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Fiscal incentives and urban regeneration in Dublin 1986-2005

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Abstract:
Purpose – This paper seeks to examine the critical role fiscal incentives have played in urban regeneration in Ireland since 1986, focusing on the role of such incentives, their impact on development and implications for the market of their termination.

Design/methodology/approach – The paper is structured as a periodised chronology where real time is divided into analytically defined phases linked to policy shifts. In this way features of urban regeneration policy can be discussed within the economic context and policy constraints within which their decisions were shaped. Policies have evolved from blanket subsidisation of development in designated areas towards a more selective approach. The paper reflects the results of structured interviews of policymaking, planning and development interests on the operation and effectiveness of the schemes. Quantitative analysis of the costs and benefits of a selected number of property developments in Dublin is included and can be compared with similar schemes internationally.

Findings – The findings of this paper are that urban regeneration policies as operated over the period have had a significant role in the physical rejuvenation of previously derelict areas and that the role of incentive based policies requires continual monitoring to avoid market distortion effects and to achieve wider regeneration objectives in terms of social and economic aims.

Originality/value – Despite the importance of the subject there has been a noticeable lack of evidence-based research in the area and this paper provides quantitative and qualitative evidence based material upon which further research on the costs and effectiveness of the schemes can be based.

Keyword(s): Urban areas; Fiscal measures.

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Introduction

The ideal conditions for implementation of urban renewal strategies would include a strong economy, adequate public resources and a determined commitment to solving urban dereliction problems while achieving social and economic benefits. In such circumstances planned improvements to infrastructure, transportation and environment should coincide with renewal and new development that has the support of all social partners. As such conditions rarely occur, policy makers must shape and reshape programmes and interventions based upon the constraints they face at each particular time period. The changing economic climate in Ireland since the introduction of Urban Renewal programmes in 1986 can be separated into analytically defined phases which in turn can be linked to policy shifts. In this way features of urban regeneration policy can be discussed within the economic context within which their decisions were shaped. This is particularly important in terms of public finance issues and policy constraints.

A major issue for urban development markets in the coming years is the expiry of urban renewal and property based taxation schemes based upon a government review of such schemes (Department of Finance, 2006) This paper emphasises the relationship of policy to prevailing economic trends in the relevant time periods. The rationale for policy shifts in Ireland is examined over various phases, 1986 to 1994, 1994 to 1998, and 1998 to 2005 and finally the implications of the planned termination of such schemes are considered of future prospects.

The challenges facing many European cities of globalisation and economic restructuring, resulting in urban blight, social exclusion or segregation and property market failures are evident. Jones (1996) identified the attraction of property led development to public sector interests as being centred on the proactive nature of the approach. These agencies have few powers in terms of local economic development but they do have a range of powers relating to property development. These include planning, infrastructure and compulsory purchase powers together with the availability of public land assets. (Williams, 1999) If used proactively it is possible influence local economic development, stimulate employment and boost activity at least in the short term (Moore, 2002). Problems however exist with increasing demand on urban management structures to produce a more sustainable urban environment, on diminished public finances and are well recognised.

The origins of inner-city decline are attributed to economic restructuring, suburbanisation of land uses and inappropriate policy structures. Power (1997) identified weak planning and development policies as a common problem in many European cities after the Second World War as a significant factor in later urban and social problems. Economic social and electoral pressures promoted immediate solutions to housing and development problems. Solving housing shortages was achieved through the creation of large-scale state subsidised housing schemes often under resourced and without corresponding supporting area development. Decline and dereliction in older central areas now vacated along with declining demand for commercial space due to economic restructuring a suburbanisation and inappropriate policies combined to create the classic inner city decline. The necessity for intervention and initiatives to deal with such problems does not mean however that any consensus as to ideal approaches exists. Hemphill et al. (2004) noted that much research on
the effectiveness of regeneration policies in the UK tends to be critical with a persistent sentiment that urban policy has failed cities. The European model of sustainable cities (European Commission DGXI, 1996) with aspirations to building sustainable communities and cities has proved an attractive if difficult policy option (DOELG, 2002; ODPM, 2003). Subsidisation of development activity, as has occurred in Dublin and internationally, offers an area-based renewal approach where a weak property market exists (McGreal et al., 2002).

In Ireland the long period of subsidised property development led urban renewal commenced in 1985. The core objectives of such schemes has been the promotion of investment by the private sector in construction and reconstruction of buildings in what became known as designated areas of towns and cities (DOEHLG, 2005). The priming of the schemes through fiscal incentives has seen major successes in terms of physical developments created as the Irish economy grew. The trend towards a more entrepreneurial approach with the advent of special purpose renewal agencies has been interpreted as a diminution of the traditional planning authority’s role (McGuirk and MacLaran (2001). However, the issue of the prolonged subsidisation of development projects in periods of rapid growth in demand is difficult to justify. Senior State Revenue officials from the early stages of the scheme outlined recognition of the political difficulties of addressing the reviews and termination of such measures. Mullen (1991) noted the tendency for such fiscal supports to become capitalised in land values in designated areas. This the official found acceptable up to a point in a weak property market. However, when a self-sustaining level of development was reached and the designated areas property market recovered benefits would simply accrue to the owners of property and business without social benefit.

From a liberal economics perspective such interventions are considered not justified in that they cause general taxation rates to remain higher than they should and as a consequence this excess burden hampers general economic activity. As the results and the costs are not clearly demonstrated the optimum subsidy is difficult to establish and market distortions can occur. From another political/economic perspective the development gains accrued by individual investors and developers without defined community gains give cause for concern. It is also clear that vigorous request for the continuation of such schemes albeit on a more selective and conditional basis will be a feature of the current debate.

From its inception the decision-making on the selection of areas for incentives has been a major issue in that the areas selected differed from the areas for rejuvenation proposed under existing development plans. The localised nature of political decision making processes and the ability of coalitions of vested interests to sway political selection procedures undoubtedly limit the overall effectiveness of such initiatives. While such concerns are well founded, it is evident that urban renewal initiatives are often responding to problem situations rather than developed in optimum conditions as previously described. As such, they often reflect a political response to an urban economic issue with the problem continuously changing through policy initiatives.

Urban policy in Ireland can be described as resulting from an ongoing experiential learning curve which has moved from a simplistic approach based largely on stimulating any form of new development activity, to a broader integrated area planning approach encompassing social and economic objectives. By examination of the changing policies and their impacts it
is possible to evaluate past initiatives and examine likely improvements and future directions. What is clear is that urban renewal and development policies have both contributed to and been reshaped by the major improvement in the region’s economic and business confidence which commenced in the 1990s.

Understanding that the demand for urban development is a derived demand with complex relationships between construction activity, property demand and the general economy provides an essential background to assessing policy initiatives. Policies, which improve the functioning of these various activities, can form an important part of urban renewal strategies. Given the cyclical movement in such economic trends it is evident that urban development and renewal strategies must be flexible and capable of adaptation to changing circumstances, while at the same time maintaining confidence in the renewal and development processes.

Phase 1: 1986-1994

The 1980s economic context, within which the urban renewal policy for Dublin was developed, provides a statistical picture of a local and national economy in severe recession. National unemployment was over 18 per cent with the construction industry sector figure estimated at 48 per cent and gross fixed investment including building and construction development activity had declined by 20 per cent from 1982-1986 (NESC, 1985, OECD, 1987). High levels of emigration and population decline and severe dereliction problems in older urban areas provided a strong pressure on national government to intervene directly to undertake urban economic development and revitalisation measures. Following recognition of the seriousness of the problems, political events in the 1980s ensured the inner-city issue became a political priority. During negotiations on the formation of a new government in 1982 the intending governing majority was dependant on the support of an independent community candidate representing Dublin North Central. Highlighted during such negotiations were local development issues in economically deprived areas of central Dublin. Some progress in terms of attempted physical regeneration of system built local authority estates had commenced in the 1980s with the Remedial Works Scheme. The limited success, if any, of such schemes pointed to the deeper social and economic issues causing such problems and the NESC report of 1981 pointed to recognition of the broader long term issues related to urban decline in Ireland. Subsequent initiatives, working parties and proposals consolidated policy makers’ interest on the urban development and renewal area. The poor state of public finances limited the ability of public sector intervention to act as illustrated in Table I.

<table>
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<tr>
<th>Grants vs</th>
<th>Tax allowances</th>
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<tr>
<td>Financial constraint Recipients</td>
<td>Immediate cost</td>
</tr>
<tr>
<td>Cost</td>
<td>Targeted at individuals and companies Quantifiable</td>
</tr>
<tr>
<td>Future benefit</td>
<td>Builds up future revenue base and increases economic activity in short term</td>
</tr>
<tr>
<td>Tax equity consideration</td>
<td>Can be allocated to specific groups</td>
</tr>
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Following an Urban Renewal Bill in 1982 (not enacted) the 1986 Urban Renewal Act was introduced and included the following aims:
* Designation of areas for Special Incentives with the aim of revitalisation of those parts of the city, which, in the absence of such intervention were likely to remain derelict or undeveloped.

* The stimulation of investment in the construction industry and expansion of employment.

While the original aims of the programme were extremely wide, envisaging integrated economic development programmes, job creation and other initiatives, the serious state of public finances in the late 1980s and early 1990s militated against this broadly based approach. Instead tax related incentives for development and occupation of property dominated the early policy approach. The original package of incentives was adapted to suit different areas and included:

* taxation allowances in respect of expenditures of a capital nature for the construction or reconstruction of commercial buildings to be set off against income or corporation tax;

* a double rent allowance, which occupiers could set off against trading income for a period of 10 years for new leases on commercial buildings;

* remission of rates for a 10-year period;

* income tax relief for owner-occupiers of residential units newly built or refurbished;

* taxation relief for investors in rented residential property within specified size limits; and

* a reduced corporation tax rate of 10 per cent applies to licensed companies involved in international financial services locating in the International Financial Services Centre (IFSC).

The adoption of an area based approach placed the emphasis on physical renewal in the original schemes. Alternative approaches involving a more integrated approach were considered but not pursued due to limitations on resources and public finances and the administrative complexities they might involve (Williams, 1997). The initial designated areas within Dublin comprised 101.1 hectares with an additional 10.9 ha at Custom House Docks. Special schemes were operated for the Temple Bar area – 18.2 ha and the extended Custom House Docks/International Financial Services Centre site now expanded to 20.2 ha. The addition of extended designated areas in 1990 brought the total amount of general designated area land to 302.4 ha. Other related programmes included the introduction of enterprise areas with incentives specifically for industrial/commercial development at locations close to the docks in 1994 and the introduction of designated streets where particular incentives were made available for the refurbishment of under-used upper floors of commercial buildings (MacLaran and Williams, 1995).

The Custom House Docks was the major flagship scheme of urban renewal in Dublin in the 1980s. A previously derelict docklands site was the object of a major integrated development comprising business, residential and recreational functions. The creation of a new International Financial Services Centre was added to this objective and a single purpose development agency established, with effective planning functions for the area under its administration. The 1990s witnessed the renewal of Temple Bar as the second historic area.
development of the city as a newly rejuvenated cultural, artistic and entertainment quarter. In addition to IR£40m funding under the cultural development programme, enhanced incentives existed in this area for refurbishment and considerable amounts of public finances were committed to developments under the Urban Pilot Programme. This area also possessed a single purpose development agency, Temple Bar Renewal Ltd. that controlled spending of public funds and had the responsibility of maintaining a functional mix and promotion of desired activities in accordance with the prepared plan for the area. For the general designated areas the local planning authority retained planning control over all renewal schemes and often provided land for development purposes. In these areas, development by normally private interests was required to comply with controls as established in the existing development plan. Reliance on private investment capital was augmented in a limited manner by small-scale urban improvement grants to local authorities (see Tables II and III).

A: Total tax and rates savings as % of total development costs

<table>
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<tr>
<th>Description</th>
<th>Savings</th>
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<tr>
<td>Refurbishment of existing commercial building</td>
<td>17.6%</td>
</tr>
<tr>
<td>New office development</td>
<td>97.9%</td>
</tr>
<tr>
<td>C.H.D. new office development</td>
<td>79.4%</td>
</tr>
<tr>
<td>Section 27 investments residential</td>
<td>25.8%</td>
</tr>
<tr>
<td>New owner-occupier residential in Temple Bar</td>
<td>15.9%</td>
</tr>
<tr>
<td>Refurbished owner occupier residential in Temple Bar</td>
<td>32%</td>
</tr>
<tr>
<td>New owner-occupier residential in designated areas</td>
<td>12.8%</td>
</tr>
<tr>
<td>Refurbished owner occupier residential in designated areas</td>
<td>10.7%</td>
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Table II. Comparative potential tax and rates savings

<table>
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<tr>
<th>Description</th>
<th>Savings</th>
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<tr>
<td>New owner-occupier residential in designated areas</td>
<td>100%</td>
</tr>
<tr>
<td>Refurbishment of existing commercial building</td>
<td>137%</td>
</tr>
<tr>
<td>New office development</td>
<td>686%</td>
</tr>
<tr>
<td>C.H.D.</td>
<td>777%</td>
</tr>
<tr>
<td>New Section 27 investment residential</td>
<td>202%</td>
</tr>
<tr>
<td>New owner-occupier residential in Temple Bar</td>
<td>125%</td>
</tr>
<tr>
<td>Refurbished in Temple Bar</td>
<td>230%</td>
</tr>
<tr>
<td>Refurbished owner occupier in designated areas</td>
<td>83%</td>
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Table III. Comparative present values of total potential tax and rates savings

* to designate areas in need of development without damaging surrounding areas;
* identify land uses to be promoted in such areas;
* quantify amounts of development, which could take place;
* identify appropriate incentives; and
* minimise cost to national exchequer.

(Adapted from DOE, 1986).
With the wide range of schemes operating, isolating individual effects is complicated; however, trends can be identified. From 1986 to 1992 development in Dublin's designated areas was slower to gain momentum than in other urban centres in Ireland due to the relatively large sized commercial developments, which dominated this phase of activity. New office development provided mainly on a speculative basis comprised 70 per cent of the total 136,846 m² space developed in designated areas (Williams, 1997). Incentives to occupiers and investor's subsidised rental and investment returns ensuring profitability of developments in secondary areas previously regarded as uneconomic. A major surge in development activity resulted in displacement of existing demand to incentive aided locations. Over-development in the office sector resulted by 1991 with vacancy rates of 45 per cent of new office buildings in designated areas and was followed by a major slowdown in the entire sector. This was followed by a virtual cessation of development activity caused by this miscalculation of real demand and the urban renewal scheme was subsequently modified to exclude speculative office development from the schemes for general designated areas.

The special renewal scheme for the Custom House Docks area has seen a highly successful International Financial Services Centre (IFSC) develop in Dublin employing several thousand people, consolidating the city's role as a specialised financial services centre. In this case, occupiers saw the preferential corporation tax rate as equal in importance to urban renewal incentives (Williams and Shiels, 2002). Development of a mix of uses including apartments, hotels, offices and retail has followed. This area is now subsumed into the Dublin Docklands Area master plan and a major mixed-use development at Spencer Docks on lands owned by the state transportation company CIE anchored by a national convention centre is the most significant of newer development proposals at planning stage.

At Temple Bar the restoration of this historic cultural quarter aided by incentives for refurbishment and anchored by publicly funded cultural related development has been largely achieved. The prior ownership of a large portion of property in the area by the same state transport company, CIE that was subsequently transferred to Temple Bar Authorities was of considerable importance in this process.

Within general designated areas, levels of development activity remained high throughout the period. The switch from office development to mixed use and residential developments since 1992 resulted in substantial areas of the city being rebuilt with new developments attracted by strong profit levels and low risk. The apartment market remained particularly strong throughout this period with some evidence of oversupply in retail and leisure developments at secondary locations. Strong tourism growth ensured rapid expansion of development in the hotel and ancillary services sector. It is perhaps appropriate however to single out the residential sector for particular attention. At all stages of the urban renewal process a significant emphasis has been placed on the need to revive and sustain the concept of a living city. If one sector was to be described as the litmus test for the success of Dublin's urban renewal policy it is the residential sector that should be selected.

Returning residential population to central Dublin

This period saw a major reversal of the continued drift of population from the inner city, which had been continuing in central Dublin since 1961. Judgements as to the success or failure of the designated areas programme are often partly based upon its role in reversing
this trend. In the early stages of the scheme, its inherent commercial bias ensured that progress was not achieved in this area. Within the designated area wards of central Dublin a continuing loss of population occurred throughout the 1980s. A change in the emphasis of the scheme towards favouring residential development occurred in the 1990s. This change was both market and policy driven; a downturn in the office market occasioned partly by oversupply of offices in designated areas was accompanied by a focus on residential development incentives on designated areas. This coincided with a major increase in residential demand in the Dublin area. Within four years over 5000 residential units had been completed and over 3000 units were in construction or at planning stage. These trends are clearly reflected in the following analysis of census figures for the 36 Central Dublin Wards. This trend has continued with high levels of development activity through to 2005 (CSO Data, various years).

1991-1996 Comparison of Population for City Centre Wards

Affected by Designation Policy

Total Population of 36 Wards

% change since 1991

80,630+23.7%


In particular, large increases were evident in wards such as North City and the general quays area where substantial development occurred. This compares with the period 1986 to 1991 where even with the initiation of urban renewal schemes declines had occurred. Analysis of the residential development in the 1990s situated in urban renewal areas reveals a significantly different profile of occupier for such housing to the traditional residential market as previously experienced in Dublin. The majority of developments comprise of medium or small sized apartments for a young population of mainly professional income individuals or groups (MacLaran and Williams, 1995). A major promotional campaign was undertaken by the city authority to promote living in the city. The demand for small apartment units to cater for young mobile professionals attracted to the city by strong economic growth was welcome, although concerns have been expressed as to the potentially transient nature of such a population. Refinements to the guidelines for such schemes followed with the aim of improving the standard of development and widening the mix of apartment types being built (DOE, 1995).

Phase 2: 1994-1998
Changing Economic Context: The altered economic circumstances of the late 1990s provide a significant statistical contrast to those observed at the initiation of the urban renewal scheme in 1986. From 1994 to 1999 real growth in GNP averaged 7.5 per cent. Building and construction output rose rapidly and unemployment fell to below 6 per cent the lowest level seen since the 1960s with labour shortages in evidence. (ESRI reports 1994-1998) Emigration had ceased to be a problem and immigration into Ireland, particularly in the Dublin region, was growing. Public finances were returned to a surplus situation and inflation and interest rates were low. Ireland's entry to the EMU necessitated stability in public finances to comply with the Maastricht Treaty criteria. The reduction in interest rates to EMU levels and the prospective stability of low long-term rates had a significant impact on construction and property markets. Lower interest rates stimulated economic growth and investment with significant rises in demand for property. With a common currency in the EMU area uncertainty was reduced on investment decisions and exchange rate risks was reduced. Identification of the impact of various factors causing growth in construction output other than the obvious link to economic growth is difficult. Nevertheless, the growth in construction output exceeded the general growth rate. Over the period 1994 to 1998 the volume of construction output rose by 81 per cent (DOELG, 1998).

By 1994 urban renewal aided by a resurgent economy was proceeding successfully and the need for reform was evident. At this stage residential development incentives, which had been more widely available, were restricted to designated areas only and measures to attract greater use to vacant or under-utilised portions of buildings were introduced. A major official study of the urban regeneration schemes nationally was carried out in 1996 (DOE, 1996). At this stage over IR£1.7 billion of development schemes had been generated with approximately IR£1 billion of this development occurring in Dublin. This study and other independent research highlighted the success of the schemes in physical redevelopment of derelict areas along with the identification of problem areas in policy implementation. The stimulation of property based urban renewal in areas which would otherwise have remained undeveloped did occur. The absence of sufficient improvement in terms of employment, public amenities education and training were noted along with specific issues such as:

* Deadweight/levels of projects, which would have proceeded anyway.
* Displacement and relocations of commercial users.
* Shadow effect of new developments on old.
* Conservation and refurbishment proved problematic as structure of scheme favoured new development.
* The favouring of single use commercial developments over mixed use development.

In addition, the general pattern of development was sometimes viewed as piecemeal with the absence of urban design/planning criteria leading to poor quality architecture and urban design. The longer term sustainability and co-ordination of development were regarded as having been more appropriately dealt with in the selected areas of Custom House Docks and Temple Bar than general designated areas and this model was preferred for future developments. (D.O.E.L.G., 1996). The official estimate of exchequer cost in tax allowances was IR£367-IR£461 million assuming dead weight of 25-50 per cent and balancing such losses against additional tax revenues generated. This set of estimates would appear to underestimate the direct cost of the scheme due to the following factors:
* the exclusion of infrastructural and administrative costs directly funded by public sources;

* the treatment of valuation of public land assets; and

* exclusion of the cost to local authorities of rates remissions.

In turn it is also likely that the indirect benefits of the scheme may be underestimated in that employment patterns were not clearly established in 1996 and numbers working in the IFSC etc. were likely to be lower than later realised. Separating such employment gains attributable to urban regeneration from general economic growth, which accelerated throughout the 1990s, is extremely unreliable. The Positive Aspects of Growth for Dublin included the high levels of economic confidence engendered by employment increases with significant inward investment and a major growth in tourism. These development successes are balanced by the negative aspects of growth patterns and urban management issues arising such as the emergence of housing affordability problems and major transportation and infrastructure deficiencies. At this stage serious questioning arose as to whether the incentives were in fact inflating an already overheating housing market. A variety of related tax incentives for investors in private rented property were amended to deflect investors and favour first time buyers. The Government's concern over lobbying was that this was producing a housing supply downturn that led to a reversal of these measures.

Phase 3: 1998-2005

The demand for development activity in Ireland in this period has been driven by several main factors including strong growth in the general economy, high levels of inward investment particularly in the IT sector, expansion of the services sector and growth in tourism. Over the period 1990 to 2004 Ireland's economic profile changed from one of the weaker economics of North West Europe to one of the strongest in terms of economic and employment growth. Irish GNP growing by 8 per cent per annum by 2001 resulted in unemployment reducing from 12 per cent in 1996 to a low of 4 per cent in 2000. From 2000 to 2004 continued economic and employment growth resulted in unemployment remaining below 5 per cent in 2004. (ESRI, Quarterly Economic Commentaries (2000-2004)

Approximately 49 per cent of all employment growth in Ireland in the 1990s occurred in the Dublin region and similarly 47.5 per cent of all immigration into the state comes to this region. (Williams and Shiels, 2000). The most recent regional population projection (CSO, 2005) indicates that the population of the Greater Dublin Area (GDA) is due to increase by a further 500,000 in the period 2006-2021. This projection will be heavily driven by inward migration of an estimated 232,000 into the Dublin Region according to CSO estimates.

The pace and form of change in the urban economy of Dublin have yet to be fully appreciated. The failure to provide for the region's expanding infrastructural requirements may place constraints on the future economic potential of the region. The continued consolidation of the urban core is being complemented by rapidly expanding edge city growth (Williams and Shiels, 2000). Despite the absorption of the concepts of sustainable
The current housing crisis demonstrates tensions between such policy goals and the means of implementing changes required for their achievement. Record growth in house completions has failed to match demand for housing, particularly in the Dublin area, and resulted in an expanded commuter belt up to 100 km around the Dublin area. The emphasis of policy is now on measures which will stabilise house prices and demand while medium density apartment development has become the norm. The speed at which infrastructural development proceeds is slow despite the opening of new city trams and is significantly behind requirements in the central city and metropolitan area. Policy deliberations followed by planning delays are the principal causes cited for such delays. The resulting urban policy shifts reflect a diminishing emphasis on urban regeneration as a political priority issue.

The publication of a major strategic report on Strategic Planning Guidelines for the Dublin Region occurred in 1999. The introduction of a national development plan for the period 2000-2006 at a cost of IR£38 billion underwritten was committed towards the provision of necessary infrastructural development which included an emphasis on public transport development in Dublin. With relation to the construction industry, stated policy priorities now include mechanisms to stabilise demand rather than boosting such demand and to determine how the construction industry can optimise its contribution to a sustainable development strategy.

These policy shifts have had major implications for the thrust of urban renewal policies. The necessity to boost demand and development is obviously no longer a priority. Issues that now dominate are the management of ongoing development in a sustainable manner. Alternative priorities now become critical to sustain improvements achieved through economic growth, urban renewal programmes and other policy initiatives. These include:

* the development of proper and effective urban governance and management structures;
* the implementation of integrated planning with effective implementation methods; and
* optimising the benefits of recent and continuing development activity.

This policy shift was represented in the altered approach to urban renewal outlined in the new programme Urban Renewal 2000 – New Approaches. The introduction of a major new approach to urban renewal in Dublin commenced with the 1998 Urban Renewal Guidelines. The intention to create a more coherent and holistic approach (Molloy, 1999) was represented in the introduction of a structured programme based upon Integrated Area Plans (IAP) prepared for selected areas. These reports are prepared by local authorities for areas based on criteria established by an expert advisory panel to the Minister of the Environment. These plans are intended to be detailed area focus plans identifying the strengths and weaknesses of the districts involved, target those districts with the greatest need or potential for rejuvenation and select sub-areas or key projects for special incentives. The creation and implementation of such plans were intended to include consultation with representative groups in the area concerned. Fiscal incentives now form part of the overall renewal strategy and are intended to be available only where proven barriers to development exist. Such incentives would apply only to key sites or catalyst projects as defined in the guidelines. The criteria by which areas are selected for IAPs are that such areas should contain significant amounts of urban decay or obsolescence. Other indicators include vacant sites/buildings,
under-utilised infrastructure and a general lack of investment over a prolonged period. It is intended that priority be given to areas, which experience a high level of social disadvantage indicated by the prevalence of relatively high unemployment or low income and education levels.

Content of IAPs include broad issues such as urban design, sustainable land uses, education training and local economic development, environmental improvement and traffic management. A major feature of the new IAP scheme is the requirement for a specific monitoring and implementation strategy for each plan. Progress is required to be monitored on a periodic basis by local authorities and authorised companies. Public monitoring committees with cross-sectional community membership are required to examine physical, economic and social benefits in an annual report. Following a selection procedure a total of 49 Integrated Area Plans were given Ministerial approval in 1999 including a number in the Dublin area. It is evident that a major location switch has occurred from city centre areas to a policy of encouraging development in adjacent and outlying areas. The largest area proposed for urban renewal includes the Docklands area of Dublin for which a master plan was prepared and published following public consultation and a new development authority established. Clarification on the availability of incentive packages has caused delays in the implementation of these plans. EU opposition to double rent allowances and rates relief, which were, regarded as operational state aids distorting competition have resulted in alterations to the intended package. The new package, which commenced in its present form on 1st July 1999, is due to expire in December 2005 and includes:

1. Commercial/industrial development:

   * Taxation allowance on eligible construction costs of project of 50 per cent in year 1 and 4 per cent per annum to total 100 per cent.

1. Residential development – owner occupiers:

   * New building – taxation allowance of 50 per cent of eligible construction costs allowed at 5 per cent per annum over 10 years.

   * Refurbishment – taxation allowance of 100 per cent of eligible construction costs allowed at 10 per cent per annum over 10 years.

   * Residential development – investors.

   * Taxation allowance of 100 per cent of eligible construction or refurbishment cost may be set off against Irish rental income.

In general it is intended that these incentives will complement local, national and EU and other funding proposals for each area. The transparency of the new scheme is assisted by Freedom of Information procedures. Relevant extracts of the minutes of advisory panels involved in all decisions are intended to be available on the internet and give details on individual plan decisions and their reasons. Refusals of IAPs have been explained, deletions

12
or inclusions of individual sites discussed and the need for granting of various incentives debated for individual projects. For the Dublin area a major feature of the discussion of the various IAPs was the interrelationship of the IAPs throughout the city centre (DOELG, 1999).

Phase 4: 2005-onwards – initial research findings

The budget of 2004 envisages growth in GDP terms continuing at 5 per cent in 2005. The performance of the economy is reflected in low levels of unemployment and Live Register figures that have been recorded at 4.2 per cent and 4.3 per cent respectively (CSO, 2005). The economy which had seen reduced growth rates of 2-3 per cent from 2001 to 2003 reflecting global trends and prospects for the coming period are expected to be positive with continued growth, albeit at a lower and perhaps more sustainable level than the late 1990s (ESRI, 2005). Consumer confidence and improved retail spending provide an optimistic short term outlook (CSO, 2005). With the continuation of strong growth the potential for the current policy review to recommend termination of the use of fiscal incentives for urban regeneration is clear.

For future policy trends relating to urban renewal the National Spatial Strategy (NSS) in 2002 provided the spatial framework to guide future investment priorities by policy interests and to encourage sustainable development. The Spatial Strategy can be linked with the National Development Plan (NDP), which deals with the planned provision of infrastructure, in providing guidance for government policies, regional and local plans at the national spatial and strategic level. The role of major urban areas, particularly Dublin, in promoting economic development is recognised in the NSS in line with international policy experience identifying the significant role of agglomeration and clustering in economic activity.

In particular the NSS ruled out completely new towns or cities as not being required for the expanding population and expressed the preference that population increases be accommodated at or within existing settlements. This involves a focus on the re-use of vacant or under-utilised existing urban spaces rather than greenfield development. In essence urban regeneration and suburban renewal should be more actively pursued. The strategy envisages the consolidation of the existing Dublin metropolitan area for a more efficient and competitive regional future. Some essential improvements identified in the NSS for Dublin include improved land access to the airport and broadband capacity throughout the region. A central feature of general urban development policy debates has been the sustainability of dispersed housing settlement patterns, particularly in the Dublin area. The review of Regional Planning Guidelines for the region (2003) highlights the importance of quality of life and accessibility issues.

A significant issue for urban development trends in future years will be the proposed decentralisation announced in December 2003. This involves the relocation of government services and agencies from Dublin to 53 various locations across the country and concerns over 10,000 employees. The proposal was first announced in the Budget of 2003 and further developed in Budget 2004. The expected boost that such relocations will confer on selected areas has been widely publicised in the regions, while debate as to the potential impact of the initiatives on the economic base of the Dublin area has to date been minimal.

Issues emerging from first stage consultations with policy and development interests
The difficulty in maintaining the selectivity criteria for the use of such interventions is clear. Introduced in 1986 to deal only with problem areas of Ireland's five largest urban areas, the schemes were subsequently extended in 1999 to include areas in another 38 of Ireland's towns and villages. A further 100 towns were included in 2001 for related packages of measures under the Town Renewal Scheme. The inclusion of 13,000 linear metres of streets nationally for Living over the Shop allowances completes the extensive use of the package to areas and schemes not originally included. While many of these centres have experienced renewal, it seems that the pressure for replication and duplication of the scheme is a continual process unless structures for termination of the scheme are in place.

Many of the most deprived communities remain concentrated in inner-city and city suburban areas and the case for integrated social and economic interventions to improve such situations continues to be made. Development interests argue that weak inner-city locations will continue to need some form of incentives to decrease the risk faced by investors in developing at such locations as opposed to other parts of the city located in a generally strong market. Community development interests and principal concerns revolve around their perception of the absence of meaningful consultation and planning gain in urban renewal projects.

Major urban regeneration programmes with a property component are likely to continue with the project at Ballymun (An EU assisted urban renewal scheme replacing a 1960s high rise social housing project) underway. Smaller initiatives such as at Ballyfermot, an inner suburban housing district chosen from the ten most disadvantaged urban areas in Ireland, are the subject of an environmental regeneration programme supported by EU and national funding in an 11 million project and are an example of likely future trends (DOEHLG, 2005).

A major rationale for the exchequer to move towards the reduction or termination of fiscal incentive regeneration schemes is both cost and concern at the extent of tax sheltering permitted. Official reports by the Department of Finance indicating that extensive use of such tax shelters result in some top income earners having no legal taxation liabilities at all have caused public and political disquiet. Pressures for change appear likely to influence a switch from general area based supports towards targeted and sector-based supports with linkages to broader based urban regeneration initiatives. These could include fiscal incentives for specific programmes dealing with social and affordable housing for renting with investor agreements.

Analysis of individual incentives

The debate as to the specific impacts of incentive programmes requires some quantitative analysis of the costs and taxation foregone through the operation of the scheme. While data exists as to the direct costs associated with the scheme there is no systematic tracking of the precise impact of the various incentive schemes. Estimates have been made in response to parliamentary questions qualified by the difficulties associated with such assessments. These include the fact that while costs of qualifying developments are known, the rate at which allowances are drawn down depends upon the individual or companies year by year tax position over periods of more than ten years. This means that developments completed in the first stages of the scheme from 1986 to 1994 would still potentially be the subject of
drawing down of allowances in 2005. For this reason, it is necessary for research purposes to examine retrospectively the impact of the schemes. The method devised for this purpose as part of ongoing research at PEP is to make a detailed analysis of the first 100 developments completed between 1986 and 1992 in Dublin and to determine in the case of individual development types the maximum direct cost of tax allowances relative to the cost of each development. For this purpose, it is necessary to compile detailed data on construction costs, rentals, investment yields and interest rates over the period to present. This allows valuation appraisal type assessments to be carried out incorporating discounted cash flow techniques to arrive at Net Present Value type appraisals concerning the value of incentives.

Initial results showed ratios in terms of private development funding attracting the residential scheme as the most effective with leverage ratios of 6:1 while some commercial developments showed significantly lower leverage ratios at less than 1:1. Initial conclusions based on such analysis are that only continued selective use of smaller designated areas with controlled use of incentives, perhaps biased towards residential and refurbishment activities, is justified. The question of reallocation of benefits has become a major issue for affected communities with the perception that wider community benefits are being ignored.

In conclusion, the qualified success of urban renewal initiatives in Dublin demonstrates that such programmes can make an effective contribution to urban and regional development. The movement towards a more complex urban renewal programme with broader policy aims is appropriate, although achieving its objectives will present obvious difficulties. In the Irish policy context such interventions are largely based on tax breaks that have become a feature of the urban renewal debate. Moves towards comprehensive and integrated area based approaches will continue to place demands on public finances for the foreseeable future. In this context, examination of international models of current and alternative fiscal policies to guide land uses and optimise community benefits is required. Examples of such models include Economic Impact Fees, Business Improvement Districts and Tax Increment Financing (Ratcliffe et al., 1999).

The rapid economic growth of the Irish economy in recent years has seen a major expansion of development activity in all sectors of the Dublin property market with significant beneficial impacts on the physical renewal of designated urban renewal areas in Dublin. Urban renewal and development policies are undergoing major changes from a position of encouraging new development in a recession hit market to ensuring the current level of development and investment are maintained in a manner consistent with The National Spatial Strategy which aims for sustainable development patterns. The economic context for urban regeneration policies has altered greatly from 1986 to 2005. The critical lack of public finance in the 1980s militated against direct government spending on regeneration projects and led to the extensive use of fiscal incentives to generate private investment in designated areas. By comparison the relatively healthy state of public finances in 2005 allows for a wider range of policies including direct intervention and major infrastructure investment to be considered. A corresponding shift in urban land policy has involved a movement from designated area development incentive schemes to integrated area development plans and prioritising catch up infrastructure investments.
The aim of continuing urban regeneration and extensive development on brown-field sites is unlikely to be supported by fiscal incentives to the extent it has been in the recent period. There may remain a role for incentive based supports to broader urban renewal initiatives particularly in the residential sector where shortages of housing are evident. The influence of changing policy on all aspects of the region's property market area is significant in both the long and short term. The Dublin experience combines elements from many international programmes that can be seen in the continued evolution of the schemes. While there remains a continuing public policy commitment to urban renewal and solving development problems, it is this commitment that gives the best opportunities of success rather than any combination of formula based solutions.

Urban renewal legislation in Ireland:

1. Urban Renewal Act 1986
2. Chapter V Finance Act 1986
3. Urban Renewal Act 1986 (Designated Areas)
5. Urban Renewal Act 1986 (Remission of Rates)
7. Subsequent amendments to urban renewal Act 1986
8. extending designated areas
11. The Finance Act 1988 section 27
12. The Temple Bar Area Renewal and Development Act 1991

References

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ESRI (Economic and Social Research Institute) (various dates), *Economic and Social Research Institute, Quarterly Economic Commentary*, ESRI, Dublin.


**Further Reading**


