

Innovative Financial Mechanisms for Urban Heritage Brownfields

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Urban Cultural Heritage

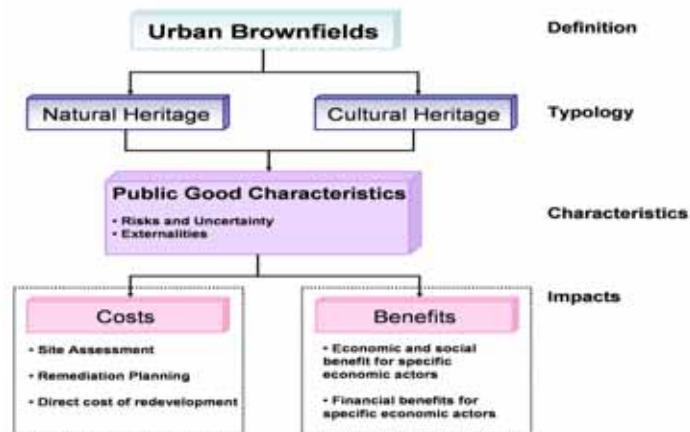


The cultural heritage concept is often applied as spatially well-identified sites or as a series of discrete group of remains.



Urban Brownfield can be defined as any land in a city which had in the past been used, and is not available for immediate use without some type of intervention.

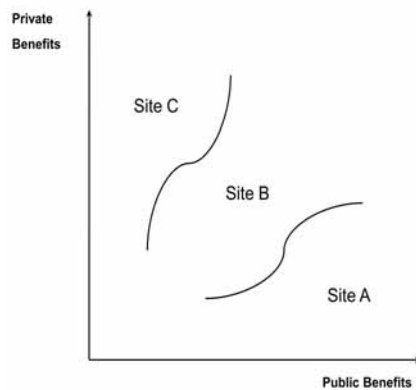
Continuity between the past and present and between natural and non-made environment



Medina Fes (Morocco)



Brownfield Sites B



In our analysis we focus on urban brownfield areas that have development potential due to their heritage status, but are also imbued with significant risks and externalities of development.

Risks and Uncertainties



- Ø Uncertainty on actual redevelopment costs
- Ø Uncertainty relative to future land value.



Loan and credit risk

Collateral risks

Particularly troublesome in developing countries

Private developers may undervalue their own commercial returns and overvalue related costs of brownfield projects, thus determining the market failure effect, that is, brownfield redevelopment may be undersupplied.

Externalities



- Ø Negative Externalities
- Ø Positive Externalities



Contain Urban Sprawl

Reduction of Commuting

Decrease Pollution and Congestion

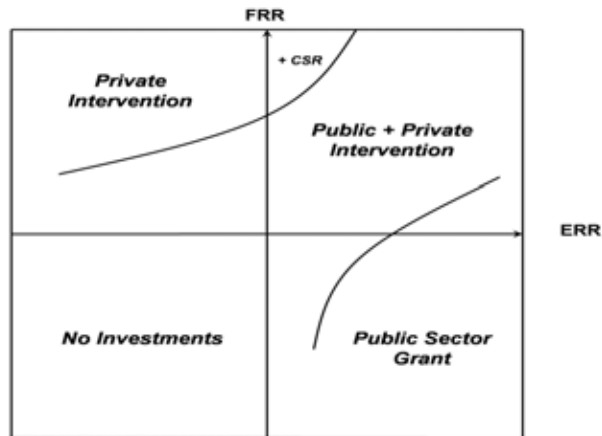
Increase Quality of Life

Reduction of Urban Poverty



The private sector in general fails to capture and internalize the collective benefits related to environmental and cultural heritage.

Public and Private Intervention

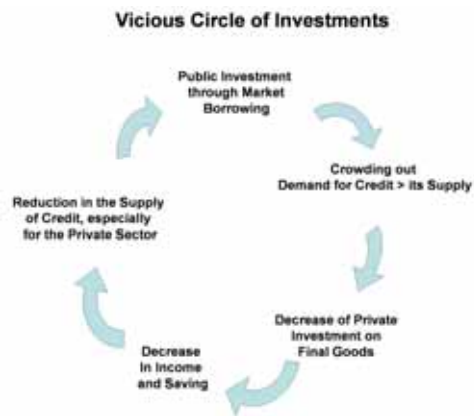


The role of the public sector as **sole investor and provider** of urban brownfield redevelopment is disputable.

Public and Private Intervention



Complementarity \longleftrightarrow Crowding Out



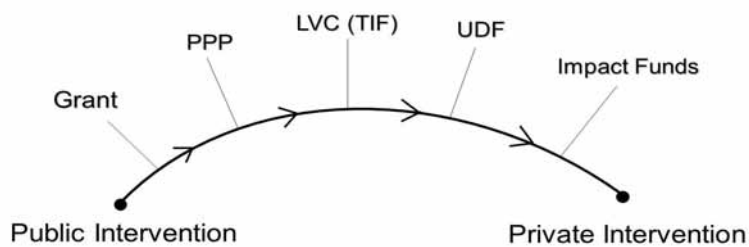
Government as Catalyst



Local authorities may create financial solutions by leveraging a combination of available national and local resource funds and private money. Programs usually offer:

- Øregulatory relief
- Øliability relief
- Øfinancial support through mechanisms such as grants
- Øloans
- Øsubsidized insurance
- Øwaivers of development fees
- Øproperty tax abatements
- Øremediation tax credits
- Øpublic investments in infrastructure and amenities
- Øchanges in regulatory procedures

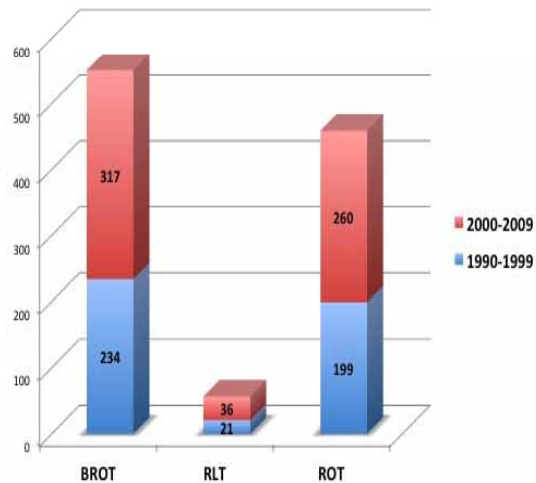
Financial Brownfield Spectrum



Public and Private Partnerships



The World Bank and the Public-Private Infrastructure Advisory Facility (PPIAF) define brownfield projects under Public and Private Partnerships (PPPs) not only as being comprised by abandoned and polluted areas but also by poorly maintained infrastructure service systems.

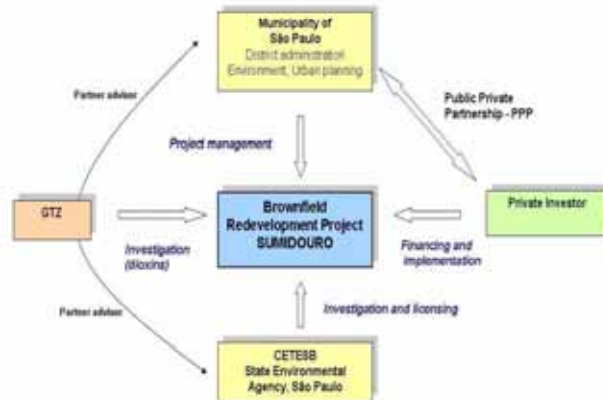


Public and Private Partnerships



Porto Vivo (SRU) is a public entity established in 2004 for the rehabilitation of the historic center of Baixa Porto (Portugal). The agency played a critical role in the redevelopment of the city because its responsibility covers the collection of urban taxes, the definition of incentives and compensation, and the sale, demolition, renting and rehabilitation of the historic building stock. These activities are always carried out in co-operation and in formal partnerships with the private sector.

PPP: Sumidouro (Brazil)



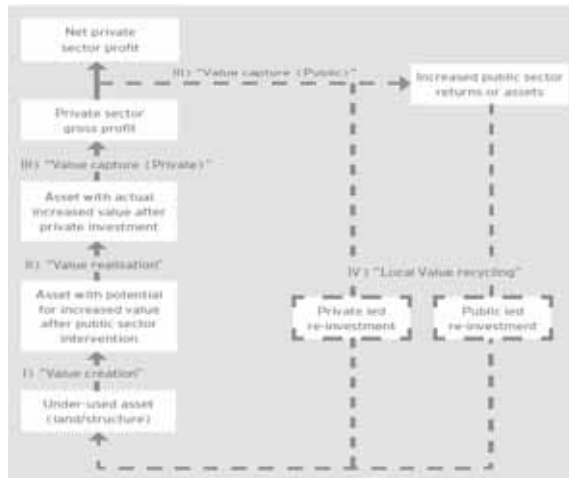
Private investors:
Abril Group
Even,
Itaú Bank
Petrobras

PPP: Sumidouro (Brazil)



The project covers 13,648 m² of land that had been contaminated by heavy metals in soil and ground water, whereas in the main building dioxins and furanes were found. "Praça Victor Civita," was completed in March 2009 after four years of institutional negotiation between public and private bodies and two years of environmental remediation activity for a total cost of about **R\$ 6 Million**.

Land Value Finance



The basic assumption of land value capture finance (LVF) is to recover the capital cost of the urban investment by *capturing* some or all of the increments in land value resultant from the investment.

LVC: Istanbul (Turkey)



Akaretler Row Houses was originally built as housing for palace workers in the 19th century; with its neoclassical frontage design the group of residences represents one of the best examples of 1870s civil architecture.

LVC: Istanbul (Turkey)



Public sector:

- General Directorate of Preservation of Cultural Historical Heritage
- General Directorate of the Turkish Foundation

Private Sector: Bilgili Group

LVC Activities:

- Ø local taxation,
- Ø private-led real estate renovation
- Ø local service agreements.



As a result of negotiated conditions, the locally-generated tax collected by the municipality was successfully able to fund the infrastructure improvements to the site.

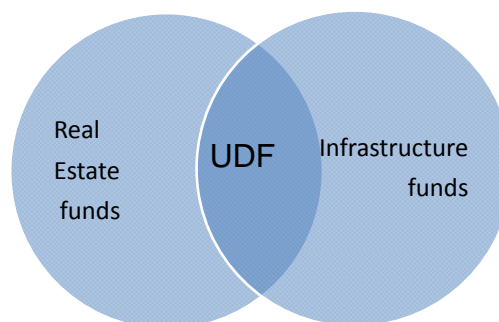
The net return in 2009 for the Bilgili Group was **€8.1 Million** compared with total cost estimation of **€51 Million**

Urban Development Funds

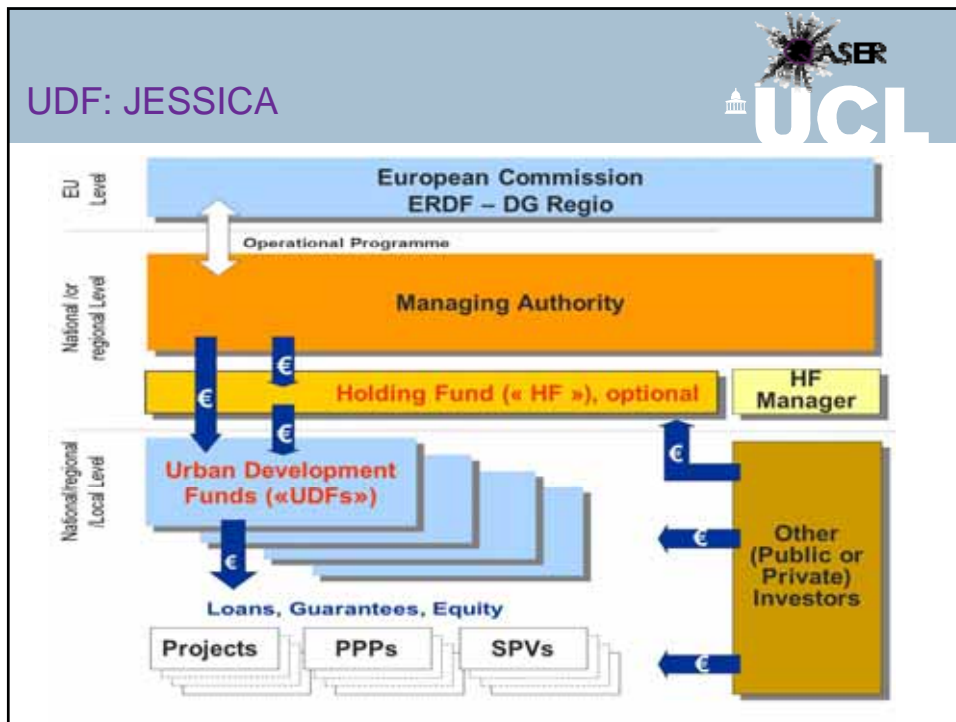


The inclusion of brownfield investments into a UDF portfolio reflects various significant financial factors such as:

- § The income return is a strong component of total returns;
- § Less volatile income in the short-term due to length of leases;
- § Generating value through active management;
- § Urban brownfield projects are seen as a means of achieving greater diversification in portfolios due to their lower volatility and long-term returns.



UDF: JESSICA



UDF: Silesia (Poland)

- A revolving financial mechanism could make funds available at a low-interest rate to attract investors. Self-supporting mechanisms may allow for reinvestment or cover residual risks.
- Mechanisms:
 - Ø Guarantee funds
 - Ø Insurance programs
 - Ø Revolving funds



Impact Investment Funds



The Impact Investment Funds are socially-responsible investments which are not driven exclusively by profit and are generally targeted towards environmental and social issues.

Impact Investment Funds can be differentiated from Socially Responsible Investments (SRIs) because they do not emphasize urban investment.

In this context investors can decide to :

- Ø Prioritize social returns (impact first investors) and lower financial returns
- Ø Prioritize profits (financial first investors)



Impact Investment: Lakota Fund



The Lakota Fund is a community development financial tool established to provide “culturally appropriate strategies, including business loans, technical assistance and targeted community and business development” .

The fund has had a loan portfolio since 2008 and has made more than 660 micro and small business loans over **\$ 4.7 million**. A number of educational and cultural programs have been launched in order to increase the skills of the Oglala Lakota people. The fund has moreover developed the first Native American-owned tax-credit-finance for affordable housing projects and the first Native American Chamber of Commerce.



Conclusion



Policies should be explicitly designed to:

- Ø Broaden the scope of heritage brownfield redevelopment projects (inclusion of natural and cultural heritage);
- Ø Eliminate legal obstacles to heritage brownfield redevelopment (i.e. clarify previously ambiguous legal liability);
- Ø Provide direct and indirect financial incentives to encourage heritage brownfield development and discourage greenfield development;
- Ø Discourage greenfield development by placing a high tax on its development.

Conclusion



Two relevant points must be addressed:

- the contextual element; that is, what city and what type of brownfield investment is under consideration;
- the economic relationship between the investment(s) and the market (for example the property market), must be understood by all players.

From this perspective, formal partnerships with transparent and greater participation in the decision-making should be preferred above the informal partnerships often in use.

The main potential benefit of the private intervention methodologies is their flexibility in adapting the structure of incentives and risk-sharing to specific features of a brownfield project and to the economic and institutional environment.

Thank you for your attention

