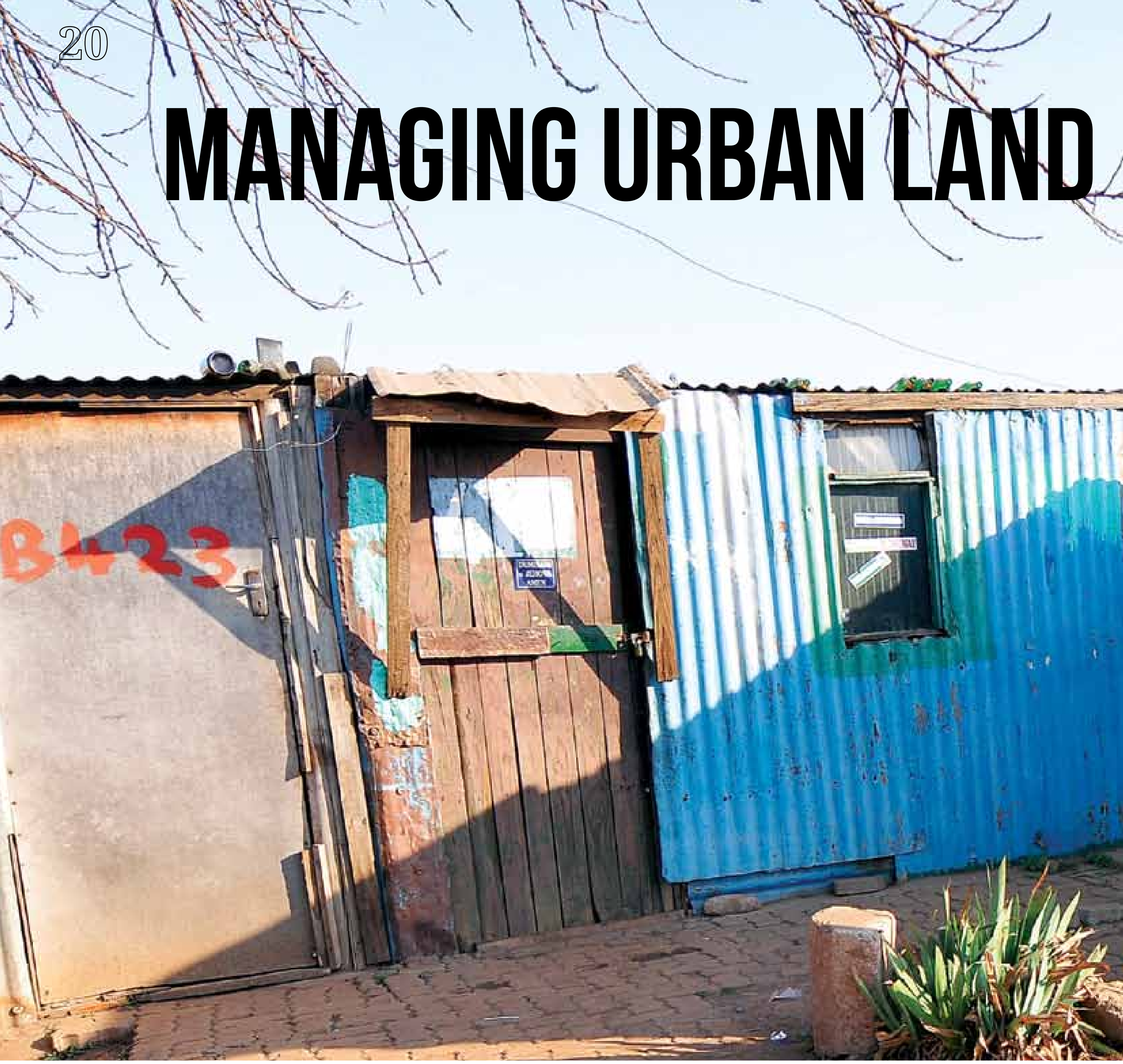
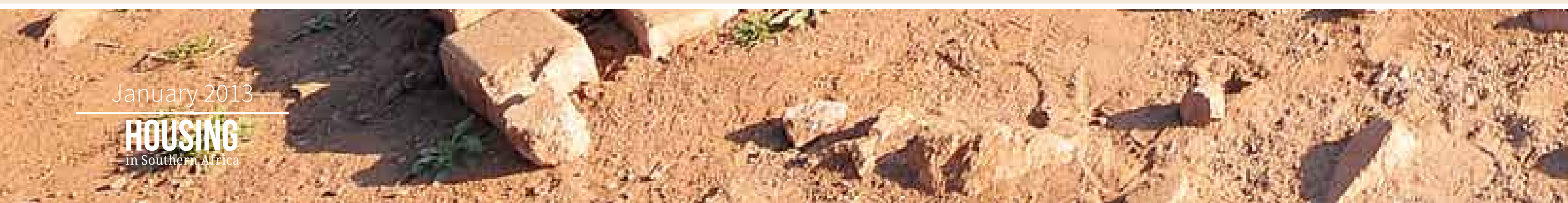
MANAGING URBAN LAND





– through incentives

The way urban land markets work has a profound impact on how well poor households are able to access the job, amenities and services offered in the city. More expensive land is bought up for high values users like retail centre, office block and higher density residential developments.

Less expensive land, which is further out from town centres trends to be used for lower value users like low income housing. This type of housing delivered in large numbers through government housing subsidy programmes in South Africa, is initially built at low densities and on land which is vacant and available, says Urban Landmark Governance Theme Coordinator, Stephen Berrisford.

While such programmes effectively open up access to land, services and housing for many households they also set up challenges for communities who then have to commute longer distances to get job opportunities and urban benefits.

Urban LandMark's 'Managing Urban Land a guide for municipal practitioners' covers numerous issues and addresses many aspects of the urban challenge. Land is at the heart of development. Access to land is a foundational aspect of poverty alleviation and enabling communities to fully participate in urban life.

Secure tenure means that people can confidently invest in their own longer term urban future. The way land uses are planned and managed shapes how cities and towns grow.

Local government can directly influence and/or limit private land use decisions through town planning ordinances, zoning, environmental legislation, tax incentives and property rates. The location and nature of physical and social infrastructure investment by government will have direct and indirect effects on space in the market.

He cites an example; the establishment of a school in a neighbourhood will directly and positively influence residential property prices. Indirectly, the implementation by local government of a comprehensive spatial and infrastructure investment plan can boost economic activity in the area, which in turn will lead to greater demand for commercial and residential space. Therefore, the fundamental challenge to local government is to intervene in the market to promote initiatives and incentives, which positively guide private investment.

The government must strike a balance between inclusion and the interests of poor people on the one hand, and the promotion of private sector investment on the other hand – all within the framework of government policy.

Local government should aim to remove obstacles that undermine private sector participation and work to address problems and inefficiencies. For example, government can work to ensure that all role-players have equal and full access to the information needed to make market decisions, or offer incentives to private investors to incorporate public goods into their projects, instead of entering the market in competition with the private sector.

He warned that government should be careful not to take on the role of a supplier, unless it is able to produce what is needed such as low-income housing more efficiently than the private sector.

He pointed out that local government can be highly effective in enabling market activity and incentivising other role players to fulfill social requirements, if they are carefully and smartly designed.

Municipalities can become much more financially stable and invest more in urban regeneration by building an effective property tax base. They can go even further by mobilising their infrastructure investment to create value for the private sector, and then recover some of that value to continue with the regeneration effort. In many ways, municipalities depend for their existence on the urban land market and on surpluses generated by the private sector and urban residents in general.

But they also have a direct responsibility to ensure that the most vulnerable people, living in cities, are included in the gains which cities offer. Municipalities do this by using the regulatory and planning tools at their disposal. A market left to its own devices becomes exclusive and unequal whatever the country or sector where it operates.

These creative ways of managing land can lead to inclusive urban development and at the same time positively engage and incentivise the private sector to become active partners in developmental efforts. The key to all of this is to understand how markets work.

The municipality can develop additional instruments for incentivising property owners to create jobs, offer accommodation or provide services for workers.

These include rebates or exemptions for landlords who provide affordable rental: Rebates for property owners who include a certain percentage of low-income units in their developments; and tax relief for employers who provide housing

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Urban Landmark Governance Theme Coordinator, Stephen Berrisford

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for workers and/or landlords of low-income rental units.

The effectiveness of any of these indirect instruments will depend on how important the property rates are for developers and property owners when they buy, sell or make land use decisions on property.

If the rates payable on the property don't influence their decisions, then tax-incentive instruments like these won't be enough to encourage them to choose pro-poor development options.

The municipality must do a cost-benefit analysis from the perspective of the developer, in order to design incentives which successfully influence developer behaviour without scaring them or creating situations that undermine the aims they are trying to achieve.

Barcelona has created a successful incentive-based rates housing policy which works in favour of the urban poor. A good example of this is 22@Barcelona, a redevelopment of 200 hectares of derelict industrial land in the Poblenou quarter.

Within the new 22@Barcelona zone, developers were given opportunities and increased rights – if they were willing to share the preparatory costs of the urban transformation.

In exchange for a planning permit, which allows for a change in land use or land development density, the city council: 1) demands that rights to 30% of the total land area of the proposed development, or the equivalent current monetary value of the land, be transferred to the city; and 2) charges a development levy of 80 Euros per m^2 of land developed (updated annually).

The transfers and levies are donated directly to the publicly-owned 22@BCN company. The company has made use of this capital to pursue two sets of goals:

- traditional urban regeneration goals: land clearance and site preparation, upgrading infrastructure, marketing, and the creation of business incubators, as well as encouraging collaboration between businesses and research institutions
- more social goals: devoting 10% of the previously industrial land to the creation of 114 000 m^2 of green spaces and 145 000 m^2 of public facilities in the area, providing student housing, and subsidising 4 000 affordable housing units using the value capture finance.

There are important practical cautions that a municipality must bear in mind when it adopts any kind of density incentive or inner city rebate

- If the density rebate is applied to sectional title properties, it can have the effect of disproportionately benefiting wealthier property owners. In many municipalities, the majority of residential properties in the lower value bands are freestanding houses, while the majority of sectional title properties (in number and value) have a value higher than R200 000, and so are owned by wealthier people.
- Rates on such rebate programmes may be very low, unless the municipality makes considerable investment in time and money to advertise the programme and let developers know about this opportunity.

The Finance Department of the municipality usually relies on the Town Planning Department to verify the eligibility of rebate applications. The municipality, therefore, needs to make sure that it has additional staff capacity for carrying out this verification, as well as protocols for internal coordination that permit the joint processing of rebate applications. ■

The official line...

The MPRA and differential rates

The Municipal Property Rates Act (MPRA) 2007 gives municipalities the ability to decide which properties to rate, or exempt from rating, and whether rebates or reductions will be offered to some of the rateable property categories, based on local conditions and circumstances.

Section 19 of the MPRA forbids municipalities from levying different rates on residential properties (except in cases of phasing in newly rateable property, transitioning from the old to the new valuation roll, and public service infrastructure). However Section 8(1)c permits municipalities to levy different rates for different categories of rateable property, according to the geographical area in which the property is situated, 'subject to Section 19'. A municipality can therefore define inner city schemes as rebates for a category of ownership, which is permissible under Section 15 of the MPRA.