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### An Institutional Analysis of Property Development, Good Governance and Urban Sustainability

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# An Institutional Analysis of Property Development, Good Governance and Urban Sustainability

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**ABSTRACT** *It can be argued that creating a reputation for sustainable development for the benefit of a competitive advantage resonates with institutional theory. In principle, this opens up the possibility to relate a given sustainability agenda with theoretical frameworks based on old institutional economics (OIE) and/or new institutional economics. This is particularly true in arenas where qualitative factors cause a discontinuous change from the previous structure, such as amid urban regeneration. Using empirical evidence from three very different European cities, Budapest, Amsterdam and Trondheim, it is shown that OIE has plenty to offer for a “patchy” and evolving problem area such as the analysis of planning and property development in an urban setting. The position taken here is that good community governance needs the support of the private sector too. Smart policies, regulations and especially incentives set at the local and regional levels are an imperative to meet the sustainability goals set out in the Rio-1992 agenda. This international comparison attempts to provide some guiding answers to the empirical question as to how sustainable the three cases of country- and city-specific governance are in terms of their property development.*

## Introduction

In Berlin, when one is about to enter the new *Hauptbahnhof*, one notices a sign outside the building site opposite the station—immediately on the other (ex-East Berlin) side of River Spree. Literally translated it says: “The greenest office buildings in Germany” being built by OVG Real Estate (*Humboldthaven*, see OVG Projektontwikkeling, 2010, Internet). This was exactly where *Die Mauer* used to stand for almost 30 years. This observation, while undoubtedly a bit too bold to be taken seriously, adds to one’s feel that Berlin, in general, seems a truly sustainable city. Not only is there available building land, thanks to the brownfields of *Die Mauer*, Tempelhof airport being redeveloped and the

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inefficiently developed suburban housing estates in East Berlin,<sup>1</sup> but the city is also sustainable on so many other counts: polycentricity (in fact, a key element of sustainability (see e.g. Schön, 2005), innovative architecture including “green” buildings and areas, lack of population pressure and clean and functional public transport, low price level, well-integrated immigrant populations (at least on the ex-West Berlin side) and so on. Why cannot other cities emulate the success of Berlin? Is it only about the peculiar geopolitical location and specific path dependence of this city, or is it about other, more dynamic factors such as having good governance structures without the need to develop a competitive edge (like Frankfurt being the financial capital, for instance), being part of the German “green” building tradition, or not being badly affected by current social and economic problems that mar so many other main cities?

In contrast, Minsk, the Belarusian capital, seems for the visitor to be a surprisingly different place from our expectations: clean and recently paved streets, absence of beggars, refurbished buildings, several large hypermarkets and already five five-star hotels, and in every way functional place—in all ways more modern and convivial than what I had expected based on the economic development of that country. Definitely, the city seems socially and environmentally sustainable to a degree hitherto unseen in most of Europe. One is left pondering whether this was sustainable development and possibly, in which respect it was not? Subsequently, a local student explained that while it is true that they do not yet have bad traffic jams in Minsk, they also lack basic urban infrastructure improvements such as metro-stations and appropriate roads around the city centre. While some property developments are sustainable in many ways, the infrastructure that would support this simply is not likely to materialize in the foreseeable future due to the imbalance in investment activity—the private sector is not really an investment actor as long as the government is a near-totalitarian one. The conclusion then was that despite physical and social success, the economic dimension is not as promising due to a lack of innovations and R&D activities that in a western context are taking place within, or being backed by, the private and semi-private sectors.

The two vignettes obviously depict different kinds of urbanity and governance. Berlin is arguably not really a global city—“Berlin is sexy but poor,” they say. Minsk in turn is often, even in the academic discourse, used as a maliciously intended caricature of everything related to backwardness—the real Eastern Europe—even if few western people actually are familiar with the circumstances there (despite the media filming the occasional demonstrations and the police brutality that followed). Both cases nevertheless illustrate how the balance of environmental, social and economic factors, and the extent to which these can be controlled, are complex and interlinked processes. One city is not noted as a global city. Another is clean but lacks diversity. Others such as Bratislava are found economically viable but less so socially or environmentally (see e.g. Bitušiková & Luther, 2010). Inevitably, the overall evaluation is dependent on tradeoffs. Given the evolving and non-standard nature of the current literature on sustainable urban property development it is important to remember that sustainability includes economic and social sustainability too—rather vague and contestable criteria that point to the long-term reinvestment in neighbourhood amenities (see Bramley *et al.*, 2009, 2010; Bitušiková & Luther, 2010).

While some of the sustainable urban development literatures are mind-boggling—passive houses, for instance—the point here is not primarily about technological advances, but about inclusive governance localized structures that together with the “education of the

masses” lies at the heart of any progress—or even manageability of current levels of sustainability. Furthermore, for a sustainability evaluation of the outcome of urban property development projects including urban renewal often mere administrative “procedures” are more important than what we consider “culture”. To what extent then do these “procedures” fit with the sustainable development agenda that currently is becoming the single most general model for urban development as well as planning? Even before the advent of sustainability evaluation, the “procedures” underlying urban property developments were examined in institutional theory. Institutional analysis is best undertaken by comparative research and qualitative methodology.

How sustainable are the urban property development (including urban regeneration) activities in a given institutional-geographical context? An international city-comparison attempts to provide some guiding answers to this research question. Three urban cases were selected: Budapest, Hungary (1,700,000 inhabitants); Amsterdam, The Netherlands (750,000); and Trondheim, Norway (170,000). Apart from their obvious size categories, these cases are also, due to historical path-dependence as well as geographical situations, rather different in terms of their sustainability outcomes and governance circumstances. The three cases were selected, firstly, due to their broad variety in expected outcomes; the other reason was familiarity and firsthand experience of all three countries.

Casually observed, it is probably fair to say that the global crisis hit the Hungarian property market harder than those of most other countries of Europe, due to its high dependence of global investments. Many projects were put on hold on both residential and commercial sides. While the Netherlands and Norway experienced lesser problems, these countries were not immune from it either. While having Euro as currency cushioned the blow, many weaker currencies experienced problems. Even the Norwegian crown lost 10% of its value and, while the financial institutions never experienced serious problems, many municipalities lost the worth of their investments.

In answering the research question formulated above, this contribution has the following three-pronged aim:

- (1) To describe the mechanisms of urban property development in particular institutional and geographical contexts.
- (2) To discuss various innovative possibilities for government intervention in urban property development projects.
- (3) To evaluate the sustainability of country- and city-specific cases of property development.

The definitions applied here are listed as follows (some of them *ad hoc*):

*Capacity building*: How to make the governance structures more efficient, effective and responsive by including private, public and civil society actors.

*Economic sustainability*: Competitiveness and welfare to be sustained for at least the next two generations.

*Externalities*: Unintended localized effects of an action which is intended as beneficial for the community/society, either negative or positive ones.

*Governance*: A new kind of informal direction of urban development based on networks of private and public sector actors as well as civil society.

*Green:* The environmental–ecologic dimension (i.e. the traditional definition) of sustainable development, such as energy efficiency, renewable energy and emissions.

*Institution:* Either formalized rules and regulations or informal norms and culturally supported practices.

*Institutional economics:* A heterodox line of economic theory. Two basic variants: New institutional economics (NIE) centres on reducing market friction, in other words minimizing the transaction costs. Old institutional economics (OIE) in turn centres around the social structures and habits that constitute the market.

*Planning system:* Any kind of government intervention in or provision of land use, infrastructure and property development.<sup>2</sup>

*Public-private-partnership (PPP):* A common way of implementing urban renewal or property development projects is to combine the resources of the private sector, who seeks new possibilities for investment, and the public sector, who lacks funds.

*Sustainable development:* According to the “Brundtland report” (1987) “development that meets the needs of the present without compromising the ability of future generations to meet their own needs;” has ecologic-environmental, social-cultural, and economic-financial dimensions.

*Urban regeneration; urban renewal:* Orchestrated efforts to improve the appearance of a predefined part of the city.

*Urban sustainability:* An evaluation of the extent to which environmental-ecologic, social-cultural and economic-financial criteria of sustainable development are met in an urban setting.

In order to find out the sustainability of property development trajectories of each case a rhetorical approach based on the literature, own observations, documents and a small number of expert interviews is applied as methodology. Statistical data on property developments and their sustainability between the three would not be compatible and lead to gross misunderstandings; what is recorded in one country is not necessary the same as its assumed counterpart in another country. Until we have really comprehensive European datasets an approach such as this is the only alternative to study the theme.

This article is structured as follows. In second section, the connections between institutional economics and sustainable development are discussed. Third section continues with this line of theory but takes a more detailed focus on urban development issues. Fourth section presents the cases of the three cities, and fifth section concludes the study.

### **On Institutions and Sustainability**

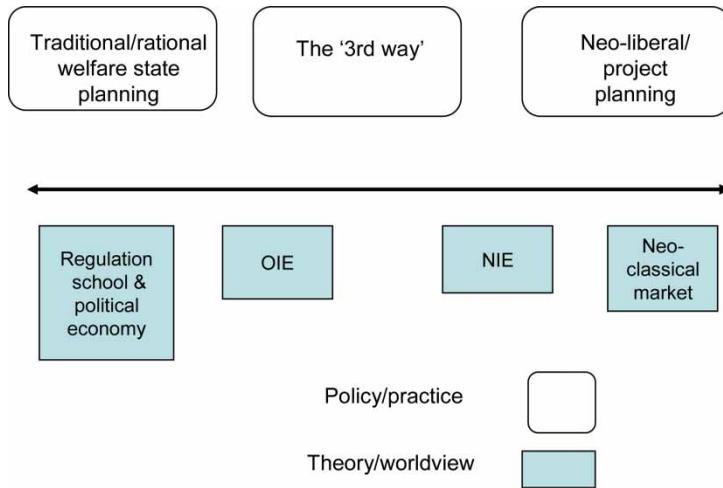
While the OIE and NIE perspectives contain some general similarities, their main difference, in practice, is that the basic deterministic powers in OIE pertain to the institutional design including informal relations and in NIE to the market determinism. Hence, we may speak about the distinctions between the plan-led OIE and the market-led NIE. This article mostly relates to the former approach. Following an 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. On the other hand, NIE prioritizes the economy and often (but not always) a passive government is purported. The urban policies advocated by such a stance logically lead to sprawl. Here, it is worth noting that within the real estate research area, making this kind of discrimination is not very widespread (but see, e.g. Adams *et al.*, 2005).

Bryson and Lombardi (2009, p. 103) assert that creating a reputation for sustainable development and subsequently developing a competitive advantage in the marketplace resonates with institutional theory. In principle, this opens up the possibility to relate a given sustainability agenda with theoretical frameworks based on the abovementioned two lines of heterodox economic theorising—OIE and NIE. This is particularly true in arenas where qualitative factors cause a change which is discontinuous from the previous structure, such as amid urban regeneration. A well-known fact is that the urban property market is characterized by some degree of imperfect competition. In such a market strategic behaviour among actors might arise, and such a pattern is always more or less idiosyncratic. One must consider both economic and institutional factors; that is to say, the attributes of the location and the nature of demand and supply, and whether subsidies are involved. The core issue in this type of institutional analysis is “why” and “how” a certain public or legal intervention in the property market should be established (see Guy & Henneberry, 2000; Pendall & Carruthers, 2003; Buitelaar, 2004; Needham & de Kam, 2004).

As already hinted in the introduction, here a cultural approach, while being in the lime-light of much of the social scientific theorizing in recent years, ought to be contested on logical grounds as it fails to stand on its own. Not only the simple fact that economic drivers (i.e. macroeconomics, market size, population pressure as well as technological and entrepreneurial innovativeness) still make the difference to a mover’s (household’s or firm’s) (re)location choice, the other reason is that much of the crucial spatial phenomena and processes in question are the result of administrative behaviour that is learnt from restrictions—in other words, inertia. Furthermore, such inflexibility to adapt from a monolithic and hierarchically organized “government” structure to an environment based on inclusive local community “governance” comes at the cost of loss in innovativeness, and eventually unsustainable urban development in economic and functional terms. This includes private sector failures and civil society shortcomings, as can be observed empirically in different circumstances (see, e.g. Keil, 2006; Ng, 2008; Mcintosh, 2010; Ratcliffe *et al.*, 2010). This point was illustrated with the casual observation of Minsk at the outset.

The position taken here, informed by the evolving urban sustainability research networks on the one hand and by the long lost OIE tradition on the other hand, is that good community governance needs the support of the private sector too. Smart policies, regulations and especially incentives set at the local and regional levels are an imperative to meet the sustainability goals set out in the Rio-1992 agenda (e.g. ESPON, 2010). The OIE inspired line of theory predicts that the particular mix of market, state and community matters for the allocation of resources (see Vatn, 2005). Following this perspective, it can be argued that institutions vary between given countries or smaller territorial units. Different kinds of routines and habits, religious belief, political views, manipulations of the media and so forth make up the set of institutions that govern our action including market decisions. Could it be that the underlying reasons are intangible and involve socio-cultural, political or administrative factors? Thereby an argument about context, convention and other issues that define the core of the OIE camp arises.

In order to investigate the power of OIE for analysis of the sustainability of urban property development the analysis links two different levels: the level of policy or practice and the level of theoretical framework or world view adopted for the research (see Figure 1; note that the left- and right-hand sides also point to political “left” and “right” of centre ideologies).



**Figure 1.** Theoretical and policy relevant implications of this study.

Establishment of institutions such as the market, the firm and the state have generated economic development through history. At present, new institutions are needed to similarly generate sustainable development in a situation where neither of the old institutional ideal systems: neoliberalism or the paternalistic social democratic welfare state is capable of delivering sustainable outcomes. A particular issue herein is related to context effects. These are well described in relation to behavioural and experimental economic research (yes-saying, protest bids etc). It can be argued that if only individual values are at stake, market valuation is acceptable. However, if we deal with irreversible damages to the environment, or even uncertainty of such effects, the precautionary principle must be applied: that is to say, to value the inherent ethical considerations higher than cost–benefit analysis. This brings up the normative aspect of any evaluation (see Vatn, 2005).

When speculating whether “a sustainable market” for real estate locations can be created by means of institutional design, the key issue is that the active government can shape the location, either in a more traditional manner: by providing on-site and off-site infrastructure such as stops for public transportation, parks and recreational areas, or improved safety measures; or in accord with more modern (and less tangible) ideas of image creation and territorial competition policy. When considering the role of government more closely, two opposite ideals can be debated (see Dixon *et al.*, 2005, pp. 19–24). The first is a neo-liberal policy of letting individual choices determine the city structure, which, would aggregate to a spatially de-concentrated property market. Here the problem will inevitably be the resulting environmental externalities, notably environmental hazards and urban sprawl. To avoid such categorically unsustainable outcomes another ideal has been given attention: according to the political economy and regulation school traditions, urban restructuring carried out by an educated local government is the solution to spatial problems arising from an unhinged market of space. This in turn aggregates to a more consolidated property market. While it is principally beneficial—from an energy efficiency point of view—the more densely built an urban area can be kept, it is, however, problematic if an urban regeneration effort does not correspond with consumer

preferences for such living, as often is the case with new developments, or if the city centre does not provide employment or leisure opportunities. Furthermore, evidence from the UK indicates that the inhabitants in such a neighbourhood lack social cohesion (see Bramley *et al.*, 2009, 2010).

In a situation where the local government is merely an arbitrator of interests, governance and capacity building are tools for achieving economic, social-cultural and environmental-ecologic sustainability (Holt-Jensen & Morrison, 2009, p. 7). In a housing development context, Støa (2009) points out that a comprehensive and creative strategy based on resident participation and cooperation across disciplines together with an operationalization and balancing of the multifaceted (environment, socio-cultural and economic) goals that may be tradable helps when aiming towards sustainable urban development, but one should avoid oversimplification. Moreover, the problems of unsustainable urban development are bound to be accentuated due to their spatial unevenness, which calls for rigorous coordination efforts across adjacent territories (Zuindeau, 2006; cf. ESPON, 2010).

While it is true that sustainability has a distinct spatial dimension, it can be argued that the apt level of setting the necessary policies, regulations and incentives is the local and possibly the regional level as opposed to the national or even higher levels of governance. This is because sustainability is an elusive and strongly context-dependent concept which does not easily bend into standardization. That sustainability above all is a local issue also means that due to spatial and contextual interdependencies, indicators can only have limited success, Pálné Kovács and Varjú (2009) purport. The two criticisms of the commonly used approach based on measures in relation to criteria can be summarized as follows: (1) the role of local knowledge is crucial and (2) such knowledge is reflective. Here, the communicative aspect is vital. This implies reconciling the goals of welfare, environmental protection and long-term economic growth (cf. ESPON, 2010).

Thus, sustainability is multifaceted but depending on certain basic relations: local scale more than national scale, demand-sided strategies more than supply-sided ones, and relying on investments more than on planning—although both are needed in a flexible and adaptable institutional framework for urban property development. This runs counter to a number of authoritative commentators such as Wegener (2010), who strongly question the whole trend towards governance and aspire towards the “old” government-oriented tradition of strategic planning and urban policy. Such a regress would be a result of narrow thinking given the array of possibilities there are for public and private sectors to cooperate on projects initiated by either part. In the next section, this evaluative discussion of the sustainability of given planning systems is zoomed in towards a more detailed level of urban development. The premise of this evaluation is that a planning view based on “one giant leap forward” is outmoded and is to be replaced by one based on incremental changes and apt management.

### **The Sustainability of Urban Development**

Stenberg (2008) notes that new planning theories and approaches have been developed at the same time as the prerequisites for planning have changed. Much of this change has gone hand in hand with the introduction of the “sustainable development” concept, and currently sustainable development is widely accepted as an overall goal for planning practices (Adams *et al.*, 2005). While the three dimensions (i.e. environmental, social and economic) are sufficiently general to include more specific issues such as transportation systems and

energy saving in real estate, the notion of “how to achieve the goals of sustainability” is still, however, rather vague. Especially the social dimension of sustainable development which includes, among others, aspects of participation, social life and stigmatization, is hitherto rather neglected (cf. Bramley *et al.*, 2009, 2010; Bramley & Power, 2009). Thus, the literature is inconclusive: planning as a field has demonstrated adaptability towards new challenges, but whether this adaptability is sufficient is yet open for debate.

The same issue can also be approached from the other side; it can be argued that whatever the circumstances, sustainable urban development (or urban sustainability) requires some kind of planning measures (e.g. Julegina *et al.*, 2009, p. 16). Also Heurkens (2009) argues that sustainability and planning go hand in hand. He observes that it was much thanks to the rise of the sustainability paradigm in the 1990s that strategic planning came back with the EU Initiative after a nearly 20 years of absence. During this period neo-liberalism dominated, which led to well-documented problems. A sustainable urban strategy involves a variety of generic aims, notably education of the attitudes of the individual consumers, community governance together with apt institutions (incentives or regulations) and innovation in construction technology. On the one hand, it is widely debated and heuristically explored whether the key to sustainability is green building and area design, functional aspects and infrastructure provision, quality of life, encouraging innovativeness in local entrepreneurship or other kinds of factors? Often some degree of trade-off has to be accepted in relation to the resources available given that political views, political agendas and local cultures steer the decision making. On the other hand, consensus is sometimes being formed when discussing sustainability strategies in relation to the built environment.

The forming of consensus is much due to the seriousness of interrelated global problems such as climate change, urban poverty and the financial crisis. Their plausible causality is such that when climate change is melting glaciers and icebergs, and increasing precipitations and storm-floods, subsequently the water level rises. This leads to flooding and other hazards, which render river basins and coastal zones increasingly risky to live in. The inhabitants of these areas move away if they can. As it is, the same areas have been economically prosperous for centuries due to the logistic possibilities associated with such locations. One only needs to take a look at the world map: how many large (or otherwise important) cities are located by the coast or are situated by the course of a main river? When these areas now suddenly become unattractive for people and business alike, they also become prone to multiply increased financial risk (cf. Mezřický, 2006; ESPON, 2010; Hill & Lorenz, 2011).

When evaluating the sustainability of planning systems—or the ability of planning tools to support sustainable development agendas—two aspects are noteworthy here:

- (1) The provision of a “sustainable urban form” in relation to property buyers’ preferences (Leishman & Warren, 2005; Hegedűs, 2011).
- (2) The need for planning practices to target interventions at the appropriate scale rather than to impose one-size-fits-all policies and regulations (Fisher, 2010).

The sustainability of planning in relation to property development and urban regeneration is remarkably different in different parts of the world as the empirical part of the study to follow shows. In the most general term, we can speak about a weakened planning in Western Europe and a planning void in Eastern Europe. The “weakened planning”

refers to the rise of the neoliberal paradigm, and the “planning void” refers to the situation immediately after the transition when all kinds of interventions by the public sector were unpopular in all former socialist countries. Raagmaa (2009) notes that in the West there are consistent regional policy and comprehensive planning strategies which are missing in Eastern countries. The situation is not significantly different from that experienced under communism as merely one type of lobbying has replaced another. On top of this problem, he notes that the same mistakes in relation to sustainability that were made in western countries are now committed in the Baltic countries: namely, over enthusiastic liberalization of the land use and property markets that has resulted in urban sprawl and spatial inequality—even segregation.

After the context in many parts of Eastern Europe changed from complete planning to no planning at all, currently some planning is on the agenda but people tend to distrust the authorities (cf. Ruoppila, 2007). This kind of situation can be compared with circumstances elsewhere, and in particular, the London and UK experience here is worth noting. According to Hamnett (2003), in 1979 in the UK the state sets the parameters for the market to operate with the consequence that most of the key decisions since then were taken elsewhere than in local planning boards.<sup>3</sup> Thus, in the absence of substantial government involvement the dynamics of the market shapes the environment.

While, as a general rule, property developments occur where positive changes in property value occur or are expected to occur, larger projects might also be dependent on government initiatives and interventions—this is especially true in an urban context. According to Tiesdell and Allmendinger (2005), four kinds of planning tools can be noted in relation to different market characteristics: market shaping, regulation, stimulation and capacity building. They argue that empirical research on state–market relations determines the optimal “package” of tools, and that market shaping is particularly important here. In other words, to provide authoritative information as a basis for action. This can be backed up by empiry: for example, in the Netherlands the planning system is rigid but it provides reliable information, whereas in the UK the planning system is flexible, but does not provide reliable information, Tiesdell and Allmendinger purport. We can dwell further on the aforementioned simplified pairing of the “rigid but reliable” Dutch and the “flexible but unreliable” British planning system, following Cheshire (2005) and Tiesdell and Allmendinger (2005). In a more positive planning system, such as the one in the Netherlands, where building land was as a rule supplied publicly until the 1990s and still often is despite a strong increase in private land possessions since the mid-1990s, and the system of master plan is showing all uses, the housing supply is not as constrained as in the British case of “development control”, where permission must be applied for all changes in use, as Cheshire (2005) rightly notes. A rigid system based on master planning may be “more regulated” than the British system, but it is in this sense “less restrictive”—and there is less room for speculation, because in such a spatial approach all uses have to be accommodated.

Finally, to put the issues discussed above in perspective, the ability to deliver sustainability outcomes may not be contributed to “planning” at all, but to localized “investment” trajectories and tendencies, as was already noted at the end of second section. Therefore, in the remainder of the text the focus is alternated between “planning” and “investment” biased issues, depending on the ability of the institutional circumstances to deliver property development.<sup>4</sup>

## The Sustainability of Urban Property Developments: Multiple Cases

### *Hungary and Budapest*

As the transition and during the period 2002–2010 in particular, Hungary has been nothing short of a disaster in terms of urban policy and planning issues. It is not a secret that the recent Hungarian situation represents a massive system failure, regardless of how one examines the issues involved. For example, *The Economist* (8 April 2010) puts it like this: “The Socialists have been in power for eight years, during which the economy has done badly, poverty has soared, corruption has flourished and the dire situation of the country’s Roma minority has worsened.” A more scientific description of the same is provided by Csanádi *et al.* (2010).<sup>5</sup> In Hungary the real problem is, however, not about unenlightened planners, but that planning lacks authoritativeness.

After the transition Budapest became subject to a rapid process of speculation (like Berlin, for example). This has led to challenges about how to direct the development. While land policy and planning have been proposed as institutional measures to improve the development strategy of Budapest in terms of sustainability criteria, the private sector has taken over the initiative in urban planning and a strong planning tool such as tax or municipal land policy is lacking from the local government (Locsmándi *et al.*, 2000; Locsmándi, 2007). To remind, in Hungary some basic planning principles were laid down at a time (late 1990s) when the economic situation was more positive and the political will towards urban renewal stronger than at present.

The reality of total (un)sustainability can be exemplified with the Hungarian type of gated communities (residential park, *lakópark*, *lakókert*), a product meant for the upper-market, quality-conscious consumers.<sup>6</sup> Based on evidence, the most plausible conclusion is that this category of property developments is currently not sustainable with respect to any of the three dimensions (Hegedűs, 2011). First of all, the environmental-ecologic sustainability criterion may also remain unfulfilled if the costs are minimized—except perhaps in the most modern niche market cases. Then, the residential park is arguably not socially sustainable either as it segregates the wealthy from the poor (Bitušiková & Luther, 2010; cf. Hegedűs, 2011). Here, it should be noted that the international sustainability development agreements include poverty eradication as a vital element (Bramley & Power, 2009), which, obviously, works against the *lakópark* agenda. Finally, looking at the economic sustainability, the following shortcomings can be found with residential parks (cf. Hegedűs, 2011):

- The quality of the location is often poor – at least in the more recent products which are marketed for the middle-class housing consumers.
- In some cases the same can be said about the building quality—where costs have been pressed down in order to attract younger families and first-time buyers.
- The market situation is marred by diminishing demand and already existing oversupply, which means that trying to sell these products is difficult and many of such dwellings risk remaining vacant for a long time. It is speculated that in 20 years time, the *lakópark* will be perceived as unfavourably as the *lakótelep* (panel built housing estate) is perceived today.

In the inner city of Budapest there is a connection between the upgrading of the neighbourhood and the growing integration of Budapest into the world economy (Kovács, 2009).

At the same time, however, a number of pessimistic considerations are real: notably, tensions within the district council as well as between district councils; the absence of social rehabilitation, with the result that the residents living in social housing are becoming “residualized”—notably the elderly or households experiencing multiple disadvantages; and the implementation of an extremely decentralized approach, without a comprehensive policy.

It should be noted here that a home-grown variant of the crisis hit Hungary already around 2004, when the destructive government policies begun to bite: in particular, the withdrawal of housing subsidies that the previous regime had introduced 1998 led to ceased housing demand and decreased affordability. The commercial sector, however, remained unaffected until the global crisis in 2008. The global crisis further made life difficult for homeowners as many had taken mortgages with high interest rates and in foreign currencies.

In Budapest, the lamentable state of affairs indicates unsustainable development practices regarding the provision and maintenance of the built environment, despite recent considerations of sustainability strategies such as innovative green office buildings, public infrastructure and even affordable housing. One endemic problem is that the gated community-like developments discussed above are almost completely seller-driven. As already suggested, a more sustainable paradigm would be possible only if the projects become more buyer- and tenant-driven. This in turn is only likely through establishing demand-side financial incentives, and for this we need courageous policymakers and market actors. For almost the whole post-socialist period (i.e. at least until the government change in year 2010) they have been absent in Hungary, given the ultra-liberal economic ideology adapted after the transition. It can be argued that for a purposefully implemented sustainable development an element of smart, context-dependent public planning is required, and that this is not the case for either Greenfield or Brownfield areas in the Budapest region.

### *The Netherlands and Amsterdam*

While perhaps not flexible policymaking in other areas (immigration, for instance), as far as the Dutch land use, housing and hazard mitigation issues (flooding in particular) are concerned, these policy topics have become well developed, and received worldwide praise. This innovativeness is due to the serious problems of population pressure and land shortage, as well as dam building issues. It can with good reason be argued that in the Netherlands a fine-tuned land management tradition has led to a sophisticated community system. In this context, the PPP approach can be considered a particularly successful tool for the pragmatic Dutch since they all see themselves as “being in the same boat”. As a consequence, countless other countries have attempted to imitate the Dutch planning and policymaking. Below, some of its characteristic elements are discussed: namely, compact urbanization, urban restructuring programmes, innovative funding schemes and PPP.

This is not to suggest that everything is perfect even in the Dutch context of urban development. Geurs and van Wee (2006) simulated land use and migration patterns and related them to the compact urbanization policies implemented in the Netherlands between 1970 and 2000. They concluded that when avoiding urban sprawl and related problems, the planning has to be considered successful during that time period. However, insofar as facilitating housing preferences is concerned, this planning system has failed, because

Dutch housing consumers apparently want low-density housing more than housing with good accessibility.

Residential mobility, housing choice, housing policy and the dynamics of cities and their neighbourhoods in the explicitly Dutch circumstances have been covered in many studies that directly relate to urban restructuring agendas in which physical and social investments are made in order to keep neighbourhoods economically and socially vital (e.g. Dieleman & Wallet, 2003; Goetgeluk & Musterd, 2005). This relationship has resulted in a national program for urban restructuring. In 1995, 15 large cities and the national government signed a covenant, which was the basis for *the Big Cities Policy (Grote Steden Beleid, GSB)*. The GSB resulted in an inventory of 30 “big cities” (Grote 30 or G30). By targeting deprived neighbourhoods, the GSB aims to improve the economic competitive power of cities and to restrict socio-economic and ethnical divisions within cities (Priemus *et al.*, 1997; Van Kempen, 2000; Van Kempen & Dekker, 2004; see also Musterd & Ostendorf, 2008 for a critical comment). The strategy here is based on three “pillars”: (1) physical improvements (emphasis on urban restructuring); (2) economic improvements (entrepreneurship and labour) and (3) social improvements (education, liveability, safety and care). The elaboration of the first pillar resulted in 1997 in *the National Program for Urban Renewal*.

In 2003, the Ministry of Housing, Spatial Planning and the Environment (VROM) formulated a “Program for Action Restructuring (Actieprogramma Herstructureren)”. In this program 56 neighbourhoods (representing 219 districts) were assigned. These neighbourhoods are assigned to improve the planning and negotiation processes between the various stakeholders, and also to improve the vacancy chain on the housing market. The justification of the selection of the 56 urban regeneration areas is based on an elaboration about their social, demographic, economic and physical features.<sup>7</sup> In general, these areas face various problems in the sense of high unemployment, large share of low-income groups, and some more area-specific features (e.g. high share of elderly or foreigners) that are supposedly causing problems in the long run, and thereby justify urban regeneration policy targeting. These areas comprise parts of very different neighbourhoods: notably, ethnic pre-war neighbourhoods in larger cities such as Transvaal in The Hague, white traditional working class neighbourhoods such as Duindorp in The Hague and post-war housing estates many of which are ethnic too such as Bijlmer in Amsterdam and Overvecht in Utrecht. Apart from these more top-down initiatives also housing associations are important for the new urban renewal tendencies in the Netherlands as they sell their stock in large volumes since the marketization of the policy in the mid-1990s.<sup>8</sup>

The so-called “Red-for-Green” financial mechanism is increasingly used in Dutch spatial developments. It means an ear-marked value capturing of the profitable parts of a new urban development project for financing unprofitable parts of these developments such as landscape and hazards management as well as social arrangements (de Wolff & Spaans, 2010). This is seen by many as a real innovation, when the modernization of a planning system of a country is at stake. This mechanism is based on the premise that increased property values can contribute to fund environmentally and socially sustainable development. (In this way, the principle of Red-for-Green is related to the topic of this study.)

In the Netherlands a new planning law came to effect in 2008. In the new law the main changes are that detailed planning proceeds quicker, detailed plans are only norms but not binding, and—more indirectly—that the municipality can switch the planning costs to the

builder/developer. According to the Netherlands Environmental Assessment Agency the new planning system is in any case more flexible than the old one (PBL, 2010, Internet).

Apparently, even in the Netherlands, the more regulated kind of text-book case, a change from “blueprint plans” to “the concession model” has taken place. Namely, to a system where the public and private sectors do what they both are good at. Such a plan is arguably more effective, efficient, transparent and improve spatial quality (innovation and creativity). While the Netherlands has experienced a change from the “polder model”, this change is not to the Anglo-Saxon model, but to the Rhine-Land model, which still involves a relatively positive and pro-active role for the national and local governments. The Dutch system is of course faced with overwhelming problems: housing and land shortage, and more recently, the threats of rising sea levels and flooding (Heurkens, 2009). Hence, it can be concluded that a strong but adaptable planning system still governs urban property developments in the Netherlands.

### *Norway and Trondheim*

It can be argued with good reason that of all European welfare state countries, in Norway a particularly rigid system of spatial planning and land use regulation is in place. Besides, a more recent development tied to population pressures around urban centres, in Norway the tradition of agrarian background has led to the emphasis of other issues than urban development (e.g. passage rights). In such circumstances the tendency is that conflicts arise in any particular land use or development issue between public and private actors. It could, however, be argued that as long as money is generated by the state-owned oil and gas industry this system works—Norway being the richest country in the world measured in per income per capita ([www.aneki.com](http://www.aneki.com)). However, as the discussion in earlier sections of this study has shown, we might speculate over possible needs of improvement in order to accommodate some of the more innovative pragmatism purported by their German and Dutch counterparts.

Should the consumers be allowed to choose their residential location freely, even if a certain risk is involved? Or to put the last, normative question more positively: is it really wise to have tight regulations for land use that leave little room for innovative financial mechanisms?

It is evident that the experiences from other countries cannot be used as conceptual–methodological framework. It is because the institutional circumstances are different; in particular, this refers to the laws and regulations for building, zoning in relation to environmental hazard locations and governance concerning how one manages to raise money for building using PPP or otherwise.

In principle, building covenants between the private property developer and the municipality is possible also in Norway. What the municipality does is coordinate, but if the municipality lacks the funds, as is the case in Trondheim, the third largest city, the prospective builder is obliged to bear the costs of all measures. Moreover, the rules are not completely binding although they become stricter all the time. However, if the same occurs as during the 1970s, namely that there are changes towards more efficient plans and denser building of areas, it will be easier to get permission to build in the future. Besides, thoughts about jointly financed new building measures already exist in Norway. Private parties who wish to build must pay for the extra costs involved in sustainability and this will then be tested at the market place; in other words, if there is demand

then an extra cost post for sustainability might be worth paying for. However, in such prospects the role of the municipality is only to coordinate such action. Thus, the role of the municipality is still the traditional government—not modern-day governance.

In the Norwegian/Trondheim context the problem is that regulations are too tight as the government has an old-fashioned role mainly as regulator. As with so many other kinds of regulation in the society, the present building and protection regulations are based on the outmoded ideology of “protecting consumers from themselves”. The opportunities opened by the governance thinking are not utilized fully. A related observation by Sager (2010) is that Norwegian planners are found to be more sceptical to private developers than in Spain, Sweden, The Netherlands or even USA.

The evaluation of this case must be that the municipality still has a negative, regulating attitude to new building by private parts, even if some cooperation takes place. Apparently, the innovative measures that have been discussed in certain other countries (notably Germany and the Netherlands) are not possible in Trondheim. The question is now: why is this only about rules? Why not allow building of a given site if preferences to live there exist? This is exactly the old-fashioned paternalistic welfare state—vernacularly “Nanny-state”—logic.

Nonetheless, Arctander (2006) criticizes the way the development projects in Norway were pushed through by the stakeholders, she argues that waterfronts and Brownfield developments are much private driven which implies that developers have considerable power to influence the design implementation. Thus, also the Norwegian system occasionally is about governance—even neo-liberally biased governance (i.e. new public management)—too. Apparently, for some reason some Norwegian researchers (like the German Wegener mentioned earlier) are not able to accept that a hierarchical, public-driven agenda could be considered outmoded for the purpose of built environment provision.

In today’s theoretical context of planning it is accepted that the private sector can do some things better than the public sector (see e.g. Heurkens, 2009). It could be argued that an increased decision space is required in order to enable more opportunities for negotiations. The private sector party could then pay for the infrastructure or for securing the site against natural hazards—flooding and land slide being relevant in this context. This way the concept of governance would be applied in a good way. That this has not occurred much has to do with the lack of population pressure in this part of the world: when current resources suffice the need to look for alternative solutions is not urgent as it is in the central European circumstances.

### **Summary and Concluding Discussion**

The research question was posed as follows: How sustainable are the urban property development (including urban regeneration) activities in a given institutional-geographical context? The empirical material investigated three such cases across Europe and found that the mechanisms of urban property development are indeed tied to particular circumstances ranging from the most neoliberal to the most public planning driven, with cases posited in between these extremes too. What also became obvious from the comparison was that such variety in country- and city-specific cases of property development can reveal innovative possibilities for government intervention in urban property development projects, especially in the “in-between” category. Lastly, the varying mix of market–state circumstances involved also implies a corresponding variation in terms of the sustainability

evaluation of these cases. The sustainability criteria here pertain to the whole spectre of dimensions relevant for property development and urban renewal, they furthermore assume that locally tailored demand-driven market strategies enable the most apt forms of governance.

In this situation of downturns and crises, the relatively new sustainability criteria have put further requirements for a successfully run planning system. At the heart of the matter is a request for various development improvements such as reasonable affordability, quality control and variation in different building products. This is of great policy relevance: we need stimuli and good governance to achieve such goals. Here OIE has plenty to offer for a “patchy” and evolving problem area such as the analysis of planning and property development in an urban setting. To emphasize the variation generated by institutions is important for the analysis in so far as it is path dependence that matters for the extent to which a given country or city is on a sustainable development path. The assumption was that it is the long-term, ossified procedures of management that matter the most, for reaching urban sustainability within a property development context. Whether culture matters alongside institutions is an empirical question at any rate. It might be the case that also lifestyle matters (and thus in line with much of contemporary theory), but in general, the issue can be expected to be more about constraints caused by land rent expensiveness together with land use regulations than about people’s free choice as a determinant of urban development patterns.

Casual observing suggests that Budapest has a “wild regime” marred by corruption, whereas Trondheim has a hopelessly rigid planning and democratic regime. The Hungarian system still relies on private too much (i.e. until may 2010) and the Norwegian one is still too much geared towards public interest only (despite some comments to the contrary). The argument put forward was that, for urban development to be sustainable, an element of smart, context-dependent public planning is required, but this is not the case for either Greenfield or Brownfield areas of Metropolitan Budapest. It also is not the case for the Norwegian system. There is little doubt that only the Amsterdam and—given the traditionally strong position of the national level in planning and policymaking in the Netherlands—the Dutch system has managed to combine the best of both worlds: the private and the public. In the Netherlands such an enlightened governance practice is rooted in a pragmatic planning tradition involving PPP. However, it can be argued that all three systems are to a certain extent caricatures. To amplify the point, they are dubbed as the neo-liberal Hungarian; the Rhine-land model of the Dutch and the one-size-fits-all Norwegian system—although obviously such metaphors do not reflect a scientific approach in a classical sense.

Much of these evaluations must today be seen against the backdrop of the financial crisis. The global economic situation much determines the continuation of the development projects in a country as strongly affected by foreign direct investment as Hungary. Moving from the liberalization agenda towards a sustainability agenda, whenever the global markets become favourable towards property development again it is up to the policymakers to begin with a blank page. In Hungary the new government has clearly shown that it will stimulate domestic and even local investments and regulate the multinational corporations and global capital streams. In general, such an agenda would be in congruence with sustainable development aspirations too. In the Netherlands and Norway, if the same kind of effects exist, these are at least less visible than in Hungary.

On the basis of the study, three pre-conditions for successful network governance can be outlined based on the variations found. Firstly, without a certain urgency defined by economic or physical realities it is difficult to reach truly innovative procedures (as the non-urgent Norwegian case showed). Secondly, various types of institutions, crucially rules, but also conventions, matter, in particular, whether the position of project developers is strong and recognised positively by a government, who has laid the groundwork for PPP through apt regulations. This was especially found in the Netherlands. Thirdly, the arena of property development is not only about rules as also individuals (especially as decision-makers of corporations) make a huge difference. Whether local action is allowed for, varies between circumstances; of the circumstances covered the Hungarian case left least decision space for such manoeuvres. Overall the qualitative findings indicated that, if enlightened governance is deemed a basic ingredient of sustainable urban property development, the Netherlands is reasonably apt whereas Norway and Hungary are sporadic and heterogeneous in this respect.

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### Notes

1. For those who are unfamiliar with this city: the Berlin Wall divided the inner areas of the city during the period 1962–1990; on the western side normal residential areas begun immediately next to the wall whereas on the eastern side there was a *c.* 200-m-wide buffer zone. Tempelhof airport was Hitler’s great showpiece and had strategic function during the WW2. Eastern suburbs mainly comprise large-scale housing estates.
2. To compare, Tiesdell and Allmendinger (2005) define (public) planning as “intentional governmental inventions intended to achieve desirable societal objectives”.
3. Although with the advent of New Labour policies in the mid-1990s this practice was moderated.
4. As the format of a journal article does not allow space enough to go into depths, the issues covered are selected based on their ability to lift up typical traits of each case.
5. In fact, many of the interviewees confirmed this too.
6. See for example the *Duna-Pest* residences in the *Millennium City Center* project (2010, internet). According to Hegedűs (2011) this is a widespread phenomenon in Hungary. He gives the following figures for the share of gated communities of the total housing stock in Budapest: 3.5% on the city level and 2.8–2.9% on a metropolitan level.
7. The follow-up to this policy is known as *Vogelaarwijken*, following the cabinet of 2007 (and its Minister for Housing, Neighbourhoods and Integration, Ella Vogelaar). These are supposed to be the 40 worst *wijken* (i.e. wards, administrative neighbourhoods) in the country.
8. I thank one of the referees for making this point.

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