GOVERNING URBAN RENEWAL -

LESSONS FROM MELBOURNE DOCKLANDS & HAMBURG'S HAFENCITY

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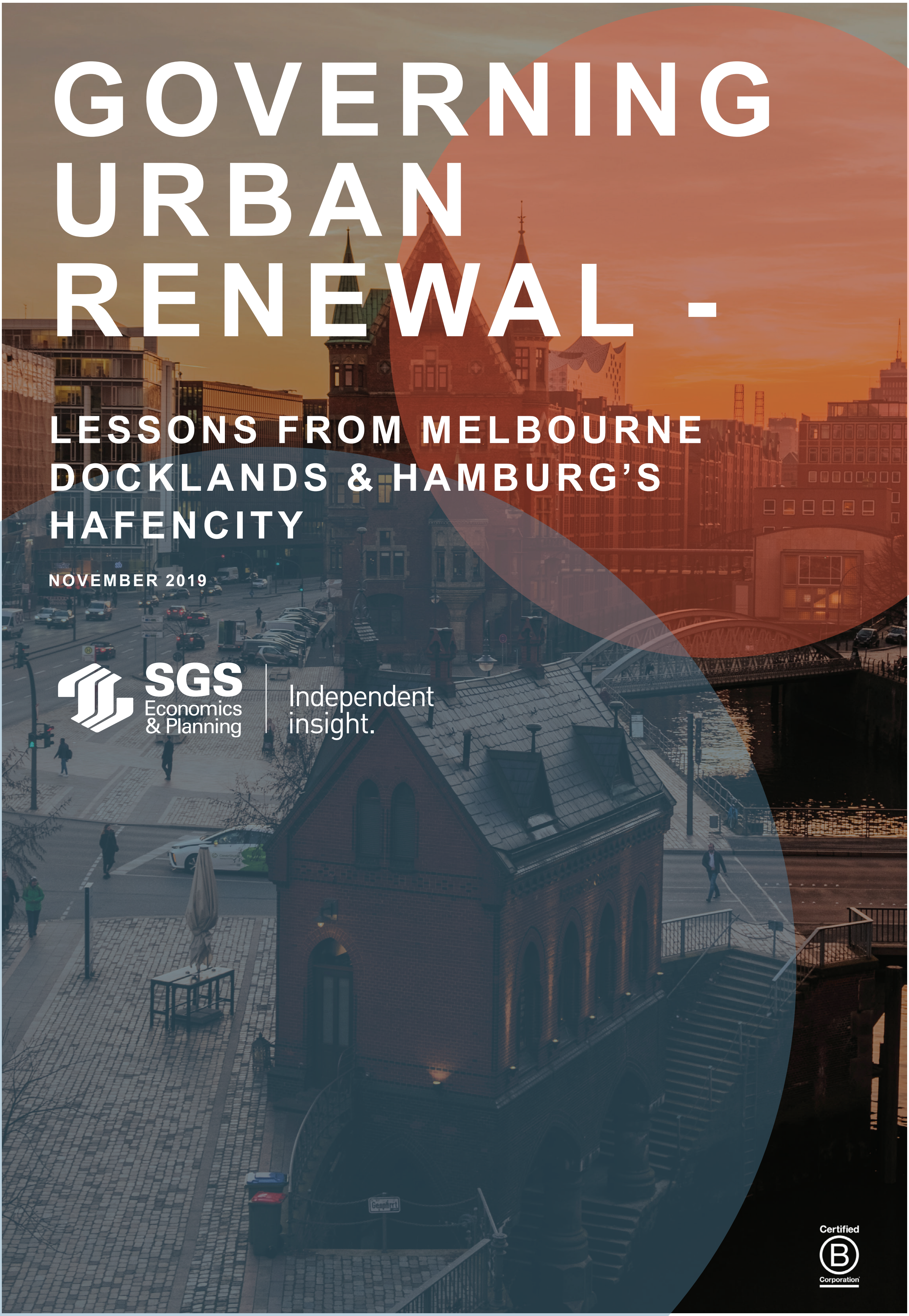

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GOVERNING URBAN RENEWAL

Lessons from Melbourne Docklands and Hamburg's Hafencity

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ABSTRACT

A distinct shift in the governance arrangements for urban renewal projects took place in Australia from the mid-1980s, reflecting the broader ascendancy of neo-liberalism. Whereas urban renewal had previously been the province of statutory authorities with close Ministerial surveillance and direction, major projects, such as the Melbourne Docklands, were put in the hands of arm's length, government owned businesses holding a strict commercial mandate in conjunction with their public policy mission. These reforms were consistent with the then (and continuing) dominant practice of separating the roles of 'funder', 'purchaser' and 'provider' in the delivery of community services and infrastructure. The expectation was that this separation would foster a sharper definition of Government objectives and more efficient and innovative methods of achieving these objectives by harnessing private sector disciplines. This paper explores the extent to which these commercial disciplines have, indeed, fulfilled their promise. This includes a discussion of how commercialised urban renewal authorities have balanced their obligations to deliver financial returns on the one hand and create community value by way of quality public realm, affordable housing and inclusive community facilities on the other. The paper contends that the tensions between these objectives is typically resolved in favour of financial outcomes, leaving the host community with a compromised urban renewal legacy. It proposes reforms in governance arrangements for urban renewal to mitigate this adverse tendency. A case study of Melbourne Docklands and a contrasting example in Hamburg's HafenCity are used to develop the themes of the paper.

PLANNING AND 'MICRO-ECONOMIC REFORM'

The ascendency of neo-liberalism signalled by the election of the Thatcher government and Reagan administration in the UK (1979) and US (1981) respectively took some time to take root in Australia. Interestingly, it was championed in this country by the political left, notably via the Hawke Keating Labor governments which were in power from 1983 to 1996. As with Australia's northern hemisphere peers, the embrace of market liberalism was prompted by an incipient fall back in the growth of domestic living standards sparked by the rise of new manufacturing powers, firstly in Japan, then a group of 'Asian Tigers' and ultimately in China.

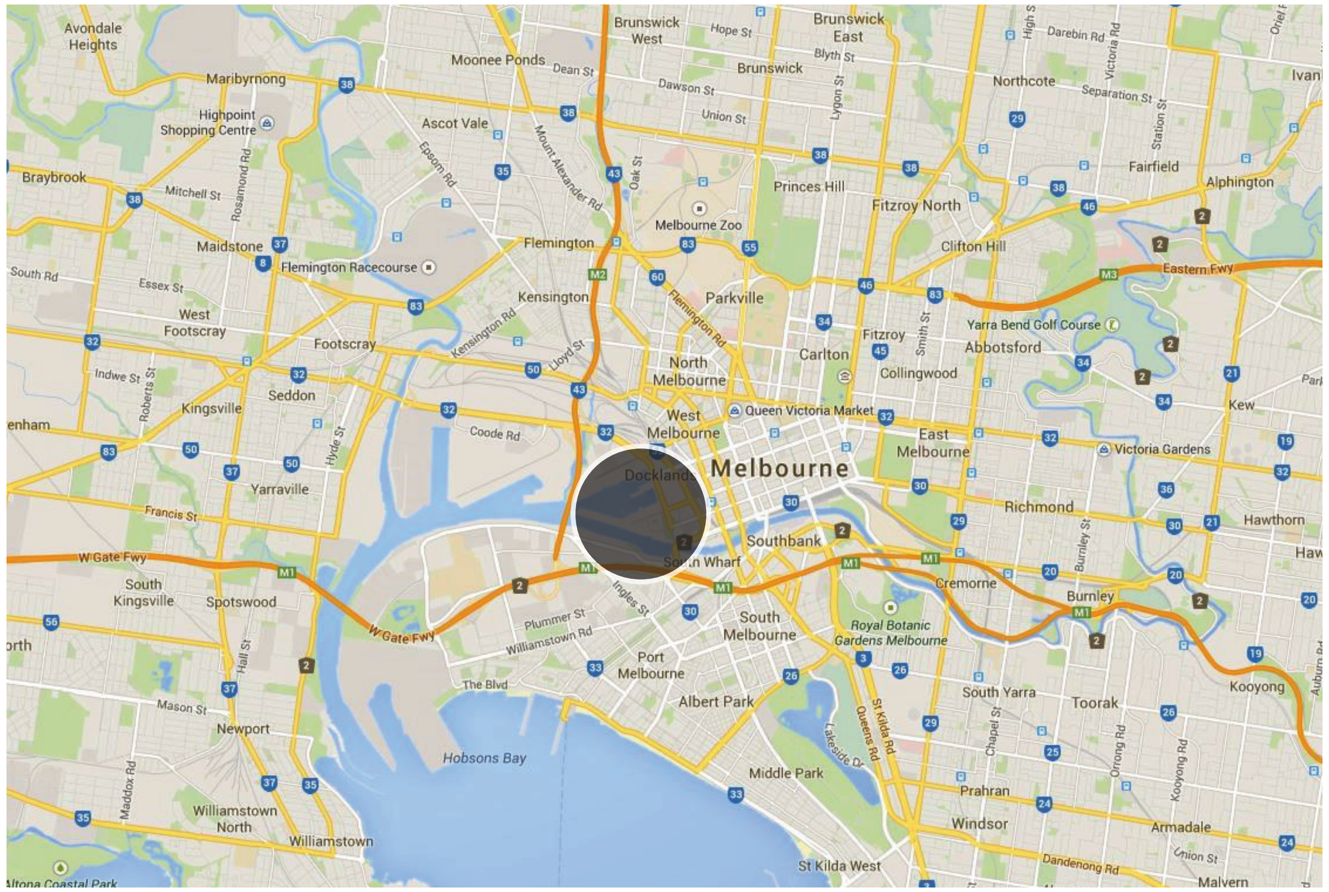
Once adopted by the Commonwealth, the precepts of neo-liberalism quickly and comprehensively established themselves as the frame through which Australian public policy was conceptualised and transacted. The talismanic agent of neo-liberalism in Australia was the Hawke Keating Government's National Competition Policy (NCP). Inspired by the Hilmer Report (1993), which measured the considerable increase in the size of Australia's collective 'income cake' from deregulation, commercialisation and privatisation, the Commonwealth Government used its fiscal power to prosecute sweeping changes in the Australian economy and society generally. With up-front and continuing payments linked to the productivity dividend from improved competition, the States and Territories were induced to undertake a series of 'micro-economic reforms'. These included breaking down monopolies, selling off or corporatizing infrastructure agencies and repeal of laws and regulations which dampened or prevented competition.

The new social contract ushered in by NCP and associated reforms was in sharp contrast to that which had guided Australia through the long post war boom. An unmistakeable suspicion descended on the role of government generally. Government had previously been seen as a primary orchestrator of national resources to achieve broadly shared community aspirations. Examples include the Commonwealth State Housing Agreement under which tens of thousands of social housing units were delivered over four decades from 1945, the Snowy Mountains Hydro Electricity Scheme (1949 – 1974) and the introduction of universal health insurance (1975). From the mid 80s the role of government was re-conceived in market terms with its functions deconstructed into those of commercial agents, namely 'funder', 'purchaser' and 'provider' (see below). This was to allow for maximum private sector involvement in the provision of all public sector services. While taxpayers continued to fund public services, and government retained the role of specifying the standard of service provision (the 'purchaser' role), there was no presumption that actual delivery of these facilities and services would occur through public employees. On the contrary, the hope was that private contractors would compete for this work, bringing their supposed superior capacity for innovation and efficiency.

MELBOURNE DOCKLANDS

The Melbourne Docklands represents a classic case study of Government sponsored urban renewal prompted by market failure. With containerisation, robotization and other business model changes in international seaborne trade, Australia's principal merchandise port in Melbourne had 'migrated' downstream along the Yarra River, away from the State's rail node adjacent to the metropolitan CBD towards the open waters of Port Phillip Bay. This left behind about 150 hectares of industrial and port related land close to the city centre but cut off from it by a major rail corridor.

FIGURE 1: DOCKLANDS LOCATION MAP



Source: Google maps, 2014

Notwithstanding its strategic location, and the prospect of opening up a 'waterfront' address for Melbourne, Docklands was unlikely to attract private sector development activity, at least not of the sort aspired to by a sophisticated metropolis which, even in the early 90s bore the title of the world's most liveable city. The land in question lacked sufficient road and public transport linkages back to the CBD and the wider metropolis. Heavy upfront investment was necessary before revenue generating residential and commercial development could occur. As a former industrial area in continuous use since the mid-19th century, large parts of the Docklands were affected by contamination to varying degrees. In addition, while almost all the land in question was in public sector ownership, it was held by multiple government agencies with varying agendas.

This scenario of latent development potential requiring public sector leadership or facilitation for market realisation has been commonly observed amongst many port cities in advanced economies. Indeed, it was not the first time a project of this nature had been undertaken in Melbourne. The Southbank of the Yarra River, opposite the commercial hub of the city, had also accommodated industrial uses linked to the port during the 19th century through to the mid-20th century. The State Labor Government led by John Cain and first elected in 1982 initiated a State Government sponsored renewal of the area based on a mix of tourism, commercial and residential uses. This project involved compulsory acquisition of some privately held properties, creation of new transport links and heavy Government investment in public realm infrastructure to provide a high amenity promenade on the sunny side of the Yarra River. 'Cleaning up' and embracing the once maligned and ridiculed Yarra River became the key note of the project.

The 'city facing' aspects of Southbank have generally been well received by the Melbourne, Victorian and visitor communities. The generosity of its riverside public realm legacy is much appreciated, even though the quality of urban development in the 'back of house' parts of Southbank is now widely seen as disappointing with very tall towers set in relatively narrow industrial roads with poor pedestrian and resident amenity.

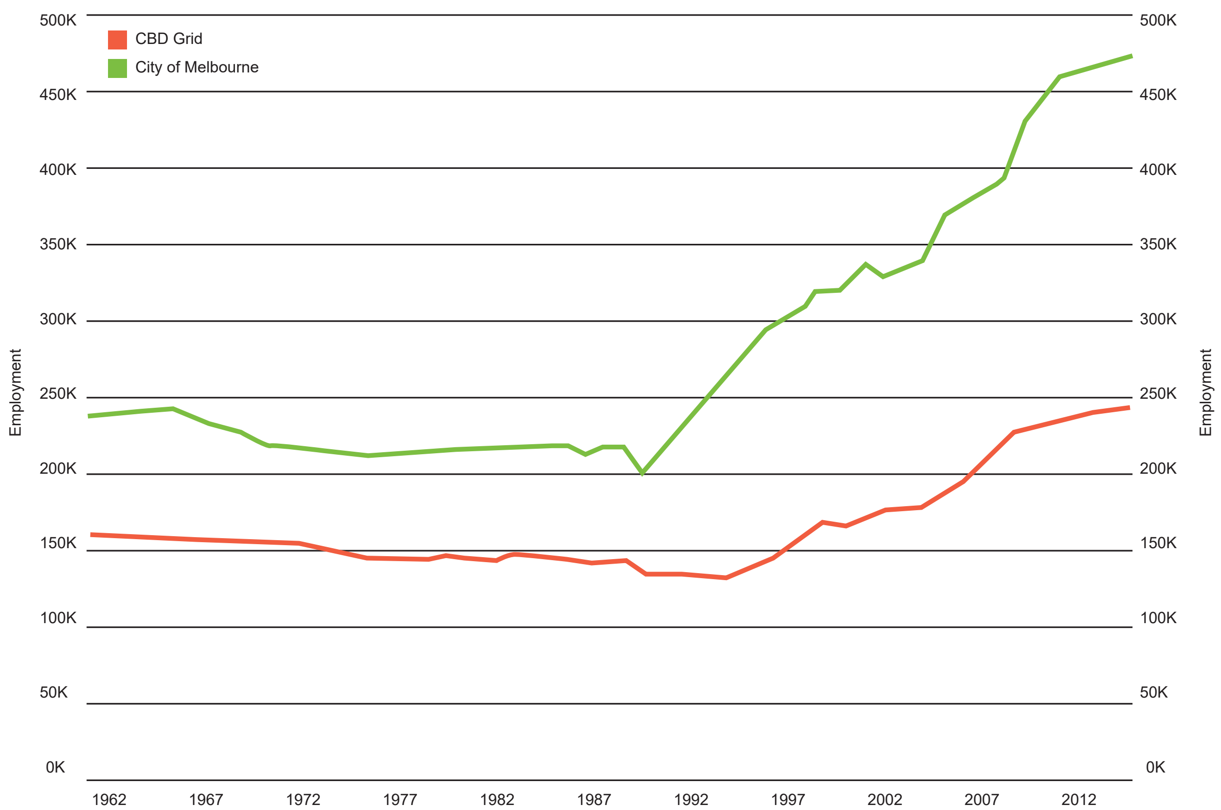
Arguably, the Southbank project was the last major urban renewal project delivered in Melbourne under the auspices of the post war social contract which saw Government leading rather than simply facilitating. Docklands was delivered using a dramatically different governance model, premised on neo-liberal concepts.

This is not to imply that the Docklands project did not make a major contribution to the city's wellbeing. Coming on stream from the mid-90s, the Docklands played a vital part in Melbourne's pivot from its post war role as an industrial/manufacturing hub to a services based economy focussed on financial brokerage, education, culture and technology, especially in the bio sciences. Specifically, the Docklands provided a 'just in time' opportunity for the major banks and the then emergent funds management industry to either remain and expand, or take root, in Melbourne. This prompted a remarkable turnaround in employment levels in the central city as shown in Figure 2.

Notwithstanding its strategic role in revitalising the Melbourne economy, and its early recognition as an exemplar of quality urban design, Docklands has come to be routinely criticised as falling well short of its potential as a place that Melburnians might love. The criticisms relate to the lack of granularity in the urban form with most development taking place on superlots controlled by one investor, the lack of social and affordable housing and the 'windswept' and uninviting nature of the waterfront public realm.

The upshot is that Docklands was an important and highly beneficial project for Melbourne, but it could have delivered still more benefit for the local and wider community. The question is whether the shift in governance model, from one that reflected government leadership to one premised on market innovation, may have been culpable in this failure to realise full potential.

FIGURE 2: CENTRAL CITY EMPLOYMENT – MELBOURNE 1962- 2013



Source: SGS Economics & Planning Pty Ltd, ABS

DOCKLANDS AUTHORITY AND THE PROCUREMENT OF URBAN RENEWAL

The regeneration of the Melbourne Docklands was procured within a conceptual frame which, at the time, was popularly characterised in public policy circles as the *'Funder-Purchaser-Provider'* model. As noted, the idea was that Government might establish what 'outcomes' it required from a particular public initiative but should refrain from specifying the 'how to-s' about achievement of these outcomes. These how to-s could be left to a competitive market under which various 'providers', whether public or private entities, would vie for the Government funded contracts for the required results from the program or project in question. This as noted, was premised on the belief that public policy agencies should stick to what they know best (specifying outcomes for the taxpayer dollar and securing the required taxpayer investment) while market oriented agents could figure out the most efficient way of achieving these results given all the risks at play.

An explicit expectation under the Funder-Purchaser-Provider model was that the Provider would act strictly on a commercial basis, regardless of the service or market it was operating in. Whether the Provider was delivering social housing, toll roads or prisons, they would be expected to generate market benchmarked rates of return on the capital and recurrent resources deployed in their business. To the extent that the Provider was required to undertake non-commercially remunerative activities as part of their 'outcomes' contract with the Funder-Purchaser (Government), the Purchaser would provide a 'community service obligation' (CSO) payment to bridge the gap between the returns generated by the Provider in the market in question and the returns required to meet commercial benchmarks.

These arrangements were, in part, intended to maintain a sharp focus on operational efficiency and risk management on the part of Providers – something that was seen to be structurally lacking in traditional public sector delivery models. It was also intended to make evident and accountable – in a democratic/ parliamentary sense – the direct cost of providing social, environmental, cultural and other non-traded benefits desired by the community. Implicitly, this signalled a suspicion that under traditional service delivery models, too much of the community's resources may have been 'wasted' in generating outputs and outcomes that, perhaps, were not truly prioritised by the community.

> *An explicit expectation under the Funder-Purchaser-Provider model was that the Provider would act strictly on a commercial basis, regardless of the service or market it was operating in.*

It was against this backdrop that the Docklands project was launched. Thus, following the consolidation of public land holdings in the Docklands and their vesting in a newly established purpose designed authority (the Docklands Authority), the master-planning of the area was conducted with a 'permissive' mindset. Some key outcomes were 'locked in' including relatively expansive areas of public open space alongside the waterfront and retention of major heritage assets. The Docklands were divided up into a number of very large development parcels each with an 'indicative' land use mix to be contained within a nominated three dimensional envelope. Beyond this, detailed planning and design would be left to private sector bidders for the development rights on offer. The proceeds from these auctioned development rights would fund the public infrastructure required to enable and support the renewal process.

Styant-Browne (1998), writing in an architecture industry journal, neatly summarised what was different about the approach to governance renewal applied in the Docklands.

> *A conventional development process would have the Authority decontaminate the site, design and construct the servicing and vehicular infrastructure, provide community facilities and parks, subdivide the remaining land and sell it off for development subject to rigorous urban design and planning controls in the service of a clear end vision over 25 years. This is not the Docklands process—and that's what makes it so interesting. A mixture of philosophy and pragmatism has produced a unique laissez-faire development process inconceivable prior to the Reagan/Thatcher years. Government funding for infrastructure was out of the question, given the state of the public purse; confidence in the ability of conventional planning processes to deliver a successful outcome was low; and there was a born-again faith in the market as the driving force for urban development.*
>
> *The foundations for the Docklands development strategy are financial and market-driven. Property consultants JLW Advisory first carried out a market demand assessment of the site. On the basis of this, the Docklands Authority identified preferred uses through testing propositions against market demand. This became the basis of the subdivision of the huge site into seven development precincts— Business Park, Victoria Harbour, Yarra Waters, Batman's Hill, Technology Park, Docklands Stadium and West End. Five of these precincts have been thrown open to the market for development proposals through an iterative process of initial registration of interest, assignment of five to seven developers per precinct, culling to two, then appointment of the preferred. Development proposals are evaluated on five criteria—design and public amenity, integration with other precincts and the city, financial risk, viability and other factors. In addition to paying for the precinct and providing its internal infrastructure and amenities, developers make a contribution to the infrastructure and amenities for the whole Docklands area.*
>
> *Assessment of design quality is performance-based in a 'permissive' rather than a 'prescriptive' environment.*

The Docklands Authority Act 1991 emphasised an obligation to work with a primarily commercial focus. The first two functions of the Authority as cited in the Act were to "(a) to develop the Docklands area; and (b) to promote and encourage the involvement of the private sector in that development". While the Authority was mandated to create an "attractive environment" (function (g)), there is no statutory direction regarding the nature and quantum of community benefits to be generated from the project.

In terms of the Authority's 'General powers and duties', the Act specified that *"The Authority must, as far as practicable make sure that by the end of its involvement in the development of the docklands area, it has secured a prudent financial return on its overall commercial investment in the area".*

From a governance perspective, the Docklands Authority had a clear public policy purpose; that is, to overcome a market failure in the transformation of obsolete industrial land to a productive extension of the central city working and living environment. However, it is equally clear that it needed to approach this mandate with a strict focus on relatively narrowly defined financial performance criteria. There was limited space, perhaps deliberately, to prioritise some aspects of what is now seen to be sustainable urban regeneration, particularly those to do with social diversity (affordable housing) and the grain of built form. Near term 'wins' in attracting private sector investment were, inevitably, important in the strategic management of the project. Amongst other things, this led to the segmentation of the regeneration area into very large parcels which would enable master developers to 'lock in' a pipeline of production stretching over many years. This, in turn, seems to have drawn the Docklands towards a somewhat generic down town built form that does not reflect or leverage the qualities which distinguish other parts of the Melbourne CBD and inner city (use mix, diversity of lots and architectural types, laneways etc). Meanwhile, the jewel in the crown in terms of the Docklands public realm – the waterside Harbour Esplanade – has struggled for funding (i.e. CSOs) to unlock its full potential.

On the plus side, the Authority's commercial focus has arguably worked in the community's interest to the extent that 'development rights' were awarded to proponents on a genuinely competitive and conditional basis (so that land ownership only passed over to developers once the project was substantially complete). Moreover, to this day, proponents wishing to exceed their awarded development envelope must purchase the additional rights at contemporary residual land values from the Authority's successor (Development Victoria). The principle of community reservation of development rights on privately owned land is of vital significance in progressive city building.

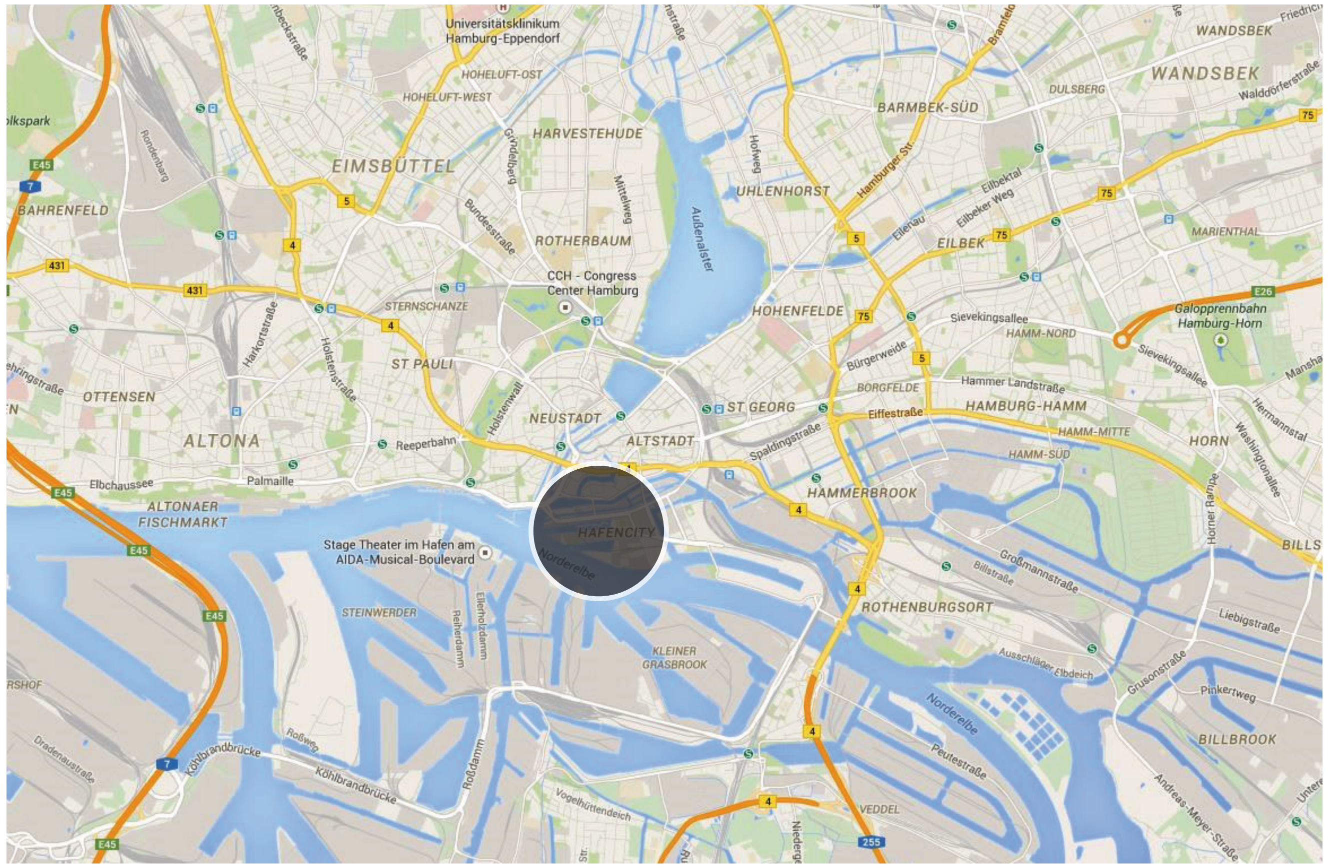
THE HAFENCITY CASE STUDY

The HafenCity project in Germany is highly comparable to the Melbourne Docklands in many respects. HafenCity is located on 157 hectares of (mainly) state owned land in the heart of Hamburg at the intersection of the Alster and Elbe Rivers. The population of Hamburg City is 1.77 million, within a metropolitan region of 4.3 million (compared to Melbourne's 4 million).

The area was formerly used for dock activities, but as demand for this space slackened, the City of Hamburg decided to repurpose this area to reflect its ambitions as a "creative city". In 1997, a public sector development company was established to manage the development – HafenCity Hamburg GmbH, and after an international competition, a masterplan was approved by the Hamburg Senate in 2000.

The masterplan aimed to create a "close-grained and diverse mix of uses" including housing with a range of price points, office space for different kinds of companies, as well as retail and public domain space. The development is staged from west to east, with twelve sub precincts planned with different identities and different typologies. The masterplan was revised in 2010 to provide detail for how the eastern end of the site would be developed. After public consultation, the original target of 1.5 million sqm of GFA has been revised to 2.32 million for the whole site, with increased density as well as increased open space. Development is expected to continue until the mid-2020s.

FIGURE 3: HAFENCITY LOCATION MAP



Source: Google maps, 2014

Sustainability is a key principle of development, and the City committed to new rail lines and stations as an early part of the planning for HafenCity.

The new floor area of 2.32 million square metres represents a 40 percent increase in the city centre area. More than 6,000 homes and more than 45,000 jobs are anticipated. The development will also include 28 hectares of public parks, squares and promenades.

HafenCity Hamburg GmbH is a 100 percent subsidiary of the Free and Hanseatic City of Hamburg. The supervisory board of HafenCity Hamburg GmbH is chaired by the mayor and consists of members of the city senate.

HafenCity Hamburg GmbH oversees all activities as the city's manager of development, property owner and developer of infrastructure. HafenCity Hamburg GmbH is responsible for the "special city and port assets" fund, which holds land owned by the City of Hamburg on the HafenCity site. Proceeds of these land sales go to finance roads, bridges, squares parks, quays, and promenades. HafenCity Hamburg GmbH also creates the development blocks and contracts the developers and larger users, and is responsible for public relations and communication.

No single developer is in control of any significant portion of the site, and HafenCity Hamburg GmbH retains strong control over the direction of the development.

In this model the government accepts the early development risk of infrastructure provision and subdivision, though reaps uplift in future land sales. The private sector is responsible for building on individual development lots.

HafenCity represents private investment of around 8.5 billion euros, and 2.4 billion euros of public investment, of which 1.5 billion euros has so far been financed from land sales around HafenCity.

The project is generally lauded though an alliance of nearly 30 community groups in Hamburg, known as "Recht auf Stadt" (Right to the City), have been highly vocal in their criticism of HafenCity. In particular, they have attacked the neoliberal agenda underpinning the project, for example, the practice of selling community land to the highest bidder (though in the Hafen City literature this is explicitly mentioned as not being the case, with lower bids for better designs being mentioned as a feature to encourage public interest outcomes). The group have attracted significant local and national media attention in Germany, criticising Government encouragement of high value housing in HafenCity while cutting social housing budgets which has increased social polarisation. Investment in prestigious landmarks (e.g. Elphilarmonie concert hall) with ballooning construction costs despite cuts in public expenditure in other areas has also come under criticism.

Sales and options on land purchases have to be approved by the Land Commission. It is not automatically the highest bidder that is accepted. The final decision often goes in favour of the most convincing usage concept, including adherence to the declared objective of creating a fine-grained mix of uses. A 'Preliminary Handover' procedure has also proved effective. The best bidder receives the land for one year for planning purposes. In this time the bidder organises an architectural competition (in conjunction with the City of Hamburg), commissions surveys, seeks to secure tenants or users and prepares permit application materials. The bidder and Hafen City Hamburg GmbH are in constant dialogue during this period, at the end of which the purchase contract is finalised. The benefit for the developer is that it does not have to finance the purchase until the end of the procedure. At the same time the city can exert some ongoing control ensuring that the final proposal is consistent with the original usage concepts and winning bid. If a developer does not honour its commitments the land can be withdrawn and a new developer found. A cooperative approach is fostered. Both city and developer minimises their risks in the interests of quality.

SYNTHESIS AND IMPLICATIONS

In contrasting the Melbourne Docklands experience with that in HafenCity, it is of note that both projects have drawn criticism for adherence to 'neo-liberal' principles. Curiously, this critique appears to have been more strident in HafenCity even though that project has been transacted with a much stronger focus on pre-defined community outcomes. The critique may be placed and understood in terms of differing cultural backgrounds and the level of ownership the community asserts over the urban environment.

Nevertheless, the experience of both projects points to the value which a commercial approach to urban renewal can bring. In Melbourne's case, the governance of the Docklands project held a sharp

HAFENCITY, HAMBURG

focus on infrastructure cost recovery and optimisation of the value of development rights which were clearly reserved by the State. This clarity of mission no doubt galvanised a cohesive and purposeful modus operandi on the part of the Board and senior management. The public value of this focussed approach ought not be underestimated. Arguably, it enabled the Docklands project to come on stream 'just in time' to help in the rapid turnaround in Melbourne's economic fortunes from the mid-1990s.

However, the narrow focus of the Docklands Authority's mandate, compared to that of HafenCity Hamburg GmbH, has left the metropolitan community with a less than fully satisfactory outcome. Whereas the HafenCity outcomes were carefully framed in partnership with community *before* commercial delivery disciplines were applied, broader community and environmental objectives were left to the Docklands Authority to determine. In this context, narrow financial objectives were likely to take precedence, and they did.

REFORMS IN GOVERNANCE ARRANGEMENTS

The governance arrangements for the Docklands delivered urban redevelopment that played a strategic role in revitalising the economy of the City, quality urban design and strong financial outcomes for the City. Obviously, the outcomes for the host community in terms of public realm and affordable housing did not come fully to fruition, at least not yet.

Aspects of the governance arrangements contributed to these outcomes. The general powers and duties of the Authority were strongly geared towards financial returns. The public benefit outcomes were insufficiently detailed and there was insufficient power to guide the developers in the early stages. It is the developers' primary and acknowledged aim to optimise profits.

DOCKLANDS, VICTORIA

The following adjustments in the governance arrangements should be considered for future urban redevelopment opportunities. Firstly, there is a need to rebalance the objectives, general powers and duties of urban renewal authorities in favour of community outcomes rather than financial returns. Performance criteria should closely align and be specific about the returns to the community. Secondly, and related to the previous, is the need to more carefully define and detail the outcomes that are sought. For instance, the need for granularity and mix of uses is very important in terms of urban form and quality public realm. Strong requirements for the inclusion and integration of social and affordable housing into the development is key to delivering sustainable urban communities. Thirdly, there should be clear and binding involvement of the community in defining outcomes and urban design.

Lastly, the Authority needs some level of control to ensure agreed outcomes are indeed delivered. The HafenCity example of 'Preliminary Handovers' provides an effective means to continue to have some control over outcomes actually being delivered, while providing some benefits to the developers as well.

Under these mitigating measures, the separation of roles 'funder', 'purchaser' and 'provider' would continue to exist, but with a keen awareness of the profit maximisation objectives of developers, and the need for control over the delivery of outcomes.

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