



# **Module 1: Introduction and the Context**

## **The role of, government, urban planners and markets**

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# Summary

- **Government and real estate markets**
- **Role of government and role of urban planners within government**
- **Role of markets in urban development and what urban planners should know about markets**



# Section 1: Government and real estate markets



In a transition economy,  
the role played by  
Government and urban  
planners must be clearly  
defined

- **The different roles that government, planners and markets are playing in building cities should be clarified.**
- **The problem is particularly important in China during the period of transition between a command economy and a mixed system where markets have to play a larger role.**



Government has a very important role to play in a market economy

- It is a mistake to think that in a market economy the role of government is less important than in a socialist economy
- In fact the regulatory role of government is more important in a market economy than in a socialist economy

# The regulatory role of government in a socialist and in a market economy

- **In a socialist economy the government is**
  - a planner, a developer and a builder,
  - its role as regulator is secondary
- **In a market economy the government is:**
  - A regulator first
  - its role as developer is much reduced to primary infrastructure and some social facilities,
  - it has no role as a builder.



# The regulatory role of government

- **Because the Chinese economic system is evolving toward a mix of markets and socialism, the laws and practices which are essential for the functioning of markets may not yet all be in place**
- **The government may not yet be playing the strong regulatory role which is required in a market economy while it may be tempted to play too large a role as a developer and builder.**



## Section 2

Role of government and role of  
urban planners within  
government





# Role of government and role of planners within government

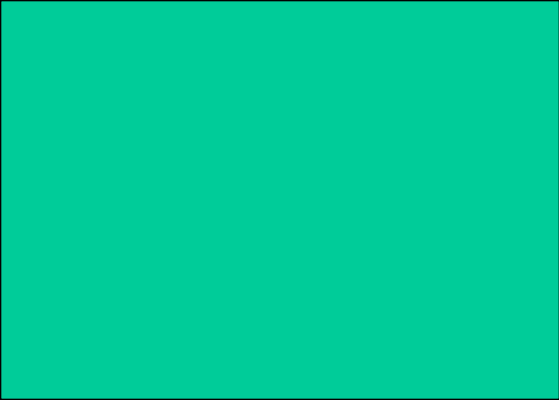
**It is important that government focus its attention  
and resources on developing:**

- **An urban policy:**
  - **Setting up priority objectives**
  - **Developing strategies**
- **A framework for the market to operate:**
  - **Urban land regulations**
  - **Investments in primary infrastructure**
  - **Land taxation**



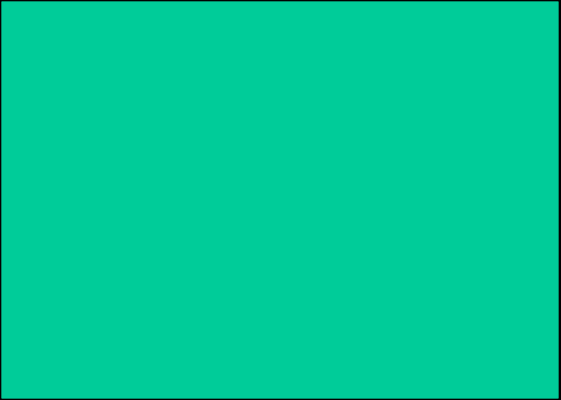
# Role of government and role of planners within government

- **Setting up policy and priority objectives is a political function. It cannot be optimized.**
- **Urban planners should concentrate on coordinating the market framework with the government objectives:**
  - **Land use regulations**
  - **Primary infrastructure investments**
  - **taxation**



# Role of urban planners

- **“The market framework” mostly developed by urban planners will allow the market to implement government objectives**
  - **However, planners have to make sure that the three components**
    - **Land use regulations**
    - **Primary infrastructure investments**
    - **Taxation**
- are completely consistent with government objectives**

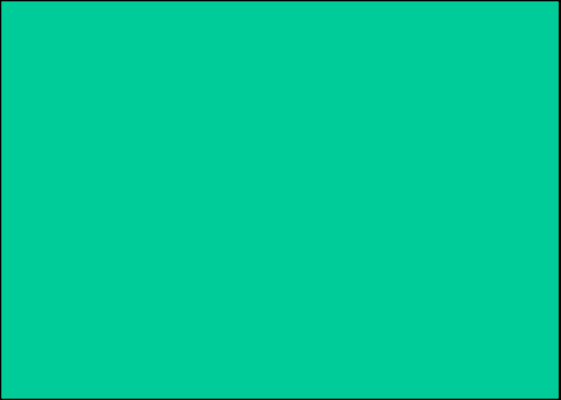


## Role of urban planners: Land use regulations and government objectives

- **To insure consistency with government objectives planners will have to anticipate the effect of land regulations on markets**
- **Land use regulations should be submitted to the 6 steps described in a previous session.**
- **This will include testing the probable outcome of these regulations on land prices and rents, and the impact they may have on the spatial development of the city.**

# Role of urban planners: Land use regulations and government objectives

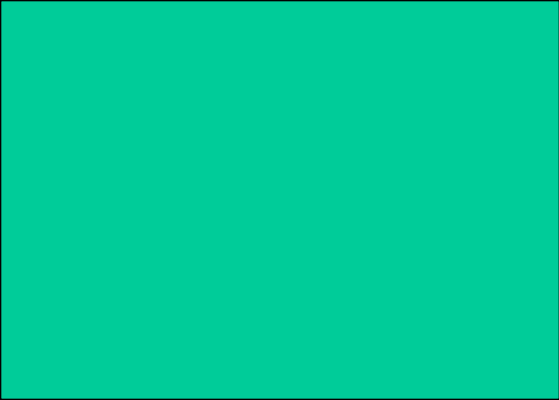
- **Examples:**
- **A regulation that limit density in a given area will normally lower the price of land in this area but will require an increased area of land to accommodate this same population and therefore an increase expenditure in infrastructure;**
- **A regulation which increases allowable density in a given area will normally increase land price and will contribute to decreasing the land needed to expand the city**



# Role of urban planners: Land use regulations and government objectives

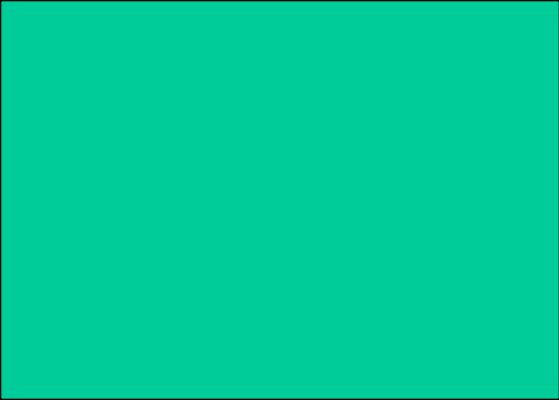
- **Higher densities normally result in cheaper housing than lower densities (in spite of higher land prices).**
- **Land use regulations therefore have a direct impact on the price and the supply of housing.**
- **Planners should therefore anticipate the effect of the land regulations they design on:**
  - **The cost of land**
  - **The price of housing**

**And check if these are consistent with government policy**



# Role of urban planners: Primary infrastructure and government objectives

- **The development of primary infrastructure have an impact on:**
  - **The supply of land which can be developed**
  - **The density at which land can be developed**
- **Therefore primary infrastructure affects also directly the price of land and housing.**
- **Primary infrastructure has an impact on transport, congestion and therefore has a direct impact on the economic viability of a city**



# Role of urban planners: Local taxation and government objectives

- **Local taxation on land and rents is imposed primarily to raise revenues for the municipality, however:**
- **It has an important impact on land use**
- **For instance, a high land tax forces obsolete land use out of expensive well located land. Taxation might be a way of giving an incentive to remove obsolete industries from downtown areas.**
- **For this reason, urban planners should consider land tax as an urban planning tool in the same way as regulations and Infrastructure.**



# Role of urban planners:

- It is important that planners understand the role of :
  - Regulations
  - Primary infrastructure
  - Land taxation
- In :
  - Shaping the spatial development of cities
  - Impacting the price of land and floor space
  - Allowing economic growth



## Section 3

Role of markets and what  
urban planners should know  
about market land prices

# Role of markets

- **Real Estate prices react to changes in supply and demand**
- **But they also react to changes in land use regulations, in primary infrastructure availability and in changes in land taxation.**
- **Urban planners should understand the messages send by land prices and rents**



# Role of markets: understanding land prices signals

- **The variations of prices for land and floor space carries a message that planners have to interpret:**
- **Rising prices, in general, indicate that there is more demand than supply,**
- **Falling prices indicate that supply is larger than demand**



# Role of markets: understanding land prices signals

- **Although lower land and floor prices might make housing more affordable to more households, falling prices are not always a positive sign**
- **For instance if land prices and rent are falling in a neighborhood, it may have 2 possible meanings:**
  - **Supply is catching up with demand (positive signal)**
  - **Demand is decreasing because of poor environment, poor quality of services and infrastructure (negative signal)**



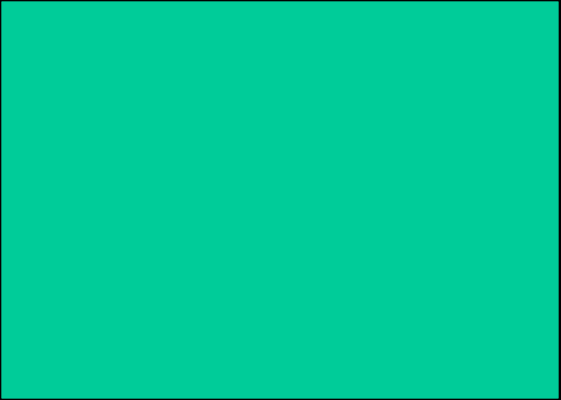
# Role of markets: understanding land prices signals

- **An increase in land and rent price could be a positive sign; for instance:**
  - **A new paved road replacing an unpaved road will increase rents in adjacent land and buildings**
  - **A prestigious school will increase rents in its neighborhood**
- **However, an increase in land prices and rents in the entire city may mean that there is a shortage of developable land and housing**



# Role of markets: understanding land prices signals

- **Rising or falling prices are sending messages which need to be interpreted by the urban planner. Often large price movements will require some action on his/her part:**
  - **Regulatory changes, or/and**
  - **New infrastructure investments**
- **In order to be able to react to price changes, urban planners should monitor markets routinely, in particular the evolution of prices and rents in different part of the city.**



# Role of markets: land prices and land use changes

- **Land prices are also a mechanism to trigger land use changes.**
- **As a city economy evolve, some land use become obsolete.**
- **For instance, the amount of industrial land in cities has decreased throughout the second part of the 20th century.**
- **When land become expensive, factories, when allowed to do so, can sell their land and move to a more convenient place where land is cheaper**





# Role of markets: land prices and land use changes

- **The mechanisms of real estate markets have been the main incentive for improving land use efficiency in cities in advanced economy; land use plans had very little to do with it.**
- **Urban planners in China should also use land prices and rents to trigger an improvement of land use efficiency by allowing obsolete land users (factories, warehouses, etc.) to sell their land use rights to the highest bidder.**

# Conclusions

- **The regulatory role of government is extremely important to allow real estate markets to work**
- **Government should set up clear objectives and strategies**
- **Urban planners should develop new regulations, infrastructure investments and a land tax system which are internally consistent and support the objectives of the government**
- **Urban planners should monitor real estate markets and interpret price signals in term of changes in supply and demand.**