Distribution of Costs and Profits in Urban Development

By

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Agenda

- Scope of the analyses
- The conditions for the analyses
- The results
- Evaluation of the "system"

Scope of the paper

- Analyse the Danish planning and environmental regulation with regards to distribution of profits and costs in urban development

- Construct an overview of how profits and costs are distributed in urban development

The conditions
for the analyses

- Fundamental principles in Denmark
  - "Principle of legality"
  - "Requirement of statutory authority"
- In other words:
  - Local authorities are not allowed to collect taxes – or require financial contributions – without statutory authority
    - Charge levied for servicing costs ("physical infrastructure" like roads, heating, gas, electricity, sewage purification plats, etc.) shall be equal to the real servicing costs
    - Charge cannot be levied for other costs ("social infrastructure" like schools, kindergartens, etc.) – "social infrastructure" shall be financed through the public purse (tax money)

The results

Who caries the costs and gains the profit in urban development:

A) Idea and planning process,

B) The supply of land,

C) Site preparation and supply of physical infrastructure,

D) The supply of social infrastructure and

E) The construction of buildings

A) Idea and planning process

	Developer/Landowner	Municipality
Profits	The profit from the new use-possibilities given in planning is the landowners	
Costs	(developer/landowner can through voluntary developer agreement pay the costs of the local plan*)	The municipality does the planning as pays for it

* Local plan is a detailed binding plan. It also gives the landowner building rights

B) The supply of land

- The municipality can only obtain some of the society-created value-increase if they become landowner - and is landowner at the time of the value increase.
- They can acquire land in three ways:
  - Land bought on market terms
  - Land acquired through compulsory purchase (based on municipal plan*)
  - Land acquired through compulsory purchase (based on local plan)
- Only in the first two cases the municipality can become landowner before the increase in value takes place (before adoption of local plan).

* Municipal plan is a master plan / structure plan. It containing guidelines on future development and a framework for the binding local planning

C) Site preparation and supply of physical infrastructure

	Developer/Landowner	Municipality
Profits	The profit created through site preparation and supply of physical infrastructure falls in the hand of the Developer /Landowner	
Costs	Site preparation and supply of physical infrastructure are in general paid by the Developer /Landowner – often through connection fee's	The municipality holds the costs of some of the public roads. Some of the physical infra-structure (for instance sewage systems) is paid by the municipality the first time around.

D) The supply of
social infrastructure

	Developer/Landowner	Municipality
Profits	Just as the rest of the community the Developer /Landowner will profit from the supply of social infrastructure such as kindergartens schools etc.	
Costs		It is a municipality task to provide the necessary social infrastructure.

E) The construction
of buildings

	Developer/Landowner	Municipality
Profits	The value increase created by construction of buildings on the land goes the Developer/Landowner	
Costs	The Developer/Landowner holds the full cost on constructions.	

The summarized results

Who gets the **profit** of a particular development project?		
	Developer/ Landowner	Municipality
Idea and planning process	X	(X)
Preparation of land	X	
Construction of buildings	X	

The summarized results

Who carries the **costs**?		
	Developer/ Landowner	Municipality
Purchase of land	X	
Planning	(X)	X
Preparation of land		
-**Archaeological investigation**	X	
-**Polluted soil**	X	
-**District heating**	(X)	
-**Electricity**	X	
-**Water supply**	X	
-**Sewage systems**	X	(X)
-**Roads**	X	X
Social infrastructure		(X)
Construction of buildings	X	

Evaluation of the "system"

- Transparency
- Predictability
- Fairness
- (other criteria?)

Evaluation of the "system"

Transparency

- Yes – the Danish distribution of profit and costs is in general transparent.

- But only for those who have a good insight in the Danish planning and environmental regulation

Evaluation of the "system"

Predictability

- Yes – for the main part

- Fees and calculation parameters are public assessable – often of municipal websites

- Exception:
  - Public road costs

Evaluation of the "system"

Fairness

- As the system is now, the developer/landowner "gets it all" (more or less) – profit, risk and costs.
- Whether this distribution should be changed is in the end a political question.
- And beyond this paper to answer.

Further investigations and evaluations to be done…

Done

"The Danish case" - distribution of development profit and costs

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To be done

Cross country comparisons & categorization of "the Danish case" among other types of land development processes

Consequences with regard to:
• Transparency
• Predictability
• (Fairness)

→

Consequences of the Danish land development process with regard to:
• Incidence and size of *risk* (for developer and municipality)
• Incidence and size of *gain/benefit* (for developer and municipality)
• Physical outcome (amount and type of housing areas)
• Efficiency in order to implement housing policies

Thank you for your attention

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