

Government Sponsored Urban Development Projects

What can Australia take from the US experience?

Marcus Spiller and Daniel Khong

January 2014



High Line Headquarters

The future High Line Headquarters, a four-level, 20,000 square foot building designed by Renzo Piano Building Workshop and Beyer Blinder Belle, will serve the High Line. The facility will provide direct street-level and High Line-level access for materials, trash, and equipment to be moved on and off the park. The building will accommodate High Line staff, and include amenities such as public bathrooms, a new elevator to the High Line, an information booth, and a public meeting room. In addition, there will be a restaurant at street-level, extending under the High Line and opening up onto the plaza at Gansevoort and Washington Streets. The facility will be located next to the future downtown location for the Whitney Museum of American Art. For the latest news and updates on the High Line Headquarters project and all of NYCEDC's initiatives to grow the economy, please visit www.nycedc.com.



New York City Economic Development Corporation ■ www.nycedc.com

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Image by Renzo Piano Building Workshop and Beyer Blinder Belle, courtesy Friends of the High Line



**Government sponsored urban development projects:
What can Australia take from the US experience?**

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INTRODUCTION

An aerial photograph of a modern city waterfront. The scene is dominated by several tall, curved skyscrapers with glass facades and balconies. In the foreground, a multi-lane highway bridge with an orange railing spans across a body of water. To the right, a marina is filled with numerous white yachts and boats docked at piers. A distinctive, curved, metallic structure resembling a bridge or walkway is visible near the water's edge. The overall atmosphere is one of a vibrant, urban coastal environment.

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1 INTRODUCTION

1.1 Overview

Australian State and Territory Governments regularly deploy wholly owned development corporations to advance urban planning objectives to do with competition in greenfield housing production, innovation in urban design and regeneration of obsolete industrial areas. This paper critically examines the rationale for these corporations, and compares practices in Australia with those in the US, drawing on examples from New York City.

The paper finds that the suite of urban intervention tools in Australia can, and should, be broadened beyond large scale development corporations to include more nimble, customised and community based enterprises. These would follow American models but with greater transparency in the provision of grants and subsidies.

1.2 Government auspiced urban development projects in Australia

SGS Sabbatical Projects

SGS Economics and Planning Pty Ltd is a self funded and member-governed college of professionals that shapes policy and investment decisions to produce sustainable places and economies.

SGS operates a sabbatical scheme under which Partners in the firm may undertake study tours, attend conferences or pursue focussed research in particular areas of interest aligned with the objectives of the company.

In September 2013, Marcus Spiller, a Principal and Partner of the firm, spent a 3 week sabbatical in New York City studying urban regeneration models. This paper is an output of that work. In preparing the paper, Marcus collaborated with Daniel Khong (Waterfront Auckland), with whom initial discussions were held on the idea for such a paper, and who later provided critical reviews of drafts.

Government owned development corporations (GODCs) are defined here to include urban land development businesses where 100% of the equity in the enterprise, as distinct from individual ventures, is held by the public sector. They can be involved in major brownfield development projects including, for example, the recycling of port and railway sites for housing, commercial and other urban purposes, through to the creation of new communities on the fringes of cities and towns.

GODCs can be established as general-purpose developers undertaking projects across diverse geographies within a particular jurisdiction. Alternatively, they can be created with the development of specific sites in mind and retired from

service upon completion of these projects.

These corporations are commonplace in the Australian urban policy landscape. Nevertheless, they have generally escaped focussed research on the part of both scholars and practitioners.

GODCs have been commissioned in most Australian jurisdictions at one time or another. Generally speaking, they are mandated by governments from across the political spectrum, though they can be viewed with suspicion by conservatives. It is noteworthy that the Liberal-National Queensland State Government elected in March 2012 chose to abolish the previous Labor Government's Urban Land Development Authority (ULDA) while the Victorian conservative Government (elected November 2010)

withdrew its general purpose GODC (then called *VicUrban*, now *Places Victoria*) from greenfield land subdivision.

Table 1 provides a snapshot of some GODCs currently in operation across Australia.

1.3 Purpose and method

The objective of this paper is to review the efficacy of Australian GODCs by reference to the equivalent models and practices adopted in the USA.

In terms of the international comparisons referenced in the paper, the primary sources were interviews with identified experts and industry observers in the New York City region, conducted in September 2013 (see text box above and Appendix A).

TABLE 1. OVERVIEW OF GOVERNMENT AUSPICED LAND DEVELOPERS IN AUSTRALIA

	State	Year established	General purpose (GP) or site specific (SS)	Flagship project(s)	Net assets
Landcom (now Urban Growth NSW)	NSW	Originally established in 1975 and corporatized in 2002. Urban Growth NSW commissioned in 2013 with a revised charter	GP	Central to Eveleigh revitalization Green Square Town Centre Oran Park Town Centre	\$350,990,000 (2011/2012)
Sydney Harbour Foreshore Authority	NSW	1999	SS	Darling Harbour Live Project	\$1,072,830,000 (2011/12)
Barangaroo Delivery Authority	NSW	2009	SS	Redevelopment of 22 hectares of disused container wharves on a prime Sydney Harbour site	Not known
Places Victoria	VIC	2011	GP	Melbourne Docklands/ Revitalising Central Dandenong	\$98,042,000 (2012/2013) \$309,828,000 (2011/2012)
Renewal SA	SA	2012	GP	Redevelopment of former Mitsubishi car manufacturing site at Tonsley Park Adelaide Redevelopment of old Royal Adelaide Hospital site	\$8,300,000 (2011/12)
Economic Development Queensland	Qld	2013	GP	Commonwealth Games Village	Not available
Metropolitan Redevelopment Authority	WA	2011	GP	Elizabeth Quay Perth City Link Project	\$133,717,000 (2011/12)

Source: SGS, Various Government Publications

THE RATIONALE FOR GOVERNMENT OWNED DEVELOPMENT CORPORATIONS

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2 THE RATIONALE FOR GOVERNMENT OWNED DEVELOPMENT CORPORATIONS

2.1 Why Government owned development corporations?

GODCs have historically been instituted to address one or more of the following public policy issues in urban development:

- **Underdeveloped market competition** in greenfield land and housing development, leading to housing supply shortfalls and exploitative consumer prices
- **A lack of innovation** within the private land and housing development sector on such matters as dwelling mix, transit orientation, form of tenure such as affordable rental housing, water sensitive design and energy sustainability
- The inability of the land and housing market to overcome **barriers to major redevelopment projects** due to blighting, land fragmentation, contamination from former industrial uses and concentrated land ownership amongst government organisations.

2.2 Issues in the design and mandate of GODCs

This section identifies some of the challenges and dilemmas facing Australian governments as they set about commissioning GODCs. The discussion deals with each of the above public policy roles in turn.

Boosting market competition in greenfield land development

This role stretches back to the early 1970s when the energetic but short lived Commonwealth Labor Government led by Gough Whitlam (1972-75) offered the States substantial direct funding for the establishment of what were then called ‘Urban Land Commissions’. Whitlam was swept to power partly because Labor’s platform recognized that rapid suburban expansion in the early post-war period had left many communities on the urban fringe desperately short of basic infrastructure, including paved local access roads and comprehensive sewer networks. Moreover, Labor argued that the ‘Great Australian Dream’ of home ownership was slipping out of reach for ordinary working people due, in no small part, to the immaturity of the land development sector, characterized simultaneously by a multiplicity of small players and speculation driven corporations which, in many cases, were off-shoots of financial institutions. Whitlam envisaged a series of well-capitalized government businesses, operating with clear commercial mandates to bring structure and healthy competition to the development of new suburbs on the urban fringe.

Responses from the States varied significantly. In South Australia, the Government used the Commonwealth transfers to effectively buy up all farming land which could potentially accommodate urban expansion over the next two or three decades. This was directed at capturing the value uplift on conversion of the land to urban purposes, whilst private developers were contracted, or invited into joint ventures, for the actual land subdivision process. At the other extreme, the Queensland Government

rejected what it saw as ‘Canberra interference’ outright. Other States, including Victoria and NSW were happy to set up development companies to compete directly with the private sector.

The ‘healthy competition’ rationale for GODCs is rarely invoked these days. This may be due to the maturation of the land development sector and its improved lobbying capacity.

But this does not mean that the rationale is without continuing merit. While the land development sector is now more sophisticated and capable it has also had to respond to long running community concerns about the adequacy of infrastructure and service provision. This has become embedded in statutory planning demands. Whereas once proponents of land subdivision needed to do little more than *‘drive some white pegs into the ground before registering saleable allotments’*, they must now produce comprehensive plans for the delivery of a fully developed on-site road network, comprehensive water-cycle infrastructure, developed parkland and sites for various community facilities. In addition, they can be called upon to pay significant cash contributions for the provision or upgrading of off-site arterial roads, water supply and sewer ‘headworks’ and higher order community facilities such multi-purpose sports centres. This has had the perverse consequence of erecting significant barriers to entry in the greenfield land development market. To meet the now very high up-front costs of land development, participants in the market generally need a long pipeline of developable property within the greenfield areas in question and a very strong balance sheet to match. The outworking of this is concentrated ownership of land that has been designated for urban expansion.

In one major Melbourne growth corridor (Craigieburn), one developer reportedly controls over 80% of the land supply.

On the face of things, highly concentrated land ownership can give rise to oligopolistic market behaviours. While stopping short of outright collusion, it is likely that market participants will closely monitor the production and pricing strategies of the few competitors in their area and adjust their own commercial moves accordingly. In a market of few players, one might expect that business strategies will ultimately converge in the interests of the sellers rather than buyers, with so-called ‘drip-feeding’ occurring.

However, oligopolistic market behaviour is very difficult to demonstrate in practice. In part, this is because the standard of development demanded today by both regulation and the market, takes longer to produce.

This becomes especially problematic should a GODC be intent on ‘undercutting’ the market in the kind of strategies anticipated in the original Whitlam reforms. Undercutting could be met by greater efficiency and keener pricing on the part of competitors or, more likely, by claims of predatory or ‘uncommercial’ behaviour on the part of the Government businesses in question. The politics, let alone the micro-economic forces at play, would be difficult to manage in this scenario.

Moreover, were such oligopolistic tendencies suspected, other ameliorative policies can, in theory, be applied. For example, corporations active in greenfield community building could be required to buy the development rights in question – perhaps via an auction process – and then use or lose these rights within a given time period. This would provide an incentive to market participants to deliver housing product as soon as possible. Indeed, this type of ‘use it or lose it’ approach is common in brownfield development contexts. However, there would be practical implementation difficulties in a greenfield context as, unlike in brownfield contexts, Government rarely owns the land in question.

Further policy measures could be put in place, including formal monitoring of land supply and conversion against adopted consumption benchmarks. This could involve public accountability on the part of land banking private sector developers regarding their strategies for land release and pricing.

Overall, it is difficult to carry a practical public policy case for GODC involvement in greenfield housing development if the grounds are boosting market competition. If sustained, this is an important

conclusion as it has significant implications for the governance, focus and mode of operation of any GODC.

A GODC mandated to 'boost competition' in the greenfield land and housing market requires a particular approach to organizational design. The corporation must be unambiguously focussed on commerciality. It must see itself as a peer in the industry, competing without special tax, regulatory or insider knowledge privileges of a government owned business. The culture 'on the shop floor' needs to reflect this, and senior management would, first and foremost, bring practical knowledge of the cut and thrust of land speculation, negotiating with planning approval authorities and marketing product to optimize returns on assets deployed. This corporate make up is likely to be quite distinct from that of a GODC which is set up to address other aspects of market failure, that is, removing barriers to private sector participation in difficult urban redevelopment locations (see below).

In short, it would be challenging to establish a corporation that simultaneously pursues an agenda of commercial 'market competition' and 'market facilitation'. This unhelpful bipolarity of purpose may have been a factor in the Victorian Government's recent decision to 'clip the wings' of Places Victoria.

Stimulating innovation in the land and housing sector

The second rationale nominated here for the commissioning of GODCs contends that such corporations can accelerate the uptake of welfare enhancing efficiencies in the private land and housing development sector. There is an oft repeated assertion in Australia that developers tend to be conservative; they stick with proven formulas for the underlying or 'structural' aspects of product mix and design, preferring to differentiate their offer from those of similar competitors through superficial stylistic variations.

Departing from a tried and true model when the up-front fixed costs are so large in the overall investment equation is inherently risky. This is especially so when the received wisdom is that the conservatism of the development sector is more than matched by conservatism on the demand side.

Moreover, conservatism may be fostered inadvertently or deliberately by regulatory authorities. For example, several leading developers report that any inclination they might have to plan for more dense communities often confronts an ingrained conservatism within the 'planning community'. The 'path of least resistance' put up by the planning scheme is still lower density sprawl, albeit better serviced than in decades past

In this context, GODCs can be deployed to 'de-risk' innovations in housing design or land subdivision. That is, they can be mandated to generate and offer product variations that are anticipated to improve fit with customer needs, environmental performance or both, whilst maintaining commercial disciplines in terms of overall returns on equity. In a sense, this role is one of acting as the 'R&D' department for the wider industry.

Arguably, GODCs in Australia have been highly effective in this capacity. They are widely credited with demonstrating the commercial viability of a range of important innovations including; provision of small lot and medium density housing on the urban fringe; water sensitive design techniques which improve on-site biodiversity and water self-sufficiency while lowering hard infrastructure costs; and the co-ordinated take up of energy saving designs in housing construction and lot orientation. Apparently, these innovations have generally been delivered by government owned greenfield land developers with reasonable commercial returns.

Even so, this rationale for GODCs is open to a first principles critique. Perhaps the salient argument against this role is, again, that Governments have a range of other tools at their disposal to promote industry innovation. For example, through tax breaks or direct grants, Government could offer R&D support, or underwrite innovative projects on a competitive basis, as is common in, say, the manufacturing, film and IT sectors. Governments could, in theory, regulate for many of the innovations it desired.

Establishing and running a corporation just to pursue the innovation role, as opposed to in combination with the market competition role, would seem somewhat of an 'overkill'. Given the doubts that attach to the competition role, as discussed above, pursuing innovation through GODCs becomes even more problematic.

There are other potential weaknesses in the innovation mandate. If it is blended in with other public policy objectives, it may become difficult to track and prove the commerciality of the innovations in question. Indeed, the authors' collective experience of such practice in the Australian context would suggest this has rarely been given more than a qualitative review.

Overcoming barriers to major urban redevelopment projects

The private sector, or at least any single developer, may pass over development of particular areas owing to a number of barriers, including:

- Historic subdivision has left the area with a multiplicity of owners. Assembly of workable development sites in these circumstances can be problematic due to 'hold outs' by residual owners. This can be seen as a 'market failure' because, in the rational pursuit of their interests, residual owners will tend to extract a monopoly premium for their property and, in so doing, delay or prevent a welfare optimizing redevelopment of the precinct.
- The area is beset by some form of social or physical degradation that cannot be remediated within the commercial equation of a developer. Such degradation can include contamination or exposure to environmental externalities (noise, traffic, air pollution, visual blight etc), a persistent concentration of crime and anti-social behaviours and a loss of confidence amongst property owners leading to a downward spiral in trading, vacancy rates and property up-keep.
- The area lacks the required transport, water-cycle, parkland and social infrastructures required for it to support welfare optimising redevelopment. Because of the natural monopoly and (positive) externality conditions typically applying to such infrastructures, it is unlikely that private investors left to their own devices will make the requisite outlays to bring these shared assets into production.
- Inability to acquire publicly owned land such as public housing estates which have greater capacity than current usage. Such land often also brings with it other issues such as the concentration of socio-economic disadvantage combined with poor physical planning outcomes and degraded building stock.

Conceptually, this justification for the commissioning of GODCs is the most robust. It is unambiguously premised on the arguments of 'making the market work better', and it often passes the common sense test insofar as areas 'with potential' are demonstrably unlikely to achieve that potential without some form of public intervention.

This justification tends to attract controversy or debate more in the practical delivery than its theoretical foundation. Indeed, in welfare theory, government intervention would be confined to the remediation of the market failures in question, allowing private developers, who are (supposedly) better able to manage commercial risks and read consumer preferences, to deliver optimal land use and built form outcomes. Rarely are things this neat. It is difficult for commercialized GODCs to refrain from capitalizing on the development margins on offer, once they have done the hard work of getting blighted, fragmented or otherwise challenged precincts development ready with new value creating infrastructure and public spaces. Their commercial charters (and cultures) often implicitly demand better returns than those generated from 'wholesaling' cleaned up development sites. Further, it is common practice for the original asset owning party, such as another government department or corporation, to seek from the GODC a value for the land which assumes 'up-zoning' and site improvement. For a GODC in such a situation it is impossible to make a return without first adding further (commercial) value.

Redevelopment is also an entrepreneurial activity even when restricted to the sale of relatively large parcels. Undertaking the full cycle of masterplanning and securing permits, infrastructure improvements, partial subdivision, through to land transactions with the private sector, necessarily involves the ability to develop and sell a compelling vision. An organisation with these capabilities is unlikely to be satisfied by

only selling large tracts of land on wholesale basis. Redevelopment also takes significant time and requires commitment to resolving on-going governance and management issues. The private sector may also demand continued involvement of a GODC beyond the initial transaction in order to provide certainty to a variety of parties. This can range from streamlined approvals processes for the developer through to providing a visible presence and implied commitment to a place for the benefit of developers' customers, many of whom might otherwise not be willing to move to such unproven areas.

In a similar vein, Governments are sometimes inclined to deploy GODCs disingenuously, citing market failures but, in fact, seeking to optimize on-budget returns from a publicly owned property portfolio. This can, occur, for example in the disposal of port or railway land which is no longer required because of changes in technology or economic shifts.

The imperative to generate cash for government coffers is understandable enough from a practical point of view. However, it is important to disentangle the incentives and motivations at play in the use of GODCs, as the essential public policy mission of such organisations can quickly become muddled. This, in turn, will compromise management effectiveness, often to the detriment of the public good.

EXPERIENCE IN THE USA



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3 EXPERIENCE IN THE USA

3.1 Overview

In part as a reaction to the discredited US urban renewal schemes of the early post war period, sites that are problematic due to ownership fragmentation, crime, contamination or similar factors are, these days, tackled through a variety of mechanisms that bring together government, community and private investor resources. State and local governments may play a leading role in setting up organisations to deal with these challenges, but, just as likely, the impetus will come from grass-roots community members, or even big business leaders who might see revitalization of an area as part of their civic duty.

There is a bewildering array of models in the US. However, based on experience in New York State and City, there are several common elements to these models, including;

- A legally recognized entity that is neither in the public sector or the private sector which is charged with developing a vision for the area in question, gaining buy in from all relevant stakeholders and overseeing the smooth roll out of implementation plans
- A cocktail of subsidies and incentives including but not limited to;
 - Access to tax exempt bond funding
 - Discretionary property tax breaks
 - Access to purpose specific government grants and tax breaks related to affordable housing and local employment development
- Arrangements to, at some point, capture some of the value uplift from the regeneration project and redistribute it in various community benefits like public domain improvements and affordable housing.

3.2 Urban regeneration in New York

Urban regeneration entities in New York have generally been set up via one three approaches:

- A. As subsidiaries of the Empire State Development Corporation – a standing economic development institution established decades ago by the New York State legislature
- B. By special act of the State legislature, recognizing the distinguishing features or circumstances of the site(s) in question
- C. As a standard local government development corporation, which can be commissioned by the City of New York acting independently.

There are examples across the US of purely privately initiated regeneration organisations. One example is *3CDC*, a body dedicated to the regeneration of downtown Cincinnati. This is doing the pre-development planning work and will eventually provide a package of partnership actions to state and city governments to act upon. Nevertheless, 95% of regeneration entities fall into the above 3 categories, and these certainly dominate in NY.

Those organizations set up and commissioned via routes (A) and (B) are generally given access to tax free bond finance (see below) as well the ability to offer investors land tax breaks and the like. These organisations can also be authorized to compulsorily acquire land and ‘condemn’ properties for demolition.

Interestingly, a flagship of urban regeneration organisation in NYC, the Economic Development Corporation (EDC) is constituted under category C. In general, organisations in this group are community

driven and focussed on localized and relatively small scale urban redevelopment challenges. Accordingly, they do not have the sweeping powers of entities in the other two categories. However, in the case of the EDC a similarly powerful role has been crafted by brokering projects and then presenting them to Council (and State Government) for the deployment of tax breaks and tax exempt financing, all with the imprimatur of the Mayor.

In all cases, the regeneration organisations are exclusively set up to tackle projects that cannot be realistically taken on by any one private sector developer.

Also, in all cases, the entities are set up as special not for profit corporations, designed to operate in a business like fashion but without stock holders. They are not required to deliver a dividend but are expected to meet other indicators of mission accomplishment.

As interviewees attested, the pre-development work required on these sites is very difficult. There is usually little agreement in the community as to what their future should be. Building consensus is important; these regeneration entities offer the 'time and space' to carefully think through what vision should apply. Governments rarely have the opportunity to do this long term thinking in their own right.

The effectiveness of the entities depends on:

- The ability of the Board to act as both 'sword and shield' – that is protect the vision once established
- Skill of executive leadership – allow focus on the long term as noted above
- Financial leverage – including vested assets and access to tax advantaged investment.

Property tax breaks are vital in these projects. Such taxes can be as high as \$100-\$150 per square metre in NYC. Exemption can give the building owners in question a major competitive advantage in attracting tenants.

Where they are on offer, tax exempt bonds are issued under the auspices of Counties – which represent an intermediate sphere of governance in the US. Counties have the right to issue tax free bonds via their "Industrial Development Authorities" (IDAs).

The bonds in question are not generic but are issued specifically for the approved projects. In theory, their returns are not underwritten by the State or City Government that has sponsored the project in question. The bonds are serviced directly by the returns from the projects themselves. There is always the possibility of default – for example, the parking station built in conjunction with the new Yankee Stadium in the Bronx, failed to meet return expectations with bond investors likely to take a 'haircut'.

3.3 The EDC

The EDC is, at first glance, the most directly comparable institution in NYC to the GODCs in Australia. However, it has a significantly different modus operandi.

The EDC is a public benefit corporation created under State Law. It is notionally more than at arm's length from City Hall. But it is widely known that the Mayor effectively controls the agenda of the organization.

Despite the influence of the Mayor, the EDC remains officially a private body beyond the reach of State and Council audit scrutiny. Over the years it has voluntarily improved its public reporting, but aspects remain opaque, including the salaries of senior executives. There is also concern in some quarters that the EDC retains surpluses (instead of turning them over to the City Council) and deploys them in potentially wasteful, self serving, expenditures. However, evidence one way or the other is difficult to assemble.

Some observers say that the major advantage of the EDC is the opportunity to circumvent the labour and procurement laws that weigh down other facets of local government administration. Things can get done much faster and with much greater flexibility via the EDC. For example, it was because of this procurement flexibility (not having to go through the Council vote process) that the EDC was called upon to help deliver the High Line project. Otherwise, the project might have languished in a planning and policy holding pattern.

As noted, the EDC generally acts a broker, assisting project proponents to put together deals that may involve tax exempt bonds and other tax breaks. The EDC may even become something of an equity holder, by inputting property vested in it by the City of New York, or by acquiring land to assist delivery of the project.

The EDC makes significant money through its fee for service operations, rental returns on vested property and, possibly, via value capture on vested property.

KEY DIFFERENCES FROM AUSTRALIA

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4 KEY DIFFERENCES FROM AUSTRALIA

Commercialised (Aus) versus not for profit (US) models

The GODCs that are the focus of the current paper do not have a direct equivalent in the US. When relevant US governments, or community or business groups, come up against the market failures which are holding back welfare optimizing development in particular neighbourhoods or precincts, the most common response is to establish a not for profit organization to deal with the issues at hand. These organisations carry out a mandate familiar to relevant Australian GODCs. This comprises scoping feasible development futures, engaging the local community and stakeholders, formulating a vision and associated master plans, arranging for appropriate infrastructure investment and facilitating private sector investment in line with these strategies. Some interviewees reported that these organisations strive to undertake such functions in a ‘business-like’ fashion, seeking to apply commercial disciplines and ways of thinking. Nevertheless, they are not constituted as businesses with shareholders (the government) and gauging their business like effectiveness is problematic. They may be audited (although often they fall outside the reach of government budget surveillance) and may be required to provide an annual report on trading and performance against objectives. However, they are not financially accountable in terms of providing a return on tax-payer assets deployed. As organisations chartered to deal with a market failure of some sort, they occupy a legal space that is, in a sense, outside the market.

By contrast, similarly mandated organisations in Australia have generally been set up on a commercialized as well as corporatized basis, at least since the ‘micro-economic’ reforms of the ‘80s. The public policy thinking behind this approach is that all government entities should be incentivized to use their land, financial capital and human resources as efficiently as possible and that this can only be achieved if they are exposed to competition and market benchmarked financial performance standards. In this model, the organisations in question are required to make commercial feasibility assessments of any project on offer, including those that present the market failures discussed earlier. Where there is a gap between the commercial return on the project, and that which can realistically be achieved given the limitations at play (fragmentation, contamination, inadequate infrastructure etc), the organization may make a request to its owner government for a ‘community service obligation (CSO)’ payment. If successful in securing the CSOs in its business case, the organization will be expected to deliver a commercial dividend to the shareholder government on par with risk adjusted returns in similar markets¹.

In Australia, GODCs are typically required to pay tax equivalents as well as dividends to their owner governments, as a further device to promote ‘competitive neutrality’. Moreover, they must generally pay financial accommodation levies to the State and Territory Treasuries that raise debt finance on their behalf. These levies are meant to correct any unfair advantage or investment distortion arising from the fact that a sovereign state can raise capital at cheaper rates than market players because they can ultimately resort to the taxpayer to service bonds.

¹ Theoretically, governments could make the CSOs available to any capable provider, whether they are in public sector ownership or not. Thus, a competitive tension is set up, aimed at improving efficiency of resource use.

Scale

GODCs in Australia are generally geared to the delivery of large regeneration and greenfield projects. Their corporatized structures and associated overheads demand a degree of scale in operations; they tend to dampen the appetite for smaller, distributed projects, notwithstanding that these may suffer similar market failures as their large site counterparts. Smaller projects tend to be idiosyncratic, because of variations in local community expectations or site circumstances. This militates against the development of standardized business models to achieve scale economies.

The US also features development corporations that can handle large scale regeneration projects. But institutional arrangements are far more adaptable than in Australia, allowing special purpose vehicles to be formed to suit site circumstances regardless of project scale. Whilst these vehicles will broadly be housed within the 'not for profit' or 'public benefit' corporation category for taxation and regulation purposes, there is virtually unlimited scope to differentiate community development organisations depending on the history of the site, the aspirations of stakeholders and the political dynamics of the day. Projects can range from a small social housing initiative involving a handful of properties, up to the regeneration of large tracts of former industrial land.

Single focus versus general mandates

Broadly speaking, relevant US urban development corporations are established with a single site and mission in mind, though they may be facilitated by State or City entities that have a broader charter (such as the EDC in New York City). This should give a clear focus to management, stakeholders and regulators alike. Nevertheless, in the absence of publicly accountable financial performance disciplines, such organisations can be in danger of outstaying their usefulness and re-interpreting their purpose to suit an internal rather than community agenda.

As noted, Australian GODCs include both businesses focussed on particular sites and those with more generic mandates to address relevant opportunities (market failures as discussed earlier) wherever these arise. The generic mandate can be problematic, especially when teamed with an obligation to be commercially rigorous; these businesses can find themselves slipping into a comfort zone characterized by projects that are only loosely connected to the market failure justification. Culturally, GODCs may be disinclined to seek CSO payments for genuinely difficult projects so these may drift to the backburner. Repeatedly going to government for project top ups – albeit well justified – may not be as appealing as pursuing projects where significant commercial returns to government are on offer, together with modest innovation benefits.

Leveraging private capital and transparency of subsidies

Both in the US and Australia, the organisations commissioned to address difficult urban regeneration sites deploy taxpayer funds to overcome the market failures in question. These community provided resources are necessary by definition. However, there is a sharp difference between the US and Australian models in so far as the latter typically involve direct government appropriations (such as the aforementioned CSOs) while the former rely on tax breaks of various sorts.

The great virtue of Australian practice is its transparency. This supports more accountable government decision making. The downside is that this approach gives rise to a certain 'lumpiness' in government investment in regeneration and related projects that can undermine the political if not the fiscal case for such initiatives.

A further disadvantage of the Australian model relates to the general (or anticipated) aversion in the electorate against direct cash subsidy of private corporations. Such practices are not unheard of; as mentioned already, governments often support R&D programs, export drives, affirmative recruitment and training programs within private businesses through direct grants. But the merits of these transfers in land development are, possibly, more difficult to communicate given the likely recipients could include commercially successful heavyweight real estate development and construction companies. Consequently, governments tend to emphasise infrastructure, site clean up, land assembly and other

politically 'safe' ways of expending their budgets for urban regeneration. These public investments are expected to ultimately galvanise private investment, but there is no direct incentive provided to relevant developers so uptake may be slower than desired.

The American model is burdened by opacity in the size and allocation process of subsidies, because these are distributed in diffuse ways through often complex, inter-jurisdictional, deals. However, it has an advantage in being seen to leverage private capital in urban regeneration. The major source of private capital for US GODCs is the bond market, which dwarves the combined balance sheets of the relatively small pool of active private development parties as well as those of GODCs which are directly sponsored by Governments.

CONCLUSIONS AND IDEAS FOR AUSTRALIA



Independent insight.

5 CONCLUSIONS AND IDEAS FOR AUSTRALIA

In comparing US and Australian approaches to public sector initiated or supported urban development projects, it clear that divergent models apply. In part, this reflects important differences in presenting urban development challenges. Because of structural devolution of governance, similar devolution of fiscal power, adverse bank lending practices of the past (including 'red-lining' of districts for poor mortgage risk), persistent race issues and the generally more flexible and dynamic labour market, US cities continue to feature profoundly disadvantaged neighbourhoods, crippled by widespread crime and property disinvestment the likes of which are rare (but not non-existent) in urban Australasia.

Also relevant is the backlash in the US to the urban renewal programs of the early post war period. Inner city slum clearance also occurred in some Australian cities, but it was pursued with much greater rigour, scale and devastation in US counterparts. Layered over the issues of race and discrimination against migrants, these programs are now interpreted as being profoundly misguided and destructive. Critiques of this modernist blitzkrieg on close knit minority communities, so well articulated in the popular literature by Jane Jacobs as well as in scholarly and policy circles, have seen to it that such models, characterized by strong centralist government control of urban development, will never be repeated. If anything, the pendulum may have swung too far in the other direction, with planners and public officials eschewing a leadership role in urban renewal and deferring to the seemingly self-evident virtues of community engagement and empowerment.

Accordingly, Australian style GODCs are relatively uncommon in the US, though quite similar vehicles may be used for large tracts of government land which have no pre-existing community to speak of, for example, the Battery Park City in New York. In the main, the US approach is to mandate not for profit organisations which have strong community links and credibility and which can develop highly customized visions and strategies for the areas in question.

Other broad conclusions include:

- US models seem to be confined to the 'market failure' justification outlined at the head of this paper. There appears to be little involvement of government auspiced development agencies to pursue the 'market competition' and 'market innovation' roles that are often taken on by Australian counterparts. This is not surprising given the underlying weakness in these rationales and, perhaps, the cultural scepticism in the US regarding the efficacy of public interventions in markets.
- US models are far less transparent. Even senior scholars and officials who deal in this topic area can struggle to trace subsidy flows.
- The upside is that, as noted, US models are more customized and responsive to local community conditions. There is greater freedom and opportunity to experiment in different ways of resolving the presenting challenges in urban regeneration. This has built a learning culture that has thrown up some highly effective principles and techniques on matters like optimizing community buy in, funding improvements from land value uplift generated by the project and using urban regeneration to build local economies and jobs, as well as providing housing and attendant services.

In terms of implications for practice in Australia, this paper finds that there is benefit in more localized or small scale intervention vehicles to complement the major regeneration projects that are reasonably well handled by the GODCs. There is potential to emulate the best aspects of the US community based models, but avoid their corrosive lack of transparency and accountability.

The spatially smaller scale challenges arising from market failures could include:

- Greyfields development, where suburban blocks are of an inflexible size (600 square metres or less) and configuration to support welfare optimizing redevelopment in the absence of an overarching plan and institutional arrangement to pool land value uplift and manage development risk. This is especially the case where local Councils lack the required expertise.
- Integrated development in and around activity centres, including the use of air space on open lot car parks. Where attempted, market driven approaches to capitalizing on this prima facie value have generally failed (e.g. Coburg Central in Victoria) often because the opportunity has not been appropriately packaged for potential developers and investors.
- Redevelopment of smaller contaminated sites such former railway land.

GODCs struggle with these opportunities even though they might nominally fall within their charter. The projects are simply too small and 'too bespoke', given the overheads carried by the GODCs.

State Governments could usefully consider complementary urban revitalization programs in which local stakeholders, potentially auspiced by the local council but not exclusively so, could form a legally recognized not for profit urban redevelopment entity. This would be for the exclusive purpose of unlocking the value inherent in sites and precincts such as those mentioned above.

Like their US counterparts, these not for profits would build partnerships around an agreed vision for the precinct in question, culminating in actual delivery of the project on the ground. Unlike the US, taxpayer support for such organisations would be explicit grant funding, perhaps segmented to reflect the various stages of vision development and delivery. For example, start up grants could be provided to support the formation of these community enterprises and their professional management. Further grants, based on rigorous business cases can then be provided for community engagement and vision formulation, and, ultimately, to facilitate private sector investment. The latter would involve a form of CSO payment.

APPENDIX A: INFORMANTS



Independent insight.

APPENDIX A: INFORMANTS

The following people kindly agreed to be interviewed for this paper. The biographies shown below are extracted from relevant website searches or personal communications.

Nancy Williams

Former board member – International Economic Development Council

David Hsu

**Assistant Prof City and Regional Planning
University of Pennsylvania**

Prior to academia, Professor Hsu worked in city government in New York and Seattle on urban redevelopment, energy conservation, and smart grid initiatives; as a financial analyst for real estate equities; and as a structural engineer in London on green buildings and bridges.

Barry F. Hersh

**Clinical Associate Professor
New York University Schack Institute of Real Estate**

Mr. Hersh has been a leader in the revitalization of brownfields, a frequent speaker at events such as the US EPA national brownfields conference. He participated in the Rockefeller Fund Pocantico Roundtable which led to New York State brownfields legislation. He is consultant on several strategic brownfield planning efforts, including the Newtown Creek Brownfield Opportunity Area, and serves on the Board of New Partners for Community Revitalization and the Clean Land Fund.

John Mollenkopf

**Centre for Urban Research Director and Distinguished Professor, Political Science and Sociology
City University of New York**

Dr. Mollenkopf is a Distinguished Professor of Political Science and Sociology at the Graduate Center and coordinates its interdisciplinary concentration in public policy and urban studies. He has authored or edited fifteen books on urban politics, urban policy, immigration, and New York City. Prior to joining the Graduate Center in 1981, he directed the Economic Development Division of the New York City Department of City Planning and taught urban studies and public management at Stanford University.

John Alschuler

HR&A Advisors Inc

John's work focuses on development finance, the revitalization of urban communities, regional economic development, waterfront redevelopment and asset planning for institutions. John's core skills include structuring public-private partnerships, development finance, building parklands, and creating innovative development strategies.

Ronnie Lowenstein and George Sweeting

**Independent Budget Office
City of New York**

Ms. Lowenstein was named Director of the New York City Independent Budget Office in August, 2000; she was reappointed for four year terms in 2002, 2006, and 2010. Ms. Lowenstein has been with IBO since its inception in 1996 and was its Deputy Director and Chief Economist. Prior to joining IBO, Ms. Lowenstein was an economist in the Domestic Research Division of the Federal Reserve Bank of New York and taught economics at Barnard College. Ms. Lowenstein received her Ph.D. in economics from Columbia University and her B.A. from Guilford College.

Mr. Sweeting is deputy director of New York City's Independent Budget Office; he oversees IBO's work on economics, tax policy, revenue forecasting, economic development, and spending by city agencies. He joined IBO during its first year of operations in 1996, originally serving as a senior economist covering the real property tax. Prior to joining IBO, Mr. Sweeting worked for 10 years at the city's Department of Finance in the Office of Tax Policy analyzing the city's income taxes (business and personal), and later, the Property Division where he was responsible for policy analysis and quality control of the real property tax. While with the Finance Department he also served on the staff of the 1987 New York City Tax Study Commission and the 1993 Real Property Tax Reform Commission.

Laura Wolf-Powers

**Assistant Professor of City and Regional Planning, School of Design
University of Pennsylvania**

Laura Wolf-Powers studies urban economic development, workforce development and local labor markets with the goal of informing public policy that supports employment opportunities, human capital development and job mobility for people across the educational attainment spectrum. She has written on the planning dilemmas inherent in decision-making on industrial land use, on the history and politics of community development, on the role of labor unions in the development of workforce skills and on the use of job linkage programs in the context of real estate-led urban economic development.

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