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Placemaking: Incentivizing urban regeneration and renewal
Lessons from the US

David A. Smith, 17 October 2006
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A. Introduction

1. In the US, we have been in the business of government-incentivized urban regeneration for 70 years, since 1937. In that interval, we've spent (by my unofficial estimate) something over $350 billion (US, 2006) in housing and urban regeneration. That's a *lot* of intentional and unintentional R&D.

2. Much of the money we've wasted, some of it we've used consciously to learn things, and the vast majority of it we've added to programs that have proven to work.

3. "We've lost billions so you don't have to."

4. Along the way, we've learned a great many lessons that, even making due allowance for the differences between the US and UK housing ecosystems, I think are applicable in a UK context.

B. Placemaking

5. Placemaking uses a tiered hierarchy of government:

   - *National* government sets priorities, revenue-shares back to regions for sector-oriented interventions.

   - *Regional* government uses national tools in a regional overall strategy by awarding resources with a continuously evolving plan.

   - *Local* government has control over site-specific decisions.

6. All three are essential. The UK, in my view, should strengthen regional and local autonomy and powers.

7. Any healthy placemaking system has a multiplicity of specific tools. Government always wishes for the program equivalent of the Swiss Army knife -- one tool for all purposes.

8. Much better is the spanner set, each specific to its task, then selected and wielded by people who know what they are doing. This *seems* intellectually inefficient … but is not.

9. Placemaking takes time, money, vision, and consistency. There are no short cuts. The tea steeps at its own pace.

10. Placemaking takes more time than any election cycle. That's why the best programs are those sustained over 2-3 administrations.

C. Housing in placemaking

11. Housing is integral to urban regeneration. It often leads change and solidifies progress in improving people's attitudes toward urban areas.

12. Mixing is integral: mix use, mix tenure, mix income. The more options a person has *within a single neighborhood*, the better that neighborhood.

13. Too much emphasis on homeownership is dangerous, for if house prices slip, there is no rental as a cushion (via families shifting their tenure and cost). US house prices are slipping -- what happens if the UK's do also?

14. A healthy economy requires a mobile workforce. In turn, that means an ample supply of quality rental accommodation. In the US we tout our successes at increasing homeownership, but for the economy's health, our professional rental sector (29% of all US tenures) is just as important.

15. Even though housing and urban regeneration are intrinsically linked, as an asset class housing is enough distinct that it cannot be subsumed within the larger category. The World Bank tried parceling out housing among other placemaking initiatives; that effort has failed.

16. Conversely, combining Housing and Urban Development into one entity (that we call HUD) has been no day at the beach either. I know you have mooted the possible combination of English Partnerships with the Housing Corporation. That might be the right thing to do. It also might not be.

17. Housing finance is an ecosystem -- with interdependent pieces -- and at any given moment the ecosystem is the product of many generations of financial and policy evolution. It's critical to add new initiatives *that are appropriate for the current ecosystem*. You cannot simply transplant an idea from one ecosystem into another any more than you can introduce rabbits to Australia, or cats to Hawaii.

D. Capital, property, and bridging the two

18. Capital is national and fast, property placemaking is local and slow to evolve. They are about as diametrically opposed as two economic entities can be. Bridging the two is the critical scaling and complexity task.

19. This requires an intermediate-scale actor: it is simply impossible to do it from the center.

20. Washington is even farther from most markets than is Westminster. Maybe that's why Washington gave up trying to be prescriptive in housing about a decade ago.

21. For the US, the regional actors are the states, which have received *all* the new housing and urban regeneration funding and decision authority for two decades now.

E. Government's ability to stimulate

22. Government is a factory that produces two product types: laws (compulsory behavior modification) and incentives (financial rewards for desired *outcomes*).

23. A well-designed placemaking strategy uses *both*, often in equal and matching measure.

24. "No stick without its carrot." Like two blades of a scissors, each works much better if linked with the other. If government imposes a duty on the marketplace (e.g. an increase cost to restore listed buildings), it will chill if not completely stifle activity, *unless* it also creates a compensatory benefit (e.g. an investment tax credit).

25. Section 106 is a powerful lever, but it is also a zero-sum game. Government needs to make it positive-sum by injecting national capital *in the hands of locals to use or lose as they see fit*.

26. Program tools become more efficient (optimal world) as they become more complex (intellectual world), *provided that* you have sophisticated actors to use them. So hard equity (first intervention) is usually followed by hard debt (second), then soft debt (third), and soft equity (via investment tax credits or otherwise).

27. Each move upward in complexity is possible when we have an expansion of entities capable of using it -- allocators, regulators, program participants.

F. Piloting is a goal

28. Devolving authority -- meaning permission to fail -- to regional and local government is in some sense an exercise in trust. Central government must trust that the regional/ local people (a) care as much, (b) are intelligent and quick to learn, (c) are well motivated. This trust must overcome the unquestionable inexperience that regional and local bodies have in the UK. US experience shows *local bodies are the best deciders*, *if given time to learn*. That takes some trust.

29. Creating new incentive programs are like a venture-capital stock portfolio. Incubate many, invest in some, reinvest heavily in a few. Expect failure, plan for failure, figure out what you want to *learn* and see failure as experiment.

30. I always ask government clients, "How much money do you have permission to lose?" If the answer is zero, you will never innovate.

31. "Ever tried. Ever failed. No matter. Try again. Fail again. Fail better." -- Samuel Beckett

G. Inclusionary zoning and tax credits

32. Investment tax credits -- future tax savings sold for private cash today -- are a great tool because they (a) transfer risk, (b) reward outcomes not process, (c) are perfectly collectible on clawback. *These features cannot be replicated by appropriated funds*; soft equity via tax credits is a *new and better* kind of money.

33. *However,* tax credits require (1) regional capacity, (2) sophisticated sponsors, and (3) motivated large-scale financial capital.

34. Today's UK has Item 2, the sophisticated sponsors. It could rapidly grow Item 1, regional capacity, although that involves startup inefficiency costs.

35. Additionally, capital is by nature conservative; it needs incentive to innovate. Something akin to a Community Reinvestment Act would be very handy, as it (a) judges financial institutions on the volume of their reinvestment, (b) does not specify process, just commitments and outcomes, and (c) allows financial entities to make sound business propositions investing in urban placemaking.

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