

**Mechanisms for competitive and sustainable urban regeneration.**

**The case of Dublin HARP**

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## Introduction

Approaches to urban regeneration now include the geographical targeting of aid on disadvantaged or excluded communities, the deployment of partnership mechanisms, an emphasis on strategic agendas and the identification of thematic cross-cutting approaches to the prevention of social exclusion and the promotion of social inclusion. The underlying philosophy of urban regeneration policy remains interventionist although today it can embrace negotiation between interested parties and policy networks (Moore and Booth, 1989). Whilst there may be policy experimentation - for example, a degree of private sector involvement - this remains controlled from the centre based largely on a consensus of the partners involved in local urban regeneration (Judge, 1993). Approaches based on a social inclusion agenda seek to present a more dynamic understanding of community disadvantage and regeneration (Cameron and Davoudi, 1998) and attempts to deal with embedded processes of government failure and institutional inertia (Robertson, 1998). Notwithstanding the sophisticated composition of urban regeneration policy, its execution is still based on the conventional instruments of government expenditure and funding for the social, economic and environmental improvement of urban areas. The allocation of government expenditure has shifted from a basis of need, through demonstration of a direct and specific benefit to be created for defined communities to one based on competitive bidding by local authorities and their partners. The conventional approach to urban regeneration policy is best described as a 'command and control' approach, which can be deployed in such a way as to facilitate community involvement and participation.

Interest in alternative approaches to urban regeneration are now emerging. The Urban Task Force (1999), for example, has suggested ways in which fiscal instruments can be used to achieve the stated objectives of a competitive and sustainable urban regeneration policy. The report of the Urban Task Force chaired by Lord Rogers of Riverside (DETR, 1999) was published in June 1999. The aims of the Urban Task Force were to identify the causes of urban decline in England and to recommend the means by which people could be attracted back to live in urban areas. The report was produced in the context of a projected 19% increase in dwellings between 1996 and 2021, amounting to four million additional dwellings; because of this projected increase, the UK government had declared its intention to ensure that 60% of new dwellings were built on so-called 'brownfield' sites - ie on previously-developed land. Consequently, the report asserts that urban areas need to be more compact, supporting a range of diverse uses within an environment, which is well integrated with public transport. Specifically, the report brings forward a range of policy recommendations which focus on the need for re-cycling of land and buildings; improvement of the urban environment; freedom for local authorities to encourage regeneration albeit with greater community involvement; and more sustainable development. In addition to the fiscal incentives set out below, the report recommends the creation of arms-length organisations - Urban Regeneration Companies or Housing Regeneration Companies - owned by local partnerships, which could ensure speedy implementation and undertake direct development.

The interest in fiscal incentives and, in particular, the use of tax relief to encourage investment and development in defined urban areas is now attracting considerable attention. Many of the policy mechanisms that the Urban Task Force report puts forward apply fiscal incentives for

investment, development and residence in urban areas, and the report makes use of research undertaken by KPMG which examined the possibilities of providing fiscal incentives for urban housing (KPMG, 1999). For instance, the report suggests harmonisation of Value Added Tax (VAT) applied to new build housing and residential conversions, since at present new build housing is exempt from the 17.5% rate of VAT applied to conversions. It also recommends the replacement of present arrangements for discretionary 'planning gain' applied by local authorities, by impact fees, similar to arrangements in the USA. Moreover, the report also recommends the designation of Urban Priority Areas which will be allocated special packages of powers and incentives to aid neighbourhood renewal, though these would only be designated where long-term local regeneration strategies were drawn up, with the full agreement of local partnerships. The fiscal incentives to be applied within such areas would include the introduction of special capital allowances on the costs of site reclamation; removal or reduction of Stamp Duty on property acquisitions; tax relief applied to home contents and car insurance; and concessionary rates applied to Council Tax and Business Rates. In addition to such fiscal incentives, the report recommends the retention of a higher proportion of local taxation for management and maintenance purposes, in line with the report's advocacy of more freedom and power for local authorities to ensure sustainable development.

A parallel shift in emphasis may be seen in the context of environmental policy and management. Traditionally, environmental problems in the UK were first addressed by the common law which proved to be of limited use given the associated costs and its focus on individual property rights (Dingle, 1982). As a consequence, government intervention was seen as the appropriate method of tackling the emerging environmental problems and a regulatory administrative framework for environmental protection and pollution control was established. This response developed in a piecemeal way through time and has resulted in a complex system of government rules and regulations, public sector bodies, planning and development control codes and enforcement mechanisms.

Recently, however, there has been increasing interest in the deployment of market or pricing incentives by government to secure environmental control and management. This line of argument has been fostered through the notion of a green economy and the incentives based on the 'polluter pays' principle (Pearce, Markandya and Barbier, 1989). It involves the deployment of appropriate pricing incentives, including taxation and subsidies, to modify consumption and production behaviour in the economy in order to more fully reflect the value of environmental resources. The political or ideological context is particularly important in facilitating this broader shift in approach, which involved a redrawing of the relationship between the public and private participants in the state - market relationship (Cockett, 1995). It resulted in, *inter alia*, changes to the role of private sector interests and modifications to the size and nature of the state - referred to as a process of hollowing out (Rhodes, 1996). Notwithstanding the government's interest in market led incentives for environmental management, regulation remains the cornerstone of pollution control. The White Paper, 'This Common Inheritance', for example, states that "the first [approach to pollution control] is through regulation so that agreed standards are applied. The second [approach] is through market signals, including taxes and prices which can be used to influence producers and consumers" (HMSO, 1990). The use of administrative measures are primarily intended to regulate economic activity in relation to its environmental impact and require an administrative

framework within which the rules and standards of conduct are policed and enforced. The use of pricing incentives by government are intended to change costs and prices in the economy in such a way as to influence producer and consumer behaviour in order to minimise any associated environmental costs. Regulation and planning remain the cornerstone of pollution control; it has been argued that despite "the current vogue for suggesting economic or fiscal mechanisms for combating environmental problems, the system of regulation by public bodies remains the prime tool for environmental protection in this country" (Ball and Bell, 1991, 61). However, the horizons are being widened. The need to challenge and complement conventional approaches to policy resolution is clear. It is argued, for example, that "without a more substantial effort to change Britain's economic priorities and political culture we shall go on shuffling the same pack of cards- rearranging the same institutional deckchairs - while Britain's relative economic decline continues unabated" (Buxton, Chapman and Temple, 1994, 426).

This paper considers some evidence to adopting a fiscal based approach to urban regeneration, examines the advantages and disadvantages of deploying tax relief for the regeneration of disadvantaged urban areas and reviews these points in the context of approaches in Dublin.

### **Urban regeneration policy and fiscal incentives**

While UK urban policy since the 1960s has concentrated on targeted grant aid, there is an increasing body of evidence which suggests that fiscal incentives may be more effective in achieving regeneration outcomes. Fiscal incentives in this context refer particularly to the use of taxation (including the provision of tax relief) as an instrument to modify investors' and developers' behaviour. Moreover, such incentives are evidently a more pragmatic policy mechanism than grant aid in a political climate of ongoing public sector financial constraint such as that now faced in the UK (Fulford, 1998).

Conventionally, land markets are examined from a neo-classical economic perspective which assumes that the market is a mechanism which rations land between competing and occasionally conflicting uses (Adams, 1994). The basic assumption of the neo-classical approach is that land markets are driven by demand for new property and that sufficient supply should be brought forward to meet this demand. However, this approach fails to take account of a number of factors, for example the non-economic interests of agents in the market, uncertainty in assessing future gains due to the timescale of the development process, and distortions to the demand-supply relationship (Healey, 1991). Thus the neo-classical economic approach is only helpful in understanding market activity for standard types of project in relatively stable conditions where active markets exist.

Clearly, such conditions are not typical of inner-city locations in most British and European cities (Cheshire et al, 1987). Indeed, inner cities are often perceived as risky, being at the margins of acceptability for land uses, and are frequently only brought into use when there is an excess of short-term demand for land. In such circumstances, land values in inner-city locations may increase. Conversely, where the supply of land outstrips demand, these relatively less attractive sites are liable to fall rapidly from investor interest. This results in volatility of land values which, from an investment perspective, represents uncertainty

concerning the returns to be received from such holdings. The risk and uncertainty associated with urban regeneration sites influences the decision-making behaviour of financial institutions, with the consequent disparity between landowners' hope value and institutions' lower assessment of value ultimately acting as a barrier to the private sector (Adair et al, 1995). Thus property investment in inner-city areas is highly selective with a tendency to avoid lower-valued projects which carry disproportionately high land and management costs. Furthermore, the fragile nature of inner-city markets necessitates a premium to encourage an investor to consider an urban regeneration project ahead of more traditional property opportunities, with the result that the illiquidity component of the risk premium is greater for inner-city property (Sieracki, 1993).

Accessing inner-city property markets through development rather than simply investing in existing buildings constitutes a greater potential source of risk (Healey et al, 1993). Assembling land rights, obtaining planning permission and successfully implementing development to meet demand, in what is essentially a cyclical investment market, can present considerable problems for investors. In considering risk, McNamara (1993) argues that inner-city land markets are often the last to respond to upturns in the economy, and the first to react to the downswing. This deters potentially active participants from entering into the market, with the result that those who do become involved may ultimately incur difficulties in disposing of their assets. Investors must see that there is a clear exit strategy in which development demonstrates a return on capital commensurate with other investments carrying a similar risk (Adair et al, 1998). This principle holds for all types of property - residential as well as commercial land uses.

The absence of effective demand in inner cities has increasingly necessitated state intervention to stimulate market activity. Indeed, intervention in the land market is often embodied as part of strategies to facilitate private sector initiatives. For example, if through taxation or other incentives, the rates of return increase in locations where traditionally they have been low, then funds are likely to be diverted from other areas/activities until returns at the margin are equal. Thus in theory private sector funds should flow into economically targeted investments where government action supplements market processes.

The argument in favour of stimulating market interest through a grant-based system arises from the risks associated with speculative development, and the subsidy being designed to reduce the developer's share of site assembly and infrastructural costs by bridging the gap between the cost of the development and the value of the scheme on completion (Adair et al, 1998). However, poor targeting of subsidies, with the focus upon property owners and developers rather than on consumers of space, has led to a questioning of their effectiveness as methods of financing urban regeneration. Indeed, it is argued that the latent demand for realistically-priced new or rehabilitated housing in and around city centres in Britain has not been fully exploited by Urban Development Grant or by other policy instruments (Johnston, 1998).

The need for an alternative form of intervention has led some policy analysts to argue for the use of tax expenditures to regenerate urban areas (Wood, 1990; Berry & McGreal, 1993; Gahan, 1993; Adair et al, 1994). Arguments are used to advocate the introduction of tax

allowance provisions for expenditures incurred in the improvement and rehabilitation of existing property. Such provisions are designed to encourage investment by lowering costs through a reduced taxation burden, the policy rationale being that financial inducements will lever a greater expenditure than would otherwise have been the case (Berry & McGreal, 1996).

Partly because of the factors highlighted above, there is increasing interest in, and recommendation of, the introduction of fiscal incentives for regeneration in the UK in order to attract institutional investment into the physical regeneration of towns and cities. While Adair et al (1997) suggest that the direct application of grant aid may be the most effective method of financing urban regeneration, they also acknowledge that the use of tax incentives has the potential to stimulate demand-led development. Moreover, the UK government's Urban Task Force has recently recommended the introduction of targeted fiscal incentives to encourage appropriate development on brownfield sites (Urban Task Force, 1999). These recommendations build on detailed responses to the Urban Task Force's prospectus. For example, the RICS and URBED responded by highlighting the urgent need for financial incentives for brownfield development, including tax incentives, on the grounds that experience in other countries suggested that such measures were likely to be both more efficient than grant aid mechanisms, and more effective in achieving regeneration outcomes. Moreover, the House Builders' Federation suggested that brownfield development could be effectively encouraged by the introduction of exemptions from Landfill Tax and VAT levied on conversions of existing buildings (House Builders' Federation, 1998).

Furthermore, fiscal incentives could, the Urban Task Force (1999) suggests, be combined with - and possibly linked to - financial disincentives such as taxes on greenfield development (particularly on the increase in value arising from the granting of planning permission) as well as taxes on vacant or underused brownfield land. Overall, the Urban Task Force concludes that "compared to other countries we visited, the UK Government is still operating its fiscal regime in a relatively unimaginative way. The taxation system can be used proactively to incentivise investment in particular urban areas while deterring excessive development in other locations" (Urban Task Force, 1999). Several policy statements outlining current thinking emphasise the importance of drawing upon relevant experience and the commissioning of comparative research on the role of economic instruments in delivering policy objectives (DETR, 1998a; DETR, 1998b)

The experience of other countries also adds to evidence of the usefulness and effectiveness of fiscal incentives in urban regeneration. For instance, the federal government of the USA incorporated fiscal incentives as a central element of the Empowerment Zone (EZs) policy initiative which was introduced in 1995. While these zones incorporated a range of mechanisms, including the provision of grant aid of \$100 million for a strategic 10-year programme in each of the six urban EZs, it has been argued that it is the complementary application of federal tax incentives within the EZs that is likely to be more significant in the longer-term (McCarthy, 1995). Such incentives include tax credits for businesses that employ qualifying residents, increased tax deductions for depreciable property and a new category of tax-exempt private activity bonds to encourage investment in business property and associated land development (US Internal Revenue Service, 1998).

In addition, recent experience in certain European countries suggests that targeted tax incentives can bring about achievements in relation to urban regeneration (Quaife, 1997). Notably, there has been recent innovation in this respect in Ireland. The prevalence of urban decline in many cities prompted the government in the 1980s to provide a range of fiscal incentives for investment in defined areas. These incentives applied to designated areas in Cork, Limerick, Waterford and Galway, as well as Dublin. Specifically, the benefits in these areas applied to residential (Adair et al, 1994a) and commercial/industrial (Adair et al, 1994b) development. They included incentives comprising capital allowances for commercial buildings, double rent allowances on commercial leases, owner-occupier residential allowances, and remission from rates (Guarino, 1998).

### **Urban regeneration in Dublin: the case of HARP**

The modern development phase of Dublin may be traced to the 1960s. This is now viewed as a period which may be broadly characterised by economic prosperity and associated urban development (Davis and Prendergast, 1995). Linked to the general economic and urban renaissance was a marked interest in national frameworks for economic and physical planning. This involved an assertive urban development dimension. In particular, attention was focussed on the redevelopment of Dublin. The initial interest was the south east quadrant of the city. This led (inevitably) to dereliction in the north side of Dublin. This latter area then became the focus for policy from the mid 1980s. The earlier emphasis on traditional command and control planning was now supplemented by an interest in the use of tax incentives to influence developer and investor behaviour in the designated areas. "Unlike other countries where regeneration has been facilitated by substantial government investment in infrastructure, Ireland has relied on a system of fiscal incentives supported by the establishment of special purpose public agencies to secure the renewal of key areas of inner city Dublin" (Berry and McGreal, 1993, 209). A number of legislative measures have provided the framework for this approach which sets out tax incentives, public - private partnerships, designated areas and defined time horizons. The Urban Renewal Act 1986 and the Finance Act 1986 established the legislative and fiscal basis for the designation of key areas. The Finance Act 1988 set out provisions for fiscal relief for the provision of private rented accommodation (Berry and McGreal, 1993). The two key areas for the focus of the tax relief led approach to urban regeneration were the Custom House Docks and TempleBar. The Custom House Docks initiative involved the setting up of a single purpose development authority together with tax reliefs for potential investment and development in the area (Gahan, 1993). TempleBar is an example of a culture led approach to a rundown inner city area which again relied on specific bodies and tax provisions to achieve its stated developmental objectives (McCarthy, 1998).

Today, the Irish Government have embarked on a third major tax based approach to urban regeneration in inner Dublin. The Historic Area Rejuvenation Project (HARP) represents an integrated area plan for the north west quadrant of the inner city. It may be seen as an innovative, pathfinding example of the integrated area approach to urban regeneration (now fully established since 1998). The HARP area comprises 109 ha. and is characterised by a distinctive townscape in terms of its architecture and design. It is located alongside the TempleBar district, although to the north of the river. It is a classic run down area - with

dereliction, redundant properties and significant socio-economic exclusion. In 1991, the Dublin Corporation introduced the Smithfield Rejuvenation Area for the core of the zone in order to secure its rehabilitation and renewal.

## **Conclusion**

In the context of the present search for effective mechanisms to secure sustainable urban regeneration, fiscal incentives for investment, development and residence appear to be a potential way forward of achieving this aim. Such incentives are used in many contexts outside the UK, as in the USA, with some evident success. Most notably, however, experience in Ireland shows how such incentives can have a demonstrable effect within a planning framework. It would seem appropriate therefore to extend the use of these incentives to the UK in order to address the linked issues of demand for greenfield sites with addressing issues social exclusion in inner urban areas.

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