

Real Estate Economics and Historic Rehabilitation in Post-Socialist Cities in Eurasia: The Message for Havana

Olga Kaganova, PhD, CRE, FRICS
The Urban Institute
Okaganova@urban.org

For the Forum on
Havana and its Landscapes:
A Vision for Future Reconstruction in Cuba
May 2, 2008

The Comparative Urban Studies Project of the
Woodrow Wilson International Center for Scholars

Reality faced by historic urban rehabilitation in Eastern European cities:

- 1. Real estate markets often do not support historic rehabilitation**
- 2. Preservationists ignore economic feasibility, especially during the initial post-socialist period**
- 3. Available private investment capital and effective demand for real estate are not sufficient to rehabilitate old urban bodies (St. Petersburg, Budapest, Zagreb, etc.)**

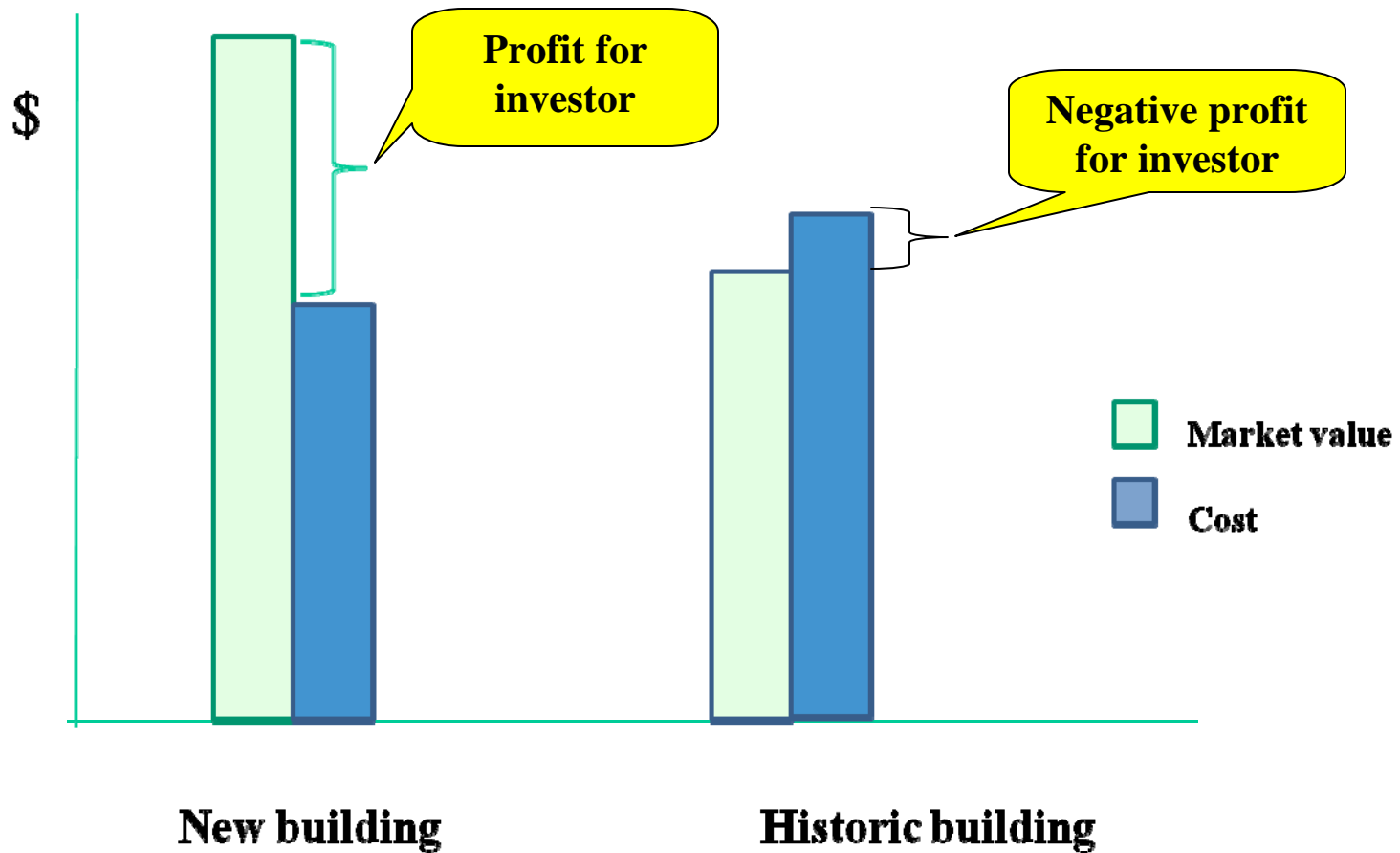
<p>1. Real estate markets often do not support historic rehabilitation: why and how?</p>

- Rehabilitation of historic buildings loses to new “green field” construction because:
 - *Rehabilitation takes longer and costs more*
 - *It may result in lower property market value (due to limitations on the density of land use)*

Outcome: profits of rehabilitation projects are below requirements of private investors and lower than profits from new construction

**1. Real estate markets often do not support historic rehabilitation:
why and how? (cont'd)**

The Profit of New Construction vs. Reconstruction of a Historic Building



<p>1. Real estate markets often do not support historic rehabilitation: why and how? (cont'd)</p>
--

Examples:

- **St. Petersburg, Russia** (Butler, Nayyar-Stone, O'Leary, 1999)

Rehabilitating a historic building: 21 months, \$1,250 / m²

Building a new building: 12 months, \$550 / m²

- **Kazan, Russia** (Kaganova, 1998)

Failed attempt to attract private developers to reproduce the urban pattern of the 18th century in the city centre (with the 2-floor limit on building heights) . Projects were not profitable for investors (“negative land value”) because of limited land use density and market prices on real estate.

2. Preservationists ignore economic feasibility, especially during the initial post-socialist period

Examples:

St. Petersburg, Russia

Preservationists – “extremists” required to preserve not only the facade but also the floor plan of the 18th century house, which scared investors away and held the building vacant and deteriorating for many years

Kazan, Russia

The case on the previous slide

3. Available private investment capital and effective demand for real estate are not sufficient to rehabilitate old urban bodies (St. Petersburg, Budapest, Zagreb, etc.)

The magnitude of the problem:

St. Petersburg, Russia, residential stock alone:

12,027 buildings built before 1917

2,494 buildings built during 1918 – 1940

6,794 of the pre-1917 buildings are located in central (historic) districts

3. Available private investment capital and effective demand for real estate are not sufficient to rehabilitate old urban bodies (St. Petersburg, Budapest, Zagreb, etc.)



St. Petersburg, Russia

Litejny Prospekt, April 2006

Photo: Ekaterina Lobanova

3. Available private investment capital and effective demand for real estate are not sufficient to rehabilitate old urban bodies (St. Petersburg, Budapest, Zagreb, etc.) (cont'd)



St. Petersburg, Russia

February 2008

Photo: Victor Pletenskoj

3. Available private investment capital and effective demand for real estate are not sufficient to rehabilitate old urban bodies (St. Petersburg, Budapest, Zagreb, etc.) (cont'd)



Budapest,
Hungary

Issue: Preserving Public-Use Land (Parks)



Issue: Preserving Public-Use Land (Parks)

Is there a better way than creeping development on park lands by friends and relatives of political elites and corrupt officials?

If the loss of some park lands is unavoidable, can we make it planned and transparent, under the Green-for-Green earmark policy?

- Plan which park land will be released for development
- Sell it on auctions
- Re-invest the proceeds into preserving and improving the remaining parks

What Can Be a Message from Eurasia to Havana?

1. **Historic preservation and rehabilitation of buildings and urban landscapes cannot succeed as a stand-alone movement or activity. It should grow upon such market reform fundamentals as:**
 - *Land reform* (legal separation of private and public land; market-oriented land use control and urban planning; effective and transparent management of public land)
 - *Housing reform*
 - *Reform of urban infrastructure and municipal services* (financing, delivery, and operation)
2. **Sustainable historic preservation requires some public subsidies**
3. **Being realistic about the costs and resources available may lead to better rehabilitation / preservation policies**
4. **As soon as market reforms start, governmental officials (including urban planners and historic preservation officials) would need urgent and mass training on basics of real estate economics**