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Value Trends Under the Transition in Urban Renewal—The Case Study of Shenzhen

Jingxian Tang * and Yan Tang

Department of Urban Planning, School of Architecture, Tsinghua University

* Author to whom correspondence should be addressed; E-Mails: archtjx@126.com.

Abstract: In the process of urban renewal, institutional arrangements and governance approach are mainly determined by the dominant values at that period, which affects the allocation of rights and interests among involved stakeholders. At the turning point of China’s urbanization, value trend which turns to be more rational and inclusive is to take full consideration of various needs of different participants, trying to keep balance between economic efficiency and social justice. With appropriate institutional arrangement, urban economic growth can be stimulated by reducing transaction costs and contributes to the overall social benefits. Then where is the binding point? Borrow from new institutional economics theory, this paper attempts to interpret the latest urban renewal regulation acted in Shenzhen. By revealing the nature of renewal process, we take an analysis from the aspects of institutional arrangement and public value which reflects the value behind. Finally, we discuss about value-oriented policy design, and summarize the public policy trends of urban renewal under the context of changing socialist market economy and urban development.

Keywords: public value; urban renewal; urban planning; property rights; Coase.

1. Introduction

1.1 The inherent nature of urban renewal activities: Stakeholder and Value Orientation

With the accumulation and diffusion of capital, China's mega-cities are crowded by high-dense population in demand of more space. However, urban sprawl will not work due to limited lands in the
fringe area. Therefore, renewal of the built-up area which is shabby or out-of-function becomes inevitable to fulfill the urgent need of spatial reconstruction.

Urban Renewal can improve space quality, stimulate function succession, accompanied by the reconstruction of economy, social structure and relationship networks in inner city (Paddison R., 1993). Its inherent nature is a transaction process which includes resort, segmentation, distribution, and reallocation of the initial and added benefits.

For a long time, the ownership of property is ignored, which results in property fuzziness. Moreover, mobility of householders makes property ownership more complex, compared to that of a vacant lands. Urban renewal involves multi-stakeholders and weaved property relationships. For example, in the process of Shenzhen urban renewal, involving groups may include:

1. The initial householders: original owners, original tenants, or other hidden subjects (Illegal or caused by personal behavior).
2. The perpetrators - government, developers, original owners, new householders, or a third-party.
3. Other new involved stakeholders - new tenants, other users.

The institutional arrangement of urban renewal is a contract, which stipulates the coordination mechanism of interests, how to identify and integrate interests, how to guide for agreements, who will get the benefits, and also the procedure. Oriented by different values, such as public value, government benefits, private interest or community interest orientation, it will result in totally different social structure and resource allocation. The government is like a game-rule maker, to determine who will get involved in and how to balance interests, and also who will get compensation. Therefore, within the context of China’s social transition, it is vital to explore the value trends for this specific period which had a crucial impact on the physical space, land use, social structure, and economic growth in built-up area.

1.2 Urban renewal history and value evolution in China since 1949

Beginning from 1949, Urban Renewal can be divided into four stages with different characters and value orientations:

1. The first stage: new channels and government domination (1949-1976). Due to weak awareness of protection and financial shortage at the initial period after liberation, urban renewal catered to the mainstream ideology of constructing for socialism. Redevelopment was totally controlled by the
government, including land rights definition, public house construction, and public infrastructure which was quite limited. Many public-owned houses survived as office for administration, while the others were easily demolished, reconstructed or distributed by government. The only aim of urban renewal was to solve basic housing problem after war. Except for the appearance of Chinese-style inner cities (not the colonial city which represents western culture), there is no serious consideration about the renewal process. It reflects the primary-level ideal of average distribution and the government’s absolute power in planned-economy period.

2. The second stage: Welfare government and the state-owned units’ demands (1978-1990). After the reform and opening up, China's focus shifted to economic development. The government began to pay attention to housing problem, and high-rise apartment buildings came into tendency in the 1980s. Many state-owned units were driven by welfare-oriented public housing distribution system which tried hard to promote housing construction. However, the welfare-oriented public housing distribution system, which was a relatively disordered and chaotic period, cannot create economic value, the aim of urban renewal was mainly to meet the collective interests.

3. The third stage: market-oriented and self-interests expansion (1990-2000). In 1990s, with the top-down housing system reform, real estate market came into its spring. Driven by huge interests, large-scale private sectors got involvement. This period of urban renewal reflects significant profit-driven orientation, and the hasty construction without appropriate institutional arrangement and governance finally resulted in unbalanced distribution of benefits.

4. The fourth stage: public-private partnerships and democratic consciousness (2000- ). Along with the development of the socialist market economy and the public consciousness, the elite class in China came to recognize the value of local culture. Urban renewal issues became a hot spot, and government began to use the tool of planning for heritage conservation, protection and reconstruction of the old city, transformation of old industrial land. Furthermore, it tried to work together with the market in a normative and institutionalized way.

To sum up, urban renewal is seriously affected by urbanization process. Stakeholders involved, renewal mode, effectiveness and value orientation walk hand in hand with the development stage, so as to the ideology evolved. In other words, under the background of China's special environment, urban renewal practice and research show obvious regionalism and timeliness (Zhai et al., 2009). The evolution presents a trend from authoritarian to democratic consciousness, from purely profit-oriented and political-driven to a much higher focus on people’s demand.

1.3 Problem: Value crisis and the strait of the urban renewal

From the above, we can come to the point that the reform and opening up in 1978 was an important turning point. Since then, market-oriented economic reform, social polarization of wealth distribution, social transformation, transition of governance, democracy, and awareness of rule by law have sprout out together, making the city into a moment with social reconstruction and various choices.

The previous institutional arrangement takes government-led mode or government - developer cooperation mode, ignoring the wishes of people. A lack of consultation and cooperation resulted in a number of social issues, such as grievances and criticism from community. Then, for a more intensive development in the context of planning for the built-up area, how to reflect the needs of multi-subjects,
how to choose institutional arrangements to balance the demands from all sides? Can it be reflected in specific provisions? If we introduce public participation mode into the process, can we easily address the strait of post facto? The modern urban planning is a story of conundrum to which there’s no obvious or easy answer, and it is necessary to understand institution in allocating property rights over scarce land and related resource (Chris W, 2005).

Until now, Shenzhen is the only city that has established a complete set of renewal institutional arrangements which receives positive feedback since its implementation. This paper attempts to interpret the institutional arrangements and reveals the value orientation behind.

2. Theory and method

2.1 Research method from New Institutional Economics

Urban Renewal is not just about physical space design, but more related to institutional arrangements for property reconstruction. Therefore, traditional approach for interpretation may not enough for this complex process, so we introduce the concept from the new institutional economics.

1. Institutional arrangement is one type of contract, by which we could establish regulations for resolving conflicts, identifying rights borders, clarifying rules for redevelopment, to achieve effective urban renewal.

2. Property rights. In urban and peri-urban areas the value of a piece of land lies in the rights attached to it. (Renard V., 2007) The demarcation of interests relies on property rights identification. Clear property relation will prevent disputes, interest conflicts, and remove the gray space (the remaining property, etc.).

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3. The transaction costs. The implement of urban renewal partly depends on the amount of transaction costs (Table 1). Reducing the transaction costs will increase the possibility for redevelopment, vice versa. Transaction costs is related to property rights transfer and control, in a world that transaction costs

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is zero, there is no institution and organization. (Coase R, 1998) In the real world, however, this ideal situation does not exist, so the initial arrangement, namely the allocation of resources, will lead to different results.

4. Principal – agent. It means to prevent the public sector to become the "economic man", otherwise the defenders of public interest will deform. While a positive approach to economic externalities can lead to some public-private goods that the pure market cannot supply (Alexander E.R.A, 2001)

2.2 Strait of institution arrangement in urban renewal with the changing value

1. Value crisis at the turning point of urban transition

Since 1990s, social value in China turned into an integration and self-building phase, which formed a coexistence condition of new collectivism and pluralistic values. Both the old and new values companied by the one still in conversion coexist in contemporary society, with many contradictions and conflicts. Collision between democratic consciousness and authoritarian reflects in different subjects’ behaviors in the forest of concrete. In addition to the top-down system of governance, citizen participation and bottom-up feedback mechanisms is now under construction, reflecting the wake up of people’s consciousness of right. Individuals try to defend their own rights. In this context, maintenance of public interest has become an inevitable choice. The previous system that lacks consideration of democracy is difficult to carry out effective absorption and to express willingness from bottom-up. It is imminent to rethink and transfer way of governance, in accordance with the values in conversion.

2. Problems and issues caused by previous urban renewal practice

Administrative arrangements and planned economy showed some disadvantages in terms of efficiency and flexibility to adapt to changes compared with market. Evolution of urban means continued replacement or adjustment of function, however, due to the difficultly of land use revision which is set in masterplan, it is quite cumbersome to adjust according to develop requirement. In other words, land is high-dedicated assets, the transaction of which would face with high risk of value loss without adequate institutional protection.

The key reason lies in that the initial allocation was ignored in the past. At the beginning of land transaction, there is no consideration about the costs for recycling, that means, lack of land exit mechanism. For example, the property of allotted land is authorized by government at one time which will turn to be fuzzy at the end of the first transaction. When it comes to redevelopment stage, the problem of unclearly defined right of ownership is exposed. Cheung (2000) has explained it as “rent dissipation”, when some property value is not clearly defined, it will cause value loss and competition for the grey parts (left property).

Many obstacles stand in the way for developers who are deliberately willing to start redevelopment. Firstly, renewal units relate to numbers of scattered property. For example, if it is shantytowns, a reconstruction project will involve in a dozen of stakeholders. Secondly, agreements between multiple subjects for compensation and transaction is a new challenge brought by democratic consciousness, which makes issues complex,. Thirdly, heavy compensation costs become a burden for developers while
the risk is not eliminated. In addition, with normalization being the basic principle in new era, the risk and cost increase with a series of procedures like asset valuation, land use revision, added-value tax paying. Faced with these difficulties, most developers turn to informal renewal progress (Feng et al., 2005), such as rent land for creative industries, in which process the property rights does not change, but only extends extra lease right.

3. Reduction of asymmetric information and the rise of public consciousness

In traditional approach, the government cooperates with developers, both of whom have relatively overall information. They get most of the residual control rights since the locals’ lack of symmetric information for their rights. But recently, the public has been more informed and rational to argue for ownership. However, there is still no reasonable institutional arrangements to make it expressed effectively.

4. Bounded rationality in the long-term practice of urban development

In addition, transaction process of land and its ancillary rights is a long-term practice. For urban construction, regulations always show shortage such as inevitably lag behind market. Land or housing transaction cannot complete instantly and immediately as ordinary goods. Therefore, given the uncertainty of contractual environment and bounded rationality, it is difficult to ensure a complete and clear contract arrangement, which results in unexpected costs during the process.

Faced with changes of values and the strait of the old institutional arrangements, transition is just around the corner. Under the context of China's state-ownership system, the right and responsibilities of legislation, institutional arrangements and governance are mainly determined by the people’s congresses and administration departments. In order to seek an appropriate way to get rid of the strait, governments are supposed to identify the mainstream value during this period and construct a normative system to take stakeholders out of cracks between markets, public demands and governance, to keep all the groups involved a reasonable return.

As value is too abstractive to describe, we use the conception of property right as a carrier reflecting the value transition. As the approach for renewal is closely related to land, every step is reflected by property right transfer and reallocation. Therefore, it has been recognized that property right is social behavioral relationships between people caused by exchange of material. And it clearly identifies the economic and social belonging in terms of resource. How to allocate property rights is the fullest expression of an institutional arrangement.

Of course, Coase's theory of transaction cost discusses how to maximize the effectiveness, and how to designate property arrangement for optimal efficiency of stakeholders, which is still within the scope of economics concerning about optimal effectiveness. However, if reflected on urban issues, it is obvious that effectiveness is only one facet of growth. The ultimate goal of human settlements development is economic growth in balance with social equity and environmental sustainability. Therefore, to inspect the goodness of an approach of urban renewal, a multi-angle comprehensive consideration is necessary.
3. The case study of Shenzhen – institutional arrangements binding growth efficiency and social justice

Shenzhen is adjacent to Hong Kong, from where it borrowed the zoning method for local planning control and management. The city is regarded as a reform pioneer in many fields, as the zoning method is a successful localized exploration. Hong Kong is a post-colonial area taking a regime of private property in land, so its development swings between capital growth and democratic equality. Different from Hong Kong, Shenzhen is in the context of China’s governance system dominated by public ownerships. Being ahead in the realm of urban renewal, Shenzhen creates "renewal unit" as a tool for sophisticated process. Furthermore, it takes full consideration of redevelopment efficiency together with social equity as two main aspects in institutional arrangement, to break the current strait of property transfer. So far, researches on renewal mechanism and strategy (Li, 2015), institutional construction (LU et al., 2009), the change of governments’ role (Liu, 2011), and renewal unit (Liu, 2010), institutional construction (Lv et al., 2009), the change of governments’ role, and renewal unit (Liu, 2010, 2011) have formulated a basic understanding for further discussion, yet none of the research talks about value orientation from the perspective of property right.

3.1 Change of renewal approach and value orientation

Institutional construction of urban renewal in Shenzhen is a long-term process of constant and gradual adjustment.

1. The initial exploration, blur development direction (from early 1980s to late 1980s). The initial transformation in the inner city is small-scale reconstruction by individuals with no guidance and direction.

2. Government-led and profit-driven period, lack of restraint and the public interest is ignored (1989-2000). Poor villages isolated among the high-rise became the main rectification area during the second phase. Demolishing the old one and rebuilding a new high-density form was the main way. Lack of appropriate governance, many problems came out, like illegal constructions, ignorance of overall urban form, conflicts to planning, confusing property rights, underground transaction and so on. Renewal shows obvious profit-orientation causing a number of social problems in the dismantled area.

3. Government-led, ignorance of market effectiveness (2000-2009). In this period, the renewal projects expanded gradually into the “three old”----old town or community, old industrial factory, old villages in inner city. A series of regulations and constraints were built for governance of the renovation improvement process. However, some blind redevelopment ignored the market demands, which resulted in land speculation and real estate backlog and ignorance of social problems as well.

4. Shared responsibility by stakeholders and authority, a new era with effective operation of market (2009-2014). In 2009, with “Measures for the implementation of renewal in Shenzhen”\(^2\) introduced by the government, institutional construction entered into a new systematic stage from all aspects; in 2010, "renewal unit" was introduced from Taiwan and weaved into the local planning system. Renewal is classified into three categories according to The Measure, namely, comprehensive renovation, demolition and reconstruction, functional changes. Property right transfer in the process is clarified

\(^2\)《深圳市城市更新办法》深府令（第 211 号）2009
separately. And the amount of compensation, responsibilities and rights of the stakeholders are clearly stated. This is the first time that renewal process is totally institutionalized by law. Government plays the role of a service group instead of a controller, and market mechanism is expected to show its high efficiency with public interests fully expressed.

Through nearly 30 years exploration, Shenzhen has adjusted its value orientation gradually to meet the need of urban redevelopment. For the formation of the “Implementing Procedures for Shenzhen Urban Renewal” as a binding of "growth efficiency" and "social justice", we will give an interpretation in the following part.

3.2 Interpretation of urban renewal regulations in Shenzhen

3.2.1 Efficiency-oriented: institutional tools for renewal—property arrangements

1. Clarity of property rights

Clarity of property rights is made before the beginning of renewal project. According to "Application of Shenzhen renewal units guidelines (Trial)" published in 2010, "Interim provisions for remaining Land Disposal" published in 2013, land rights survey is required before urban renewal, including land information certification, building information verification, maps of ownership distribution, map for building attributes. And the legality of land and building rights should be confirmed, if it is not clear, the departments will deal with illegal land or building by compensation or punishment, disposal the unclear land right according to the files.

Property right is the core element for coordination of interests. With clearly definition of initial ownerships and property right from the very beginning, and added-value proportion, Shenzhen government safeguards rational allocation ratio of each subject involved, and balances between stakeholders’ benefits, which ensures a justice process and avoids costs of loophole by institutional reason.

The rigor of this process reflects a shift of governance towards more attention to public rights, equitable public policy, importance of legalization and normalization.

2. Turn land added-value into package of public goods

The Measures sets a mechanism of bundling public facilities together with renewal. The renewal process brings added-value to the land and space. When the right property is transferred from the owner to the developers, the developers should pay for the added part to compensate for the external loss of the overall urban interests. Therefore, according to the "Interim provisions of affordable housing collocated with urban renewal project in Shenzhen" published in 2010, the agents for renewal projects are required to contribute a certain percentage of land for public facilities construction. If it is residential projects,

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3 《深圳市城市更新办法实施细则》深府（2012）1 号
4 《深圳市城市更新单元规划制定计划申报指引（试行）》深规土（2010）16 号
5 《深圳市城市更新历史用地处置暂行规定》深规土（2013）294 号
6 《深圳市城市更新项目保障性住房配建比例暂行规定》深规土（2010）843 号
affordable housing or innovative industrial factories are required as accessories. The urban area is classified into three different levels of districts. The percentage for collocated housing should be no less than 15% for the first-level district, and no less than 10% and 5% for the second-level and third-level. If the projects are located within the range of 500 meters around the subway station, the percentage should increase by 3%. And for factories changed into residence, the increase rate is 5%.

This process is actually to counteract the externality of added value caused by redevelopment. In the past, most of the profits benefit the government and developing agents. The Measures in Shenzhen takes a big step forward. Through assessment and reallocation of renewal profits, the interests are divided into three parts. That is, one part for the government in the form of reserved land for further sustainable development. One part of the profits is directly invested into public housing construction by a way of bundling projects for public facilities described above and one part for the people who bear the loss as compensation. Thus, the advantage of market is expanded to public goods production, which contributes to social justice. Nevertheless, the quality and location of affordable housing still needs further supervision to ensure the efficiency.

3.2.2 Justice-oriented: reflection of public value----willingness survey and consideration of public facilities

1. Survey of renewal willingness

The guideline for declaration also requires for a pre-stage survey of renewal willingness of the owners. There are basic standards more than which the project may be allowed. For example, if it involves only a single parcel of renewal unit or village in inner city, there should be more than 2/3 percentage of the total owner amount or the total construction area, if it involves many parcels, the percentage should be increased to 4/5. If it is a residential community, the percentage for admission reaches to 90%.

If one looks back the urban renewal in the past, although the mechanism of public participation is always advocated by planners, it finally turns to be a slogan or concept with no impact. There has been no regulation before taking it seriously in normative provision form. We see the prototype of bottom-up collection methods of the public voices in Shenzhen’s measures which reflect the pluralistic value. This provision minimizes the initial transaction costs, and makes it easy to reach a consensus for a smooth progress.

2. Arrangement of the agents for public facilities and infrastructure

"Implementing Procedures for Shenzhen Urban Renewal” published in 2012 clarifies an arrangement of infrastructure and public facilities construction within the renewal program, including scale, proportion, division of responsibility, mode of construction and pricing standards to ensure its implementation. For small parcels, there are specific regulations for infrastructure, public facilities, affordable housing, rights and responsibilities. "Shenzhen innovative industrial space management (Trial)",7 and "Suggestion on accelerating the development of industry accessory residence by the

7 《深圳市人民政府办公厅关于印发创新型产业用房管理办法的通知》深府〔2013〕2号
Government” ⁸ are defined provisions for the construction of housing, infrastructure, industrial factory, including the type, size, location, property management, etc. The principle is to give priority to urban infrastructure, public service facilities or other public programs.

In addition, the government also introduces evaluation mechanism. Empirical cases are selected from the region for studies to make a control index of demolition and construction ratio. Moreover, government can get involvement in allocation once the project exceeds the ratio, which means a secondary distribution of the benefits afterward.

The above provision about the construction subjects is responsible for public goods and reflects the attention for public governance responsibilities and rights. The goal is to ensure the supply of urban public goods. However, since the whole process is top-down arrangement for the “public goods”, it still shows a strong ideological elitism.

Given the failure of free market and profit-driven economic groups, public evaluation and feedback mechanism is still necessary for the expression of public voices.

4. Discussion & Conclusions: Value trends and Institutional Arrangement in Urban Renewal

Through arrangements of property rights, Shenzhen achieves urban redevelopment that is normalized and efficient. By setting the procedures of renewal and bundling construction of public goods, social justice is included. Combination of both leads to a balance point where the demands of diverse subjects’ interest are satisfied.

Public interest is a hot issue. Academia often defines it as the need of multi-subject, as a standard for assessment of public policy effects. Then whose benefits are the public interests? Zhang (2005) mentioned in the "public interest, Problems and Solutions,”

"public interests is a collection of private interests, public and private interests are not, in essence, a completely different concept, there is no clear gap, if safety of residents is recognized as public interest, then the prosperity of local economy should also be treated as."

Therefore, public interests is not a banner of utopian. In fact, the issue of interest should be discussed directly. Interests is not about one group, instead, it should be a bundle of interests, including several groups in the development progress. The most important thing is to ensure effective expression of rights and needs of each group.

In the presence of pluralistic values, justice and efficiency are still widely accepted standards with which interests of the individual should be respected. Institutional arrangements for urban renewal in Shenzhen adopts a normative approach to initial property arrangements, renewal willingness survey, reasonable allocation of land added-value, with a combination of public goods construction policy, which aims at multi-stakeholders’ participation to reduce transaction costs in the progress. By guideline and restriction of market self-regulation, the system tries hard to achieve the overall benefit of society and individual interests. With a more orderly and rational guide for renewal activities, a triple win is expected to realize.

⁸ 《深圳市人民政府办公厅关于加快发展产业配套住房的意见》深府〔2013〕4 号
Although Shenzhen is still in the experimental stage with the renewal progress constant and continuing, its value orientation deserves recognition. For further developments, specific problems and issues are on the way for adjustments.

Faced with the challenge of social and economic environment reconstruction, the conceptions of urban development, approaches to public governance and institutional arrangements have already been under transition. Researches in urban planning are supposed to be extended gradually, since it is vital to identify the mainstream value which emphasis on public interests, effective markets, and flexible regulation of governance. How to take scientific measures to lead sustainable and healthy development, How to support grassroots communities and collect suggestions from the neighborhood, How to encourage public participation, How to protect our ecological habitat, and turn all the thinking into practical policy and institutional arrangements for normative activities. Works are needed for more elaborated governance for further urban renewal and other constructions in urban area.

Conflict of Interest

The authors declare no conflict of interest.

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