

Koninkrijk Nederlands Aardrijkskundig Genootschap

# TE S G

Tijdschrift voor  
economische en  
sociale geografie

Journal of Economic and Social Geography

Volume 11, No. 1, January 2010

ISSN 0924-6460

0924-6460(201001)11:1:1-0

DOI: 10.1017/S092464601000001

© Koninklijk Nederlands Aardrijkskundig Genootschap

**TESG**

PUBLISHED BY THE ROYAL DUTCH GEOGRAPHICAL SOCIETY KNAG

**Editorial Board**

Jan van Weesep (editor in chief)  
University of Utrecht  
Leo van Grunsven (executive editor)  
University of Utrecht  
Pieter Terhorst (book review editor)  
University of Amsterdam  
Cees Cortie  
University of Amsterdam  
Henk ter Heide  
National Physical Planning Agency  
Herman van der Wusten  
University of Amsterdam  
Jacques van Dinteren  
Kolpron Consultants  
Ton van Naerssen  
University of Nijmegen  
Paul van Steen  
University of Groningen  
Egbert Wever  
University of Utrecht

**Advisory Board**

Ooi Jin Bee  
National University, Singapore  
Paul Claval  
University of Paris, France  
Berardo Cori  
University of Pisa, Italy  
Walter De Lannoy  
Free University, Belgium  
Jens Christian Hansen  
University of Bergen, Norway  
David Keeble  
University of Cambridge, England  
Piotr Korcelli  
Academy of Sciences, Poland  
Edward J. Malecki  
University of Florida, USA  
Eike W. Schamp  
University of Frankfurt/Main, Germany  
Takashi Yamaguchi  
University of Tokyo, Japan

**Executive Editor**

Contributions and correspondence related to editorial matters may be sent to:

Executive Editor TESSG, Leo Van Grunsven  
KNAG, PO Box 80123, 3508 TC Utrecht,  
The Netherlands  
Tel +31 30 532350, Fax +31 30 535523

**Book Review Editor**

Publications for review, book reviews, and review correspondence to be sent to:

Book Review Editor TESSG, Pieter Terhorst  
SGI UvA, Nw Prinsengracht 130, 1018 VZ Amsterdam,  
The Netherlands  
Tel +31 20 5254083, Fax, +31 20 5254051

**Subscriptions and back issues**

Subscription rates include packing and postage by surface mail. Advance subscription payments for three consecutive years (only) are accepted at current prices.

Back issues are available at the current single copy price; prices for single issues include packing and postage by air mail.

Order, sample copy requests, claims and other subscription enquiries to:

KNAG, Publications Department  
P.O. Box 80123, 3508 TC Utrecht, The Netherlands  
Tel +31 30 532757, Fax +31 30 535523

Cheques/orders should be made payable to KNAG. Orders for single issues should be prepaid. Credit cards: American Express, Eurocard, Access, MasterCard, BankAmericard, Visa (quote card number and expiry date with your signed order).

**Prices 1993**

Subscription rates (five issues) in Dutch Guilders (Dfl)

	Institutions	Individuals
Netherlands	160.00	130.00
Rest of the world	175.00	145.00

Single issues in Dutch Guilders (Dfl)

	Institutions	Individuals
Netherlands	34.00	34.00
Rest of the world	39.00	39.00

**Publications Manager**

For all information concerning advertisements and inserts, as well as requests to reproduce material from this journal, please contact:

Publications Manager KNAG, Johan G. Borchert  
KNAG, PO Box 80123, 3508 TC Utrecht,  
The Netherlands  
Tel +31 30 532038, Fax +31 30 535523

**Copyright**

Copyright © 1993 by the Royal Dutch Geographical Society KNAG

**Photocopying**

Permission is granted by the publisher for those registered with the Copyright Clearance Center to authorize internal photocopying of any article in this journal for a fee of \$0.10 per page. Payment should be made direct to CCC, 27 Congress Street, Salem, MA 01970, USA; please mention fee code 0040-747X/93 \$0.00+.10.

This authorization does not extend to multiple copying for resale or other commercial purposes.

Individuals or institutions not registered with the CCC must obtain permission to photocopy from the publisher, when the same fees will apply.



## CITY IN TRANSITION: THE ROLE OF RENT GAPS IN PRAGUE'S REVITALIZATION

by

LUDĚK SÝKORA\*

Prague, Czech Republic

### *Introduction*

Prague, the capital of the Czech Republic, is at a historical crossroad for the third time in this century. The origin of independent Czechoslovakia in 1918 – with Prague as its capital – brought rapid development to the city. This trend was interrupted by the Second World War. In 1948 the Communist coup started 'a new historical epoch of building a socialist society', and a particularly socialist city. The so-called 'velvet revolution' of November 1989 overthrew the Communist totalitarian regime and enabled the re-creation of a democratic society.

Immediately after the change of political institutions, a radical economic reform was launched. The first reform steps created the necessary conditions for the institutionalization of market economics. The liberal character of economic politics favours the rapid privatization of former state ownership. It has had remarkable influence on the development of the real estate market. This effort is promoted with the aim of fostering a more effective utilization of land and housing stock. Within a relatively free market environment, the mechanism of differential land rent is going to play a role as a coordinator of spatial structures. The expectations of capital gains make Prague's inner city a very attractive location.

Political and economic processes have given a new meaning to location in space. The

financial attractiveness of central localities has had a positive influence on the rehabilitation of the housing stock, which has suffered from long-term undermaintenance. On the other hand, the inherited socio-spatial structure of the city is in conflict with the spatial impact of economic principles introduced recently, and also with the consequent social restructuring. Sources of potential social tension in the inner city can emerge. The lack of a sensitive social housing policy can challenge the political legitimacy of both local and national governments.

As the contemporary development is influenced considerably by structures inherited from the past, this article starts with a brief outline of the development of Prague's city structure (for a more detailed description, see Sýkora & Štěpánek 1992). Then basic features of socialist housing policy and its impact on the development of Prague's socio-ecological structure are discussed. At that point, an introduction to the basic steps of economic reform related to urban environment is necessary, in order to construct a hypothesis concerning the role of rent gaps in the city structure. Some implications of rent gap theory in the urban restructuring of Prague are subsequently outlined, and the social aspects of contemporary development are stressed.

### *Historical development of Prague's internal structure*

The city has developed in more or less concentric zones around a historical core (Fig. 1) formed by four settlements that were united

\* Department of Social Geography and Regional Development, Faculty of Sciences, Charles University, Albertov 6, 128 43 Prague 2, Czech Republic.

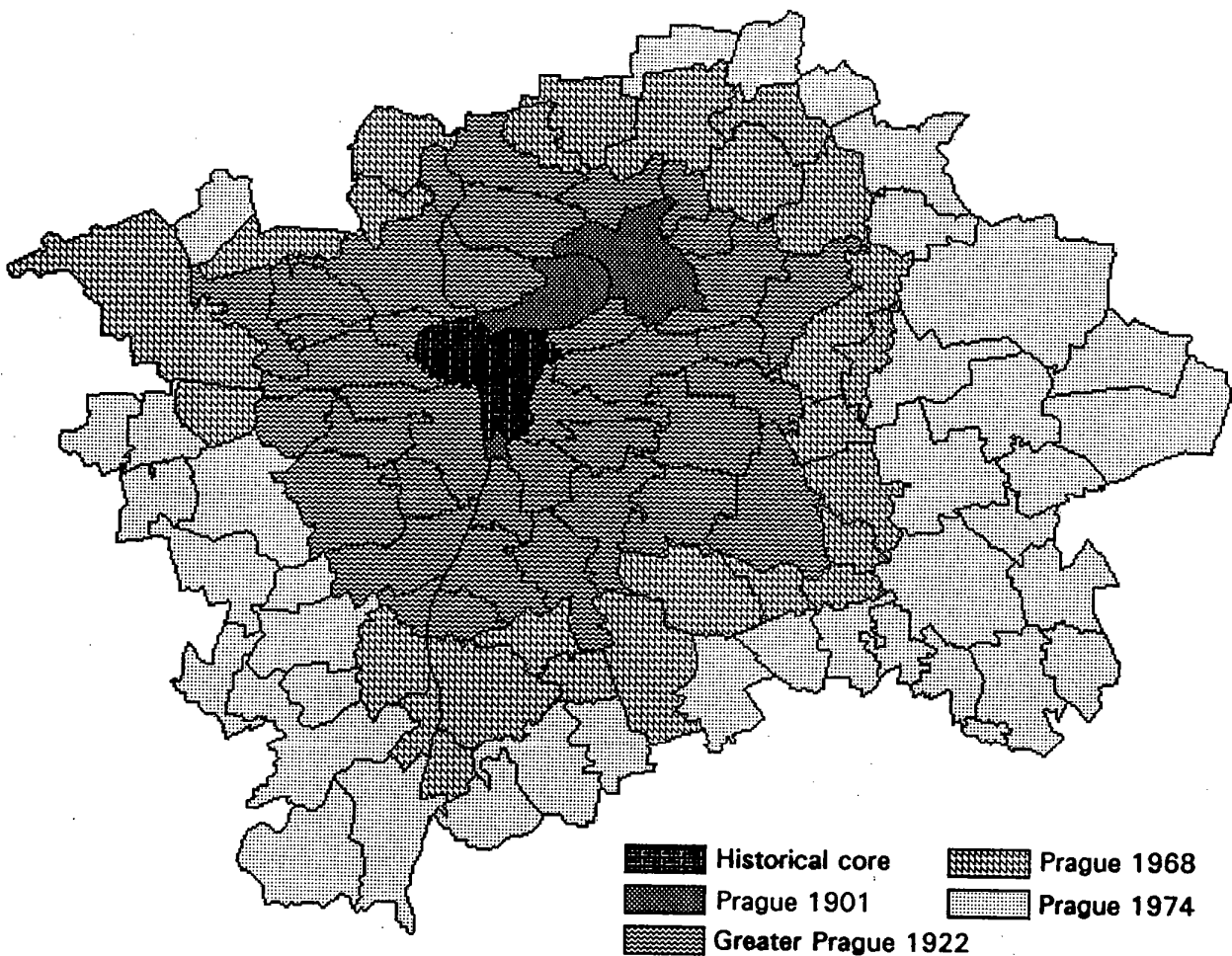


Fig. 1. *The long-term development of Prague's territory: the annexation of areas surrounding the city core.*

in 1784. Since the mid-19th century, residential areas have been built around the old core. The population of the new areas, which were then administratively independent units, increased rapidly due to massive industrialization. At that time, the first factories were established in this zone, and most of them have survived to the present. This created a larger 'inner city' directly linked with the historical core. Both the old core and the inner city are characterized by a compact built-up area; by the 1930s, the space was totally filled in these parts of the city.

In 1918 Prague became the capital of the new independent Czechoslovak Republic, and 'Greater Prague' was formed in 1922. The administrative territory of the city was enlarged to more than eight times its previous size. Prague's function as the national capital encouraged expansion of the municipal area, creating conditions for extensive building activity in the 1920s and 1930s. Suburbs and garden cities emerged, most of them characterized by single-family houses. They have

kept their character of relatively separate units until today. New industrial plants were situated on the eastern edge of this zone. Vacant sites in 'Greater Prague' were filled up by the late 1950s.

The large-scale housing programme of the 1960s required territorial expansion. Fifty-one surrounding municipalities were incorporated in two steps (see Kára 1992), the first in 1968 and the second in 1974. Monstrous housing estates were built in the annexed areas (Fig. 2). During the 1970s and the 1980s, the North, South and Southwest Towns created the characteristic picture of Prague's 'outer ring'. Each of them provides housing for about a hundred thousand people. Today, these very densely inhabited 'new towns' and large agricultural areas with separate villages comprise the landuse pattern of the city's edge.

#### *Housing policy in the socialist city*

The building of the socialist city started in 1948, immediately after the Communist

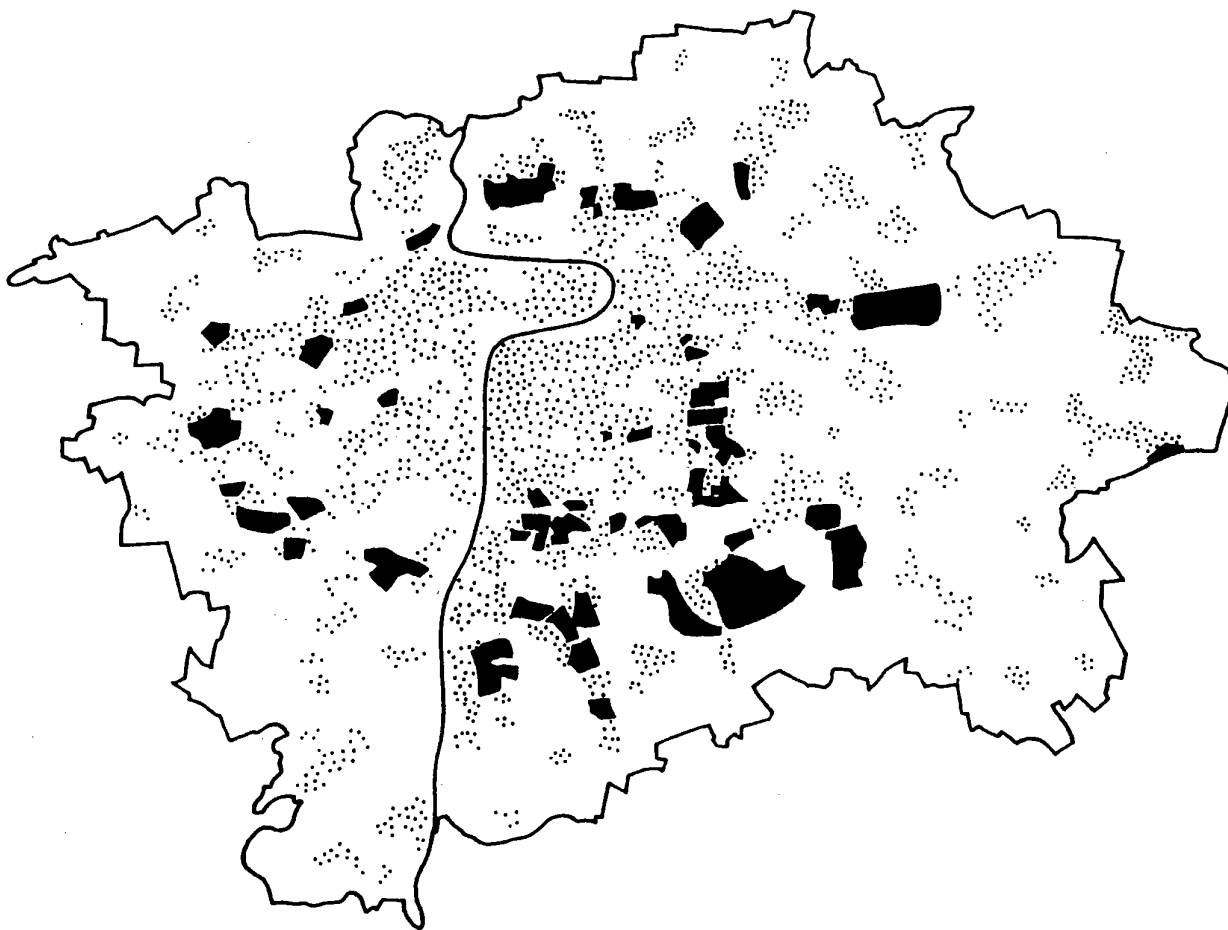


Fig. 2. The location of residential areas constructed under Communism (in black) within Prague's built-up area.

coup. Most of the tenements were nationalized and the housing market was replaced by an interventionist policy. Strict standards were imposed, such as a per person norm for floor space as well as controlled and heavily subsidized rents. During the first phase of the socialist housing policy, a more equitable distribution and 'rational utilization' of the existing housing stock was stressed. This implied the redistribution of dwellings in order to eliminate 'extreme' differences in the housing standard of different social groups (Matějů *et al.* 1979). In practice, big apartments and single-family 'villas' were designated as multi-family structures to be shared by several families. Ciechocinska (1987) refers to the same process in Warsaw, as do Hegedüs and Tosics (1983) in the case of Budapest. The redistribution of housing favoured working-class families. This was a direct attack on the last privileges of the *petite bourgeoisie*, clerks and the working-class 'aristocracy'. The sharp social contrasts between various parts of Prague observed in the 1930s were already disappearing in the late

1940s (Musil 1968).

During the post-war years, the shortage of hygienically adequate dwellings was considered to be the most severe housing problem. Large construction enterprises were formed as part of a national programme of industrialization. All land, including building sites, was under state ownership and a new building effort was started, consisting of the standardized prefabricated construction of state dwellings. The quality standards for the new units included the basic hygienic amenities: central heating, a bathroom, a WC, and direct light in living rooms. However, the large construction enterprises began to impose their own technical and architectural dictates (Michalovic 1992). It proved to be more profitable for the enterprises to build monotonous new 'grey' structures than to rehabilitate older buildings. Poor maintenance of the housing stock and slipshod implementation of hygienic norms led to an enormous loss of dwellings by change of use or demolition. The total number of units grew very slowly.

In spite of successful efforts to keep the population growth of Prague low after the Second World War, the housing shortage became urgent. The failure of the state-run construction industry to satisfy the demand led to the introduction of cooperative housing in 1959. This sector made use of state grants and low interest-rate loans. In comparison to state housing, the structures were more differentiated in both size and quality. Many of them were built in the same housing estates as the state-owned structures. In spite of private financial participation and higher rents in the cooperatives, in those cases there were no considerable quality differences between these two housing sectors. However, the cooperatives enabled families with greater financial resources to gain easier access to new dwellings.

The construction of private single-family dwellings has been financially supported by the state since the 1970s. Nevertheless, the proportion of privately owned housing units has decreased slowly, but consistently (Musil 1987). By the end of the 1980s, 70 per cent of Prague's citizens lived in state-owned flats and 14 per cent in cooperative housing. Although the proportion of newly built cooperative housing has steadily increased since the 1960s, the state construction maintained its crucial role. New measures did not significantly change the overall homogeneity in housing construction.

Although the principles of the non-market allocation of housing under socialism had changed during 40 years of Communism, the state housing policy sustained a relatively high level of homogeneity. Several studies of the socio-ecological structure of Prague (Musil 1968, 1987; (Matějů *et al.* 1979) and similar 'socialist' cities (Dangschat 1987; Szelenyi 1983; Smith 1989) have described the cities' internal differentiation. The results show some inequalities in housing standards between various groups and point out cases of urban residential segregation (Szelenyi 1987). Nevertheless, we can draw two general conclusions (1) the extent of socio-spatial differences had diminished considerably in comparison with the pre-socialist period; and (2) differences in the housing stock were smaller than in Western cities.

The relative homogeneity was maintained by the state control over housing construction, the non-market allocation of housing, and the constraints put upon the exchange of

flats. The standards, size, and technical parameters of new apartments were specified in detail. These norms were formulated as an expression of 'objective housing needs'. The choice opportunities within the housing sector were not in accordance with the consumers' needs and preferences. Flat allocation and all transactions, such as flat exchange, had to be approved by the local authorities.

Rent did not determine the consumer's choice of housing. Land values and rent levels were almost irrelevant to the spatial distribution of activities in the socialist economy. There were no differences in land prices across the city. The rent was only differentiated according to the standard of dwelling and had no relation to its location. It must be stressed that rents in state apartments were a comparatively small item in the family budget: an average of five per cent of total income (Musil 1968). In the state sector, the level of rents has not changed fundamentally since 1939 and covers approximately 50 per cent of the running and maintenance costs (Musil 1987).

State housing policy is based on the slogan 'everybody has the right to a low-rent government apartment'. This premise favoured investments in large new schemes, because 'only large housing complexes could be built in an efficient way'. The egalitarianism of Communist urban policy thus fostered new towns, with standardized housing and services which were intended to create a homogeneous, socialist society at the local level (Enyedi 1990). Last but not least, it was easier for political administrations to control the use of budget resources, and thus the entire society, in this way. In conformity with the Urban and Regional Planning Schemes, the state housing investments were continuously channelled to new towns, while the housing stock in the inner city suffered from undermaintenance.

A large number of flats were vacated and declared unsuitable for habitation. In the 1960s, the number of older flats lost was over half of the total of newly built flats (60,000 new units). In some cases, entire buildings, which would otherwise have provided housing, were used as warehouses. Only a few landmarks in the historical core were restored. The physical rehabilitation of the streets that were most attractive to tourists, as well as the Old Town Square, started in the

early 1980s. However the process affected only a small proportion of the buildings and amounted to cosmetic repair rather than rehabilitation. Also demographic changes aggravated the process of inner-city degradation. Those remaining there were old people, pensioners, widows, low-qualified workers and employees (Musil 1987). These parts of the city also attracted gypsies, and their influx caused some 'ghettoization'.

The state-owned housing stock was controlled by Housing Services Corporations (OPBH), which were established by District National Councils (ten second-level local authorities in Prague). These corporations controlled over 90 per cent of the dwellings in the inner city. Because of the low rents as well as housing non-residential premises (office space, retail shops, restaurants), they were totally dependent on state subsidies. Housing was classified as a part of the non-productive sphere and was thus given a low financial priority. What remained of state resources could hardly cover expenditure on new housing construction and basic maintenance.

The impact of the socialist policy can be summarized in two situations: (1) the homogenization of the city's socio-ecological structure; and (2) the underutilization of the housing stock in the most attractive locations of the inner city. It is obvious that these results are in contradiction with the basic principles of the market space economy. On the one hand, the introduction of market-economy rules into Prague's urban environment created conditions for a rapid development of the central locations today. On the other hand, this might conflict with the long-term durability of the inherited ecological structure and thus also contribute to future social tension.

#### *Economic reform and the urban environment*

The economic reform purports to introduce the political and legal conditions for a market economy as rapidly as possible. In this article, it is not necessary to discuss the entire development of policy up to now. Only the policy-making related to the urban environment is considered. One of the first reforms dealt with real estate ownership. The previous owners, or their heirs, have been given back properties that were confiscated by the Communists in the period after 1948. This restitution process affects about 80 per cent of the houses in the inner city of Prague.

Changes in ownership as instated by the restitution form the most important aspect of the restructuring of the inner city. In combination with the rent deregulation and the establishment of a free real estate market, the altered ownership structure permits a new distribution of resources and creates leeway for private capital.

The power of local authorities to decide how non-residential premises were to be used has been broken by new legislation on the lease and sub-lease of non-residential premises. Legal protection against eviction is only guaranteed for social services, health care facilities etc. The law introduced a rather novel system of rent regulation. It makes it possible to deregulate rents in the non-residential sector as well. Generally, the maximum rent level is set by law, but local authorities are allowed to set a higher maximum rent in chosen areas or exempt zones from any rent control. Thus, local government can regulate the changes in the contemporary service and shopping network. However, in the centre of Prague, there was no regulation to begin with, so the rents have increased sharply. Consequently, non-effective use such as warehousing has been pushed out, but basic service facilities have been lost as well. They are being replaced by luxury and tourist-oriented shops and services, as well as offices of prominent firms and banks.

State property which is not involved in the restitution process is being sold to private parties. The so-called 'small privatization' effort started in January 1991. Its aim is to put small state-owned businesses (shops, restaurants, small enterprises) into private hands by means of public auction. The participation of foreigners is forbidden. In spite of the huge number of buildings in restitution, about 2,500 shops, restaurants or small enterprises found new owners in this way during 1991-1992.

The property is generally sold in one of two ways: deed of ownership and leasehold. When a shop is located in a free-standing building, the whole premises can be sold very often including the land. This occurs in only 19 per cent of all sales in Prague. It applies especially to shopping or service centres built during the Communist era. However, the second way applies in the majority of auctions, whereby only facilities, furnishings or machinery are sold. When the property is sold by auction, a five-year lease is guaran-

teed to the new leaseholder by law. In the centre of Prague, only such leases were sold. In this area of the city, the average sale price soared to more than 30 times the starting price. Today nearly all properties in the city of Prague suitable for small privatization have been either sold or leased out in this way. Although more businesses are converted due to restitution, the small privatization effort was a strong impetus for the rapid introduction of small-scale competition, especially in the retail sector.

There is extreme variation between the price paid at the small privatization auctions for one square metre in the centre and a square metre on the outskirts of the city. These differences reflect both the value of the location and the unnatural character of the artificially equalized price of land or rent under the socialist system. The sale price for one square metre in the small privatization process is a

good indicator of the general trends in price (or rent) surface at the present time. It is indicative of the buyers' expectations of future profit (Fig. 3). The emerging price gradient resembles the neoclassical rent curve, with a peak in the centre and decreasing values towards the edge of the city.

#### *Theoretical aspects of Prague's rent gap*

The inner city of Prague is becoming the most dynamic urban area in the Czech Republic. A long period of transition was predicted for the whole of society and the economy in particular. Yet the inner city of Prague garnered all the prerequisites for radical change in a very short time. In this next section of the article, we present evidence of a gap between potential gains under the 'highest and best use' and the 'socialist economy' level of land and building utilization in Prague's centre. This gap attracts new invest-

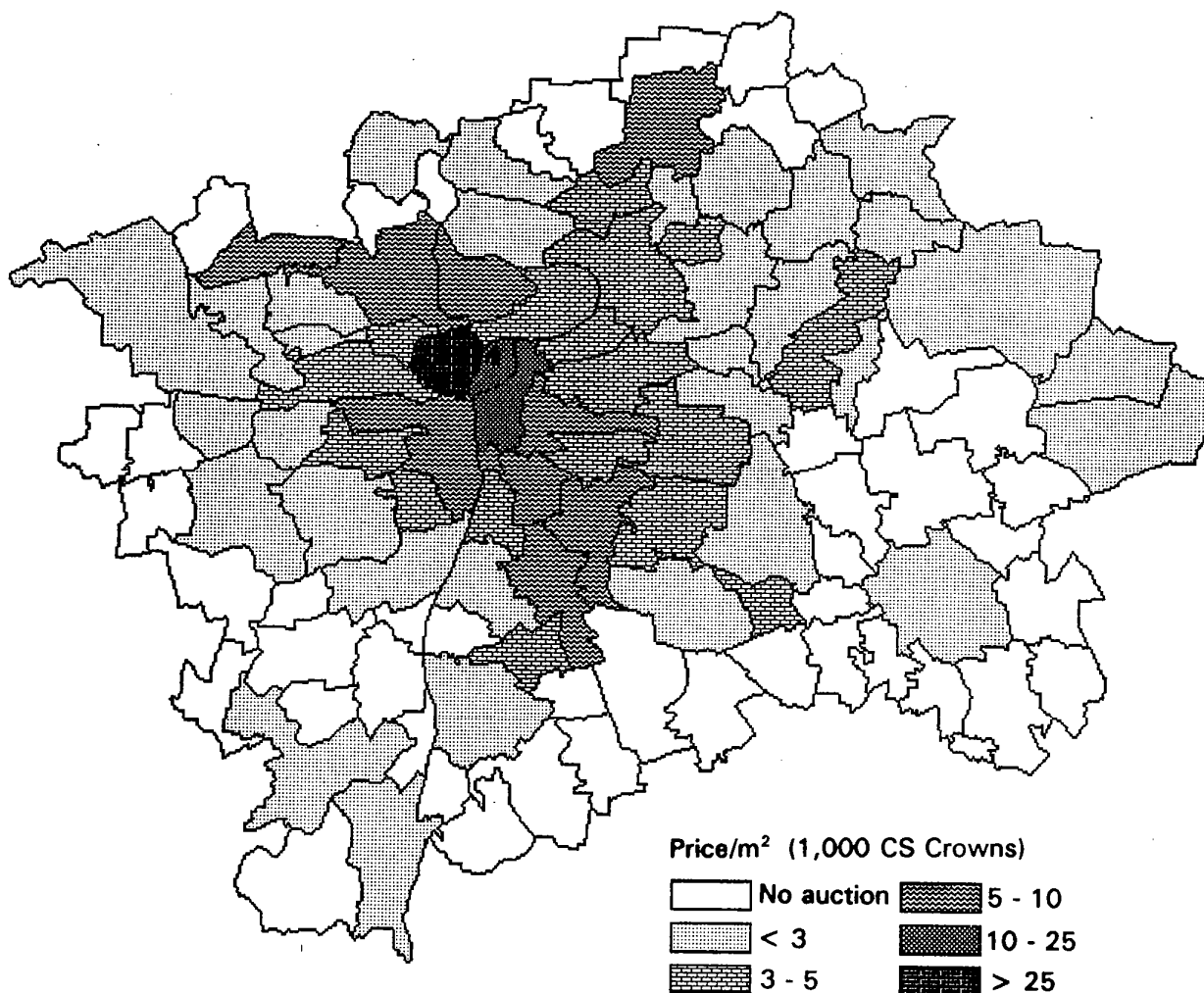


Fig. 3. Average prices paid at small privatization auctions for 1m<sup>2</sup> of non-residential premises during 1991-1992 (in Prague's 110 cadastral units).



ments and progressive activities, thus causing change in the inner city of Prague, particularly in the historical core.

*Roots of underutilization* – The preconditions for the gap were created during the period of the socialist economy as a direct result of the centrally planned allocation of resources. The very high concentration of jobs in the inner city of Prague does not mean that they represented the most spatially intensive production. The land value or rent level was insignificant to the profit made in the production sector of the socialist economy. There was no reason to take these items into account in decisions about location. Of course, other factors that were ‘objective’ for socialist planners helped maintain a central/non-central distribution of functions. For instance, local authorities determined the actual location of shops and other services. Since 1967 they were allowed to raise the rent up to 300 per cent of the national level (though only in large cities with more than 200,000 inhabitants) in designated areas or shopping streets. Nevertheless, this option was not used to its full potential (an additional 200 per cent was charged only in Prague’s shopping centre; a 100 per cent and 50 per cent increase was imposed in other shopping areas). However, the rent level was so low that there was no pressure for more efficient utilization of resources which in fact had almost no financial value. This applied to land and especially to relative location in space. Consequently, functions deriving very low levels of profit from the space occupied were often found in the centre of the city. In fact, the bid-rent theory did not work in the ‘socialist’ urban economy.

Furthermore, some of the older buildings were even becoming vacant and unused. Financial resources allocated according to political decisions were channelled to the construction of new industrial plants, service facilities, or public housing projects. Meanwhile, the old building stock fell into a state of disrepair. The very low rents could not cover the cost of maintenance, and the state was not in favour of subsidizing these operations. At the same time, large construction enterprises preferred new large-scale projects. The question of building repair, reconstruction and modernization was left unresolved.

The undermaintenance of the building

stock was a direct result of the economic underutilization of premises in central city locations within the socialist space economy. Underutilization is the fundamental problem, while the deterioration of buildings is secondary. The physical deterioration is due to the failure to allocate enough of the scarce resources within the framework of the ‘socialist’ economic system. In contrast, the underutilization can only be appreciated in terms of the basic features of market space economy.

The gap between the level of space resource utilization under the socialist economy and a potential utilization within the urban market economy is suddenly manifest with the introduction of a market system. The durability of structures inherited from the socialist past within the market environment creates a gap between current and potential ‘highest and best’ use. If this gap is to be closed, changes in space utilization must be expected. Figure 4 depicts the extremely low and relatively flat rent gradient under the socialist economy and a hypothetical gradient of potential rent (the prices paid for one square metre of non-residential premises in the small privatization auctions are used as an indicator of potential rent) within the market system. This simple comparison reveals the area where most dynamic changes can be expected.

*Functional gaps and rent gaps in Prague’s revitalization* – Two distinct mutually related processes can be recognized:

- (1) Functional gaps are caused by the underutilization of available land and buildings relative to their current physical quality. When centrally planned allocation of resources is replaced by allocation ruled by market forces, freely set rents influence the distribution of functions in space.

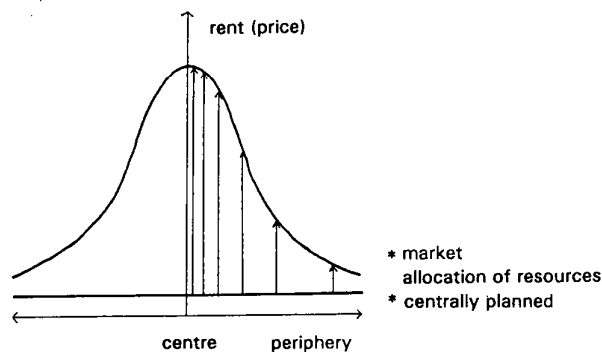


Fig. 4. A schematic comparison of rent curves under two different economic systems indicating dynamic change in restructuring urban space.

Thus, functions with an inefficient utilization of space may soon be outbid by more progressive functions with a highly intensive space utilization. In this way, the functional gaps can be closed in a very short time without making huge investments. The process of closing the functional gaps is represented by filling vacant premises with new facilities, replacing ordinary shops by luxury services, turning clubrooms of the former 'Socialist Union of Youth' into offices, etc. The spatial pattern of this functional underutilization is highly scattered. In general, the closure of functional gaps is not highly dependent upon the physical condition of the buildings. Many spatially segregated functional gaps are emerging. These are being closed in the very short period between a restitution of property ownership and a new leasehold contract, or due to the rapid process of the small privatization effort. This process mainly pertains to non-residential use. It is largely accomplished without changing the current quality of the housing stock.

(2) Where this process is going on, it is a sign of interest in using land and buildings in a more efficient way. But efficient use requires the rehabilitation of buildings and redevelopment of land. As the value of inner-city locations rises, new investments in buildings are being made. At first, companies newly located in the central area carry out the renovation of their buildings themselves. However, potential capital gains from redeveloping the premises and selling it for a higher price can attract more and more developers. The classical form of the rent gap is then in place. Consequently, a process of physical rehabilitation starts up. In this phase, the rent gap plays an important role in the process of urban revitalization. The revitalization process is also emerging in the residential sector. Large rehabilitation schemes can be undertaken and huge investments can flow into the inner city area.

It is necessary to establish a clear relationship between the concepts of the functional gap and the rent gap. The process initiated by the functional gap can be defined as a change of function without betterment of the building. It is ruled by property owners who were beneficiaries of the restitution procedure and who, under The Act on the Lease and Sub-

Lease of Non-Residential Premises, can raise the rent or terminate the lease of undesirable tenants. Consequently, a function that will pay the highest rent under the current physical condition of the building is expected to settle in. If this happens, then the functional gap is closed. The sudden appearance and the quick closure of the functional gaps reflect rapid change in the legal environment during the period of economic reform. The functional gaps emerge as a consequence of the break between two quite different systems of resource allocation in space.

Let us follow this line of argument. Assume that some activities would be willing to pay a much higher rent for a certain location but would only do so for a building of very good appearance and quality. This implies a demand which can constitute a level of potential rent. As a consequence, the existence of a rent gap can be presumed. Because extra cost of renovation is less than the extra revenues expected from a higher rent, it is possible to close the rent gap.

Now, let us consider an average owner of restituted property. S/he rarely intends to renovate the building. The reason is that s/he probably has no entrepreneurial experience. Moreover, there are a lot of barriers; for instance, the problem of getting a loan. Very few owners are able to overcome these obstacles. In this situation, a real estate agent appears and makes an offer they cannot refuse. Although it is very low in comparison with the real value of the building or location, it spares the owners all the trouble of dealing with deteriorated property and gives them enough money to buy a new flat or a new car.

Many real estate agencies have recently established offices in Prague (about 300 have been registered, but only around 70 are doing business). The larger ones are often branches of foreign companies; at least, there is some foreign capital backing them. What attracts a real estate firm to Prague? Buildings can be bought for extremely low prices. In addition, renewal costs are very low in comparison with West European cities of similar size and importance. A movement of the Czech Republic towards the Western standard is expected. It is thus felt that there are enormous profits to be made by buying property as soon as possible and selling it in the future. Because the inner city of Prague is a place where the gap between current and expected future price is the widest, and because the time

frame for matching Western standards is the shortest, the highest profit in real estate can be made there. Timing of such transactions is of the essence. We posit that the sooner a property is bought and necessary rehabilitation is made, the higher the profit to be made. This statements is based on two assumptions: (1) that the price of property will steadily rise until they reach the comparable western standard; and (2) that the low wages, which at present allow developers to cut down on renovation costs, will increase as well.

Clark (1988) suggests that "the rent gap narrows rapidly... when the property becomes an object of speculation with a view towards redevelopment." Although direct empirical evidence is not available, from my own observations I can assert that speculation is common practice in Prague's property market. It drives up the price of property faster than in other sectors of the economy. Obviously, the profit motive is the key factor leading developers to buy property 'as soon as possible'.

*The functional gap in the context of 'gap' theories* – The functional gap, the rent gap, and the value gap are three aspects of one general concept. The concept presupposes a mechanism whereby contemporary structures are transformed into new ones. In the case of urban restructuring, the pressure to change the built environment is caused by the discrepancy between the present level of urban space utilization and potential capital gains from a change in current structures. This principle is reflected in both the rent gap theory (Smith 1979, 1982) and the value gap theory (Hamnett & Randolph 1986).

The crucial component of gap theories is the notion of potential capital gains. In Smith's rent gap theory, this is termed a potential land rent. The question is: What constitutes the notion of potential land rent? It is a mental construct which mirrors possible structural changes on a local urban property market in the context of restructuring of the whole society. The perception of potential land rent as possible capital gains by human agents working within a property market is influenced by many contingent processes. The most important of these contribute significantly to societal restructuring. These have been identified in the so-called demand-side explanations of gentrification. Demand-side explanations often deduce the

restructuring of societal structures from the shift in cultural values with a considerable impact on the changes in demographic behaviour or individual consumption preferences. Ley (1980) would place the cultural transformation against the background of the transition from the industrial to the post-industrial society, which is characterized by changes in economic and employment structures. Marxist-oriented researchers would deduce the restructuring process from new forms of capital accumulation based on the rapid internationalization of money flows and the globalization of the world economy. In our opinion, all of these perspectives are complementary. They all contribute to our understanding of societal restructuring, which is characterized by new forms of the perception and utilization of urban space. These interests of newly emerged and progressive forms (agents of a new middle class, for instance) may conflict with structures inherited from past developments. The agents of the private capital sector may see this discrepancy as an opportunity for capital gains from urban restructuring. The notion of capital gains which can fill the gap between potential land rent and capitalized land rent (Smith 1979) or vacant possession value and tenanted investment value (Hamnett & Randolph 1986) plays an active role in the transformation of the built environment.

We should see the rent gap, the value gap, and the functional gap as a combination of common principles which can only be conceptualized. Different outcomes of these principles may be observed in reality. Eric Clark (1992) argues for an integration of the rent gap theory and the value gap theory into a common theoretical framework. According to him, the theories are complementary. We should add that the rent gap hypothesis is a more general concept than either the value gap or the functional gap. The value gap theory is restricted to the dwelling sector and changes in form of tenure. Functional gaps refer to functional changes in non-residential space. But the rent gap theory is constructed in a more general manner. Clark (1992) asserts that property will not have a value gap without also having a rent gap, and that the closure of its value gap entails partial closure of its rent gap. We could say the same about the relationship between the value gap and the functional gap.

In the context of this theoretical debate,

the question arises: Why do we use a new term – the functional gap? The transition from a centrally planned economy to a market economy creates specific contingent factors that foster the process of gap emergence and closure. The physical deterioration and the economic depreciation of the inner city in market economies can be seen as “a strictly logical and ‘rational’ outcome of the operation of the land and housing market” (Smith 1979). The same author referred to this decline elsewhere as a devalorization cycle (Smith 1982). But the reality of a socialist city was, of course, quite different. The centrally planned allocation of resources maintained a functional structure which does not accord with principles of market space economy. The installation of a new economic and legal environment thus gives impetus to rapid change in the distribution of functions in urban space. The first phase of urban restructuring, the closure of functional gaps, is a very specific process which mirrors radical systemic changes. This kind of restructuring force does not appear in market economies.

#### *Implications for Prague’s urban environment*

Several ways to change from current to higher and more efficient utilization of urban space are possible: (1) reutilization of empty buildings and vacant premises; (2) outbidding of less effective industrial or even commercial activities by more progressive functions; (3) conversion of flats into office space; (4) rehabilitation of old flats to luxury apartments; or (5) new building activity on inefficiently used land.

There are important exogenous factors on the demand side which put pressure upon a more intensified utilization of land and building stock in the inner city, particularly in the historical core. Among them, the most important is input of private, particularly foreign, capital. This capital has a selective effect on urban development. It seeks out the most valuable business locations. The arrival of foreign experts and the growing number of wealthy Czechs (accompanied by the income and, consequently, social differentiation of Czech society) contribute to the restructuring of the demand base. The members of these new social groups prefer luxury apartments in some inner-city locations. Also, the rapid increase of international tourism provides the impetus for the development of locally based small services. Endogenous factors – such as

the building stock suitable for rehabilitation, the search for a better location, and the presence of functional gaps and rent gaps – offer possibilities to satisfy this demand.

Are there any signs of the development suggested? Even a casual tourist who has visited Prague at least twice during the recent period must have recognized basic changes in the appearance of Prague’s centre. These changes can be observed mainly due to the rapid development of the retail and services sector. Vibrant shop windows have replaced the grey socialist standard, and many new shops and fast food places are to be seen. Many non-residential premises which have never been used for such purposes, as well as old shops which have been abandoned in recent years, have been suddenly found by small go-ahead entrepreneurs. Thus, the closure of functional gaps causes a rapid urban restructuring of commercial and office space. The city’s commercial core has completely changed its retail and services structure. An example from a second-rank shopping street in the inner city gives an impression of the current development; only 18 of its 65 shops have not been changed since November 1989.

The functional substitution brings economic revitalization. It is often accompanied by elementary physical rehabilitation. The capital gains expected from redevelopment in some areas set a potential rent level. Then the classical form of the rent gap starts to play a role in the revitalization of the inner city. In the residential sector, the transformation of tenements to owner-occupied apartments brings financial gain to real estate agencies; the existence of a value gap leads to changes in tenure structure. The housing stock is rapidly shifting to higher and more effective use. New building activity in areas of inefficiently used land is observed as well.

Newspaper articles document the common practice of real estate companies which involves the conversion old flats to new, very luxurious apartments. A personal interview with an agent of such a company confirms these reports. We get the impression that the emerging private property market is becoming a jungle. A public policy of some local authorities is in favour of larger redevelopment schemes. The activity of the public bodies in the most deprived inner-city areas is remarkable. For example, the local authority of Smíchov (an area of obsolescent factories and housing for workers in industry) offered

the possibility to submit a redevelopment project for the area to a competition. The intention is to promote projects based on public-private partnership. Unfortunately, some constraints, such as lack of sufficient financial resources and serious difficulties in cooperation with Town Hall, hamper the realization of such ideas:

Another resource is available sites for new development in the inner city of Prague. A huge portion of land in the inner city is owned by the Czechoslovak State Railways. This land has been used as marshalling yards in the transport of goods which are often only in transit through Prague. The World Trade Centre is to be built on such an area, covering 37 hectares close to the city centre. The Czechoslovak State Railways and the Ministry of Transport and Communication announced that they will soon open up a considerable part of this land to competition for redevelopment.

#### *Social aspects of contemporary development and planning*

The development toward 'the highest and best' use has a positive influence on the rehabilitation of buildings and more efficient utilization of land. Yet, this development may have negative social effects in the future. The rapid increase of rents in the non-residential sector and the step-by-step rent deregulation in the dwelling sector influence the affordability of housing in central locations. At the present time, especially low-income and old-aged population groups live in the inner city of Prague. Their relative overrepresentation was caused by the homogenization of rent across the entire city area, lower standards of dwellings in the centre, and the constraints put on flat exchange during the previous period. These social groups will feel the pressure of the high rent, but will have virtually no possibility to move elsewhere, given the general shortage of flats and the cutbacks in public housing programmes.

The basic features of the contemporary development of Prague described above, suggest that a process of gentrification may start. However, there is a serious barrier to gentrification. There is no place where the current inhabitants of the inner city can be rehoused. The territorial plan of Prague of 1986 declared the intent to build approximately 40,000 new public flats between 1991 and 2000 by using a prefabricated construc-

tion technology. As a consequence of changing views on the living environment in such large housing estates, this system will be terminated in 1993. At that point, only 13,000 flats will be finished (ÚHA 1991). The construction of new family houses in most locations has stopped, due to the changes in legislation and ownership. There is a possibility to draw new flats into the market through renovation of vacant houses or empty flats in the centre. However, as pointed out above, this market will only be accessible to high-income groups.

Unfortunately, the proposal of a new territorial plan of the capital city of Prague (ÚHA 1991) does not deal with such problems. The plan is designed in accordance with the traditional physical planning approach. Only one paragraph in the text of the plan is devoted to economic aspects. In 200 words, it is acknowledged that there is a need to invite economists to cooperate by estimating market prices of land and preparing a survey of land ownership in the city. There is not a word about potential problems in the social sphere. Only one sentence admits that "a housing issue of socially weak groups of inhabitants emerging along with societal diversification will have to be solved soon, and an average standard for social dwellings will have to be set up." Such a view of the future of Prague avoids economic, social and political issues. It does not deal with potential problems the city may face. The Town Hall and newly established local authorities are learning – after 40 years of totalitarianism – how to play their roles in a democratic society. The citizens of Prague can only hope that their political activity will bring a new spirit to the traditional planning system. Furthermore, it remains to be seen whether they will treat people as individuals with specific problems rather than as citizens with 'objectively determined needs'.

#### *Conclusions*

Recent stimuli for dynamic development appeared at the interface of two different social and particularly economic systems. They are based on sharp contradictions between the centrally planned economy and the market economy. Functional gaps and rent gaps are generated by the durability of structures inherited from the past and the perception of space utilization under the market environment established by rapid economic reform. These gaps can be seen as the immediate causes of the new private investment flow

that is contributing to the revitalization of Prague's inner city.

The functional gaps emerge suddenly upon the introduction of basic market rules. These gaps can be closed in a very short time, even with the current physical quality of buildings. The rent gaps, on the other hand, exert a considerably stronger influence on the physical rehabilitation of buildings and the redevelopment of land. The theoretical concept of rent gap (the functional gap being a particular part of it) has special features within the environment, given the transition from the centrally planned to the market economy. The preconditions for the rent gap were created during the period of the centrally planned allocation of resources by the neglect of the inner-city building stock. The fundamental conditions for the appearance of the rent gap are provided by the introduction of the market mechanism. Due to strong factors on the demand side, the rent gap has been discovered by the developers and has given rise to the revitalization. In many cases, the process of closing the functional gap precedes the physical rehabilitation of the

housing stock. Moreover, the value gap plays a role in the transformation of tenement houses to owner-occupied apartments.

In contrast to some Western conceptions, the decisive impetus for the revitalization is not the extremely deep depreciation of buildings or the interventions by local or national government in favour of revitalization. There are special factors, based on the present situation of the Czech economy in comparison with a Western standard, that allow entrepreneurs to make an extra profit just at that time. The most important among these are the extremely low prices and the extremely low costs of renovation. Under the assumption that the Czech Republic is moving towards the Western standard, the timing of property transactions plays an important role in the amount of profit expected. If all these assumptions are correct, a dynamic development based on a huge influx of capital investments into the built environment is most probable. And this is most likely to take place in the inner city of Prague, which is surely the most attractive location in the Czech Republic.

#### Acknowledgements:

I want to thank Petr Dostál and Pieter Terhorst from the Department of Human Geography, University of Amsterdam; Jan Kára from the Institute of Geography, Czechoslovak Academy of Sciences; Tor Fr. Rasmussen

and Terje Wessel from the Department of Human Geography, University of Oslo; the editors of this special issue; and two anonymous referees for their valuable comments on various earlier drafts of this paper.

#### References:

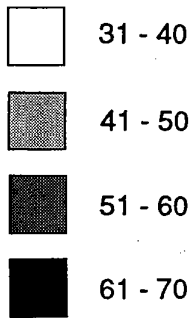
- CIECHOCINSKA, M. (1987), Government Interventions to Balance Housing Supply and Urban Population Growth: The Case of Warsaw. *International Journal of Urban and Regional Research* 11, pp. 9-26.
- CLARK, E. (1988), The Rent Gap and Transformation of the Built Environment: Case Studies in Malmö 1860-1985. *Geografiska Annaler* 70 B, pp. 241-254.
- CLARK, E. (1992), On Gaps in Gentrification Theory. *Housing Studies* 7, pp. 16-26.
- DANGSCHAT, J. (1987), Sociospatial Disparities in a 'Socialist' City: The Case of Warsaw at the End of the 1970s. *International Journal of Urban and Regional Research* 11, pp. 37-59.
- ENYEDI, G. (1990), *New Basis for Regional and Urban Policies in East-Central Europe*. Pécs: Centre for Regional Studies of Hungarian Academy of Sciences.
- HAMNETT, C. & B. RANDOLPH (1986), Tenurial Transformation and the Flat Break-Up Market in London: The British Condo Experience. In: N. SMITH & P. WILLIAMS, eds., *Gentrification of the City*, pp. 121-152. Boston: Unwin Hyman.
- HEGEDŰS, J. & I. TOSICS (1983), Housing Classes and Housing Policy: Some Changes in the Budapest Housing Market. *International Journal of Urban and Regional Research* 7, pp. 467-493.
- KÁRA, J. (1992), The Capital of Prague: City Growth and its Administration. In: P. DOSTÁL, M. ILLNER, J. KÁRA & M. BARLOW, eds., *Changing Territorial Administration in Czechoslovakia: International Viewpoints*, pp. 33-38. Amsterdam: Department of Human Geography, Faculty of Environmental Sciences.
- LEY, D. (1980), Liberal Ideology and the Postindustrial City. *Annals of the Association of American Geographers* 70, pp. 238-258.
- MATĚJŮ, P., J. VEČERNÍK & H. JEŘÁBEK (1979), Social Structure, Spatial Structure and Problems of Urban Research: The Example of Prague. *International Journal of Urban and Regional Research* 3, pp. 181-202.
- MICHALOVIC, P. (1992), Housing in Czechoslovakia: Past and Present Problems. In: B. TURNER, J. HEGEDŰS & I. TOSICS, eds., *The Reform of Housing in Eastern Europe and the Soviet Union*, pp. 46-61. London: Routledge.
- MUSIL, J. (1968), The Development of Prague's Ecological Structure. In: R. E. PAHL, ed., *Readings in Urban Sociology*, pp. 232-259. Oxford: Pergamon Press.
- MUSIL, J. (1987), Housing Policy and the Sociospatial Structure of Cities in a Socialist Country: The Example of Prague. *International Journal of Urban and*

- Regional Research* 11, pp. 27-36.
- SMITH, D. M. (1989), *Urban Inequality under Socialism: Case Studies from Eastern Europe and the Soviet Union*. Cambridge: Cambridge University Press.
- SMITH, N. (1979), Toward a Theory of Gentrification: A Back to the City Movement by Capital, not People. *Journal of the American Planning Association* 54, pp. 538-548.
- SMITH, N. (1982), Gentrification and Uneven Development. *Economic Geography* 58, pp. 139-155.
- SÝKORA, L. & V. ŠTĚPÁNEK (1992), Prague. *Cities* 9, pp. 91-100.
- SZELENYI, I. (1983), *Urban Inequalities Under State Socialism*. New York: Oxford University Press.
- SZELENYI, I. (1987), Housing Inequalities and Occupational Segregation in State Socialist Cities: Commentary to the Special Issue of IJURR on East European Cities. *International Journal of Urban and Regional Research* 11, pp. 1-8.
- ÚHA (1991), *Územní plán hlavního města Prahy (první čtení)* [The Master Plan of the Capital City of Prague (first edition)].

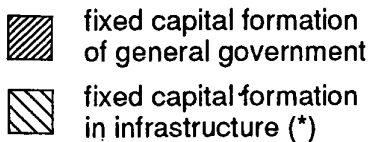
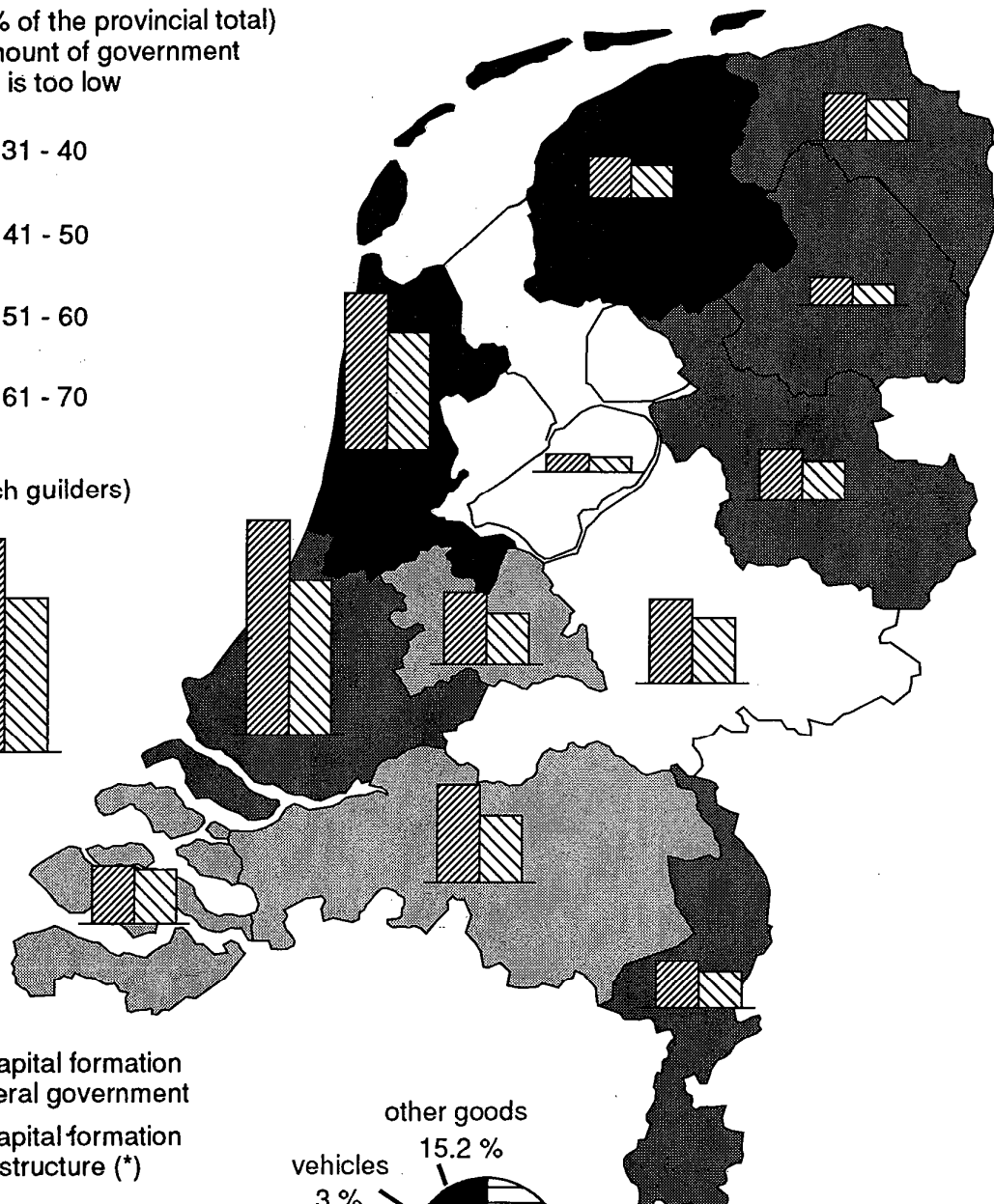
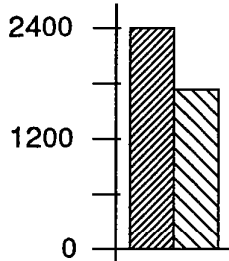
# THE NETHERLANDS IN MAPS

Fixed capital formation of general government (gross, 1987) and its appreciation by Dutch entrepreneurs (1988), by province

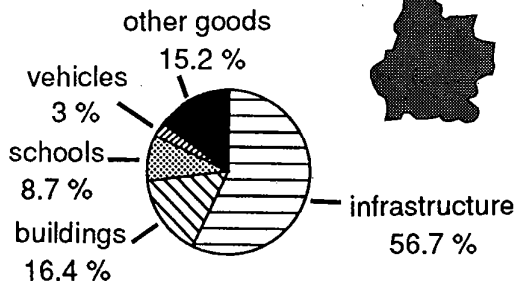
entrepreneurs (% of the provincial total) who think the amount of government capital formation is too low



(millions of Dutch guilders)



(\*) app. 60% of the capital formation in infrastructure is government capital formation



fixed capital formation of government (gross) by type of capital good (total of the Netherlands, 1987)

Sources: C.B.S., National accounts, 1987; C.B.S., Regional accounts, 1987; P. v. Steen and P. Lukkes (1988), Kijk van het bedrijfsleven op overheidsinvesteringen, FRW RIIG



Contents

- 241 Abstracts of Contributions
- 242 *Frans Dieleman, Hugo Priemus & Wim Blauw*  
Introduction to the Special Issue: European Cities: Changing Urban Structures in a Changing World
- 247 *Manuel Castells*  
European Cities, the Informational Society, and the Global Economy
- 258 *Jan Lambooy*  
The European City: From Carrefour to Organisational Nexus
- 269 *Lars-Erik Borggård & Robert Murdie*  
Socio-Demographic Impacts of Economic Restructuring on Stockholm's Inner City
- 281 *Luděk Sýkora*  
City in Transition: The Role of Rent Gaps in Prague's Revitalization
- 294 *Duncan MacLennan*  
Spillovers, Expectations and Residents' Benefits in a Housing Revitalisation Programme: Glasgow 1977-1987
- 304 Window on The Netherlands: *Rein Jobse & Sako Musterd*  
Population Change in Residential Environments in the Metropolitan Areas of Amsterdam, Rotterdam and The Hague
- 312 Book Reviews  
R. Thomas, Geomedical Systems: Intervention and Control (*P. Haggett*)  
G. M. Robinson, Conflict and Change in the Countryside (*J. Groenendijk*)  
D. S. King & J. Pierre, eds., Challenges to Local Government (*J. Groenendijk*)  
H. Booth, The Migration Process in Britain and West Germany (*S. Musterd*)  
P. Johnson & B. Thomas, eds., Choice and Demand in Tourism (*A. Dietvorst*)  
P. Johnson & B. Thomas, eds., Perspectives on Tourism Policy (*A. Dietvorst*)  
R. Brunet, ed., *Etats-Unis, Canada (Géographie Universelle)* (*J. Gottmann*)  
K. Chapman, The International Petrochemical Industry, Evolution and Location (*C. van der Linde*)  
E. D. Huttman, W. Blauw & J. Saltman, eds., Urban Housing Segregation of Minorities in Western Europe and the United States (*J. van Weesep*)  
R. Shields, Places on the Margin. Alternative Geographies of Modernity (*B. de Pater*)  
J. P. Jones III & E. Casetti, eds., Applications of the Expansion Method (*H. Timmermans*)  
J. R. McNeill, The Mountains of the Mediterranean World. An Environmental History (*J. M. Beck*)  
M. Cross, ed., Ethnic Minorities and Industrial Change in Europe and North America (*H. van Amersfoort*)

The Netherlands in Maps (Cover)



