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Innovative funding mechanisms for urban brownfield regeneration analysed

A recent study highlights the role of the public sector in encouraging private investment in natural and cultural brownfield regeneration projects by analysing four models of financing: public-private partnerships, land value finance mechanisms, urban development funds and impact investment funds. Local governments, it is suggested, are well placed to identify and select the most suitable financing mechanisms for redevelopment projects.

The development and implementation of effective financing mechanisms is an essential part of successful brownfield redevelopment, especially in the current economic climate where investors are cautious. The study examines how different funding mechanisms may attract private investment to the redevelopment of natural urban brownfields, which have been environmentally affected, and to cultural heritage urban brownfields, which are abandoned historic districts. Given the difficulties that investors encounter in estimating financial returns and costs of this type of project, to be effective the funding mechanisms often require continuous incentives and a balance of public and private intervention. Governments (local, regional and central), can instigate private investment by reducing risks and by leveraging a combination of available public resource funds and private money through incentives, such as regulatory relief, subsidised insurance, waivers of development fees, property tax abatements and public investments in infrastructure and amenities.

With this balance of public and private investment in mind, the study analysed four models of financing brownfield redevelopment:

Public-Private Partnerships (PPPs). These vary, depending on which operations are supported by the public and private partners. To be effective, they need formal arrangements between partners and a clear identification of roles and responsibilities. In particular, close co-operation among the different partners - authorities, private actors, local residents - plays a key role in the success of a project.

Land Value Finance (LVF). These tools are designed to recover the capital cost of the urban investment by capturing some or all of the increments in land value resulting from the investment. The tools are very flexible mechanisms that can be used to finance a broad range of urban development and regeneration projects. For example, tax increment financing can encourage urban investment through either fiscal incentives as tax relief or through property tax specifically earmarked for the development.

Urban Development Funds. These have a broader scope that can integrate brownfield redevelopment within the funds themselves. A common example is the revolving fund, where developers obtain low-interest funds and the interest they pay flows back into the fund pool. In European countries the establishment of urban development funds investing in sustainable urban transformation is supported by a EU-wide initiative, Joint European Support for Sustainable Investment in City Areas (JESSICA[1]), which assists authorities interested in setting up this type of financial instrument.

Impact Investment Funds. These are socially responsible investments that are not exclusively driven by profit, but also provide social and environmental benefits. They tend to take the form of a balanced investment portfolio over a range of projects.

There are several innovative financial paths to support brownfield redevelopment. In order to choose the most appropriate option, all stakeholders need to understand the relationship between investment and the real estate market and establish formal and transparent partnerships. But above all, it is important to explore the context of the redevelopment project and encourage decentralisation for financing brownfield redevelopment, thus allowing for a better response to urban needs.

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1.See: http://ec.europa.eu/regional_policy/thefunds/instruments/jessica_en.cfm