TECHNICAL GUIDEBOOK FOR FINANCING

PLANNED CITY EXTENSION AND PLANNED CITY INFILL

UN-HABITAT
FOR A BETTER URBAN FUTURE

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Purpose of this guide

UN-Habitat, the United Nations agency mandated by the General Assembly to promote socially and environmentally sustainable towns and cities, has designed dual methodologies for urban planning for growing cities and governments around the world. These approaches are called planned city extension (PCE) and planned city infill (PCI), and serve as an alternative to unplanned and chaotic urban expansion.

UN-Habitat's PCE and PCI methodologies take an integrated approach to the drafting and subsequent implementation of plans for cities and are based on three complementary pillars: urban planning and design, regulatory framework, and urban finance. They recognize that for urban planning to be implemented successfully, it is necessary to analyse the prevailing regulatory framework and to accurately assess the plans' feasibility from the standpoint of both the private and public sectors.

Developing a realistic and implementable financial plan is increasingly crucial to the successful development of a PCE/PCI, as these urban plans have long lead times involving multiple actors (e.g., public administrators, private and public land promoters, and property developers), and they require sizable investments, particularly in infrastructure, land acquisition and purchasing, and construction.

There is an extensive academic and professional knowledge base of economics, urban planning, and, in particular, public finance, real estate, financial markets, and social housing. However, there is considerably less knowledge of the financial dimensions of urban planning. This document is the result of a process of reflection on the need to establish a baseline level of knowledge of these dimensions necessary to generate successful PCEs/PCIs.

Urban planning gives rise to projects all over the world of very different scales and within entirely different regulatory frameworks—from small, rural municipalities to large, urban municipalities; from overall planning that encompasses an entire town to executive urban planning with a narrow scope; from consolidated, developed urban land (PCI) to urban growth sectors in extension (PCE). Thus, this document is not intended to constitute a one-size-fits-all template applicable to any PCE/PCI. On the contrary, it aims to build an argument for the analysis of the financial feasibility of urban planning. It addresses fundamental issues such as the different components of plan implementation, a clear definition of "who's who" in this development process, the impact supply and demand behaviour can have on this analysis, the financial cost and cost of capital, and the phase plan

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for development as a key variable for decision-making. Therefore, this work aims to teach how to think through the financial aspects of urban planning, and how to adapt the analysis to the enormous diversity of circumstances in which urban plans are developed and implemented. Obviously, the line of argument proposed by this guidebook could be tailored into a richer or more simplified analysis according to the magnitude and scale of the project.

When addressing the financial dimensions of a PCE/PCI, it is crucial to consider the plan's feasibility from two different perspectives: that of the private sector and that of the public sector. A private sector feasibility assessment considers the ability of a given territory (each of the urban areas containing a PCE/PCI) to successfully balance the costs and benefits incurred—including the future income that may function as a return on investment—and to gauge the extent to which this investment project is attractive to a given developer. Thus, assessing financial feasibility focuses attention of potential developers

In contrast, public sector financial feasibility concerns public administration's role in the plan being assessed, particularly the impact of government's actions on public finances, both in terms of the investment undertaken and the future maintenance of infrastructure and the provision of urban amenities (e.g., street cleaning, maintenance and management of facilities, waste collection, and urban park maintenance). Thus, public sector financial feasibility refers to the degree of budgetary balance or imbalance that the costs of administering the plan may impose on public budgets once implemented. It takes into account any potential income (mainly tax revenue), as well as government's ability to assume the capital investment plan. In short, the relevant level of government—e.g., local government, supra-regional administration, state government—must assess its ability to assume the investments called for by the PCE/PCI, and must determine whether it can sustain the newly constructed city once it is fully operational.[2]

Often, the public sector activities entail

important to incorporate the costs of this infrastructure into the building phase and the revenue the final products can generate because the costs of developing land and the setting of urban land prices must be compatible with the costs of construction and the final prices paid by the market.

If an urban plan is implemented by a public entity, it is because society demands modern infrastructure as well as schools, hospitals, homes, factories, shops, etc. Thus, the plan implementation process must ensure that the prices of various real estate assets such as these are in line with the demand for these products, and are sufficient to finance the costs of infrastructure provision and real estate development.

In short, we evaluate a PCE/PCI's capacity to attain financial self-sufficiency considering its cost and the potential future income derived from the operation and/or sale of assets acquired as part of the PCE/PCI.