

Transparency and efficiency

Pál Baross, FRICS, developer of the Allee shopping mall, and former Hungarian chairman of the Royal Institution of Chartered Surveyors (RICS) was appointed Chairman of the Budapest Municipality's Real Estate Holding (BFVK) in 2010. The organization Baross heads is in charge of handling properties belonging to the city. For someone who spent a career in private real estate, taking up local government was a significant change, as he explains in this exclusive interview with the Budapest Business Journal.

100 ANDRÁS ZSÁMBOKI

Can you elaborate on some of BFVK's more controversial real estate decisions in the last four years?

A: Clearly the CET/Báňa project attracted the most intense media and political interest. This landmark architecture was positioned as a commercial undertaking

in a PPP structure. The problem with the "Hungarian approach to PPP" is that it puts all the commercial risks on the public sector. For someone like me, with an extensive commercial real estate practice, it was evident that the project was designed to get the development money out fast (for the private party) and leave the money-losing exploitation of the project to the municipality. Less controversial, though it still attracted much media attention, was the



Pál Baross.

sale of a number of cinema properties in the Budapest Film portfolio. Supporting "art movies" was part of the cultural mission of the municipality, but it became evident that there was a decline in attendance and 500,000 art moviegoers yearly was an ambitious target in the context of multiplex offerings. So we

selected a "core cinema house portfolio" and the rest were offered for sale – with cultural/educational content in use. I think the best deal from this strategy was the tender that created a new life for the ÁTRÍUM Mozi.

How has the municipality's asset management changed in the last four years?

A: In fact, in 2010 I had two simultaneous appointments, I started to work in the cabinet of the deputy mayor responsible for finance and asset management, and as chairman of the asset management company. This allowed a twin-track approach to impact on the decision making about public real estate. In the cabinet we developed the regulatory framework and in the BFVK streamlined the operational performance of managing the real estate assets.

In the beginning we started with a "big bang", merging the facility management and the asset management companies of the municipality into one. This provided some 20% savings in costs and an opportunity for a seamless operation from asset registration to tenant records, rent collection and handling maintenance. We moved from rented offices to our own, which also reduced our occupational costs.

Is BFVK now a less bureaucratic and more proactive organization?

A: It took me sometime to understand the "public" (and therefore

bureaucratic) and "private" (and therefore businesslike) sphere of the organization. I think that there were lots of improvements that we could make over the last four years in the business operation of the company, such as clear organizational structure, the adaptation of the asset register, improvements in real estate valuation, data management, property inspection, and the like. You could call these improvements in business processes. But the company cannot make asset decisions, such as what to buy, what to sell, to whom it can rent, and at what price. Such decisions are delegated to the public sphere, the asset committee or the general assembly of Budapest Municipality. And before these decisions get to the committee level, the relevant municipal administrative departments, often six to ten bureaucratic units, vet them. This can be a frustrating process. Yet one has to acknowledge that this is an essential part of transparency and legality.

But you worked "inside" in the cabinet and "outside" in the asset company. Were you able to streamline the public and business decisions?

A: Yes, the opportunity came in my cabinet position to develop through the public sphere a new Municipal Asset Management Strategy that gave a clear policy framework as to how to handle the "four quarters" of public real estate asset portfolios. These were, with reference

to international practices, "institutional real estate", "company real estate", "commercial real estate" and "surplus real estate". The policy declared that the main priority is delivery of the most appropriate real estate solutions for supporting municipal services, be they institutions or be they companies. The commercial portfolio should be managed in the context of market conditions, including decisions to disinvest. The "surplus real estate" had to be tested in the context of alternative use, long-term urban development strategy and the prospects of the real estate market.

Public rental housing is almost non-existent in Budapest. Could you improve anything here?

A: This is a sore point. As a real estate professional, I am aware that in big cities the housing segment is 50-60% in private home ownership, 20-30% in private rental and another 20-30% is in public rental. In Budapest around 90% is in private home ownership and the public rental sector is around 5-7%. Budapest Municipality owns about 1,200 dwellings, about 0.002% of the stock! This offers no leverage for housing policy. On top of that, these units were nominally owned by the municipality, but managed by a variety of institutions, companies, and administrative units. BFVK was to look after some of them as a facility management company but had no access to the rental revenue. I inherited a mess

and the only improvement thus far is a strategic plan for the housing sector, which was accepted by Budapest General Assembly in the summer of 2014. When implemented, the housing stock will also be allocated to the "four quarters".

As an active lecturer and speaker at conferences you promote an active public role in urban development, collaboration with the private sector, the discredited PPP structure. Could an asset management company such as BFVK play a role?

A: One of my favorite anecdotes from my "first 100 days" in the public sector is that I put forward a possible development project with a note that there were "some commercial risks" in the course of realization. One of the department heads discreetly called me up for a cup of coffee and advised me "Pál, in this place you go to jail for taking risks". The project was deleted from the agenda. Yet in the course of the last four years, BFVK played a developmental role, not by undertaking development risks but by removing development risks from the utilization of public land holdings. Unfortunately BFVK's land holdings in the "surplus" quadrant are too miniscule to make a marked impact on Budapest's development trajectory. However this may change in the future, if it receives the guardianship of all the surplus land holdings along the Danube's embankment.