The cover features a dark grey background with a central diamond-shaped grid of overlapping diamond shapes. The grid is composed of solid blue, orange, and grey diamonds, as well as diamonds containing photographs of urban development. The photos show a building facade with a grid pattern, trees, and a construction site with a rusted metal wall. The title and author information are placed within the grey diamond shapes.

Stimulating inner city transformations

The use of revolving instruments in inner city development

Robin Vriends
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Fakton - TU Delft

Management summary

In this management summary, the approach and outcomes of the graduation project “Stimulating inner city transformations – The use of revolving funds in urban development” are described.

Abstract

Context – Within the Netherlands, an urgent mismatch between supply and demand in the residential sector results in adverse effects such as high house prices and reduced affordability. This mismatch is anticipated to grow further due to an increasing number of households (between 300,000 and 1,000,000 until 2040) and the many barriers in the development process of inner city locations. The Dutch residential development sector stands for a great challenge.

Objective – The objective of this thesis is to explore the functioning and possibilities of revolving funds for inner city development. The hypothesis of the research is therefore that a revolving fund provides a solution towards overcoming (some of) the barriers in urban development, particularly in the inner city.

Methods – The research is divided in three components: literature review, empirical study through a comparative case study, and the translation from the case study towards a revolving fund design for residential development in inner city locations.

Results – The case study has established that there are six structural elements that characterize revolving funds: goal focus, goal limitation, size of the fund organisation, distance to the responsible governmental body, risk acceptance and steering ability. A variant study shows different possibilities of the design of a revolving fund with different characteristics in regard to the six structural elements.

Conclusion - In general, the results imply that the use of a revolving fund can stimulate certain residential development projects that experience financing issues. The study has also established that there is a support base for a revolving fund in inner city development, both from a public and private of view. A revolving fund for inner city development should have an equal focus on societal and financial yield (goal focus) and should have a medium goal limitation. In terms of organisation, the fund should have a rather small organisation in relation to the fund volume and should be sufficiently distanced from the responsible governmental body. Regarding the financial structure, the risk acceptance should be relatively high to carry out the predefined tasks of the revolving fund. This results in a revolving fund through which governmental objectives can be carried out with high steering ability.

Keywords: inner city development, revolving fund, planning instruments, comparative case study

Introduction

One of the major issues in the Dutch residential sector is the mismatch between supply and demand, leading to adverse effects such as increasing house prices and reducing affordability. A policy study by PBL shows two scenarios for the demand for dwellings in the Netherlands. The low scenario indicates a demand for 300,000 dwellings towards 2040, the high scenario 1,000,000 dwellings (Van Duinen, Rijken, & Buitelaar, 2016). The notion that dwelling production is not in line with demand is true for almost every area in the Netherlands. Three main questions that rise are: How large is the growing number of households? Where can we house them? And what is the role of the government?

Growing number of households

Regarding the first question, a recent research by Brink and BPD is highly indicative (see Brink, 2017). The research focussed on ascertaining the potential development volume of dwellings in urban areas throughout the Netherlands, which was done based on data provided by PBL. The research concludes that with the current policy and development practice, approximately 9% of the demand for dwellings can be developed in existing urban areas (which translates to developing 90,000 dwellings with a demand for 1,000,000 dwellings until 2030). When a subsidy granting €25,000 per dwelling (which totals €3,6 billion up until 2030), compaction of dwellings by 35% and speeding up the development process is added to the equation, at best one third of the demand for dwellings can be developed in existing urban areas (Brink, 2017). The outcomes of the research should be interpreted with care; the outcomes are based on numerous assumptions and estimates, and the number of 1 million dwellings needed until 2030 is considered a high estimate. Not all demand for dwellings can be absorbed by the Dutch cities; if the actual demand resembles that of PBL's high scenario, other ways of developing dwellings need to be incorporated to be able to match new supply with the demand. In that sense, besides transforming and developing in the Dutch cities, greenfield locations will have to be developed as well.

Housing the growing number of households

Another important aspect is the area in which development may take place. A clear distinction needs to be made, as there is a large difference between greenfield developments and brownfield developments in terms of land development costs. Particular areas, such as old harbour sites and abandoned industrial estates bring about higher costs when developed than well-connected agricultural locations. The main reasons are the relatively high costs for land acquisition, demolition and remediation. This provides difficulties in terms of financing. In addition, the amount of greenfield locations in various urban areas is declining (e.g. Amsterdam, The Hague), which indirectly means that more brownfield locations in these locations need to be developed in order to provide supply for the growing demand in the area. Within the boundaries of Dutch cities, the (larger) greenfield development areas (*uitleggebieden*) are scarce and the focus is more drawn towards urban compaction (*stedelijke verdichting*), city edge transformation and brownfield development areas (Boelman, Visscher, Sassen, & Vlek, 2016). The greenfield developments in Dutch cities are starting to belong to the past and urban transition is becoming more and more predominant.

Role of the government

Both from a public law perspective and from a financial perspective, the Dutch government has tried to facilitate, stimulate and ease the urban development process. Countless laws and regulations tried to do so, from the 1980s until now. In addition, several mayor tranches of financial support have stimulated the process as well, from the 1970s until 2014. In 2014, the subsidy called *Investeringsbudget Stedelijke Vernieuwing* (ISV) was stopped. New policy is in the making, but it is uncertain what kind of financial support the state will supply in the future.

Problem statement

To summarize, I) the amount of greenfield locations in Dutch cities is declining, II) there is a large mismatch between the supply and demand for urban living environments due to a growing population and urbanization, and III) development of brownfield locations is quite difficult. These issues pose the problem Dutch cities are facing: in many urban areas, there are numerous barriers to overcome to realize urban development.

Hypothesis and main research question

There are many possible solutions or measures that can be thought of, such as subsidies, fiscal instruments and other types of stimulating instruments. Planners may employ numerous instruments that are either shaping, regulating, stimulating or contribute to capacity building. The hypothesis in this graduation project is that a revolving instrument such as a revolving fund provides a solution towards overcoming (some of) the barriers experienced in inner city development projects. The main problem as outlined in the preceding section results in a main research question:

How could a revolving instrument stimulate inner city development and how does this influence the decision-making of real estate developers in inner city development projects?

Research methods

In the thesis, three research components are distinguished:

1. Analysis of Dutch urban development context
2. Empirical case study
3. Translating research outcomes into a design

Each component has three sub-components which are analysed along the lines of predefined research methods, described in table 1.

#	Research component	Research method(s)
1.1	Dutch policy in urban development	Literature study
1.2	Dutch practice: cooperation of actors in urban development processes	Literature study
1.3	Gaining overview of planning instruments, and specifically rev. funds	Literature study
2.1	Analysing the use of revolving funds currently used in practice	Literature study Comparative case study Semi-structured interviewing
2.2	Analysing good and bad practices of revolving funds currently used in practice	Comparative case study Semi-structured interviewing
2.3	Deducting the structuring elements of a revolving fund according to the comparative case study	Comparative case study Semi-structured interviewing
3.1	Analysing the possible designs of a revolving fund	Comparative case study Semi-structured interviewing
3.2	Designing a revolving fund for inner city development	Comparative case study Semi-structured interviewing market challenge
3.3	Analysing the influence of a revolving fund on the decision-making of real estate developers	Comparative case study Semi-structured interviewing market challenge

Table 1: Research components and accompanying research methods

The literature review provides answers to the first three research components. The focus is defining important concepts which are mentioned in the research questions, complemented with an in-depth literature study regarding the context in which urban development takes place. The comparative case study focusses on three existing revolving instruments currently used in practice which are selected using four case selection criteria. The revolving instrument should:

- be initially funded by public resources on a revolving basis,
- have involvement of a governmental body (local, regional, national, international),
- offer financing to private actors (and possibly also public actors),
- be used to stimulate development (stimulation here is defined in the broader sense, for example stimulation through financial, operational, regulatory, and/or organisational factors).

The case selection results in three relevant types of revolving instruments, which are:

- JESSICIA Initiative (EU programme) with SOFIE, ED and FRED (three Dutch revolving funds)
- Dutch National Restoration Fund, a large revolving fund focussed on monuments.
- Provincial Restructuring Agencies, with the focus on three examples: OMU, HMO and BHB

The comparative case study (i.e. empirical study) provides the building blocks for the design of a revolving fund in the urban development practice. Semi-structured interviewing is used to enrich the case study by acquiring data and insights from professionals. The interviews are held making use of an interview protocol which ensures that important themes/topics are discussed.

Internship

The graduation project is combined with an internship at Fakton in Rotterdam. The internship will help getting into contact with parties relevant to the research (network) and internal knowledge can be used. This knowledge is consulted for better financial understanding and to come to a useful design of a revolving instrument.

Market challenge

In the later stages of the graduation project, a market challenge is held to “test” the outcomes of the comparative case study. A mix of various actors (e.g. real estate developers, investors, financiers, public actors) is brought together to trigger a discussion regarding the outcomes of the thesis in a workshop-like environment. The discussion provides insight in the support base for a revolving fund for inner city development and indicates how a revolving fund influences the decision-making of real estate developers.

Main research outcomes

The three main research components of the thesis relate to the literature study, the comparative case study and the interpretation of the outcomes to design a revolving fund for inner city development. These three components represent the main research outcomes which are discussed in this section.

Literature study

Adams and Tiesdell (2012) describe the process of real estate development quite thoroughly as they provide several models (e.g. models by Healey and Gore, and Nicholson). They indicate three main sets of events, which are: I) establishing of a clear development concept, II) establishing of a firm commitment towards the envisioned development, and III) the actual implementation (or construction) of the development. According to Tom Daamen, urban development “refers to a framework of concrete material interventions inside a geographically distinct urban area.” (Daamen, 2010, p. 18).

Cooperation in urban development is the final theoretical concept. One of the most common forms is the use of public-private partnership (PPP). Involved actors usually sign two agreements: a declaration of intent and a partnership agreement. These agreements are signed between a governmental body, in most cases a municipality, and private companies, mostly developers or investors (Hobma, 2011). Reasons to set up a PPP may evolve around land ownership when it is separated/divided between the parties, the spreading of development risks, financing issues, etc.

The role of project developers is important in the thesis. According to Patsy Healey, the project developer is ‘the key coordinator and catalyst for development.’ (Healey, 1991). According to Adams and Tiesdell (2012), project developers can play up to four roles in the urban development process: master developer (also: land developer), infrastructure provider, parcel developer, and/or building contractor.

Another important theoretical concept is decision-making, which is a commonly used term but requires some explanation. The main problem in decision-making is that it usually takes place in a context with several actors, all pursuing their objectives with or without regard to other actor’s objectives and their influences (Saaty, 1990). Translating this to the urban development process, there usually are numerous actors involved from the public side (e.g. municipalities, provinces, central government), private side (e.g. project developers, architects, contractors, consultants, etc.), and other stakeholders (e.g. residents, action groups, etc.). This leads to complex decision-making due to the various public, private, societal and other objectives, values and influences. Taking all these into account is difficult, thus creating a successful decision in the urban development process can prove to be quite hard sometimes. When talking about decision-making specifically for project developers, the decision-making is largely based on financial aspects (Ramselaar & Keeris, 2011). Non-financial aspects play a role as well in the decision-making of project developers, but they are not as structured and well-described as financial aspects, according to Ramselaar and Keeris (2011).

Important policy and planning culture have an influence on the development process as well, mainly through the planning culture (see: Friedmann & Sanyal, 2005; Hobma, 2011; Sanyal, 2005; Taylor, 2013), the planning system (see: Buitelaar & Bregman, 2016; Loozeman, Gans, Groeneveld, & Ros, 2016; Rooijen, 2016), public law (see: Hobma & Jong, 2015) and private law (see: Hobma, 2011; Hobma & Jong, 2015).

Stimulating, financial instruments relate to instruments that might be employed to stimulate certain action in the urban development process. Stimulating constitutes one of four roles urban planners may employ, according to David Adams (Adams & Tiesdell, 2012; Heurkens, Adams, & Hobma, 2015). Planners can employ four types of planning instruments: shaping, regulating, stimulating and capacity building instruments. It provides possibilities for planners to incorporate public objectives in urban development processes (Heurkens et al., 2015). One of the stimulating instruments that is assumed to have high potential is the use of a revolving fund.

Other important aspects in the thesis are the use of subsidies, the (scientific) debate regarding greenfield versus brownfield development and the use of revolving funds. Each year, approximately €6 billion is granted in subsidies. Authorities are increasingly exploring other ways of financing. Most policy domains are experimenting with different types of financing options, such as (revolving) fund schemes, crowdfunding, matchfunding and social impact bonds (Ouden & Brink, 2016). The common notion is that

society demands that public funding for societal projects is handled with care and that financing decisions (either subsidies or otherwise) are well-informed decisions. As Ouden and Van den Brink (2016) suggest, each case of public funding for societal projects need to have a form of democratic legitimation, transparency in the implementation process, legal equality and protection for applicants, and public accountability for the effectiveness of the policy.

Regarding the debate on greenfield versus brownfield development, two dominant frameworks can be distinguished. PBL has performed desk research to construct these two frameworks (see Van Duinen et al., 2016). These two frameworks are I) “new greenfield locations”, and II) “transformation of the existing city”. As the names suggest, the first advocates a quick response to the mismatch of supply and demand and thus focusses on quick and easier development in greenfield locations. The second advocates an approach in which the transformation of the existing city is dominant. The debate relates to the so-called Highest and Best Use (HBU) of a location. The HBU indicates which usage/functionality of a location results in the most productivity. This means that in theory each site is used in the way that is most productive (Geltner, Miller, Clayton, & Eichholtz, 2001).

The final part of the literature study relates to the use of revolving funds, an instrument that grants financing to actors or projects. Granting financing may be realised through a (subordinated) loan, granting guarantees, or participation. Principal and interest repayments (in case of a loan) and dividends (in case of participation) flow back to fund, which provides the ability to reinvest the revolving fund’s resources (Holt, Van Ginkel, Van Aart, & Van Den Bungelaar, 2013). The structure of a typical revolving fund is visualized in figure 1.

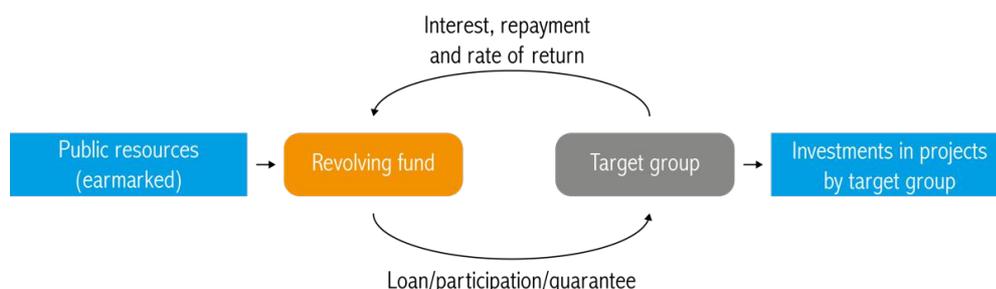


Figure 1: Typical structure of a revolving fund (Adapted from Spenkelink & Willigenburg, 2016).

A revolving fund may employ four types of financial instruments, each having their own risk-profile and steering ability: guarantees, loans, participation and development. The subsidy instrument is not employed from a revolving fund. The typical financial instruments are visualized in figure 2.

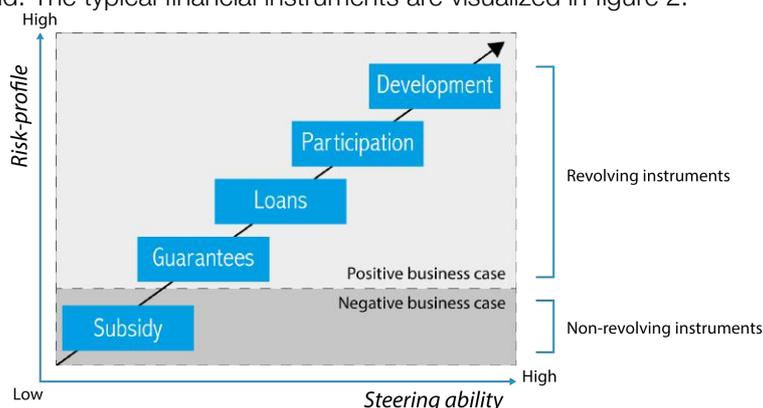


Figure 2: Financial instruments in terms of risk and steering ability.

For a fund to be revolving, the financing needs to be (partly) recoverable. Here, the three main conditions for a revolving fund to be logical are listed.

- Projects that are financed through a revolving fund must have a positive business case/yield potential.
- The projects that acquire financing from a revolving fund set up by a governmental body (and thus funded by public financial resources) must achieve social benefits/goals.
- There needs to be clear market failure: projects or companies must have trouble acquiring regular financing at the capital market.

The difficulty of the term ‘positive business case’

The first and foremost condition for a revolving fund is that the project in question must have a positive business case. However, the fact that a project’s positive business case is a prerequisite for a loan from a revolving fund may come across as rather odd. One may argue that when a project has a positive business case, the market should be able to carry out the development at hand on its own. In that sense, a revolving fund with public resources should not be necessary. However, projects that are not able to acquire financing from the market may in fact have a positive business case. This needs further explanation. There is a difference between projects that clearly show a positive business case (financially speaking) in a rather certain timespan and projects that show a positive business case that is rather uncertain due to external factors. These factors may relate to the timespan of the project and the complexity in terms of ownership, technicalities, etc. The latter type of projects may show yield potential, however due to the external factors the height and timing of that yield may be influenced. These uncertainties may result in banks and other financial institutions being reluctant to finance these types of projects. It is this type of projects that a revolving fund should aim at: projects that show financial and societal yield, usually on the long-term, but due to complexity and uncertainty are not able to acquire regular financing (e.g. from a commercial bank).

Comparative case study

To make the switch from literature to the empirical case study, a case study analysis framework has been developed, based on the four main themes that are important when analysing or setting up a revolving fund: goal, organisational structure, financial structure and type of projects.

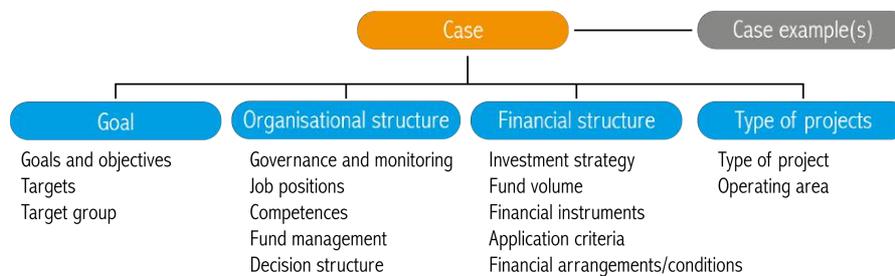


Figure 3: Case study analysis framework; important aspects of stimulating funds

Using the analysis framework, visualized in figure 3, the three cases have been analysed. In the thesis, the case conclusions and all perceived good and bad practices for each theme and sub-theme are listed. The overall conclusion of the three cases is that a clear understanding of the goal, targets and target group is needed. When a revolving fund does not have a clear goal, applications may be arbitrarily assessed and potential applicants may have difficulties finding the fund. In terms of the organisational structure, there are various possibilities. However, in general it is perceived to be an advantage if a revolving fund is distanced from political decision-making. According to the interviews and the workshop, market parties perceive political decision-making to be potentially uncertain. Therefore, most revolving funds are distanced from the governmental body in question in a separate legal entity. The governance and monitoring needs to be carried out by experienced professionals. A side-effect is that the market receives a quick answer to their financing questions. The organisation should be relatively small related to the fund volume. This contributes to the revolving nature of the fund (less operational costs) and ensures personal contact with the market. It is essential to have the core competences (e.g. process management, investment management, financial knowledge, technical knowledge) in-house or to have the ability to acquire incidentally needed knowledge through contracting external professionals. Regarding the financial structure, flexibility is the magic word. Flexibility in the fund volume (starting relatively small, with the possibility to scale-up), in the financial instruments (not only focussing on one), and the financial arrangements (interest rates, repayment schemes) is essential. External factors and uncertainties result in changing circumstances. Setting up a revolving fund that is not able to cope with these changes is relatively useless. The investment strategy and the application criteria directly translate policy objectives in the operations of the revolving fund. In relation to the type of projects, the scope of the revolving fund is essential. For instance, a revolving fund may be employed to only finance certain projects (e.g. office transformations) or with a much wider scope (restructuring of business areas, office locations and inner city locations). Also here, flexibility is important: if a revolving fund is only aimed at one type of project, but the amount of eligible projects is limited, then the fund would not acquire enough projects and the fund volume would then be “stuck” in the fund. Finally, a distinction needs to be between the building/plot level which requires mainly stimulation through financing, and the area-level which requires stimulation through actual development of the first plot(s) of the area to create commitment.

Interpreting the outcomes to design a revolving fund

Looking at the case studies' highlights, main conclusions, and the policy documents regarding the analysed revolving funds (see: NV OMU, 2013, 2015, 2016; Provincie Noord-Brabant, 2005, 2012; Provincie Overijssel, 2008; Provincie Overijssel, 2016), several structuring elements (or main considerations) can be distinguished when considering a revolving instrument/fund. Since these structuring elements are discovered in each of the cases, it is assumed that they are distinguishable for revolving funds in general. For each of the four main themes of the analysis framework, one or two structuring elements can be distinguished:

Goal

- *Goal focus*: the governmental body setting up a revolving fund has to determine whether the fund should focus more on its societal goals or on the return on investment (e.g. ERR versus IRR). This has implications for the way projects are assessed and the 'revolvingness' of the fund. Furthermore, it relates to the societal urgency the governmental body expresses regarding the goal of the fund (e.g. if a certain issue has high societal urgency, the ERR could be dominant over the IRR in project assessment).
- *Goal limitation*: the description of a revolving fund's goals/objectives may be set out as quite broad or more strict. For instance, a revolving fund may aim at only one type of project whereas a fund may also aim at several types of projects.

Organisational structure

- *Distance*: how much does a governmental body wish to be involved in achieving its societal objectives and how far is it willing to distance a revolving fund from the own governmental organisation? Does it possess the relevant competences? This translates to the "distancing" of a revolving fund from the funding governmental body. A revolving fund may act as an entirely autonomous legal entity or might act as a governmental instrument similar to a civil servant managing a bank account of the governmental body in question. This consideration is in line with the steering ability, but translates more to the governmental ability and competences to carry out activities which are part of the day-to-day operations of a revolving fund and the governance structure. These activities relate to the (development) project, acquisition/PR, project assessment, issuing of financial resources and contract management.
- *Organisation size*: a revolving fund's organisation may be set out as an entity with a rather large, institutionalized organisation or with a smaller, lean and mean organisation.

Financial structure

- *Risk acceptance*: how much risk is a governmental body willing to accept to achieve its societal objectives? This translates virtually directly to the financial instruments a revolving fund has at its disposal. The governmental body setting up the revolving fund dictates which instruments are statutory permitted and can thus be employed to achieve the predefined societal objectives the revolving fund wishes to achieve.
- *Steering ability*: how much steering ability does a governmental body wish to have at its disposal regarding the projects and objectives that are pursued? This consideration is directly in line with the risk acceptance level, regarding the steering possibilities for each financial instrument that may be employed.

Type of projects

- *Market demand for revolving instruments*: based on the interviews and market challenges, it is clear that there is market demand for a revolving fund/revolving instrument for certain projects that experience financing problems. However, since the exact demand for financing through a revolving instrument is not clear, the degree of flexibility in terms of financial instruments, upscaling during growth, and the financial arrangements needs to be high. This is rather a prerequisite or recommendation than a structuring element.

The structural elements (except the market demand for revolving instruments) can be plotted in horizontal lines with ranges regarding the choices one must make when setting up a revolving fund or employing a revolving instrument. Each of the analysed cases is thoroughly analysed and can therefore be placed in the horizontal lines, visualized in figure 4. The elaboration on this figure is presented in section 7.2.

Stimulating inner city transformations – The use of revolving funds in urban development

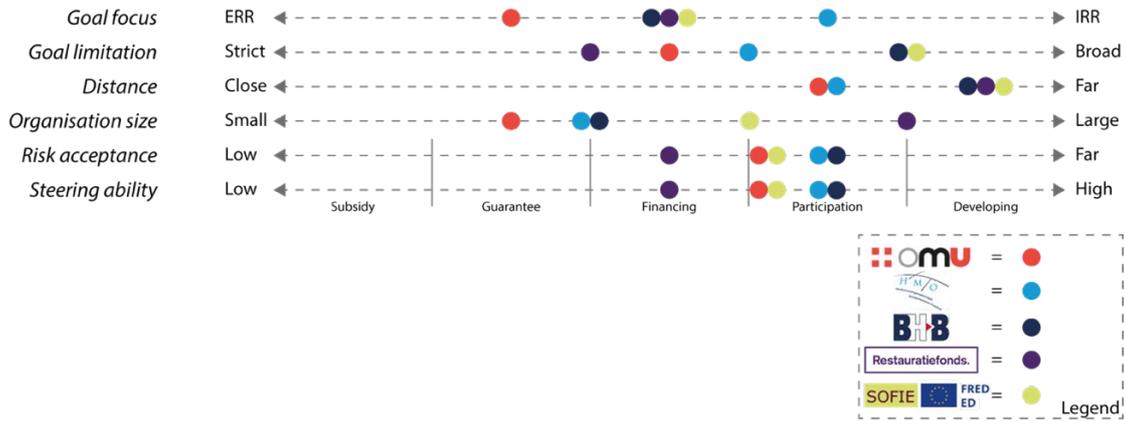


Figure 4: Existing revolving funds plotted in the ranges of the structuring elements.

Based on the outcomes of the case study and the conclusion that there are six main structural elements regarding revolving funds, a variant study has been conducted to demonstrate the impact of the six structural elements on the setup of a revolving fund. Four variants are drawn in figure 5 with varying characteristics, ranging from left to right on the six axes. A further explanation is provided in section 7.3.

1. Subsidy+
2. Revolving fund-light
3. Full-fledged revolving fund
4. Development agency



Figure 5: Four variants of a revolving fund with different characteristics.

Conclusions and recommendations

The thesis leads to six main conclusions and the answer to the main research question.

1. Clear market failure is apparent

Based on the literature study, the interviews and the two market challenges of the 9th and 29th of June, the main conclusion is that particular inner city development projects experience market failure. The main causes of this market failure are the prolonged time-span of projects, complex ownership, difficulty in coupling subprojects with a positive and negative business case, uncertain commitment from a political and market point of view and the reluctance of commercial financiers to provide financing in the earlier phases of inner city development projects.

2. A revolving fund stimulates certain development projects

The case study shows that revolving funds successfully stimulate development projects in the built environment. By providing guarantees, loans, participations and strategic purchase of real estate, they stimulate development which would not have occurred without the intervention of a revolving fund. Three criteria always legitimate the intervention of a revolving fund:

1. Projects that are financed through a revolving fund must have a positive business case/yield potential.
2. The projects that acquire financing from a revolving fund set up by a governmental body (and thus funded by public financial resources) must achieve social benefits/goals.
3. There needs to be clear market failure: projects or companies must have trouble acquiring regular financing at the capital market.

3. The conditions for a successful revolving fund for inner city development

Setting up a revolving fund is quite complex, since many choices and considerations need to be weighed. These considerations relate to the goal, the organisational structure, financial structure and type of projects of the revolving fund. The main conditions for a revolving fund to be successful lie in organisational and financial flexibility and adaptability to changing circumstances. Clear goals, targets and objectives should be defined, making it clear for potential applicants what the revolving fund is about. The revolving fund should be set up in a separate legal entity to ensure prolonged political commitment. A solid governance and mandate structure accompanied with an unambiguous investment strategy should incorporate the public policy goals. The fund's employees should have adequate business case knowledge and essential knowledge (e.g. commercial/development, financial, technical, juridical, management competences). Finally, evaluation and updating the investment strategy is highly recommendable. Finally, in relation to the type of projects the revolving fund should focus on, there are two main types. The first relates to projects on the building/plot-level; in this case, the focus should be on financing through the revolving fund. The second relates to projects that are part of a larger inner city development area (area-level). In this case it could make sense to develop (a first) part of the development to unlock other developments in the area carried out by other developers.

4. A preferred variant that fits best

A preferred variant is established that fits best with the circumstances in inner city development (see figure 6). Note that the outlined preferred variant is based on perceived good practices of other revolving funds, interviews and the market challenges. It is therefore not a blueprint for a successful revolving fund in general. It is an operationalisation of the variant that fits best in the inner city development practice, based on the outcomes of the case study. The preferred variant incorporates the outlined conditions for a successful revolving fund. Finally, the operational level should be the Provincial or Metropolitan region level. The main reasons are to have an adequate pipeline of projects, but the fund managers still need to know the state-of-play.

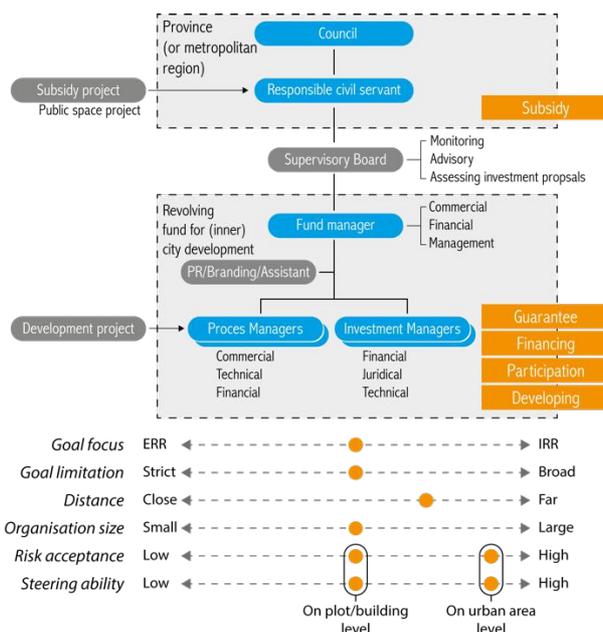


Figure 6: The preferred variant of a revolving fund for inner city development.

The complexity of 'blueprint-thinking'

The designing of a preferred variant for a revolving fund may come across as rather arbitrary and resembles a somewhat binary approach, referred to here as 'blueprint thinking'. The urban development practice is not helped with a binary approach to planning instruments, as it takes place in a highly dynamic and complex environment. Therefore, the preferred variant does not aim at providing a blueprint for a revolving fund in the development process. Every situation demands another design of a revolving fund. The aim of the variant study and the preferred variant is therefore to demonstrate the impact of choices made regarding the main considerations, not to design a one-size-fits-all solution for the development process. The preferred variant is the outcome of the case study analysis in which the good aspects of the existing revolving funds are assessed to see whether they could be of added value for a revolving fund in inner city development. Due to the complex nature of urban area development, the emphasis is on flexibility.

5. Political and market support is apparent

For a revolving fund to be useful, a clear support base is essential. The study concludes that there is support from a political and market point of view. A revolving fund provides a partial alternative for subsidies, which means policy goals can be partially achieved by employing revolving instruments instead of non-revolving instruments. This results in lower public expenditure. The support from a market perspective is apparent as well. Developers express a positive stance towards a revolving fund: when developers want to invest in certain projects that show yield potential but financing is not available, a revolving fund might fill this gap. However, several conditions are put forward. The fund should be committed to a project for a longer period of time, the interest rate should be affordable due to the prolonged lead time, and due to the complex nature of the projects, financial customization is essential. Other conditions relate to the application criteria which need to be clear and not too exhaustive. The revolving fund should have clear (societal) goals, it should be independent of political decision-making (distancing), the fund manager needs to have enough autonomy to find creative solutions, and the fund volume should have critical mass (at least ten pilot projects at the start).

The paradox of flexibility versus policy goals

A revolving fund aims at achieving policy goals by issuing its financial resources to projects that contribute to the fund's societal objectives. However, as we saw above, the urban development practice is under a constant influence of change and complexity. To cope with this, a revolving fund should be flexible. This constitutes a paradox, as on the one hand a revolving fund that is distanced from its responsible governmental body must have a clear investment strategy and clearly defined objectives. On the other, it should be flexible to cope with changes. A balance needs to be incorporated, which means that the investment strategy and policy goals must be adaptable.

6. The influence of a revolving fund on real estate developer's decision-making

Theoretically speaking, the role of real estate developers is to bring together capital, labour and rights in land to create the right product in the right place at the right time. Decision-making lies at the heart of this process. Real estate developers' choices are largely based on financial decision criteria. Revolving funds mainly influence the financial feasibility of projects, therefore dominantly impacting developers' decision-making. From a practical point of view the conclusion is the same. Real estate developers show willingness to make use of a revolving fund under certain conditions. These are outlined in main conclusion three and five.

How could a revolving instrument stimulate inner city development and how does this influence the decision-making of project developers in inner city development projects?

The main research question, outlined above, can now be answered. The main research question is build up in two components. The first relates to how a revolving instrument could stimulate inner city development. The short answer is by setting up a legal entity or reserving financial resources within a governmental body that can employ financial instruments that influence inner city development. The longer answer is that the variant study shows many different ways of structuring a revolving instrument. The variation lies in the six main structuring elements: goal focus, goal limitation, distance to governmental body, organisation size, risk acceptance and steering ability. This indicates that there are many ways of stimulating inner city development through the use of a revolving instrument. The variant study has presented a preferred variant, which is structured as a revolving fund, founded as a separate legal entity that can employ guarantees and loans in case of development projects on the building/plot-level. In case of larger-scale projects on the urban level, the entity may develop independently to unlock further development by other actors. The case study, and specifically the market challenge, shows that real estate developers are willing to make use of revolving fund under certain conditions, described in conclusion six. Therefore, the financially driven decision-making of real estate developers is influenced by a revolving fund through the employment of financial instruments making certain developments feasible that were initially unfeasible.

Stimulating inner city transformations

The use of revolving instruments in inner city development



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