

FRANCE

PARIS— SALE OF PUBLIC LAND OR ASSIMILATED

LAND VALUE
CAPTURE

Concession for development plan

DESCRIPTION

The Paris Rive Gauche development project envisages 2.34 million square meters on 130 ha of redevelopment area in downtown Paris. It comprises 745,000 m² of offices, 585,000 m² of housing (50% of which are social housing), 405,000 m² of shops and utilities, and 605,000 m² of public facilities, including the National Library, a University, as well as a metro station. The final funding for the operation (estimated total cost of more than € 4 billion) comes from the sale of land once that it gained value thanks to public investments and regulatory changes. The SEMAPA, a mixed enterprise supervised by the City of Paris, is in charge of its implementation. It buys plots of land along the way as needed by the principal owner, Réseaux Ferrés de France (RFF), and resells it to finance the infrastructure works, with an intermediate funding by means of loans guaranteed by the Paris City Hall. Due to its size, the project extends over several decades, and is split into various development stages in order to allow for a good absorption by the real estate market.

LOCAL GOVERNMENT INVOLVED

Paris City Hall

INSTITUTIONAL AND REGULATORY FRAMEWORK

The Municipality has control over the urban planning regulations, and bears the burden of most planning and intervention operations realized on public space (these tasks are increasingly assumed by groups of municipalities (conurbations, metropolises), but Paris remains for the moment an exception. The mechanism of the Concerted Development Zone - ZAC (created in 1967) is the regulatory tool that allows both to modify zoning and to use instruments such as expropriation or urban pre-emption right on perimeters previously demarcated as public interest, urban extension or redevelopment areas. It makes it possible to internalize the creation of added value linked to the operation (but also the risks associated!) to finance the investments related to it.

TRACK RECORD OF THE USE OF THIS INSTRUMENT

The ZAC Paris Rive Gauche (formerly known as the Seine Rive Gauche) was created in 1991, and SEMAPA has been designated as a developer (since 2006, this type of concession is theoretically compulsorily subject to competition). The change in the municipal majority in 2001 led to an inflexion of the program, with the introduction of 50% of social housing and the preservation of some buildings of heritage value (which will weigh on the budget, the price of land for social housing being lower than that of "market" housing). The project followed the evolution of real estate cycles, with in the 1990s (large real estate crisis) mainly public projects (library, social housing), then the sale of many "private" land charges from the late 1990s. Infrastructure investment costs have tended to increase sharply compared with forecasts, due to a buoyant property market until the end of the 2000s, as well as under-estimated technical constraints (in particular the coverage of railways in the middle of the area).

EVOLUTIONS AND OUTCOMES

Between 1991 and 2012, 1.5 million m² were built. Revenues amounted to 2.1 billion euros (of which 89% came from the sale of property charges and the rest from public shareholdings), compared to 2.3 billion euros of expenditures (the gap being financed through bank loans). Besides, an important part of the investments on the area is financed, including the library, the university, the metro station, several public amenities and social housing (with land sales at preferential prices).

STAKEHOLDERS INVOLVED

Paris City Council, and its armed arm the SEMAPA, are the key stakeholders. They bear the risks and costs of the development operation and recover the benefits. The challenge for them is to give this strategic area a most optimal and productive use (and associated tax revenues), at a minimal cost for the public sector. The risk of the transaction is mitigated by the specificity of the land-based financing mechanism: whereas generally in ZACs the developer acquires the land at the beginning of the operation, which involves carrying costs and significant risks (if the real estate market does not allow for the development of these lands at the expected rhythm nor price), on Paris Rive Gauche, the main owner, RFF (public company in charge to manage and optimize the land of the SNCF), has agreed to sell the land along the way, in parallel with their use, in exchange for a transfer price well-adjusted to market developments (and thus a price potentially higher than the one which would have been derived from a single sale at the start of the transaction). For Parisians, key stakes encompass economic dynamism, employment and associated income, but also the supply of housing, including social housing.

MANAGEMENT AND PUBLIC ACCOUNTABILITY

The results of the overall operation of SEMAPA are public. Numerous consultative meetings were held, particularly in the first years after the change of municipal majority in 2001, and information / consultation mechanisms were put in place. However, local civil society deplores a decline in their influence in recent years.

ANALYSIS AND ASSESSMENT OF THE TOOL

This type of mechanism makes it possible to maximize the capture of the property value added, but also the risks taken. Indeed, the operation is extremely risky because it takes place over a long time and is thereby necessarily subject to changes happening on the real estate market. This risk is mitigated by the arrangement made with RFF regarding the availability of land (but the added value is shared with this partner). It is based on an extensive use of land acquisition, including by expropriation, and generates structural indebtedness, since expenditures are made before revenues are collected. On the other hand, it allows the greatest control over the urban form, densities and uses, with the associated advantages (social benefits) and disadvantages (clientelism, lack of understanding of the market mechanisms) that may generate such supervizing by political entities. To mitigate these disadvantages, the use of a dedicated structure (SEMAPA), with expertise in both real estate and operational planning, is a major asset.