whether the development is small scale or large scale, and whether the primus motor is public or private sector investment, are all issues that will affect the outcome in economic, functional, social, aesthetic and environmental terms. There are other issues, such as technology, legal frameworks and customs in initiating and directing these trajectories.

In the light of the present study, the concept of property institution is defined twofold: in the sense of formal blueprints on the one hand, and related to a process of collaboration between various actors on the other. The impact of various public land-use institutions on property development has been explored in a number of case studies, such as Needham and de Kam (2004) and Buitelaar (2004) on how uncertainty relates to transaction costs; Guy and Henneberry (2000) on the role of active institutions; and Pendall and Carruthers (2003) on the connection between density and income segregation.¹⁰ As shown by Kauko (2009), this kind of institution induced/mediated price development would emerge in two ways: either by ‘the stroke of the pen’ (formal documents), or through oral agreements and negotiations, where the image attached to the end product (house and environment) is an important determinant of the success of a project (profitability or otherwise). In a critical comment based on Dutch evidence, Van der Krabben and van Dinteren (2010) demonstrate that undesired market outcomes and related policy interventions appear in all kinds of land and property market segments, for example some reduce the demand of housing whereas others cause unwanted increases of housing prices; or, as is shown in their own case study, private developers do not show much interest in the development of industrial estates due to these being in oversupply. In a more prescriptive comment on a similar problematic, Adams and Tiesdell (2010), in turn, assert that markets should be seen as socially constructed, not given, and that public sector actors such as planners ought to realise that as they are intricately involved in framing and reframing property markets, they as such are already market actors. Elsewhere, Zietz and Sirmans (2004) conclude that it is likely that reaping positive returns from revitalisation efforts requires government intervention in inner-city property markets (cf. Ball,

1998; Watkins, 2008; see also Monk & Whitehead, 1999; Adams et al., 2005a; Tiesdell & Allmendinger, 2005; Leishman & Warren, 2005; Adair et al. (2005) for a discussion on the inter-linkages between property markets and urban planning).

Going back to the more general argumentation, in a world of scarce resources, institutions on one hand *simplify and coordinate behaviour* and on the other *produce and protect values and interests*. For instance, the rationale for zoning regulations in a settlement area might be such that, by putting similar activities together, conflicts will be avoided among the inhabitants (e.g. a restaurant is not allowed in a housing block). However, government officers might have their own agendas. Or the situation will change so that mixing functions is not anymore considered disturbing for the existing inhabitants, and then the rationale for such regulations disappears. If the general issue to decide concerns which interests the collective defends and how it coerces them, an OIE approach is suited for comparing different arguments in order to be able to judge whose values we want to protect and, ultimately, what sort of society we want to foster. Thus, an approach based on OIE purports an objectivist view, where some responsibility is allowed for the society to decide what (i.e. which policy) is best for us. In other words, while this view encourages evaluation, it does so from the point of view of society, because it is first of all assumed that the society can make the most appropriate choices for the individual better than her/himself, and also that, only this way, a change of social structures is possible should it turn out that the decisions made were wrong. Here it is observed that the OIE model does not preclude the possibility that certain roles of 'the society' are being shifted towards the private sector, amid the global trend from *government to governance* (Vatn, 2005; see also Adams et al., 2005a; DeFilippis, 2007)

Indeed, institutions matter for urban property development. Various agents pursue their strategies of maximising either consumer demand or investment return within the institutional parameters set at a given point of time (e.g., Healey, 1998). The question is now as to what kinds of research design would be required here. Such a study would have expectations about how to create a competitive strategy given the business environment of property development, and, subsequently, how to negotiate a desired outcome within that strategy. Here the analytical framework focuses on the three kinds of mediating processes defined in the previous section: (1) motivations for a certain consumer or producer behaviour that is observable in the transaction; (2) the balance between public and private powers of provision, including indirect means to induce the demand; and (3) a reflection of the market context in terms of its underlying rationality.

3.2. Setting up an analytical framework for examining property price changes

To reiterate the aim of the study: to reconcile the actor motives and regulative frameworks relevant to inner city property development onto a consistent theory model. Is OIE the answer to that? In the discussion hitherto a flexible analytical framework rooted in 'old' institutional economics has been proposed. In what follows, a specific variant of OIE is used as a tool for explaining the determinants of house price (change) in urban renewal area circumstances. In doing so, an account of particular methods and research design needs to be provided within this framework.

Here it is assumed that property development and urban regeneration potentially result in increased prices. This can occur in two principally different ways: either through a tangible quality improvement or through a rather 'virtual' effect based on

mere expectations. Hence ‘real’ or ‘artificial’ value formation may be defined, following Kauko (2009). When positive and negative urban externalities affect the house price, the situation is to a large extent explainable with standard urban economics. However, the interesting thing is that, if a discrete change that is not observable causes an ‘artificial’ price increase or decrease, this may be related to OIE.

The counter-argument to the market equilibrium effect upheld by NCE theory is that the new construction in general raises the price level of the area due to an improvement in quality (Logan & Molotch, 1987, pp. 159–160). Consequently, there will be no market equilibrium, levelling out this monopoly pricing impact (see, e.g., Evans, 1983; Needham, 1997). If equilibrium prevails, that is to say, the transaction price corresponds with rental income divided by a capitalisation rate, the rational expectations do not lead to situations where either renting or owning the unit would be more profitable for the tenant. Thus, the choice between owning and renting is indifferent in such a situation. However, if disequilibrium occurs, the situation is not tenure neutral anymore. Usually an enhanced buyer demand is pushing prices up,¹¹ which implies that a tenure change – thus, from letting out to selling – becomes more profitable for the owner who is purely interested in financial calculations. This implies the following: contrary to neoclassical theory, a discontinuous difference, as a manifestation of disequilibrium, occurs between the prices at two points in time.¹²

The applied method furthermore works on the assumption that such outcomes are empirically observable from two kinds of data: measured development of both transaction prices and dwelling quality as well as a description of other development of the area. The main principle behind this design is to find out the plausible drivers of property prices. Why did prices in a given location behave in such away, and what else did happen there at the time (actually a bit earlier)? And when and where prices did increase, was this change related to actual improvement or to some artificial influences (see Kauko, 2009).

As one notes, while the loosely defined OIE model is presented as an alternative to NCE, the methodology applied in this study is still anchored in market outcome indicators. The research design concerns a change in outcome: narratives and documents (Kauko, 2009). The analysis could in fact be best characterised as ‘quasi-dynamic’ insofar as it enables tracking snapshots of an outcome at t1 and the corresponding outcome at t2. Thus the focus is on outcomes rather than processes, which enables a comparison with NCE based studies on a general level at least.

Following (Kauko, 2009), urban renewal of the inner city property can be evaluated through the change in price to quality ratio, together with auxiliary qualitative material using the simple typology shown in Table 1. In this model the local price

Table 1. Evaluation of local changes in house prices and residential quality.

	<i>The quality does not increase</i>	<i>The quality increases</i>
<i>The price level increases (effective project)</i>	Price bubbles without a link to quality improvements (an unfavourable outcome)	Economic efficiency and equality is achieved (favourable outcome)
<i>The price level does not increase</i>	No real effect; economically efficient but poor neighbourhood/dwelling quality (debatable outcome)	Bargains; economically inefficient but environmentally and socially viable (debatable outcome)

dynamics are divided into three types of institutional effects depending on if only the price level increases (the upper-left quadrant of Table 1), both price and quality levels increase (the upper-right quadrant) or only the quality level increases (the lower-right quadrant). In this typology there is also a case for no effect (the lower-left quadrant), and an in-between case (at the middle point). Such a model aimed at classification is consistent with OIE insofar as we observe a ‘patchy’ development of a local housing market, housing development and neighbourhood revitalisation together with the policies and regulations that steer the market processes in rather discrete steps as opposed to any smooth, equilibrating mechanism where such ‘patches’ would be ironed out by spatial arbitrage.

The set up illustrated in Table 1 shows how price increases sometimes occur with a simultaneous increase in quality levels in nearby dwellings and neighbourhood amenities, whereas at other times such quality improvement is absent. This proposition thus connects with many of the studies referred to above (notably, van der Krabben & van Dinteren, 2010; Adams & Tiesdell, 2010; Logan & Molotch, 1987; Evans, 1983; Needham, 1997). The method triangulates quantitative transaction price data and qualitative material (documents, interviews) with the aim of distinguishing patterns between the targeted and comparable cases (i.e. the selected micro locations in the two cities). All micro locations included in the data were also subject to field inspection. The findings are subsequently placed in the typology of Table 1. This way it can be argued that a comparative method using these kinds of data is consistent with OIE where categorising is a defining feature.

According to findings by Baumont (2009), public policies may in general generate price increases, decreases or not have either impact. She furthermore argues that social policy has a tendency to reduce prices of properties in the same and adjacent areas. However, we note that the case of price decrease is absent in the typology shown in Table 1; following Kauko (2009) only the case of price increases and the case of no changes is noted here. This methodological choice is justified insofar as neither in the Budapest or Amsterdam cases any increase of social housing took place during the period of study.

When we look at the study areas, these particular countries, cities and neighbourhoods were selected partly from their strategic choice of dynamic economic, social, physical and institutional circumstances, but even more so due to convenience. One reason is the turbulent past of Hungary, and to contrast that with a more stable Netherlands, where there, in all fairness, has occurred plenty of liberalisation too.¹³

In sum, the analytic framework of the study is built on two arguments. First, that OIE informality affects crucial decisions that govern urban property – even though many of these decisions are formal – and, as a consequence, the market as well as the social and physical environment are affected. Second, this institutional change is to a sufficient extent empirically verifiable through the collection of data on prices and quality levels as well as narratives on the non quantifiable sides of the changes taking place.

4. The economic geographies of residential property prices in inner city neighbourhoods of Amsterdam and Budapest subject to urban regeneration¹⁴

4.1. The case study of Amsterdam

In the Netherlands traditionally a strong planning system prevails. A new plan tends to be designed approximately every 10 years, and this typically incorporates some

aspects of urban renewal also. This practice is particularly applicable for the capital city, Amsterdam. Nonetheless, the urban regeneration process has retained (and is likely to continue retaining) its complexity, as it has both supply- and demand-side drivers, i.e. production and consumption motives. An important condition is that the city of Amsterdam owns much of the housing land, and builds owner-occupied housing also in less favoured areas. Local experts claim that it is precisely because of such active anti-market policy that Amsterdam has managed to avoid residential segregation (Teune, interview).

The neighbourhood de Pijp in the southern sector of the inner city of Amsterdam is seen as one of the classical examples of Dutch urban restructuring processes, as the pro-market change in policy has led to an upgrading of de Pijp. Both individual (organic change) and government policy and subsidy have initiated the renewal. It is mainly about dwelling improvement, and demolishing and new building development has taken place only when necessary. The main actors were the housing corporations on one hand, and individuals, including renters, homeowners themselves, and investors, who own a small number of dwellings, on the other. (Thus no large-scale private owners exist.) Since the late 90s, no dwellings are owned by the City, but instead, a new corporation, *Ymere*, was founded (van den Berg, interview).

The described redevelopment is indicative of a shift from a traditional 'active' government towards a more 'passive' type of government. Nevertheless, public regulations are still in place in the Netherlands. It is worth noting that buyers have got tax incentives to buy apartments and housing associations have got incentives to sell their stock (Aalbers, 2008, p. 157). What is more relevant for the institutional arena, is that in Amsterdam the social housing is still hugely significant (only 21% owner-occupation on the city level; 16% in de Pijp).

In what follows, the urban renewal and rehabilitation outcomes are evaluated partly based on house price trends at the individual transaction level, and partly based on narratives and documents such as interviews of stakeholders and experts, and official accounts on the development plan in de Pijp. This research was carried out using a micro-level dataset used for taxation purposes in Amsterdam (c. 46,000 transactions for the whole city). This quantitative data on house prices were then linked with case study material and aggregate statistics on neighbourhood and city-wide levels. The study was carried out by comparing the addresses used as identification. The variables of interest that are recorded in the dataset are the house price, floor space, year of building, year of sale, quality of the dwelling, quality of the micro-location (i.e. vicinity), level of maintenance and house type. The criteria for screening and partitioning the dataset were the following:

- the same house type;
- reasonably similar quality level and size; and
- nearby situation.

The average house prices of target cases where urban regeneration ostensibly has taken place, and comparable cases, where it ostensibly has not taken place, were also compared with citywide averages for the same house types. Two types of multi-storey buildings were selected as separate segments. The division was based on the period of construction and thereby also on the design features of the respective micro-locations: one comprises pre-World War I workers' blocks whereas the other comprises blocks with three or more floors built between 1915 and 1945.

The original aim was to use the research method of ‘control groups’ that is to say, to compare the price development between supposedly affected ‘targets’ or a ‘target area’ and supposedly unaffected ‘comparables’ or a ‘comparable area’. Unfortunately for this research, due to the spatially mixed nature of the renewal in de Pijp one cannot draw boundaries between homogeneous areas where rehabilitation ‘has’ and ‘has not’ taken place. Using maps and field inspections, it was nevertheless possible to identify a few streets and blocks in de Pijp where absolutely nothing has taken place, and also nothing has taken place opposite or next-door. Eventually, 345 observations were found suitable for this study in terms of dwelling type, condition and location.

A substantial price increase could indeed be observed for both of the two dwelling or block types recorded in this neighbourhood (see Figures 2a and 2b). For the ‘Pre World War I’ type, the price increase in the targeted cases was less than for the comparable area and citywide. For the ‘interwar’ type, however, the price increase in the targeted cases was more than for the comparable area and about the same as the increase citywide. Because of these findings the interwar segment only (i.e. Figure 2b) is interesting for the argument of institutions possibly having a

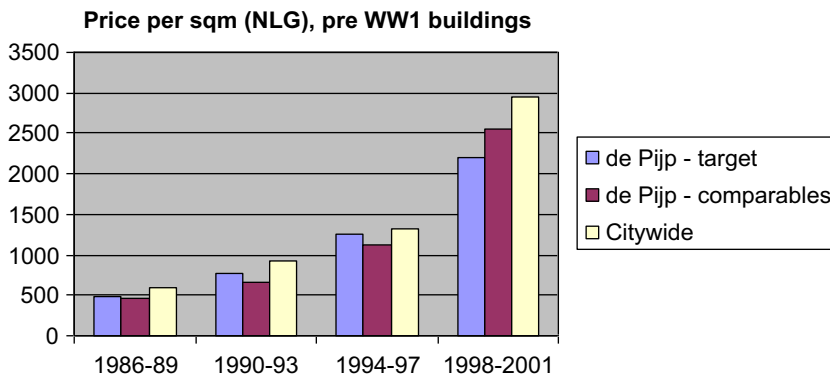


Figure 2a. Price development in de Pijp for pre-WorldWar I ‘workers’ block’.

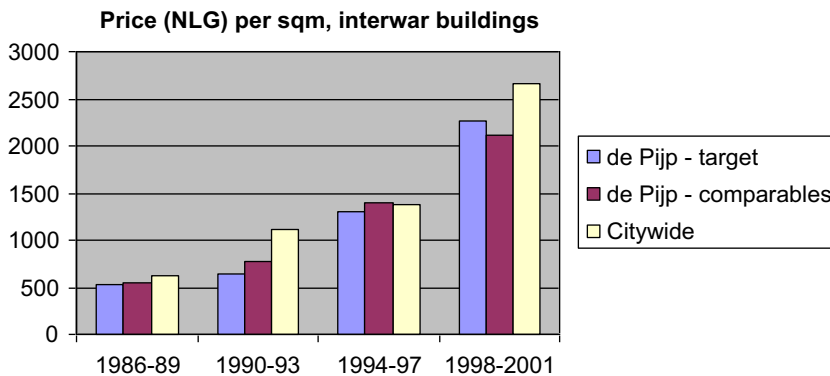


Figure 2b. Price development in de Pijp for block with three or more floors and built 1915–1945.

positive price impact on the housing market development of a revitalised neighbourhood.

According to the view purported by the media, the neighbourhood of de Pijp is considered a success story of urban renewal in the Netherlands. However, even though rehabilitation is supposed to have taken place here, given the process described, neither the assessed dwelling quality nor the quality of the micro-location did increase, when using these cases (i.e. target vs. comparable cases) as evidence.¹⁵ Thus here is a contradiction between this dataset and the media discourse. Which is a more valid claim, that this dataset has not captured the change in quality that, according to popularised information, occurred 1986–2002, or that the reputation of an upgraded de Pijp is not at all factual, but merely based on hearsay and media spun discourse? Here one cannot make definite conclusions due to the fragmented nature of the evidence.

Let us now evaluate the evidence above in relation to the three OIE inspired topics of the study:

- Actor motivations: in the earlier stages the owners themselves and small-scale investors improved their property and/or individuals bought the dwellings in anticipation of a price lift. Later, also housing corporations (including a spin-off of the local government) joined in the buying spree.
- Public/private balance: even though the trend has been towards increased market influence, the public sector still has a strong, twofold role: on one hand as a provider of social housing, which is much credited to the municipal land-ownership, and on the other because of the generous tax incentives granted to buyers.
- Context-dependent rationality: due to the relative transparency of the described conditions concerning different actors and sectors, the individual decision-making processes can be characterised as reasonably rational (i.e. in an economic sense) within the much ‘welfarestatelike’ regulative and policy frameworks in place, as these are ‘securing’ the decision-space of market and non-market actors alike. We cannot rule out more informal processes either, even if perhaps such is seen as going against the spirit of traditional Dutch practice.

4.2. The case study of Budapest

The contemporary (at least until the parliamentary elections of spring 2010 and the municipally elections in fall 2010) land use system as well as property and housing market in Budapest can only be characterised as neo-liberal, opportunistic and geared at large-scale developments. In such a regime of ‘project planning’ the detailed plan normally follows the physical changes with a lag. On the other hand, the freedom of developers is nevertheless not a sufficient condition for anything tangible to occur (Kauko, 2009). After the financial meltdown in 2008, the difficulty has become to secure investments in the projects under way. The massive Duna City project in the southern part of district IX is here a case in point (Karácsony, interview):

In 2006 project team consisting of a planner, architect and urban and real estate consultant (*Ecorys*) begun to change the regulation plan, and a consortium of two

Hungarian based investors begun buying Brownfield land from the area. The district authority supported these plans, and also ongoing discussions in the metropolitan government (that also had a veto due to the sheer size of the project) suggest that there will be a development agreement. The project also has a public benefit in the sense that it includes plenty of infrastructure investment that neither the city nor the district otherwise could afford. The site is now ready for development, but due to the current financial crisis since 2008 the project is experiencing uncertainty. However, it is expected that the financial situation becomes more favourable. Namely, a change in government – and thereby also in policy – is anticipated after the parliamentary elections 2010.¹⁶ The investors of the project are in fact backed by the current opposition, which, when in power, are expected to set favourable conditions for continuing the *Duna City* project again.

When analysing the institutional arenas for urban regeneration, it is to note that some basic principles were laid down at a time when the situation was more positive than today. Following the *Urban Renewal Programme (1997)* in Budapest, a system of subsidies was available for both local government and household group initiatives, and the actors were expected to actively acquire government subsidies. In this system renewal has occurred for profit-making through real estate development; and for antiquarian value, where such is oriented towards protection of heritage buildings and sites; however, social sustainability that would be predominantly oriented towards the inhabitants was *not* on the agenda. This is due to the fact that the local public economies faced serious financial constraints and because the system was not clear and there is plenty of ambiguity in terms of the specific instruments of land use regulation and environmental policies in Hungary (Locsmáncsi, 1996). This in turn gave semi-legal lobbying practices a key role for the running of a project (Kauko, 2008). To put it bluntly: the problem is that planning as an ideology was not popular and that the political leadership inherited from communist times was corrupt.¹⁷

In Budapest, the non-profit sector is missing and more than 90% of the housing stock comprises owner-occupation. As the social goals are lacking, the motivations for property development pertain to supply side and profit. While Inner Budapest is much shaped by pre-socialist times, the heritage of more than 40 years of neglect by the communist and socialist regimes has led to a dilapidated inner city – also socially (Földi, 2006). In the new capitalist system two questions need answering: who invests and under what conditions? And for whom do we build? While sporadic opportunities arise for developers, a guiding strategy at the national level is still missing. As a result most of the inner city continued to become disadvantaged (Locsmáncsi, interview).

In Budapest the supply side driver of urban regeneration is the profitability of the housing development or urban regeneration project. Also a demand driven gentrification may be true in some pockets in Budapest, but in general the issue is not the same as in cities in the UK (see Cameron, 2006) or neighbourhoods such as de Pijp in Amsterdam. The demand side driver, tenure change triggered by tax benefits or mortgage financing, is not an issue in Budapest; neither is the supply side goal of social or physical comprehensiveness such an issue of relevance as the developer has a goal in improving the ‘market’ and the ‘value’ – not the ‘social’ side of it as already discussed. Only in district VIII has the higher share of public housing facilitated a gradual social renewal¹⁸ (Földi, 2006). It can be noted that such projects are being part of by recent EU programmes such as Interreg III Central European, Adriatic, Danubian, South-Eastern European Space (CADSES). To give a relatively successful example,

in the context of the project Greenkeys which promoted the development of urban green spaces, in the most problematic neighbourhood in the city (i.e. the middle-part of district VIII), inhabitants were involved in the design, construction and planting of their neighbourhood square (Mátyás tér) with the aim of giving the local people ‘self-assurance’ and pride (Interreg III CADSES, 2008, p. 21).

The neighbourhood dynamics in the Budapest inner city vary across and within districts in relation to the type of renewal process. Földi (2006, pp. 118–125) analysed quality and density changes within the area subject to value preserving rehabilitation between the Central Business District (CBD) and the rust belt of Budapest, and concludes that functional conversion from apartment to offices and from lofts to apartments took place elsewhere in the inner city, except in the adjacent districts VIII (Józsefváros) and IX (Ferencváros). In these two districts privatisation was blocked, which resulted in substantially more preserved old housing units than elsewhere, as the privatisation of dwellings is counter-productive to comprehensive renewal. Thus, the extent of privatisation had an impact on the land use and morphology.

The research design also in this case comprises a comparison of a supposedly affected area and a supposedly unaffected area. This is conducted in the middle parts of districts IX and VIII. To retain comparability with the Amsterdam case, in the Budapest case the urban renewal and rehabilitation outcomes were analysed partly based on house price trends at the street level (dataset of the Hungarian statistical office, KSH, comprising c. 2,000 observations for a given year; c. 200–250 of these fell within districts VIII and IX), and partly based on narratives and documents such as interviews of stakeholders and experts, and official accounts on the development. Unfortunately, in the Budapest case useful records on quality are lacking altogether, and even house-price data are available in large quantities only on an aggregate level (district and street). This is not an ideal situation, as more indicators undoubtedly would enhance the quality of the analysis based on house prices. Two types of property were picked also in this case: brick built condominium blocks and panel built blocks (i.e. the typical Eastern European housing estate type), respectively.

On a general level, the street and district aggregated data set (KSH) tells us that, particularly for (brick built) condominiums, prices in the IX district by far exceed

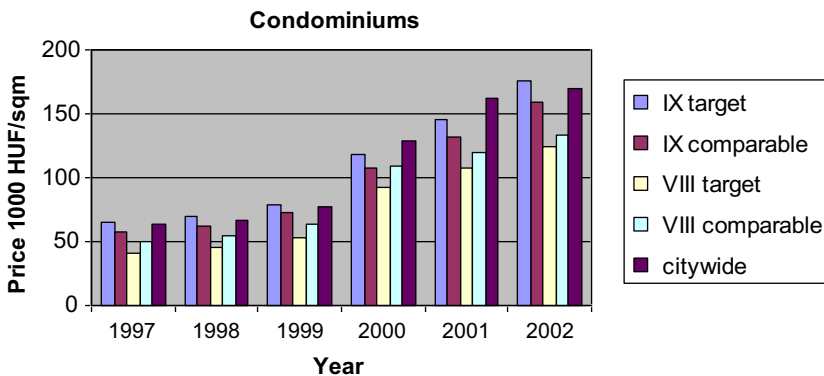


Figure 3a. Mean price development for condominiums disaggregated by area (target or comparable) and citywide.

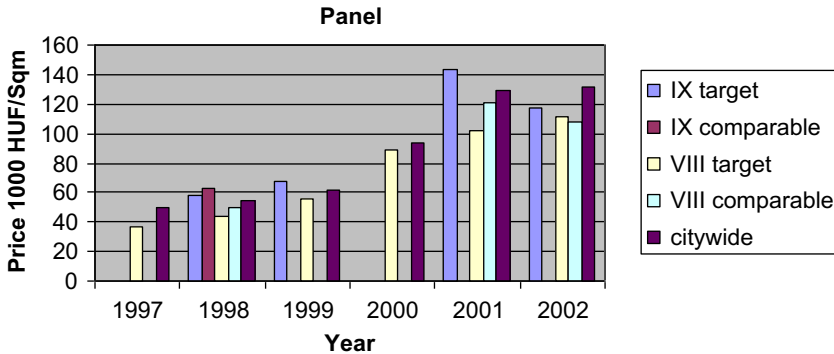


Figure 3b. Mean price development for panels disaggregated by area (target or comparable) and citywide.

those in the VIII district (see Figures 3a and 3b). Clearly this house type, which comprises the majority of the dwelling stock in the Budapest inner city, is considered a more attractive choice in the IX than in the VIII district, the exception being the brand new condominium blocks known as ‘residential parks’ constructed in the VIII district. The results show further that the nature and pace of the changes are different in the two affected target areas, when related to respective unaffected comparable areas: in district IX the price-level of the target area is higher and the increase less steep than in the comparable area, whereas in district VIII the price-level of the target area is lower and the increase steeper than in the comparable area. The findings are relatively black-and-white and point to sharp differences between revitalised inner city neighbourhoods in terms of the price-to-quality ratios.

When generalising the observations, two types of case show up: a smoother development of both price and quality that fit into NCE models (district IX); and a discrete development where a price increase does not correspond with an increase in quality – plausibly a more speculative effect that could fit the OIE model put forward in the previous sections (district VIII).

The increased price level in the urban renewal area of district IX has also contributed to a marked differentiation in terms of house type as well housing and neighbourhood quality, when we compare with the situation in the early 1990s. Here is an interesting point to be made about urban change and the transformation of localities in the post-socialist context in general. Stenning (2004) concludes that, whereas the urban experience under socialism was uniform and stagnant, under post-socialism it is characterised by difference, dynamics and increasing heterogeneity; the latter means a dual process as the space for manoeuvres has been opened up for local people on the one hand and for corporate centres of the global economy on the other. However, both types of actors need to be quick and innovative – and indeed selfish and sometimes ruthless also!

Applying Vatn’s model outlined in section 2, the question is whether Budapest/Hungary can be considered an I–I or I–we society in this context. For sure, individuals are driven by ‘I’, but what about current or future policymakers? Until now neo-liberal rhetoric has been popular, which encourages selfishness, but if we consider the issues more philosophically, is it not that if all accept the ‘I’ motive, the sum of all ‘Is’ become a ‘we’? The new government elected in 2010 nonetheless applies

healthier rhetoric of sustainability, which however are yet to be seen in practice (it is easy to be cynical in these circumstances). When planning for new developments, Hegedűs (2011) argues for both institutional and behavioural changes in the Hungarian context, involving activating the residents of the existing settlements and civil society together with design of a more consistent legislation than hitherto.

The Budapest case shows how, instead of ‘rationality’, it is ‘the argument’ that counts insofar as former members of the ruling elites in Hungary support the community that gave them the power. This in turn has emphasised a market situation that is distorted by power imbalances and marked social-economic inequalities. This has led to a culture of ‘hush-hush’ where it is best for outsiders (individuals and small firms at least) not to interfere in these projects. Again: government change is expected to improve – if not completely cure – this problem (Karácsony, interview).

As with the Amsterdam case, we now check the evidence in relation to the ‘institutional’ elements isolated and discussed in the theory part:

- Actor motivations: compared to Amsterdam, this is mostly about simple profitability goals – and large-scale, supply sided projects. In a situation with constantly narrowing profit-margins this puts the innovativeness of actors on trial. However, most recently also social considerations are introduced.
- Public/private balance: the two districts selected for empirical scrutiny really are the exceptions where public-private-partnership (PPP) has/is proceeded. Elsewhere in Budapest, it is almost exclusively about private developments.
- Context-dependent rationality: because of this situation of private and profitability bias in policy framework, business economic rationality prevails on the shallow surface. However, if one digs deeper one finds a context rooted in socialism and even earlier times: the way actors take advantages of arbitrary opportunities rising in uncertain post-socialist circumstances together with the way mistakes were made under socialism still constrain these decisions, not to mention the still significant semi-legal lobbying practices that resist changes on every tier of the social, economic and political system.

4.3. Comparison of the findings

The way urban renewal affects property price formation was investigated using case studies from inner city renewal areas in two cities, The results show how the de Pijp interwar segment and mid-Józsefváros (in the Budapest district VIII), but not the adjacent mid-Ferencváros (in district IX), to some extent exemplify the OIE arguments elaborated in the theory part of this study. These arguments concerned actors, the public–private balance and context.

Actor motivations

The way in which investors and developers respond to differences in policy environments clearly differs between cities. The enquiry suggests that, in Amsterdam both supply and demand sided processes are driven partly by profitability and partly by other motivations; in Budapest it is predominantly about supply side processes and profitability, although a few exceptions exist also, including some parts of the study areas.

Public/private balance

In Budapest the share of homeownership is more than 90%; whereas in Amsterdam the corresponding figure is only 21%. In fact, in Amsterdam social housing is still significant. Even so, for de Pijp, Amsterdam, a marked change from an active to a passive government type has taken place. For Budapest, in turn, at least in the two districts under study, still a relatively active government type is in place despite the neoliberal general market circumstances prevailing in Budapest and Hungary (in year 2010). Overall it can be concluded that in Budapest the possibilities for private investors to mould the built environment are more flexible than in Amsterdam, but in the latter case there is more of a consensus to get synergy benefits out of the planned projects.

Context dependent rationality

The differences between the two city cases are remarkable, even when described in most general terms. Whereas in Budapest investors are being attracted to dubious projects by opportunistic minded developers without any comprehensive guidance from the state or municipal level, in Amsterdam – as elsewhere in the Netherlands – a new housing and land use plan is being put in place roughly every 10 years, and this plan includes urban renewal allocations. In a city context with established institutions and a mature market, like Amsterdam, decisions are made less haphazardly.

For the validity of the evidence it has to be noted that the Amsterdam dataset consists of more variables and observations than in the Budapest dataset, and is also more reliable, where indicators of maintenance, dwelling quality and micro-location quality were utilised and related to the price changes for a particular neighbourhood subject to revitalisation.

4.4. Urban regeneration in Europe: Socialist West, capitalist East?

An important observation was that the city of Amsterdam owns much of the housing land, and builds owner-occupied housing also in less favoured areas. Local experts claim that it is precisely because of such active anti-market policy that Amsterdam has managed to avoid residential segregation. Here is a clear distinction to Budapest, where, in the absence of government intervention, the urban regeneration process is purely profit motivated. In other words, capital is invested where the returns are highest.

On the basis in the qualitative material presented, it can be argued that the Amsterdam case definitely fits the OIE model, as social processes are at the centre stage. A system where a certain collective responsibility and trust in government is acknowledged has survived the recent trends towards privatisation, market liberalisation and individualisation. The Budapest case is trickier. Indeed, it fits well the subjective (Austrian) model with only market-based and individual logic; however, this position does not allow for changes in social structure to be advocated actively – something that *de facto* has occurred in Budapest mainly thanks to the 2010 changes in national and local government compositions. The basic difference between the two regimes, however, is clear: to use Vatn's (2005, p. 253) characterisation, the Amsterdam regime is biased towards common responsibilities, whereas

the Budapest one – at least before the effects of the parliamentary elections in year 2010 are manifested – was biased towards individual choices.

Based on these findings we may even stretch as far as to generalise the typical benefits of ‘Eastern’ and ‘Western’ European models of urban real estate development:

- East: fast pace of institutional change; in many arenas the possibility to adapt innovations quickly in the absence of deterministic regulations; informality in solutions.
- West: maturity of institutions; long-term view of development; political apparatus is still trusted to some extent.

5. Summary and conclusions

The core of this study discussed the way decisions concerning the provision of the built environment are made as well as their economic and non-economic consequences. That a certain informality tends to underlie even the more formal ones of such decisions was argued to resonate with OIE theory insofar as these decisions can be compared with actual changes in physical, social and economic terms. The argument put forward in this contribution concerns the variations of space and time dependent patterns in urban regeneration activity. What drives the renewal and refurbishment processes? Are these primarily related to economic structural conditions, or to factors at a meso-level such as the system of subsidies and tax incentives, or the nature of the drivers for certain types of urban regeneration projects? Subsequently it was argued that the general logic of an older type of institutional approach is well-placed to add explanatory value for an analysis of house price development, quality improvement, neighbourhood revitalisation and urban regeneration process – a complex and qualitative problem area. Undeniably, these processes happen in multiple social, economic and physical dimensions, and through a sequence of disconnected phases; they are spatially and functionally patchy depending on the prevailing power balances and their development through time, as well as on direct and indirect effects of administrative changes. All this fits the OIE conceptualisation.

In the conceptual model presented, local price dynamics is divided onto three types of institutional effects depending on if only price increase, both price and quality levels increase, or only quality level increases. In this typology there is also a case for no effect and an in between case. Such a typology is indeed to a great extent consistent with a methodology that draws on OIE. As a logical consequence, the applied method is based on data and qualitative material, and pertains to two kinds of neighbourhoods: the targeted (i.e. ostensibly affected) and comparable (i.e. ostensibly unaffected) cases. As institutionalist methodology by definition is about identifying changes, it is assumed that the empirical analysis of the development of price and quality levels together with narratives of the way events have unfolded at the neighbourhood and city levels. The more robust proposition here is that a comparative method using these kinds of data does not conflict with OIE methodology.

The following property (development) related price–quality trajectories were found:

- In de Pijp, Amsterdam, the individual buyers of flats and the housing associations selling their stock have generated a strong price-increasing effect – based on the qualitative material compiled. The price data however do not confirm if this price lift has taken place everywhere in the study area. (This contradiction was not explored further in this study.)
- In Budapest, district IX, both the data and the qualitative material suggest that a tangible quality improvement took place during the 1990s.
- In Budapest, district VIII, both the data and the qualitative material suggest that a speculative effect took place in the early 2000s, and that this, together with expropriation by the local government, is evidence of the institutional effects under study, namely the motives of actors, the private–public balance, and the context dependency.

Moreover, mechanisms of institutional change driven by incentives eventually confirm the value gap theory in the sense that a closing of the gap occurs when dwellings change ownership, tenure status and possibly function. It is indeed very plausible that this explanation holds for the neighbourhood revitalisation of de Pijp. From a theoretical point of view it is to note that the artificial mechanism pushing the exchange value of the property up is consistent with the demand driven case, where individual dwellers' change of tenure is the driver of urban regeneration, as well as with the supply driven case, where the developer or builder strategy is the driver. In both cases, we may observe an increase in the level of *transaction price* or *present value of capitalised future rental income*. Such a difference between the 'old' and the 'new' price or rent level is not accommodated for in neoclassical models, as these only deal with value change as a continuous trend. To fix this discrepancy, the study has developed a conceptual model, loosely built on OIE, for explaining how largely different investment and regulative institutions and cultures, in an urban restructuring context direct local housing market and development processes, some of which are tangible and others intangible.

Using the case study methodology the price development was shown as a context dependent process, insofar as a recorded price increase follows idiosyncratic trajectories and can be related to simultaneously evolving tangible and intangible elements of the surroundings or urban area as a whole. In the light of the evidence of the two case studies the neoclassical explanation holds better in a well-functioning, commercial market segment, whereas in Brownfields, urban renewal areas and other market segments the institutional approach provides a better explanation (cf. Adams et al., 2005a).

Notes

1. I am indebted to one of the referees for this point.
2. Indeed both cities under study include a textbook case on gentrification: district IX in Budapest and de Pijp in Amsterdam, respectively. Arguably the bulk of current gentrification literature that concerns primarily discursive or ethnographic material (e.g. Special issue of *Environment and Planning A*, vol. 39) is somewhat out of scope here, when the intention is to try and isolate a few micro-level influences: price, dwelling and environment quality, the role of key actors, and the renewal process.
3. Note that Scott's account is explicitly *social constructivist* whereas Vatn's is (equally explicitly) *realist*.
4. NIE is essentially about the efficiency of institutions (Vatn, 2005, p. 176). This variant of institutionalism is not discussed in detail in this contribution, because, while focusing

- on the marketplace, I do not feel completely comfortable in the basic reasoning offered by this school of thought: that the housing market and the property rights always ought to come first in the scientific analysis and the practical implementations like. This is in simplicity the core of the failed World Bank policy experiment of the 90s.
5. For real estate applicability, Adams et al. (2005b) make a similar argument: that the state can change the property market “for better or for worse.”
 6. The corresponding logic of NIE is in fact none too different to that of neoclassical economic optimisation; it is to observe that NIE as such is built around the second-level optimisation problem of how to set ‘optimal’ institutional constraints.
 7. An example of various institutional economic approaches is the ‘Coase’s theorem’, after the Nobel Prize winner Ronald Coase (e.g. Buitelaar & Segeren, 2008): that property rights would not matter in the absence of TC. The crux here is that Coase himself admitted the omnipresence of TC and therefore the allocation of property rights *does* matter – contrary to popular belief.
 8. However, experimental economists Bénabou and Tirole (2009) rather cynically point out that the strive for image and respect could be seen as immaterial rewards.
 9. Of course the NCE, Austrian and NIE schools argue for individualism and thereby disagree with OIE on this point.
 10. While the findings from all these case studies resonate with OIE, it needs to be clarified that only the first two abovementioned studies seem to be conscious about their position, whereas the last one does not make the connection to theoretical categorisations, but concentrates on empirical issues instead.
 11. Or a reduced demand is pushing prices down, which also may happen of course, as the recent financial crisis has shown us.
 12. From an urban economic theorizing point of view, this is about closing the ‘value gap’, which also means partially closing the ‘rent gap’ (cf. Clark, 1987).
 13. The other reason is familiarity – the author having spent considerable time periods in each country.
 14. The empirical material presented here is the same as in Kauko (2009). In the prior article an institutional framework was absent, however.
 15. Similar analysis was carried out in relation to quality change, but this is not shown here because of space-saving reasons. (It is available from the author upon request.)
 16. In fact, the opposition won a landslide victory in April 2010.
 17. The most extreme example is the Mayor of Budapest District VII, who at the time of writing is in prison!
 18. In the most dilapidated part of district VIII the share of public rental stock is at the time of writing still as high as 25%.

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