# Good Practice Guidelines

## Participatory Approach to Core Area Development

## A Guide to Good Practice

DFID Research Project R 6860



March 2000


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Coverguide final

The Max Lock Centre, University of Westminster, produced this report with the support of the Infrastructure and Urban Development Department (IUDD), British Government Department for International Development (DFID). The views expressed are those of the authors and do not necessarily reflect the policy of DFID.



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Design and layout by Max Lock Centre

Printed by:
The Max Lock Centre
University of Westminster
London, United Kingdom

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The Max Lock Centre would like to thank all those above who generously gave their time and enthusiasm. We are also indebted to the many officials and residents of the case study areas who contributed their local knowledge to the field surveys, workshops and seminars.

Fact Sheet 11

These Fact Sheets set the current urban scene for the specific topic each cover and suggest ways and means within that topic towards achieving sustainable mixed use core area development.

# Social and Commercial Viability

***Purpose***

**Ensuring that the proposed development can be achieved and sustained, in both social and economic respects, over both the short-term and the long-term.**

***Achieving viability and sustainability involves ensuring that the initial and ongoing costs of development (both direct and indirect) are appropriate to the available resources (including capital and access to finance) and proposed returns. Another requirement is that the nature of the development can support the livelihoods and informal networks of the local community. There are many factors involved in the viability of developments; many of which are variable and 'external', such as the condition and level of the local – and wider - economies, and many that are fixed, such as the levels of capital and finance/credit available to the different stakeholders.***

***At another level, achieving viability within a development will depend upon establishing a fine balance between the mix of use-types and amount of accommodation of each use on the site (each of which use-type will have different levels of inherent cost and return). Location, quality and design of development can have an impact on the economic aspects of viability, whilst also playing a major role in supporting the community life and livelihoods of the resident low-income populations.***

### What is Viability?

The principle of viability (whether social or economic/commercial) concerns balancing all of the costs involved against the available resources and possible returns on the development; and essentially ensuring that the 'balance-sheet' of development (both economic and social) is in 'credit'. To achieve this, it is necessary to understand and acknowledge all of the potential costs (see box 11.3), resources and potential outcomes that are involved in the creation of appropriate, affordable, adaptable and diverse urban areas. An awareness of the current level and condition of the property markets, how it will affect the viability of the development, and how this changes over time will help to establish some base-line requirements. Consequently, a necessary part of the process is to manipulate

the types (uses) and quantities of accommodation to achieve an optimum balance, taking into account the need to cross-subsidise the provision of low-income housing and accommodation from the higher returns achieved from commercial development. This process of manipulation of different building types/uses can be simplified by using an appropriate computer site planning tool to run through a variety of combinations, enabling rapid comparative evaluation to be undertaken (see Fact Sheet 10, box 10.8).

### Box 11.1: The Property 'Industry'[1]

The property 'industry' is unique in that it is made up of three distinct but closely related groups who approach property from different perspectives: occupiers, investors and developers.

For the occupier, the market, levels of rent and vacancy rates are a direct consequence of the state of the general urban or national economy. However, occupier requirements will also evolve over time for a variety of other financial, functional and technological reasons – changes that will often produce quite different buildings and urban design impacts.

To investors such as pension funds and insurance companies – the so-called institutional investors – who traditionally have been the principal owner landlords of commercial property, property is one element in a portfolio of investments. At any one time, the attractiveness of property in terms of the likelihood of rental and/or capital growth, that are the two determinants of investor interest, have to be compared with the prospects for alternative investments such as equities and gilts. The investors' attitude to property will therefore be much influenced by the state of the financial markets but also by the level of risk that they are prepared to accept. In addition to institutional investors, there are many other investors and investment vehicles that focus to some degree on property as an asset. Most important are the property investment companies, who are responsible to their shareholders, and who acquire and manage property with a view to maximising the rental and capital value of their portfolio.

The third group in the industry are the property developers and construction companies, the producers of buildings who are driven by their assessment of likely profits, when comparing the value of completed buildings with the costs of construction. That calculation is obviously vulnerable to change: for example, what level of rent will actually be achieved on completion of a building that might take two years to finish. From the developer's perspective, the ideal scenario is a pre-let, forward-funded scheme that minimises risks to the developer, whereby the property is pre-let to an occupier and pre-sold to an investor (institutional or otherwise) before construction of the building commences.

### Box 11.2 Property Cycles[2]

The property market is made up of a multiplicity of property types, each with its own characteristics and each subject to its own market cycle. Indeed, although different property sectors (residential, retail, business space or leisure) broadly follow a similar cycle, the timing of those cycles may vary and this can produce interesting effects. The key (to viable development) is clearly timing in what is a three-stage development cycle, as shown in the diagram below.

1. In stage 1 (approximately 08.00 on the 'clock'), the market begins to improve after the last recession and the high level of vacant space starts to decline as occupiers expand their activities. Levels of vacancy, however, will prevent rents from rising (supply still exceeds demand) and this will deter new development.

2. In stage 2 (approaching 12.00), as the economy expands and vacant space declines, potential occupiers are unable to find appropriate property in a market characterised by shortages. Rents will rise and new development starts to be prompted. In the period up to completion, rents rise sharply, maximising profits to the developer and perhaps facilitating an early sale to an investor. In the meantime, many other schemes commence.

3. In stage 3, the market, together with the economy, has peaked and started to decline. Potential occupiers cut back production and therefore space demands and rents fall. New development started in the later part of stage 2 continues to come on-stream and increases the level of vacancy, while other schemes are scaled down or abandoned. Economic and market recession ensues.

The property cycle, while a response to broader economic conditions, is largely an assessment of future prospects by these players although others will also influence outcomes, most obviously banks as lenders to the property industry.

## Evaluating Financial Viability[3]

Whether using a site planning tool to generate development options or undertaking the process 'manually', an underlying principle is to minimise the initial costs of obtaining affordable residential accommodation within the settlement, whilst stimulating the local community to 'adopt' and subsequently

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[1] Abridged excerpt from Marsh, C. (2001) 'Urban design and development economics', pp106-108, a chapter in Roberts, M. & Greed, C. (Eds) (2001) 'Approaching Urban Design: The Design Process', Harlow: Pearson Education

[2] Abridged excerpt from Marsh, C. (2001) 'Urban design and development economics', pp106-108, a chapter in Roberts, M. & Greed, C. (Eds) (2001) 'Approaching Urban Design: The Design Process', Harlow: Pearson Education

[3] Adapted from Payne, G. 'Designing appropriate and affordable settlements' (unpublished lecture/seminar)

improve the development. The affordability of the development is an important factor, both initially and over the long term. The different stakeholders' resources and ability to pay will significantly impact on the type and standard of development that is appropriate (to the different stakeholders) and viable. An estimation of the costs of preliminary proposals balanced against available resources should give a fair indication as to the scheme viability. In order to ascertain viability, the numbers of each type of unit to be provided should be established, along with an estimation of the associated costs and values (based on market or opportunity costs). If there is an existing community needing or wanting to be re-accommodated in the proposed development, then their demands will have to be assessed – space required, number of units, standard of accommodation and affordable occupancy costs i.e. rent or purchase. This will indicate the scale and nature of commercial development required to make it possible. The extent to which these two are in balance will determine how much of the community's demands can be met on site. Any site can only be expected to produce a given commercial return depending largely upon location and demand. The purpose of a site planning tool (see Fact Sheet 10, box 10.8) is that it can make these adjustments relatively quickly and easily to enable an acceptable balance to be struck.

**Box 11.3: The Costs Involved in Development**[4]

***Land purchase:*** (plots and open spaces); to include the opportunity costs of potential alternative investment.

***Site preparation:*** to include decontamination and flood protection, where appropriate.

***Servicing the site:*** (off-site, on-site and on-plot; capital and recurring costs); to include roads, water supply, drainage and sewerage, electricity, street lighting etc.

***Construction costs:*** to include materials and labour.

***Provision of facilities:*** to include health centres, schools, places of worship, etc. The land, buildings and services for these are normally provided and paid for by the agency concerned (e.g. health, education, etc) and should not, therefore, be included in the project budget.

***Cost of finance:*** the market or opportunity cost of borrowing to meet the capital costs of development. This component will be particularly important under inflationary conditions and will vary according to the rate of interest charged and the period over which repayment is to be made.

***Fees and profit:*** to include the design, supervision and management/administration of the project and the contractors' overheads and profit.

***Maintenance and depreciation:*** the ongoing (long-term) costs of the development 'in use'.

***Contingencies:*** especially against default.

[4] Adapted from Payne, G. 'Designing appropriate and affordable settlements' (unpublished lecture/seminar)

The largest single cost involved in development is usually the cost of finance, which in turn is dependent upon the relevant interest rate and the length of time for repayment.

The cost of borrowing funds for the development of the site will be added to the capital cost of development and cannot be repaid until the plots, buildings and facilities are completed and disposed. This is known as short term funding. If costs are not to be recovered immediately, but repaid through individual loans over a long period, this will add to the costs of finance and will probably represent the largest single cost element for the project.

If there is a gap between costs and resources, it will be necessary to do one or more of the following:

- Increase the period of repayment
- Reduce the standards of initial provision for the existing stakeholder groups.
- Redefine the stakeholder groups so that they can afford proposals.
- Change the mix of uses.
- Apply for a subsidy or grant from an outside source.
- Look for an alternative site.

## The Financial Impact of Different Design Decisions[5]

### *Physical & spatial organisation*

Land is a valuable resource therefore it should be used as efficiently as possible. To this end, the area occupied by roads, footpaths and other public open spaces should be kept to the minimum necessary for safe circulation and recreation. The provision of a large number of small open spaces may create a better neighbourhood and encourage residents to assume responsibility for maintenance. All such areas (roads, paths and spaces) will involve capital expenditure and high maintenance costs. Reducing the width of carriageways can significantly increase the area of land available for revenue generating uses. Proposals should be culturally and climatically appropriate, however targets should tend towards 65% of available land in private use, 15% for semi-public use and 20% for public use.

### *Plot sizes and shapes*

Since land is a major cost component, plot sizes should be culturally appropriate and affordable. Given a choice between the additional cost of larger plots or the additional cost of pre-built or completed construction, larger plots would be more beneficial in the long-term as buildings can always be improved or expanded later when further resources permit, whereas plot sizes cannot increase over

[5] Adapted from Payne, G. (date?) 'Designing appropriate and affordable settlements' (unpublished lecture/seminar)

time. However excessive plot sizes will invariably raise costs to levels that the poor cannot afford. International experience suggests that a width:depth ratio (for individual dwelling plots) of between 1:2 and 1:3 is most efficient in terms of overall project costs and private plot efficiency. A ratio of 1:2.5 is therefore a reasonable optimum, irrespective of plot size.

### *Levels of servicing*

The levels of service provision on site can vary enormously from initial to fully consolidated levels; however continuous, progressive improvement is generally the norm. The objective should be to provide the minimum initial level to permit permanent occupation of the plot. The provision of on-plot water will be a major cost threshold, since it will lead to increased consumption and therefore the need for improved disposal systems. Initial provision should be designed to facilitate subsequent upgrading.

### *Building construction*

Development according to the priorities and resources of the residents should be the norm. It is usual for extensions and improvements to be financed out of future incomes. Standards should be flexible and public intervention should be concentrated on advice and technical assistance, rather than conventional development control and the imposition of inappropriate standards, no matter how well intentioned. Designs and forms of construction in unauthorised settlements should be investigated to identify the types of designs most widely adopted and appropriate at different levels of consolidation.

**Box 11.4: Comparative Analysis of Options – Motia Khan, Delhi**

A case study example was undertaken in Delhi, addressing the economic and social viability of two sites, in Motia Khan and Peera Garhi. A preliminary desktop study was first carried out in London which identified the two sites (within identified commercial development areas within the Delhi Development Authority's Masterplan, with potential for economic commercial development, and each having a large established population living on them. The desktop study also addressed the planning, administrative and legislative framework within Delhi, and the extent and type of physical growth of the Delhi urban area. A site planning exercise was undertaken to identify the viability of different levels of commercial and residential development within the sites and to enable comparative analysis to be undertaken. Plans were drawn for each site on the basis that they should be relatively high-density mixed use development with a strong commercial element and substantial housing provision. Each plan option was subject to a residual site valuation[6] on the following assumptions:

[6] Residual Site valuation is the difference between the market value of a completed development and it's development cost (including an allowance for the required return); this represents an affordable land price (source: Cadman and Topping, 1995, p85).

-Maximum market return on the housing element (no housing subsidy)

-Partial market return on the housing element (some housing subsidy)

-No market return on the housing element (full housing subsidy)

The comparative analysis of options for Motia Khan (including an analysis of the DDA Masterplan proposal for the site) is as follows:

***Option A:*** persons housed in scheme (% of existing total on site) = 4470 (37%)

| | | |
|---|---|---|
| ***Residual Site Value per sq. m. (Rs):*** | Full return: | 9206 |
| | Partial return: | 2945 |
| | No return: | 1102 |

***Option B:*** persons housed in scheme (% of existing total on site) = 3760 (31%)

| | | |
|---|---|---|
| ***Residual Site Value per sq. m. (Rs):*** | Full return: | 8458 |
| | Partial return: | 2897 |
| | No return: | 1368 |

***Option C:*** persons housed in scheme (% of existing total on site) = 5160 (43%)

| | | |
|---|---|---|
| ***Residual Site Value per sq. m. (Rs):*** | Full return: | 9484 |
| | Partial return: | 2824 |
| | No return: | 909 |

***DDA Plan:*** persons housed in scheme (% of existing total on site) = 864 (7%)

| | | |
|---|---|---|
| ***Residual Site Value per sq. m. (Rs):*** | Full return: | 10439 |
| | Partial return: | 4539 |
| | No return: | n/a |

These valuations show that it is possible to develop the sites with a high provision of low-income group accommodation in an economically viable way. However, in order to give a true cost/benefit picture the costs (that must be borne by the developing authority) of compensation or provision of alternative accommodation to those existing on site but not re-accommodated on site should be included in the calculation alongside the long-term economic cost to the urban area of the increase in travel implicit in re-locating and re-settling people in the city outskirts. In Option C (above) 43% of the low-income group community are re-housed on-site, and the economic return of the proposal is over 90% of that given by the DDA commercial scheme, which has limited high- and middle-income group accommodation and virtually no low-income group accommodation.

## Evaluating Social Viability

The social viability of any given development proposal is difficult to 'measure' or predict. It is difficult to anticipate exactly what impact the informal and small-scale social and economic networks have within the function of the neighbourhood as a whole. Successful and self-sustaining neighbourhoods act very much as a complex eco-system that can continually adapt and evolve in response to discrete

cyclical changes and settle at levels of ‘equilibrium’. Historically, attempts at understanding complex socio-economic systems and manipulating them (‘social engineering’) through strategically designed large scale developments have failed to provide a climate for the neighbourhood or community to function over the long-term. This is perhaps due to the rigidity of proposals (negating the ability of the ‘eco-system’ to evolve in the light of changing social, cultural and economic factors) and due to the propensity for these ‘interventions’ to be conceived, developed and implemented in a professional ‘vacuum’. This ‘vacuum’ (the lack of involvement of the local community) in turn renders the development (or re-development) an unwelcome imposition that seeks to structure the neighbourhood according to ‘outsider’ perceptions and expectations.

Participation is one of the key ways of addressing social viability, ensuring that the development and the process ‘belongs’ to the stakeholders and that the brief develops out of commonly shared needs and aspirations (social, cultural, economic and physical). Another key aim should be to allow for (or to accommodate) change within the development, enabling the community to adapt and grow, and to use different parts of a development in different ways over time. This ability to change and adapt the environment to support a neighbourhood over time is a key concept that sits alongside (and has a strong relationship with) those of diversity and a fine-grained mix of uses.

The overall scale of development and its relationship to adaptability is an important factor that can govern whether viability (both social and economic) is achieved in the long-term. A building or urban block that is large in scale but has flexibility in the way that the block is divided into smaller units and the way that the individual units are used can be adaptable and can evolve with the needs of the community and local businesses. A large-scale development that is inflexible in the way that it is sub-divided and utilised will struggle to be viable over both the short- and long-terms.

The development at Janakpuri is an example of these conflicts because it is large in scale and the retail units are inflexibly related to the architectural concept of underground car parking, podium levels and inconvenient ramp and stair access. The units are also standard with no space for vertical or horizontal expansion and are often difficult to split. Smaller centres such as Deep Market, Khan Market and South Extension are successful examples of retail, office and service centres and have spread into neighbouring streets through conversion from residential to commercial. The use of public rights of way for outside trading both by shops spilling over on to the pavement and through individual traders setting up stalls is an activity that is perhaps controlled by negotiation between the traders themselves.

**Box 11.5: Location and Livelihoods – Delhi**

In Motia Khan a large proportion of people depend on Old Delhi Market for their economic livelihoods. Furthermore, many of those involved in making various kinds of product such as bamboo baskets, catapults and other household goods buy their raw materials from markets like Lal Kuan, Sadar Bazar, and Khari Baoli in Old Delhi. Once made many are sold off as finished products back to wholesale markets in the surrounding area. In Peera Garhi where most residents work in and around the surrounding industrial areas of Udyog Nagar and Mangolpuri the research survey results illustrate that 56.3% of households were reluctant to move out of the site because of employment opportunities and access to other facilities.

The Delhi Development Authority (DDA) responsible for the relocation of both settlements claims to have provided sufficient employment opportunities for those being relocated, however, these assumptions have not been tested and their effect can only be established after relocation has taken place. Under these circumstances the DDA should remain mindful of the fact that a large proportion of livelihoods in each community are closely linked to their locations.

## The Development in the Long Term: Urban Management Frameworks

A critical factor in the viability and functioning of the development over time is the provision of an urban management framework, which governs how the different elements of the completed development will be managed, maintained and improved or developed in the long term. This part of the process is a key way of ensuring that the initial objectives of the development are fulfilled in perpetuity; for example, that the completed development will support and sustain the livelihoods of the urban poor in the future, and not succumb to forces of gentrification.

To ensure that the development will fulfil the expectations of the different stakeholders, it is crucial that the urban management framework is addressed and established as part of the participation process, with the involvement and consensus of all parties concerned. The management of the development will require a source of funding, and needs to have intrinsic powers or legal status, to ensure compliance by the different stakeholders involved.

There may be potential for the local community to become involved in the management of elements of the development; this will serve to reinforce the community's sense of 'ownership' of both the process and the neighbourhood, and can also help to empower the community over the long term. The success of this type of initiative may well depend upon the existing strength of community leadership and support from outside organisations, and can run in parallel with more general community capacity-building programmes.

Institutional subsidies (for up to 50 new units) are available from the Government, as long as the development fulfils certain criteria (including self-sufficiency, i.e. no continuous subsidisation). This requires that the tenants contribute to the housing provision through rent (compared to fully-subsidised housing), and as such is a more sustainable arrangement than the co-operatives (above).

### Box 11.7: Urban Management Frameworks – South Africa

There are different mechanisms through which sustainable urban management can be achieved. The method or mechanism that is appropriate to any given context will to a large extent depend upon the existing legislative and administrative frameworks in place within each different country or region. There can be major differences in the operational success and sustainability of different arrangements, so it is important to identify the key requirements for each situation.

Two different methods utilised in South Africa (Co-operatives and Housing Companies) are targeted at different sections of the community. Co-operatives are a form of communal ownership by the tenants, which are administered through Housing Associations. They are largely targeted at the nil income populations, and therefore rely heavily on continuous subsidisation. This is not a sustainable solution; it is far better for development projects to have a regeneration focus, providing a better local economic basis) which can subsequently enable many of the community to afford at least a minimum rent.

Tenants within the co-operative are normally 'tied in' to the development for a set period of time to avoid short-term profiteering from the sale of originally discounted accommodation; in South Africa this period can vary, but is usually ten years. In the sale of property, the Housing Association is usually given the first option to buy back a property; and any subsequent tenant or owner has to abide by the regulations of the Housing Association. A voluntary committee, elected from amongst the tenants by the Housing Association, undertakes the management of the accommodation.

This role includes management, maintenance, accounts and administration; the committee will control a bank account (requiring 3 signatories). An alternative is for the committee to hire a housing management company to undertake the management role. The co-operatives are self-regulating and under local control. After a certain point, tenants who consistently flout the governing rules can be evicted.

Housing Companies are a different means of providing and managing accommodation for the low-income community. The Johannesburg Housing Company is the most established of the 'new generation' social housing associations[7], which owns and manages many units, which are scattered over Johannesburg. The company manages the finance and administration, whilst each block of flats has a committee, involved in management and maintenance.

[7] Adler T (2000), 'Reclaiming the city: The impact of the Johannesburg Housing Company' [Online], Urban Futures Conference Paper, Johannesburg http://www.wits.ac.za/fac/arts/urbanf/papers/adler,t.html [accessed 29 January 2002]