Innovative financing arrangements for urban transformation projects in the Netherlands

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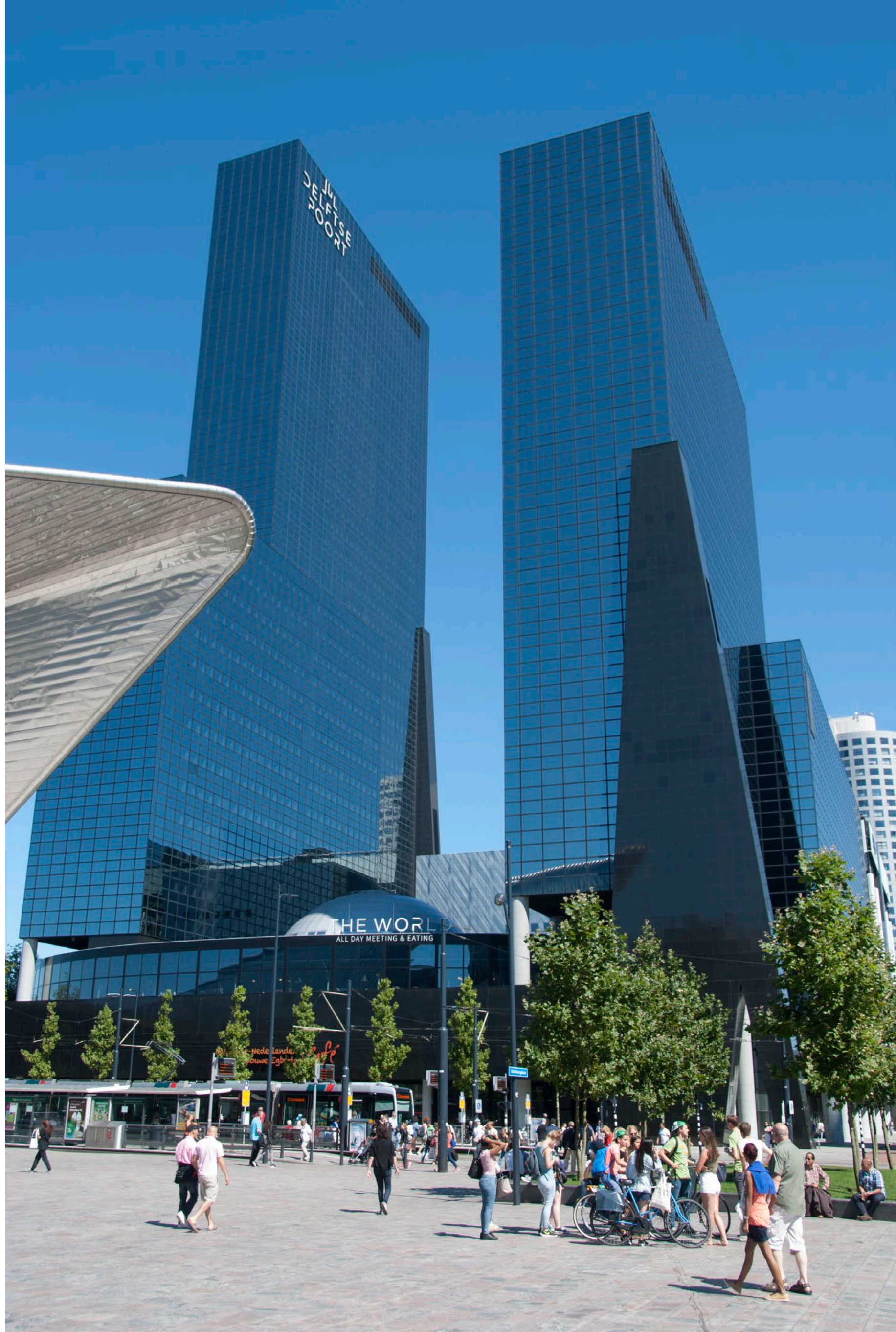

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Financing urban transformation (1/2)

- European practices **actors** in real estate and urban transformation are **highly dependent** on one another.

- Contemporary **inner-city transformation projects are particularly challenging** in terms of collaboration and financing, as they need to address the need for housing (and other real estate) as well as new demands in mobility, health, energy, climate adaptation and other sectors.

- Among other things, such cross-sectoral projects need to **allocate funding from multiple public and private sources** in a timely fashion, which is a challenge in its own right.

Financing urban transformation (2/2)

- Moreover, long-term urban transformation projects require **large sums of up-front financing** due to high land assembly, site preparation and real estate construction costs.

- Such **financing is usually difficult to obtain**. Project proposals face strict conditions from private lenders and investors, and limited availability of government funding, value capturing, and legal co-financing possibilities (Daamen et al., 2020).

- In many countries, these and other trends have spurred a quest for **innovative financing instruments** for real estate development (e.g. Squires et al., 2015).

Dutch financing strategies for urban transformation

- Research funded by the Dutch Ministry of Internal Affairs & Kingdom Relations, allocated to the Stedelijke Transformatie (Urban Transformation) program
- Literature & document reviews, interviews, workshops

Source:
Heurkens, E, Hobma, F., Verheul W.J., Daamen, T. 2020. *Essay Financiering van gebiedstransformatie: Strategieën voor het toepassen van verschillende financieringsvormen bij binnenstedelijke gebiedsontwikkeling*. Platform 31 / TU Delft.

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Dutch finance forms for urban transformation

Source:

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Financing instruments without repayment	Financing instruments with repayment	Innovative financing arrangements
Subsidies	Loans (banks)	Investment zones (e.g. BIDs, EZ, AIDs)
Surcharges (fiscal)	Leases (sale & lease back)	Revolving funds
Value capturing (fiscal)	Investment trusts (e.g. REITs)	Public/private partnerships
Public budgets (general, reserves)	Credit-supporting schemes (guarantees)	Management & development companies
Public funds (e.g. urban investment funds)	Crowd-funding (in case of loans)	Urban land swaps

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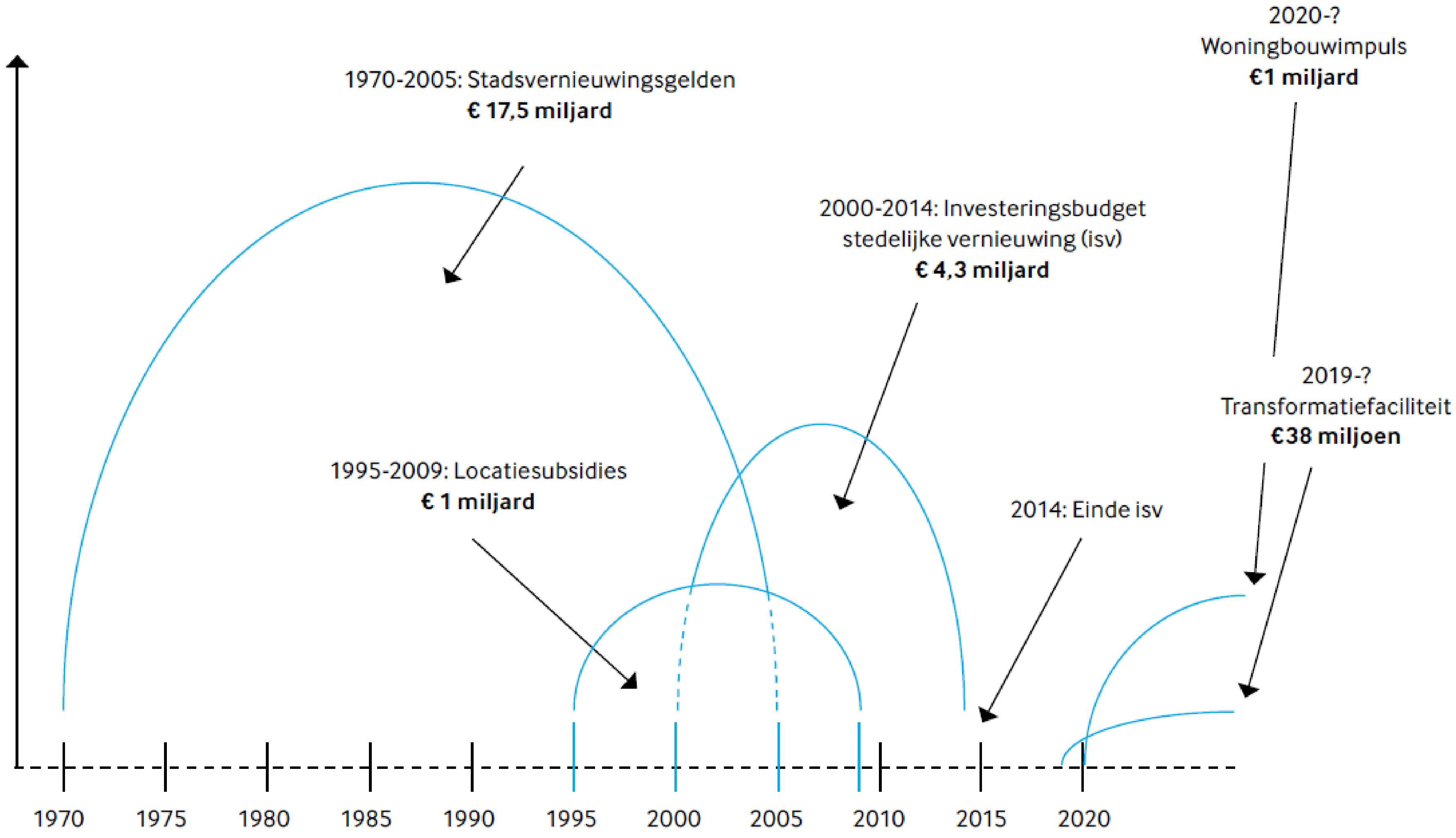
Decreasing viability: diminishing public finance



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Financing context urban transformation in brief

Development has become more difficult to finance and less viable due to:

- higher costs (e.g. land, construction);
- other types of costs (e.g. energy transition, circularity, climate adaptation);
- new investment & financing conditions from organizations;
- decreasing public funding sources (e.g. subsidies, funds) for urban transformation;
- decreasing local goverment budget reservations for development (due to higher costs in other domains);
- limited value capturing possibilities to directly finance urban transformations;
- limited legal possibilities to let beneficiaries of public development investments financially contribute to development.

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Financing strategies for more viable urban business cases

Strategy 1
Business case optimization:
steering on cost reduction & yield increase
> No brainer, but has it's limitations

Strategy 2
Business case 'broadening':
steering on 'value creation'
> Innovative financing arrangements

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Principles Innovative Financing Arrangements (IFA)

- **Combined set of rules and agreements** (e.g. multiple finance sources, sometimes financing organizations).
- Smart shared bundling & goal-oriented deployment of **public, private** and/or societal financing **sources**.

- Connecting **public values & private returns** in the area itself.
- Shared investment = shared 'harvesting'.

- Doing justice to the fact that **real estate development** and **management/investment** occur side to side in urban projects.
- **Using income/revenues** as a source to finance development.

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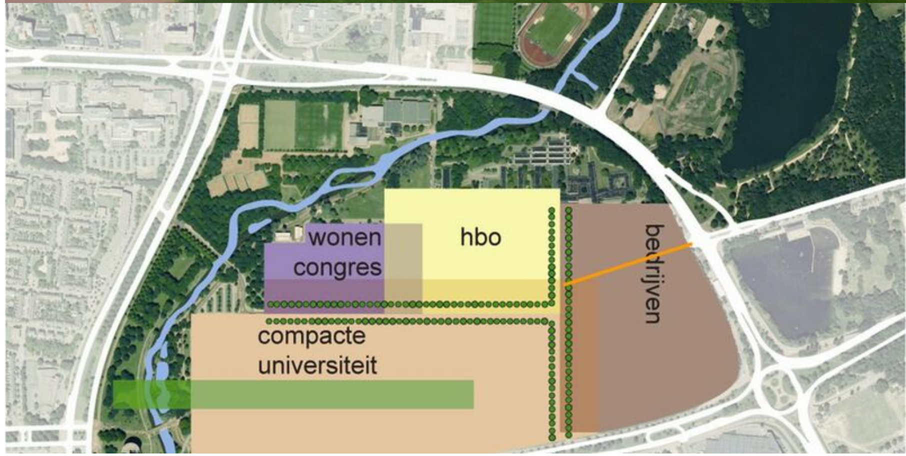
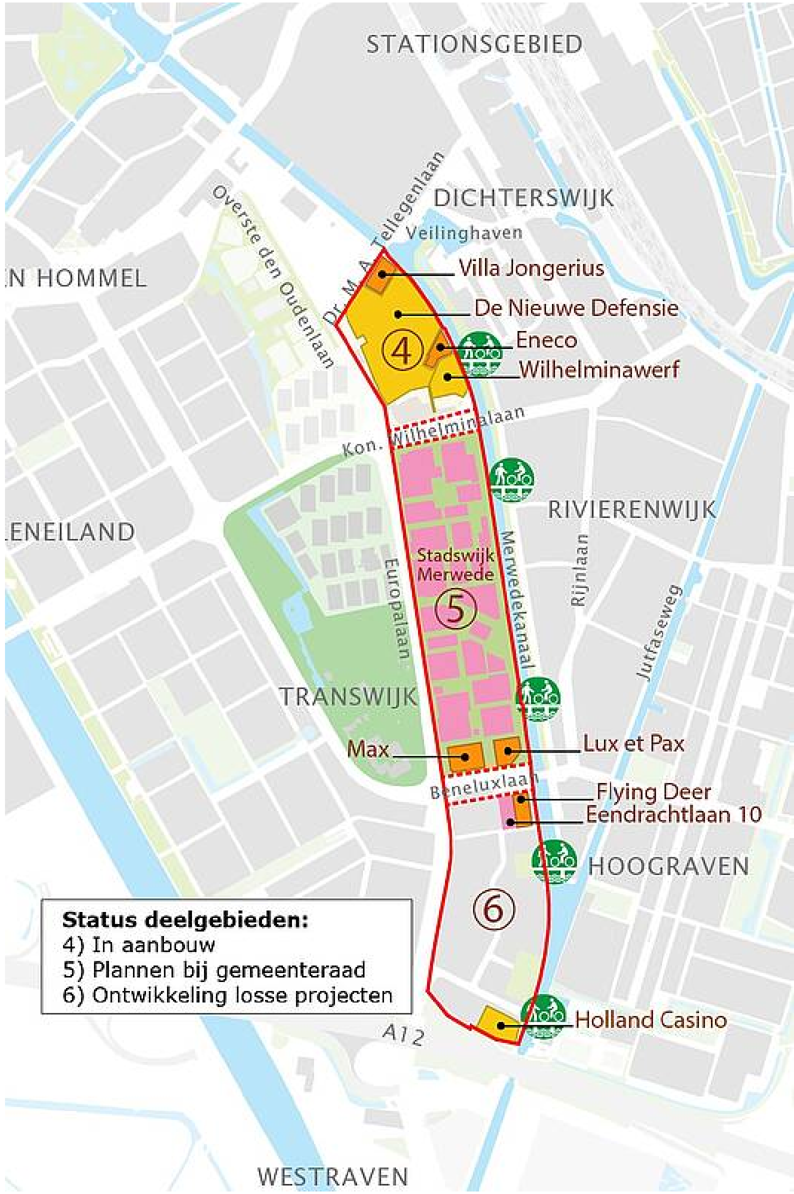
IFA: Revolving funds

- Essence: **public bodies** – once private finance due to estimated risks in unavailable – **pre-finances** the realization of public amenities and/or private real estate investments with ‘sustainability’ objectives such as energy transition or shared mobility solutions.
- Pre-financing has the precondition that the **loan is repaid (with interest) to the fund**, thus making it available for reinvestment—hence its revolving nature.



IFA: Area Improvement Districts

- Idea based on the financing mechanism behind BIDs practiced in the US, aimed at obtaining a **proportional financial contribution from property owners**, investors and (potentially) developers for collective amenities/infrastructures in the area.
- These contributions are based on the **expected increase in real estate value** and the social impact of investments, which are pre-financed from a privately managed fund.



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Innovative Financing Arrangements overview

	Financing sources	Financing conditions	Added value	Types of urban areas
RF	Public subsidies, guarantees & loans Private area contributions (in case of ownership) based on exploitation Bundled in a revolving fund	Finance destined ‘societal’ area investments Private area contributions revolves into a revolving fund	Goal-oriented bundling of various public sources Private actors pay for public affairs for their own benefit Serves as multiplier for (further) private investments	Transformation sites with office, industrial and retail assets, with social-economic, environmental, and/or mobility ambitions
	Financing sources	**Financing conditions**	**Added value**	**Types of urban areas**
AID	Public AID charge for private real estate owners and developers, in the form of proportional private remittances to a AID fund (based on real estate value or fixed amount per sq. m2)	Private AID remittances should not come on top of existing value capturing mechanisms Collective goals for the use of AID fund should be undisputed and beneficial to all participants Legally binding AID regulation to enforce private remittances	Owners/developers in the area indirectly finance collective amenities for their own benefit Organized collection, distribution, and allocation of financial means is beneficial to all Process innovation as ownership and self-organization is stimulated	Transformation work-living areas with collective ambitions for a mixed-use area, with a significant residential component, sustainability and shared mobility solutions

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Conclusions

- Both innovative financing arrangements provide possible answers to, and might reinforce, **increasing interdependencies** between the public and private sector in urban planning and development (Heurkens et al., 2015).
- In addition, they aim to arrange and designate finance collectively in order to **synthesize public and private values** in the built environment.
- Potentially, they could prove to be beneficial for financing specific urban transformation projects with **innovative sustainability solutions** that have not yet proven to generate satisfactory returns.

Discussion & further research

- Both arrangements might involve **institutional changes** – ranging from adapting government legislation, rethinking real estate financing structures, or changing actor behaviours and cultures – that prohibit a widespread adoption in practice.
- Moreover, one might ask whether such **hybrid financing arrangements**, and associated interdependencies such as shared risks, are **desirable** from a political and financial risk management point of view.
- Therefore, further research necessitates a **closer examination** of the features of, conditions for and effects of applications of innovative financing arrangements in urban transformation practices.

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Thanks for your attention

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