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Local Policy for Housing Development

European Experiences

Roelof Verhage



LOCAL POLICY FOR HOUSING DEVELOPMENT



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European experiences

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Preface

There are two reasons why the study of housing development intrigues me. We all live somewhere, and we all need some place for that. Questions of housing and land use are therefore of direct relevance to almost all of us. Let us call that the societal reason for my interest, as opposed to the second reason which is more academic. The development of housing can be described both as an economic process, and as a policy process. It is neither of the two, or both. To do right to this ambiguity, a framework for the analysis of housing development needs to combine different strands of theory, namely economic and institutional. That inevitably takes the researcher to the edges of the fields covered by these theories. It is these edges that offer the possibility to gather new insights. The subject of this study, the question of how we can influence the residential environment of new housing schemes, is only a small aspect of this field of study. But maybe a better understanding of this particular item might teach us some more about the intersection of housing and land use, and of policy and economics in a more general sense.

Carrying out the research that eventually resulted in this book was like making a long journey. The trips I made during the study, to some European countries are emblematic of this journey. These trips not only provided me with empirical data, but with much more. They provided me – through encounters with a lot of friendly people – with numerous perspectives, not only on how the data could be interpreted, but on many other things. An important result of my journey is the present book. It is up to the reader to judge whether it gives answers to the questions it sets out to investigate. But my journey had many more results than the book. Less tangible for the outside world, but not necessarily less interesting for me than the book you have before you now.

On my way, I met a lot of people that contributed – each in their own way – to what I found. First of all, there were the people who generously provided me with information about their land, or about the cases studied. Their names are mentioned at the end of the book. The research project

that resulted in this book was funded by the Nederlandse Organisatie voor Wetenschappelijk Onderzoek (NWO, Dutch Organisation for Scientific Research). My new employer, OTB Research Institute, gave me room to finish my thesis and helped me with the maps and drawings. Martina Bernhard quickly but conscientiously read through the manuscript, tracing remaining errors (although errors that do remain are entirely my own responsibility). Some other people I want to mention in particular. Barrie Needham, Patsy Healey, Barry Wood, Claudio de Magalhães, Hartmut Dieterich, Benjamin Davy, Vincent Renard, Joseph Comby, Muriel Martinez, Frank Neidhardt, Willem Buunk, Tim Zwanikken, Marco Kerstens, Karel Martens, and the rest of a very fine group of colleagues at the Faculty of Policy Sciences at Nijmegen University: bedankt, danke, merci, thanks to all of you for your ideas, comments, and support. You made writing this book truly a European experience. And thank you, Claire, for... well, you know... everything. I invite you all to embark on this journey.

Roelof Verhage

“Un voyageur note ce qu’il trouve de singulier : s’il ne dit pas qu’il fait jour en plein midi à Modène, en conclurez-vous que le soleil ne se lève pas sur le quartier des jésuites ? Un voyageur note les différences ; entendez que tout ce dont il ne parle pas se fait comme en France.

Rien de plus faux que cette dernière ligne. Non, l’action la plus simple ne se fait pas à Rome comme à Paris ; mais cette différence à expliquer, c’est le comble de la difficulté.”

(Stendhal, Promenades dans Rome, 1827)



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1 Local policy for housing development and the residential environment

1.1 Introduction

In 1989 and 1991, the Dutch Ministry of Housing, Spatial Planning and the Environment published two reports that mark some important changes in housing development in the Netherlands. One of the two – *Volks-huisvesting in de jaren '90* (Social Housing in the 1990s) – initiated a more market-led housing policy, and a decentralisation of competences in the field of housing. The growing independence of the housing corporations since 1989 – and especially the grossing operation as of 1 January 1995 – was an important development that followed from this report. The other – *Vierde nota ruimtelijke ordening extra* (Fourth report on spatial planning extra) – indicated areas where housing development was to take place in the near future. As to the increasing importance of ‘the market’ in housing development, the proportion social sector/market sector housing in new housing development was changed from around 50:50 to 30:70. Since then, private developers that had been almost absent from the Dutch market for building land started to buy land and create strategic ground reserves, thus infringing upon the unique position the Dutch municipalities had had during the last decades in this market.

Whether the two reports caused this change, or whether there were other factors that brought it about goes beyond the scope of this book. Anyway, the Dutch municipalities were confronted with a new situation. Until then, they were used to buying the land required for housing development, then developing it and eventually selling serviced building plots. Thus the municipalities had an important and direct influence on the

residential environment: they were responsible for seeing that the development plan they had drawn up themselves was implemented. Moreover, because the municipalities sold the serviced plots, they received any possible value increase of the land due to the change from agricultural to housing use. Now, private developers had acquired the land before them, so these developers had become a new party to take into account. What would be the result of this change? How should the Dutch government react? Was there possibly a problem? One thing that was sure was that the municipalities lost a part of their influence. But would this be of influence on the housing development? Would another residential environment emerge? These questions lay at the basis of this study.

Although the occasion for these questions emerged in the Netherlands, their significance goes beyond the Dutch context. Insight into the relationship between local policy for housing development and the residential environment is increasingly important. Since the 1980s, the role of local government in urban development has changed (see for example Healey, 1992a; Albrechts, 1991). Following Goldsmith (1993: 66), the essence of this change can be described as the emergence of a local government whose main role is not to produce services, but to enable others to produce them. At the same time, cities in Europe are increasingly competing against each other to attract high quality activities. Good quality housing in good surroundings is an aspect of a city's attractiveness. Consequently, local authorities on the one hand are paying great interest to the residential environment, while on the other hand they are losing their direct influence on it. What will be the result of this and can local authorities continue to influence the residential environment? To answer these questions, more insight into the relationship between local policy for housing development and the residential environment is required.

1.2 Local policy and housing development

The local policy for housing development is pursued by the local planning authority. This is the (elected) governmental body that operates at a local level and that carries – as a public body – the responsibility for urban planning. In this chapter we deal in general terms with the role and

position of the local planning authority in the field of housing development. To that aim the focus is first on the local policy for housing development: What form does it take? What is the role of the local planning authority? We argue that for the realisation of its policy aims, the local planning authority depends on other actors that play a role in housing development. This issue is addressed in order to make explicit the assumptions that underlie the subsequent analysis.

Local policy for housing development

The local policy for housing development generally covers such goals as the following:

- the need (or the demand) for housing should be satisfied at prices which (after taking into account possible subsidies) can be paid;
- the houses (and gardens) satisfy certain space standards;
- certain minimum local services (shops, primary schools, open space) are present;
- certain standards of urban design (to provide attractive living conditions) should be reached, as well as;
- a certain amount of social integration.

The local policy for housing development is a combination of several policies pursued by the local planning authority, i.e. housing policy, land use policy, and land policy. Housing cannot be built without land, so land supply is usually part of housing policy. However, the supply of land is affected by other types of public policy also. One is spatial planning, which affects how much land may be used for housing and where. The other is land policy, by which the public administration tries to realise its ideas about how land should be supplied, who should provide the necessary infrastructure, whether development gains should be taxed, etc. Under the common denominator of ‘local policy for housing development’, local planning authorities employ these policies to influence new housing development in four ways:

- by land use policy influencing the distribution and location of development;

- by the specification of standards for new housing development;
- by influencing land conversion and land development processes;
- by entering into working arrangements with private developers and housing corporations.

The local policy to influence the housing development is pursued by the local planning authority. But in urban planning and development, several actors play a role. Besides the local planning authority, these are for example private developers, landowners, and housing corporations. As with every other actor, the local planning authority has specific characteristics and a specific role. From its role as public body ensues the responsibility for urban planning. But in practice this does not mean that the planning authority can just impose its ideas on the other actors. Urban planning takes place in collaboration between all the actors involved in urban development. This perspective on the role of the local planning authority has emerged roughly since the start of the 1980s.

It resulted from an evolution in sociological thinking about ‘collective action’, of which the work of Crozier and Friedberg (1977) is an example. They describe how to understand the behaviour of actors in systems. The essence of their argument is that actors have a certain freedom of action in systems, but their actions are restricted and influenced by the system. As a result, ‘collective action’ cannot be understood using an approach where either the actor or the system separately is taken as a starting point. There is a continuous exchange between the behaviour of the actors and the structure of the system. This is the central argument of Giddens (1984), who presents in his ‘theory of structuration’ a very elaborate analysis of the mutual relationship between what he calls structure and agency. That last observation is the starting point for the following analysis.

In such an analysis, the notion of ‘power’, as the inverse of dependence relations that exist between the actors, is central. Power exists only in interactions. As such, it is closely linked to the notion of negotiations. Actors in a system use their freedom of action to pursue their objectives. To do so, they have to enter into interactions with the other actors, because of the mutual dependence between them. In these interactions, negotiating powers are used to influence the outcome. The system influences the opportunities of the different actors by attributing

them more or less negotiating power. These sociological ideas have been introduced into policy analysis. For the way in which they shape the analysis of local policy for housing development, it is time to turn to the field of policy analysis, and more precisely to the field of urban planning as a specific form of public policy.

Local policy for urban development and the local planning authority

Traditionally, it is ‘inherent in all ideas about planning and planning systems (...) that they must fulfil a regulatory role’ (Ennis, 1997: 1938-1939). This can be explained as a logical result of the way in which urban planning emerged as a reaction to the uncontrolled urban growth during and following the industrial revolution. There was a great faith in the power of technology and the ability of human beings to transform their environment. Early planners formulated long term goals in the form of an end-state, which were to be reached by taking the steps defined by the planner. Ebenezer Howard’s Garden City and le Corbusiers Radiant City are examples of these end-state – or ‘blueprint’ – plans. This view of urban planning influenced the actions of planners for most of the twentieth century. It corresponds to a view of the role of the planning authority as a central actor in a ‘hierarchical policy field’. The local planning authority occupies this central position because it has responsibilities and powers that arise from its status as a public body. From its central position, the local planning authority ‘regulates’ the behaviour of the other actors.

From the 1980s onwards, this view of planning, and hence of the activities of the planning authority, has changed (see among others Albrechts, 1991; Healey et al., 1995; Lacaze, 1995; Ennis, 1997). It is not the subject of this book to describe why and how this shift took place. However, to understand the argument in the book, it needs to be clear what view of planning underlies the analysis. This is made explicit in the following, simplified way.

Hierarchic policy field.....Interactive policy network
Regulation.....Collaboration
Blueprint.....Contract

Imagine a continuum with the notions ‘hierarchical policy field’, ‘regulation’, and ‘blueprint’ on the left side, and the notions ‘interactive policy network’, ‘collaboration’, and ‘contract’ on the right side. The change of view about urban planning that has occurred since the beginning of the 1980s can then be seen as a gradual shift from left to right on this continuum. Of course, this is a very black and white representation of a discussion that is much more subtle (see for example Fischer and Forester, 1993; Teisman, 1992; Martinand and Landrieu, 1996; Healey, 1997). On the one hand, many more notions play a role, and could be placed on the continuum. On the other hand, placing these notions as the extremes on a continuum suggests contrasts that do not always exist and in any case are not so straightforward as this suggests. Notwithstanding these critical notes, the imaginary continuum with its three pairs of notions is used here to describe the approach towards the role of the local planning authority that is adopted in this book.

Hierarchic policy field/interactive policy network

There is a growing consensus in the field of policy analysis that a good way to describe decision making processes is by picturing them as an ‘interactive policy network’, as opposed to a hierarchic policy field. The idea of a hierarchic policy field corresponds to what we call above the traditional approach to planning: a top-down approach in which the planning authority is a central, steering actor that imposes its policy upon everybody, in the common interest. In an interactive policy network, the local planning authority operates as an actor in a network of interdependent actors that together realise the urban development. Because of the interdependence between the actors, no single actor is able to control the network. The activities and interactions between individuals, groups, and institutions influence the form and size of the network, which in turn influences the activities and interactions.

We take as a starting point that the local policy for housing consequences for our analysis; for the way in which the behaviour of the actors is interpreted (Dekker et al., 1992). It means that not the local planning authority and its policy, but the different participating actors and their objectives are taken as a starting point. Special attention is given to

the distribution of power resources and the focus of the analysis is on the interactions between the participants.

Regulation/collaboration

In a hierarchic policy field, the way in which the planning authority influences the behaviour of others is by regulation. To put it negatively, it imposes constraints on the actions of others and thus influences their behaviour in the direction it has chosen. As a public body, it is entitled to do this. Although regulation is also used in an interactive policy network, it does not suffice to describe fully the way decisions are taken and influenced by the planning authority.

Regulation as a means of guiding decisions of other actors does not correspond with a situation in which the local planning authority and the other actors are mutually dependent, and where no single actor is able to control the network. Because of our approach to the planning authority as operating in an interactive policy network, it is necessary also to adopt another approach to decision making. In the following analysis, it is approached as a collaborative process (see Healey, 1997). This means that it emerges from interactions between all the 'stakeholders'. In housing development, the local planning authority is just one of these stakeholders. Others are private housebuilders, landowners, housing corporations. The local policy for housing development is influenced by all these actors, and in turn influences the behaviour and the decisions of all these actors.

This way of looking at decision making could also be explained using the notions of implementation and negotiation. The notion of implementation corresponds to a view of planning in which in a first phase a plan is made, which needs to be implemented in the next phase. That can work only if the maker of the plan – the local planning authority – is assumed to work in a hierarchic policy field. In an interactive policy network, the phases of plan making and plan implementation merge. The actors influence each other during plan making and plan implementation, hence the separation of these two phases becomes artificial. The process that takes place in such networks can be understood better as a negotiating process, in which the different actors mutually influence each other throughout the decision making about, and the realisation of, an urban development project.

Negotiations can be described as a means to secure the implementation of projects. This implies that a central actor – a planning authority – has set its objectives and now has to ‘overcome the hurdle of implementation’. In this view, negotiations serve as a means used by the planning authority to overcome this hurdle. But in our view, policy making is not a matter of fixing objectives and then acting smartly enough to take all the hurdles to reach them. It is a continuous process of fixing, adjusting, and realising objectives.

Blueprint/contract

Traditional views of planning resulted in what is now called a blueprint planning, in which the planning authority defined an end-state of development in the form of a plan. The task of the planning authority was to choose the ‘best’ out of the different alternatives for development, i.e. the one that corresponded most to the public interest. ‘The plan in effect embodied a comprehensive model of urban development strategy, providing instructions for public sector investment and guidelines for the private sector developer’ (Healey et al., 1995: 3). This approach to planning puts the plan in the centre of decision making. All possible considerations that have been made concerning a certain spatial development are made in the process of plan making, and are crystallised in the plan.

In a situation where a number of mutually dependent actors work together, plans still play a role, but not as a blueprint. The publication of the plan is just one event in the long string of events that together compose the decision making process. Policy is made in the preparation of the plan, it is partly crystallised in the plan, but the plan is then used as a tool in further negotiations. Of course, it is a special tool. Plans are made by public authorities that have powers under public law. That means that they continue to play a role in the organisation of urban development, but in another way. When the urban planning process is seen as a negotiating process, plans are no longer blueprints. They are contracts in which the actors in the process fix the agreements they have reached, agreements that can be biased in the direction of one of the actor’s interests. This can be explained by the power balance that existed in that particular decision making process.

1.3 The research project

We set out to analyse in which way local policy for housing development influences decisions about the residential environment. Above, we argued that the local planning authority should be seen as an actor that develops and pursues its policy for housing development in collaboration with the other actors in the housing development process. It does that in a decision making process that is greatly influenced by economic considerations, as the development of housing is also an economic process. On the one hand, the actors in the development process need each other, and they know that they need each other to bring a housing development process to a good end. On the other hand, the actors each have their own interests, and their freedom of action is limited by financial considerations. Thus we can distinguish two main considerations that influence the way in which the actors in the housing development process try to reach their objectives. These are the financial considerations and the power balances that emerge in the interactions between the actors.

However, to understand what happens when a housing scheme is developed, a view which concentrates only on these two considerations separately is too narrow. The question with which this book is concerned could very well be summarised in the words of Forester (1993: ix): ‘What if social interaction were understood neither as a resource exchange (microeconomics) nor as an incessant strategizing (the war of all against all), but rather as a practical matter of making sense together in a politically complex world?’. The idea of actors making sense together in the politically complex world of housing development, in other words of actors actively coordinating their activities and interactions, is an idea that is constantly present throughout the analysis.

Two central questions

The parties that play a role in the development of housing – local planning authority, private land developers and housebuilders, housing corporations, first landowners – have interests that do not always coincide. And yet, the parties depend upon each other. For example, private developers depend on the municipality for the granting of a planning permission. The

municipality often does not have enough money to realise a housing scheme, so it depends on the money of private developers or of landowners. This means that negotiations are going to take place, in which interdependent parties try to realise as many of their objectives as possible. Our assumption is that, for the outcomes of these negotiations, two things are of central importance. They form the central questions with which this book is concerned. The first one is:

1 How much financial margin is available for investment in the residential environment and who receives it?

As a result of housing development on a greenfield site, usually the value of the land on that site increases. This value increase could be used for investment in the residential environment. Seen in this way, local policy for housing development has two kinds of effects. On the one hand, it influences the amount of the value increase of the land. On the other hand it aims at reserving part of this value increase for expenditure on the residential environment. The first step in our analysis is to find out whether money comes available for the residential environment in housing development processes, and how much. This question requires a financial analysis of the development process, aimed at distinguishing the financial margin for expenditure on the residential environment.

But that is not all. Different actors play a role in housing development processes. According to the form that the process takes, one or several of these actors receive – in the first instance – the value increase of the land due to its development. The policy of the local planning authority to influence expenditure on the residential environment can therefore be expected to vary according to which actor receives this money. Moreover, each of the actors has different objectives as to what should be done with the money; so it can be expected that there are consequences for the expenditure on the residential environment, depending on who has the money. The part of a possible value increase that an actor receives is closely related to the activities in the process for which he is responsible. To find this out, an institutional analysis of the actors, their roles, and the interactions in the housing development process is carried out to answer the second central question:

2 *How is the way in which the financial margin is used being influenced during the housing development process?*

The local planning authority's policy for housing development can be seen as a way to influence the behaviour of other actors in the process. The local planning authority has a certain 'power' to implement this policy, and hence to influence the behaviour of other actors. But the other actors also have means to influence the behaviour of the local planning authority, for example by withholding their cooperation when they do not agree with the planning authority's policy. The analysis of the division of this power, and the way in which it is used is a central element of this study. Combined with the insights acquired by the investigation of the first question, this allows a better understanding of the way in which the residential environment is realised, and also how changes in the process of housing development might result in a different residential environment.

1.4 A micro-economic and an institutional perspective

To answer the questions above, we have to adopt a view of local policy for housing development that allows us to take account of the interdependence and the interactions between the different actors involved. Taking the 'housing development process' as the subject of study enables this focus on interdependence and interactions. For reasons that are explained in chapter two, we concentrate on greenfield housing development. This is the process during which a site on which there has not been any previous urban use is transformed from its original use to a housing use. Partly, this process is coordinated by market forces. But although housing development can be considered as taking place in a market environment, describing it merely as a market process would very much limit our understanding of it (see Lambooy, 1990; Van Der Krabben, 1995). Housing is supplied and demanded in a market that is only partly 'free'. To understand the functioning of the housing market, institutional arrangements must be taken into account. Therefore, we place the economic processes emphatically in an institutional context. Below, we explain what this means for our analysis.

An institutional approach

The central question in any institutional analysis is how institutions affect the behaviour of individuals. However, this question can be approached in different ways. As Hall and Taylor (1996) observe, although the term ‘new institutionalism’ appears often in policy analysis, it is not always clear what is meant by it. The reason is that the same notion is used to cover different bodies of thought. Hall and Taylor distinguish between historical institutionalism, rational choice institutionalism, and sociological institutionalism. All approaches have in common that they address the relations between institutions and behaviour. The difference is in the way they do this. To describe the difference, Hall and Taylor distinguish between a ‘calculus’ and a ‘cultural’ approach to this relation. In a calculus approach, it is assumed that individuals behave strategically in order to maximise the attainment of their goals. In this approach, institutions ‘...affect behaviour primarily by providing actors with greater or lesser degrees of certainty about the present and future behaviour of other actor’ (1996: 939). Without denying the purposive character of human behaviour, the cultural approach stresses that actors often do not act entirely strategically, but turn to routines to attain their purposes. In this approach, actors’ behaviour is considered as ‘satisficing’, rather than ‘maximising’ utility. The role of institutions in this approach is to ‘...provide moral or cognitive templates for interpretation and action. (...) Not only do institutions provide strategically useful information, they also affect the very identities, self-images and preferences of the actors’ (Hall and Taylor, 1996: 939).

The three types of institutionalism can be characterised by the different approach to the relation between individual behaviour and institutions they adopt. In the rational choice institutionalism, the calculus approach is worked out the furthest. The sociological institutionalism uses a cultural approach to explain the relation between institutions and actors. In historical institutionalism, a combination of both approaches is used, but this has led to ‘less attention (...) to developing a sophisticated understanding of exactly how institutions affect behaviour’ (Hall and Taylor, 1996: 950). Without going into detail, it can be concluded from Hall and Taylor’s analysis that all approaches have their strengths and

weaknesses. This led Ball in his review of institutions in British property research (1998: 1515) to the conclusion that ‘If “the proof of the pudding is the eating”, far more research work on property institutions is probably needed before firm conclusions can be reached on which institutional approach is best when studying specific aspects of property development’. This study does not attempt to find out which approach is ‘best’. The inspiration for the empirical work is better described by Hall and Taylor (1996: 955) when they suggest that ‘... the time has come for a greater interchange among them’. In the research project that underlies this book, empirical data of a specific property development process – the development process of greenfield housing – is gathered and analysed. Hence as an offspin, this book aims at contributing to the knowledge about institutional approaches to policy processes.

The approach towards the development process used for structuring the empirical analysis comes closest to what Ball calls the ASH model (for Agency–Structure Healey), referring to a paper by Healey (1992b). In the terms of Hall and Taylor, Healey classifies this approach to the development process under sociological institutionalism. She develops ‘...an approach to the description of the development process which recognises the variety of agencies, agency relations, activities and events involved in development projects’ (1992b: 33). To this aim, she distinguishes four levels through which the analysis of the development process should proceed. First a mapping exercise to describe the actors, agencies and events in the process. This forms the basis for the distinction of roles and power relations that evolve between them. On another level, an analysis of strategies and interests of the actors should highlight the driving forces between the behaviour of the actors. This could then be related to the resources, rules and ideas governing the development process. The fourth level of analysis links the process to the prevailing mode of production, mode of regulation, and ideology of the society in which the development is being undertaken.

This approach to the development process bears a close resemblance to the ‘method of institutional analysis’, developed by Ostrom (1986). She proposes that behaviour in ‘institutional arrangements’ be analysed by using the concept ‘action arena’ (Ostrom, 1986). An action arena includes a model of an action situation and a model of the actors in that situation. In

this research, a combination of the analytical tools provided by Healey and Ostrom is used to describe the greenfield housing development process. As to the driving forces behind the dynamics in the development process, ideas derived from sociological institutionalism are combined with insights from rational choice institutionalism. Thus, the suggestion of Hall and Taylor is taken up that the way to carry further the different institutional approaches is to favour the interchange between them.

The housing development process from an institutional perspective

In an institutional analysis, the 'institutional context' plays a key role. This context includes not only public sector interventions in the market, but also the composition of the group of actors, the different strategies of market parties, the institutional relations between market parties and the public sector, the impact of various 'rules' – not only legislation, but also norms and values – on market processes, etc. With a somewhat different wording, Burie described the housing development process in the Netherlands in this way as early as 1972 (1972: 40-49). According to Burie, the main actors or participants in the process are local government, brokers, designers, construction companies, private house builders, and housing corporations. The main roles the actors fulfil are those of administrator, initiator, designer, builder, and accommodating agency (that is responsible for finding occupants for the dwellings in the social sector). The combination of roles he fulfils characterises a participant in the process. Furthermore, Burie distinguishes actors that participate more indirectly in the housing development process, such as research workers, consultants, and finance companies.

Healey (1992b) describes the development process as a production process with as inputs ('factors of production') land, labour and capital and as outputs (besides profits, jobs and wider impacts) material values, bundles of property rights and symbolic/aesthetic values. Each development project involves accomplishing a series of events through which a site or property is transformed from one use to another. These events include identification of development opportunities, land assembly, project development, site clearance, acquisition of finance, organisation of construction, organisation of infrastructure and marketing and managing

the product. The events may vary in the order in which they are undertaken and who undertakes them. Together, the activities constitute the development process (Healey, 1992b: 39).

The role of the local planning authority in the development process is important for the outcomes of the process in two ways. The local planning authority is a participant in the development process in that it can fulfil roles that could equally be fulfilled by market parties. The local planning authority also sets – either deliberate or unintended – preconditions within which the housing development process has to take place (Van Der Krabben, 1995: 89). Local policy for housing development sets the framework within which the housing development takes place and thus influences the process of which the residential environment is an outcome.

A micro-economic approach

Above, the emphasis was on the way in which ‘policy aspects’ of the housing development process can be analysed. We now turn to more ‘economic aspects’ of this process. The policy for housing development is pursued in a market environment. However, in countries where land and housing markets are greatly influenced and regulated by public policy, it is clear that the development of new housing is more than a straightforward translation of demand into supply. It is a complex process in which different actors pursue different objectives. The (local) planning authority usually does not want the interaction between these actors to be coordinated only by market forces, for several reasons. Korthals Altes (1998) mentions the specific character of the land market (this is dealt with extensively in chapter three), the mutual influence of parcels on each other, and the public space which is always part of housing schemes. Nevertheless, the actions of the actors involved in housing development can be considered to work through the forces of supply and demand. This applies also to the effect of other institutional arrangements, or of social or cultural considerations. The price for houses can be described as resulting from the interaction between supply and demand, when both supply and demand are influenced by these factors (see for an example of such an approach applied to land prices Needham, 1992).

It is not the intention of this book to give an economic explanation for the functioning of the housing development process, but considerations regarding the interplay between supply and demand need to be addressed to analyse the behaviour of the actors in the process and its influence on the outcomes. Therefore, a financial analysis of the housing development process is also part of this study. This part of our analysis is constructed around the notion of the 'financial margin'. There are two sides to that notion. On the one side, there is the rational nexus argument. When housing is developed on a greenfield site, this usually goes together with value increases. The process of transformation of the land from agricultural to housing use generates an increase in value of the site. There is a strong argument in favour of using this value increase to finance the residential environment, i.e. the rational nexus argument. This is the argument that necessary expenditure which is caused by the housing development should be paid by the development. Expenditure on the residential environment is mainly provoked by the realisation of a housing scheme, and it mainly benefits the people in that housing scheme. Therefore it seems reasonable that the value increase that occurs when a housing scheme is developed is used for such expenditure to avoid charging the general taxpayer for such expenditure. The size of the value increase thus determines, together with possible subsidies, the size of a financial margin for expenditure on the residential environment in a housing development process.

On the other side, there is the observation that expenditure on the residential environment is restricted by what is financially possible: the financial margin in a housing development project sets the limits for expenditure on the residential environment. To spend money, you have to have income. In the development process this usually comes from selling the building plots and the houses. In some development processes it partly comes from subsidies from either local or higher authorities. Costs are made for – among others – the provision of primary and secondary services, normal profits for the developer, connection to infrastructure networks, contribution towards other residential development projects. Some of these items influence the residential environment. The money for providing them has to come from somewhere. The income and the expenditure in a development process have to be in balance. The way in

which costs and income are balanced – i.e. where the income comes from and on what items on the cost side it is spent – is specific for each process.

When described in this way, the notion of the financial margin appears to be quite straightforward. This must be qualified. When housing development processes are studied, a financial margin hardly ever appears. Costs of land acquisition, servicing of the area, and the realisation of facilities on the one hand, and income from the sale of building land and sometimes out of subsidies on the other hand, are always part of a development process and can be analysed. But these calculations do not show a financial margin in the way it is described above. If income is substantially higher than costs, this is integrated in the balance sheet. Activities are undertaken either to raise the costs, or to lower the income. This is dealt with in detail in chapter three. The point that is made here is that the notion of the financial margin is used as an analytical tool, to facilitate our understanding of how during the housing development process decisions about the residential environment are taken. In our investigation it is not seen as an item on the balance sheet of a particular project. It is used more or less as a ‘sensitising concept’ (see Glaser and Strauss, 1967), to guide the analysis in this study.

For this financial analysis we draw upon the ideas of Ricardo. His book ‘The principles of political economy and taxation’, first published in 1812, was the basis for an explanation of land prices as arising from scarcity, and the level of land prices as being a residual between the value of the product of the land and the costs of production. J.S. Mill (in 1849, in Principles of political economy) predicted from this that levying a tax on land would not affect the price of the product of land and would be borne by the land owner. And Henry George (in 1879, in Progress and poverty) popularised this into the politics of land taxation. Nowadays neoclassical economics has much more refined tools for analysing land prices and predicting the effects of instruments (for an overview of the neoclassical economic approach to land prices see Lipsey, 1966), but the theory of land price is still basically the same and its prediction still provides the justification for most land policy instruments. In particular, the theory allows the incidence of the costs and benefits of applying policy instruments to be predicted.

1.5 Influencing the residential environment

In the preceding sections, we have dealt with economic and institutional aspects of housing development. We now turn our attention to an important outcome of the housing development process: the residential environment. The residential environment is the combination of houses, plots, infrastructure, public spaces, facilities, and how all these elements are combined into one residential development, or housing scheme.

Decisions about the residential environment

During the housing development process, many decisions are taken which influence the residential environment, for example about the level of primary and secondary services, the housing density and the site layout. Local planning authorities try to achieve a certain minimum quality of residential environment. Therefore, the level of services and other aspects of that environment are partly determined by non-negotiable ‘quality standards’, based on social or safety considerations, fixed by the municipality or a higher level of government. Concerning other decisions about the residential environment, financial considerations play a role, and there may or may not be negotiation about these. For example, it is generally so that the developer of a site – whether it is a private or a public party – has to pay for the primary or on-site services (see Needham and Verhage, 1998).

Often there is a certain financial margin in a development process. Total income minus total costs (including expenditure on the fixed ‘minimum level’ of quality and a certain minimum profit to induce developers to supply) is then positive. Decisions about what to do with this financial margin are subject to negotiations. Decisions concerning the residential environment that are influenced during the housing development process are those about which there is a possibility for negotiations. The quality standards, fixed either by law or by practice, are not very interesting in this respect. They do not emerge from or during the housing development process, but are an input in this process from the outside. Although they have financial impacts, they are not reconsidered in the development process. Our focus is on decisions with a financial

component that influence the residential environment, in as far as they can be influenced by the actors in the development process (see figure 1.1).

A few words about residential quality

The residential environment has a certain quality, and we assume that this quality is at least partly influenced during the housing development process. The quality of the residential environment can be defined as the extent to which the residential environment corresponds to the demands and preferences of residents, planners, developers, and politicians. All these different actors in the development process have their own ideas about quality. These ideas are influenced by the objectives and the background of the actor. It is not the aim of this study to determine what should be seen as residential quality. From other research (e.g. Kuiper Compagnons, 1990, 1991; Winter et al., 1993; Ministerie van VROM, 1996; Carmona, 1999), certain properties of the residential environment that influence its quality can be distinguished. Examples are: housing density (including proportion high rise/low rise), mix of tenure, amount of public open space (parks, play spaces), proportion green/water/hard surfaces/building plots, cycleway and footpath networks, design (including street furniture), facilities (schools, shops, clinics, ...). This study concentrates on the way in which during the housing development process decisions about expenditure on such aspects of the residential environment are made. In section 2.2, we return to the way in which this subject is dealt with.

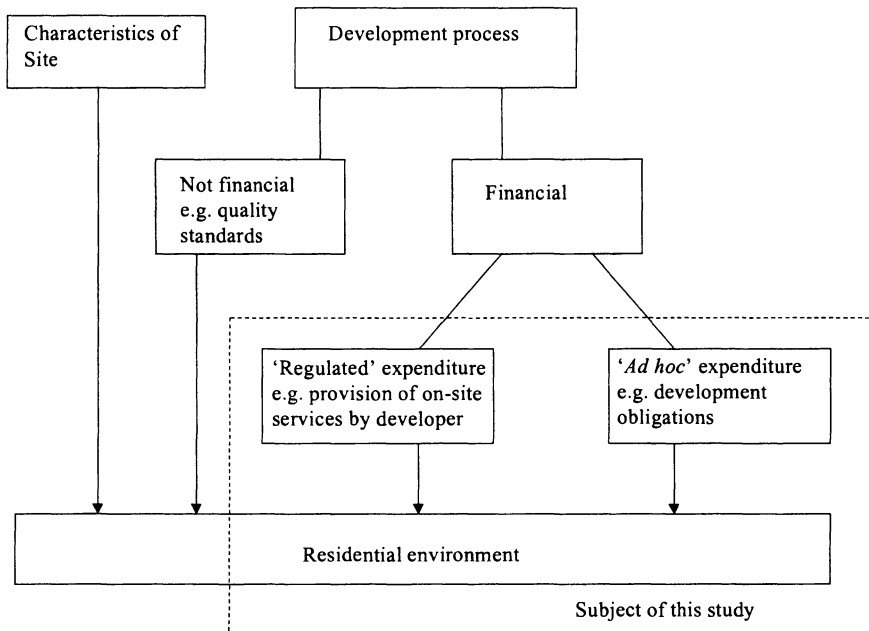


Figure 1.1 Influences on the residential environment

For this study, it is useful to distinguish between primary and secondary services. Primary services are essential for the new development and are provided within the boundaries of the site being developed and up to the boundaries of the building plots. These services include access roads, drainage, gas water and electricity, open spaces, and also the costs of making the detailed plans. They are sometimes called on-site services. Then there are secondary services which link the development site to existing infrastructure networks, and any other costs occasioned by the new development, such as school places, expansion of sewage purification plant, etc. They are usually provided outside the development site, hence the alternative name off-site services. The infrastructure within the boundaries of the building plot and which connects the building to the primary services, is the responsibility of the building developer.

In chapter two, we return to the way in which the analysis of the residential environment is dealt with methodologically. Here, we just

recall that the focus of this study is on expenditure that is judged by the actors in the process as being aimed at increasing the residential quality. This broad interpretation is necessary because of the comparative character of the study. A list of what the researcher sees as residential quality is probably biased by the cultural background of the researcher. What he finds important in a housing scheme might not be seen as such by people from another background, or with another point of view.

1.6 Putting the pieces together

Blowers (1980: 110) remarks: ‘Land allocation and development (...) is a product of the interaction between the market and the planning process.’ We agree with the observation that both the market and the public policy, or planning, determine the results of a development process. Therefore, to analyse the way in which the interactions lead to a product, we propose an analytical framework for the housing development process that combines a financial and an institutional analysis. For the institutional analysis, we have drawn from different authors, but the result can be seen as an elaboration of Healey’s (1992b) ‘institutional model of the development process’ (see chapter four). For the financial analysis, a residual analysis of land prices is used (see chapter three). The analytical framework for this study attempts to link these two parts of the analysis. To that aim, a central assumption is posed, around which the analytical framework is constructed. That assumption is that a crucial phase in the development of new housing is the process of land conversion, and that by focussing on this process, the micro-economic and the institutional analysis can be linked.

A focus on the process of land conversion

Land assembly and land development are the activities in the housing development process where the two parts of our analysis – economic and institutional – come together. These activities together can be termed the process of land conversion. According to Barret and Healey (1985: 349): ‘It is this process of change which interrelates all the other dimensions; for

example, change in land ownership involves establishing value as the basis for negotiating price, change in use may involve change in value, management and ownership and also development. The process of land conversion (whether upward or downward in value terms) forces consideration of the interaction effects of one dimension upon other'. As Barret and Healey suggest, we place the activities of land assembly and land development in the centre of the analysis of decision making in housing development processes. The argument for this is fourfold:

- the residual land price calculation is explained in sections 3.1 and 3.2. Briefly, it implies that the price of land is derived from the price of what is produced on the land, in this case houses. The price that a developer is prepared to pay for the land is calculated by subtracting the costs of housing construction, of land development, and any other costs which might appear in the process of housing development (including a possible profit margin) from the income yielded by the sale of the houses. As a result, if the price that is paid for the land during the land assembly is exactly the maximum price thus calculated by the developer, there is no more room for a financial margin to occur in the development process. In other words, the prices paid in the first phases of the development process determine to a large extent whether or not a financial margin might appear in later phases of the process. However, if the market price of the end product (the houses) increases after the residual land price calculation has been made, a financial margin can appear in a later phase of the process only;
- the party that undertakes land assembly and land development makes an investment that brings a high risk. Often, the party that acquires the land does not itself make the decision whether the site is going to be developed, and thus will increase in value. This means that by buying the land, this party takes a risk which it will want to see compensated by high possible returns. The housing construction itself, once the land has been acquired and serviced, is not very different from a 'normal' production process of durable goods. Investment bears fruit in a short term, the risks are not especially high. Therefore, the gains on housing construction do not play as important a role as the gains on land development;

- as a result of land use regulation through the planning system, land is a scarce resource for housing development. It is not possible to buy any piece of land and then develop houses on it. This makes the land a crucial variable in the development process. The party who owns the land where development is going to take place has – purely because of the fact that it owns the land – an influential position. If it does not cooperate, the process might not be carried through;
- an additional reason for the important place that is accorded to the initial phases of the development process is that decisions that are taken here set the conditions under which the development has to be carried out. The characteristics of a housing scheme are to a large extent determined during the land development. Parcellation and infrastructure provision set limits for what is possible during the housing construction.

For these reasons, this study concentrates on the land assembly and land development. In these activities, the basis for decisions about expenditure on the residential environment can be found. This corresponds with the work of Dieterich, Dransfeld and Voß (1993b), for the German *Ministerium für Landesplanung und Raumordnung* (Ministry for regional and land use planning). In a comparative analysis of the land and property markets in five European countries, they distinguish five different types of development processes. According to Dieterich et al. (1993b: 141-142), the essential distinction between different development processes is who has the ownership of the land during the activity of land development? This is essential because it determines who is responsible for the servicing costs and who receives a possible financial margin. In the first three types of development processes, development is carried out by one temporary land owner. The first type is temporary ownership by the municipality. The second type is characterised by temporary ownership by a public or a public/private body. In the third type, a private developer temporarily owns the land. In the next two types of land development process, nobody acquires all the land within the area to be developed. Ownership of the plots is divided between the original owners. All those separate landowners individually will not be able to provide the necessary services.

A public body will have to do this, and it can do it either with (type four) or without (type five) using public powers.

It is possible to distinguish another type of development process that is not distinguished as such by Dieterich et al. (1993b). When the land development is carried out by a private developer, there are two possibilities. It can be the private developer's aim, after developing the land, also to construct the houses on the site. The private developer then takes care of the realisation of the entire housing scheme. However, it also occurs that a private developer does not realise the housing scheme, but only carries out the land development. Once that is finished he sells serviced building plots to the house builders. In this study we will see that this type of development process has some features distinct from what is described by Dieterich et al. as a 'type three' development. This type is considered as a variant of the land development by a private party as temporary landowner.

The actor that receives the financial margin

Following Needham and Verhage (1998) these five types of development process and their consequences for the incidence of servicing costs and the financial margin are described below.

- Type one: temporary ownership by the municipality. In this case, if the municipality bought the undeveloped land at its existing use value and if it sells building plots at market value, then the municipality receives the financial margin. If the municipality bought at a price above existing use value, then the financial margin is shared between the first owner and the municipality. We can also say more about who pays the costs of the servicing. It is not possible to raise disposal prices of building plots by loading costs for servicing onto them. If those costs are charged to the land development process, they will be included in the price of the plots and therefore reduce the financial margin.
- Type two: temporary ownership by a public or a public/private body. What applies to the first type of development process applies equally to this second type. The financial margin is received by the body

responsible for the land development, or is shared between that body and the private owners. The public/private body bears the costs of the primary servicing. The costs of secondary services can be included in the price of the plots. They can also be borne by the taxpayer. In the latter case, the remaining development gain will be higher.

- Type three: a private developer temporarily owns the land. This private owner either develops only the land, or he develops houses on it also. In both cases, the process is rather similar to the first two types, except that it is a private body which receives the financial margin, possibly sharing it with the first owner of the land. If there are no special arrangements, the costs of secondary services are borne by the taxpayer. However, the costs of secondary services might be charged to the private developer by means of development obligations. In that case, the remaining financial margin is reduced.
- Type four: no temporary landowner, no public powers used for land development. In this case, which actor receives which part of the financial margin depends on private agreements made with the local planning authority. However, with a voluntary agreement it is unlikely that the landowners will be prepared to pay more than the cost of the primary services. So they will receive the full financial margin. Taxpayers will bear the costs of the secondary services that will have to be carried out by the local planning authority. If it is thought incorrect or unacceptable that the land owners should receive the entire financial margin, then there might be taxes or levies on development gain.
- Type five: no temporary landowner, public powers used for land development. Here, the outcomes depend upon the contents of the public powers which are used. If these allow all the costs of the services to be recouped from the land owners, then the latter still receive the (reduced) financial margin. A different kind of public power is possible whereby a charge is levied equal to the servicing costs plus the development gains. In that case, the costs of services are paid out of the levy, the rest of the levy (which corresponds with the financial margin) goes into the public purse, and the landowner realises no more than existing use value.

The types of development process can help to explain the use to which a possible financial margin is put. In each type of process, a different participant or combination of participants receives the value increase of the land, according to its role. Each participant has different objectives. These objectives determine the use to which it wants to put a possible financial margin, and thus the possibilities for expenditure on the residential environment. In the next section, we focus on the actors in the development process, and the way in which they influence, in their interactions, the use of the financial margin.

Decisions about expenditure on the residential environment

Above, the question of how the residential environment is influenced during the housing development process has been translated into the question of how, during the development process, decisions about expenditure on the residential environment are taken. The first part of a response to this question – where does the money come from? – has been dealt with in what we have called a financial analysis of the development process. The second part – what determines the use of the money – asks for an institutional analysis of the same process. This requires considering the following:

- the activities, actors, roles, and objectives;
- the interactions;
- the power balance.

What we want to know is which actor was responsible for land assembly and land development. Here lies the link between our two types of analysis. In the preceding section it has been shown how this central actor influences a possible financial margin in the housing development process. The question that concerns us here is how decisions about the use of this financial margin are made. To understand this, we must concentrate on the interactions in the process. These can be understood as follows.

All the actors in a development process have certain objectives they want to realise. Because there is interdependence between the actors and no single actor is in charge, none of the participants separately can realise

anything, the participants start to interact. These interactions can take many forms, e.g. negotiations, economic transactions, legal supervision. In these interactions, the actors use the power they have to obtain their objectives. The power/dependence that is expressed in interactions can depend on the actor (e.g. a public actor has public law as a basis for power, whereas a private actor does not), and on the role an actor takes on (e.g. when they are landowner, both public and private actors have a crucial resource as a basis for economic power over the other actors). In combination with the objectives of the actors, the relations of power and dependence – as they are expressed in the interactions – can be used to explain how and why decisions in the housing development process are taken.

This study focuses on these decisions as they relate to expenditure on the residential environment in a broad sense: we are concerned with all decisions that are judged by the actors in the process to affect the residential environment. A combination of the two types of analysis – financial and institutional – is used to interpret these decisions. Dealing with the relation between housing development process and residential environment in this way allows for a comparison of processes that are very dissimilar at first sight.

Combining an institutional and an economic perspective

We would like to find out how financial aspects are incorporated in the institutional considerations, and conversely how institutional considerations influence the financial course of the process. We trace this link by focussing on the decisions that are taken during housing development processes, concentrating on decisions concerning the residential environment. Both financial and institutional considerations influence these decisions. Therefore, by studying how the decisions in a housing development process are made, and by uncovering the considerations that lie behind them, we trace the link between the two driving forces that we have distinguished in the process of housing development.

The questions we are concerned with can be described as dealing with the coordination of economic activities within an institutional context.

Since Coase (1937) investigated the question why not all economic exchange was carried out through markets, several strands of economic theory have been developed in this field. The field of study of these 'institutional economics' is clearly depicted by Douma and Schreuder (1991). They give an overview of different economic approaches to organisations. Thompson et al. (1991) deal with the same kind of questions, but put them in a broader context when they speak of the coordination of social activities. Without going deeply into institutional economic theory, we use some concepts developed there to present the link between the constituent parts of our investigation.

Both Douma and Schreuder, and Thompson et al. start from an economic perspective. As such, they are concerned with transactions between people. More specifically, they investigate how such transactions are coordinated. The importance of coordination of (economic) activities is well pointed out by Thompson et al.: 'Various agents and agencies can be 'ordered', 'balanced', 'brought into equilibrium', and the like, by the act of coordination. Without coordination these agents might all have different and potentially conflicting objectives resulting in chaos and inefficiency' (1991: 3). They observe that the classical economic view on how such transactions are coordinated – i.e. by the concept of the market – is not always applicable. A second coordinating principle is introduced which is termed 'hierarchy'. From their slightly more restricted point of view, Douma and Schreuder speak in this respect of 'organisation'.

To complicate the matter further, a third coordinating principle is described by Thompson et al., i.e. the network. 'If it is price competition that is the central coordinating mechanism of the market and administrative orders that of hierarchy, then it is trust and cooperation that centrally articulates networks' (Thompson et al., 1991: 15). In housing development processes, the question of coordination is central. In chapter three, the emphasis is put on the role played by the market as a mechanism of coordination. In chapter four, the more 'organisational' or 'hierarchical' – we call them institutional – aspects of coordination are investigated. In chapter five, both angles are combined by a focus on decision making about the residential environment. In that chapter, we will see that housing development always contains elements of markets and of hierarchies, in various proportions, but that neither of the two on its own can explain the

course and the outcomes of the development process. The network is required as an additional coordinating principle to describe and understand housing development processes. In the case studies, we will be able to observe all three types of coordination. We return to them in the concluding chapter six of this book, to draw together the threads that have been spun out in the other chapters that are each on their own a partial analysis of the relation between local policy for housing development and the residential environment.



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