Article

Sustainable Urban Renewal: The Tel Aviv Dilemma

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Abstract: The city of Tel Aviv needs extensive urban renewal projects to answer the demand for housing. The area suitable for such a project is the older southern part of Tel Aviv, made up of small parcels of land with single units. This area has undergone an extreme gentrification process, which makes assembling small parcels into large ones a very difficult task. Owners holding out for higher prices may either prevent or significantly delay socially efficient redevelopment. The only current option for the Tel Aviv Municipality that will lead to efficient land assembly for private redevelopment currently is the option of private entrepreneurship. We wish to describe a mechanism that will solve the hold-out problem and lead to efficiency in land assembly without resorting to the intervention of the government to execute eminent domain. The mechanism requires the municipality to plan the development that will best suit the city, thus allowing the valuation of the parcel to reflect its true price for the owner. If the owners are still reluctant to sell, the municipality can then tax him according to the new value of the land.

Keywords: sustainable; urban renewal; density; gentrification; eminent domain
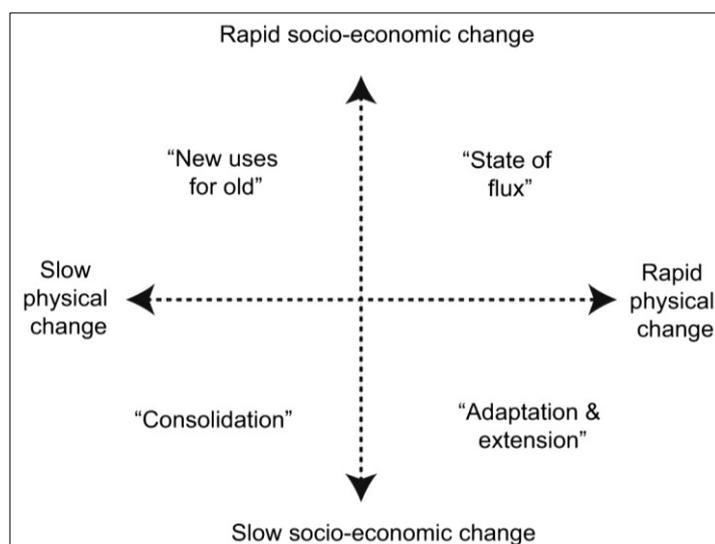
1. Introduction

Awareness of the inadequacy of traditional planning instruments marks the transition from an approach based on urban expansion to a phase based on urban renewal. The ownership of property is strongly identified with individual freedom and human rights. However, no social system upholds absolute freedom and the right to deal with one's property as one wishes. There is always a subtle balance between the rights and obligations of individuals vis-à-vis their neighbors, and property vis-à-vis the community as a whole [1]. According to Kivell and McKay [2], the advantages claimed for taking land into public ownership during urban development can be condensed into three main arguments:

planning efficiency, fiscal and social equity, and the provision of services. Arguments against public land ownership can be classified into bureaucratic inefficiencies, a threat to private property rights and to the workings of a free enterprise society, and the variability of land values. Opponents of public landownership state that the combination of complete public ownership and the granting of planning permission, together with the public sector use of land, is potentially dangerous because it restricts the operation of the free land market. In addition, public landownership may result in local governments holding an embarrassing surplus of land acquired at high prices [3].

The first and most fundamental reason for this choice is to increase the density of the cities and to improve the quality of the neighborhoods. Cities are encouraged to improve the built up, degraded or underused parts, rather than to expand. The second reason is to avoid new soil consumption; moreover, it would be unimaginable to abandon degraded urban areas in order to build better-quality new neighborhoods [4]. Urban renewal programs, also called urban regeneration, have been adopted in some countries, based on the idea that the space where we will live in the future is already built on [5]. Urban renewal programs have focused on the qualitative transformation of the existing city in a decisive way. Targets of urban renewal programs can be summarized as increasing the quality of housing and open spaces, adopting a policy of social cohesion and balance, and paying attention to migration phenomena and improvement of area reputation [6]. Wheeler [7] suggests that a "sustainable city" must be compact; promote efficient land use; have less automobile use, and better access; have efficient resource use; produce less pollution and waste; restore natural systems; provide good housing and living environments; a healthy social ecology; a sustainable economy; community participation and involvement; and preservation of local culture and wisdom.

In this review we follow a physical performance approach that can be visualized on several axes (Figure 1).

Figure 1. Scenarios for the Building Stock [8] (p. 4465).

According to Ravetz [8], the possibilities might be framed by two contrasting scenario axes (Figure 1):

- Existing building forms and fabrics may be slow-changing due to simple inertia and possibly through disinvestment, or fast-changing via upgrading, adaptation and extension;

- Existing patterns of activity and usage could be slow-changing due to more static lifestyles and social patterns, or fast-changing via lifestyle innovation, migration and social movement, new household types and social groupings, and economic or institutional pressures which drive these changes.

The possibilities can then be sketched out:

- "Consolidation"—with static building stock, static socio-economic change, and only minor improvements and adjustments;
- "New uses for old"—static building stock and rapid socioeconomic change. Here, there could be interesting possibilities involving new uses and users of existing buildings;
- "State of flux"—with rapid change in both physical buildings and in socio-economic uses. This scenario is the most unpredictable;
- "Adaptation and extension"—rapid change in building stock, but with static socio-economic uses [8].

Various experiences of urban regeneration policy from all over the world differ in contexts and forms. Several experiences have been implemented with community involvement; others have considered eminent domain to achieve results [9]. Nowadays, eminent domain is not considered a suitable tool for development; sustainable development is preferred and can be synthesized as functional integration, social mixing, increase of environmental quality, and improvement of infrastructure systems.

In order to revitalize degraded parts of towns, the private sector has to be enticed to invest money. Generally, the private investor is interested in transforming a totally abandoned area, with or without changing its possible uses (*i.e.*, an old industry or station can be transformed into a trading center, or an old building can be demolished in order to build a new high-rise). In fact, such areas are very accessible, fairly central and can provide important services to the whole town. On the other hand, it is not that easy to find a private investor to revitalize a degraded residential area, without completely changing its possible uses. In the latter case, it is important to reach an agreement between private investors and local authorities in order to use both public and private funds [10].

In this paper, we propose a new mechanism that solves acute land assembly problems without resorting to eminent domain—a mechanism that will allow the city to continue to adapt and extend while at the same time maintaining social justice and sustainability.

2. Tel Aviv

Israel is a small country with a problem of rising building prices and no land left for building unless the last reserve of land is to be built on. In the center is Tel Aviv is less populated then some its neighboring satellite cities. This is an absurd situation aggravated by the reluctance to use eminent domain which we want to address. Our story starts in 1906 a group of Jews, among them residents of Jaffa, purchased 60 plots outside Jaffa. In 1910, the name Tel Aviv was adopted. In 1925, the Scottish town planner Patrick Geddes drew up a master plan for Tel Aviv. This first plan for developing the northern part of the district was referred to as "The Geddes Plan". The boundaries used by Geddes are now the boundaries of Tel Aviv's Old North. "The Geddes Plan" was executed by architects trained or

influenced by the Bauhaus—the Modernist school of architecture—creating what is recognized as the largest concentration in the world of buildings in the International Style. When Israel declared Independence on 14 May 1948, the population of Tel Aviv was over 200,000, and had grown to 42 square kilometers (16.2 sq mi).

In the early 1960s Tel Aviv's population peaked at 390,000, representing 16 percent of the country's total population; it had become the commercial center of Israel. A long period of steady decline followed, and by the late 1980s only 317,000 people were living in Tel Aviv. High property prices pushed families out and deterred young people from moving in, and the city began to deteriorate with an aging population. In the 1990s, the decline in population was reversed, partly due to the large wave of immigrants from the Former Soviet Union. At this time, a gentrification process began in the poor neighborhoods of southern Tel Aviv. In 2003, new laws were introduced to protect the Modernist buildings, and efforts to preserve them were aided by UNESCO's recognition of Tel Aviv's White City as a World Heritage site. In 2007, immigrants from France settled in part in Old Tel Aviv, followed by the construction of many skyscrapers and high-tech office buildings. In 2010 it became clear that the whole southern part of the city had to be rebuilt.

Southern Tel Aviv is underdeveloped, with vacant parcels of land and a housing inventory made up of small parcels of land with single or two-storey buildings. This part has been underdeveloped for years, and the gentrification process made sure that it would not be developed by the new owners. The old neighborhoods have changed their appearance and hardly resemble their humble beginning; the old buildings have undergone an extreme renovation process. The neighborhood has gained status based on the sentimental value of the old single one-storey buildings, but, this has led to inefficient use of land and to a shortage of sustainable housing. The infrastructure was not built to sustain modern living standards, leading to insufficient facilities. Tel Aviv cannot afford such social injustice where the very rich prevent the urbanization of the southern part of the city so that they can live in country houses; the social implications are too high.

The city of Tel Aviv needs extensive urban renewal projects to answer the demand for housing. Prices in the housing market have increased by 50% in the last six years whereas salaries have not increased similarly; there is a demand for between 100,000 and 200,000 family units, depending on whether you ask the government or the private market [10]. This is unique situation, with a diminutive timetable which only few cities have, and with no new land to build on, Tel Aviv needs to change its planning paradigm. Tel Aviv's Southern neighborhoods must be demolished and a new infrastructure put in place that will allow the integration of the "The Geddes Plan" with the old southern part. Buildings of at least six-storey must be placed in urban settings, and exotic street markets must be moved to complexes that allow for such activity. On 17 November 2013, the Municipality published a new plan called T/A5000. The Tel Aviv Municipality estimates the number of apartments that can be built in the southern neighborhoods to be 35,000 by the year 2025—that is, one-third of the housing units that are needed now. The rebuilds of existing infrastructure was neglected in the Sothern Center where neighborhoods have small plots with one/two story buildings surrounded by high rise. This leaves the middle income without a way to live in Tel Aviv a sustainable existence. The municipality allows the affluent plot owners to keep there one story building in Tel Aviv center. The municipality refuses to resort to eminent domain to build twice the density appropriate for the center of Tel Aviv [11]. So what would be the appropriate tool that will allow the municipalities to adapt and renew and control

the development of growth in an already existing built situation? This paper does not intend on solving all the problems but only the question how do we rebuild without using eminent domain, since the free market has failed us?

3. Land Assembly

The government uses administrative discretion to make decisions regarding the type and intensity of land use within the zoning system. These decisions are subject to adjustment according to the social and economic situation. In other words, the government can control the growth of a city theoretically via different urban plans. However, the pattern of contemporary urban growth may not satisfy the needs of people or the existing infrastructure. In order to overcome the bottleneck of urban development, and hence to rebuild outdated urban regions, "urban renewal" has become a necessary policy.

Two alternatives of urban renewal have been developed: one permits private developers to assemble a parcel of land and develop it; the other requires more centralized planning, using eminent domain. In many countries, the government attempts to avoid the use of eminent domain and instead opts for economic incentives and official assistance programs to vitalize the use of urban land in urban renewal. Regulations regarding the transfer and awarding of land assembly in urban renewal play a key role in the success of urban renewal. If land assembly is defined broadly, it is a key stage in the development process involving:

- Land acquisition from landowners;
- Land preparation;
- Planning of streets, open spaces and main services;
- Planning the built form;
- Division of land into building plots;
- Delivery of planned form [12].

Problems often arise when communities encounter the hold-out problem in connection with private redevelopment projects that are jeopardized by owners who refuse to sell their properties. Governments can ameliorate the hold-out problem by taking the properties of those owners under eminent domain. But this may lead to the implementation of projects that should not be implemented, because their net benefits are smaller than the sum of the owners' losses. The holdout problem is thus only a part of the more general problem of land assembly: the problem of ensuring that parcels are assembled if—and only if—the project's net social benefit exceeds the values of the individual properties [13].

Part of the difficulty of finding a solution to the problem of land assembly is determining whether an owner's refusal to sell constitutes a hold-out that private bargaining cannot solve. How can one establish whether an owner is demanding an inflated price for his property? A property's market price is likely to be an imprecise approximation of the owner's subjective valuation, because market prices reflect an owner's reservation price only when the owner is willing to sell. Thus even if comparable nearby properties have been sold recently, their selling prices do not indicate the owner's subjective attachment to his property. Nor do they provide information about the owner's subjective cost of moving at a time when he had not planned to sell his home. This makes it impossible to learn an owner's valuation of his property in any way other than asking him directly [14].

Problems faced by the area Included:

- The lack of an approved planning framework, insufficient municipal resources to meet the community's expectations;
- Overloaded infrastructure, and claims from previous owners hindering security of investments.

In the United States, taking private property for urban renewal has long been accepted as a valid public purpose. However, public entities which undertake such endeavors are frequently faced with the difficulty of finding the means to finance such urban renewal projects. To assist these efforts, in 1984, the New York State Legislature provided local units of government with yet another mechanism for financing urban renewal by enacting the Municipal Redevelopment Law, also known as the Tax Increment Financing Law [15].

The Tax Increment Financing Law provides municipalities with a locally administered redevelopment financing tool which exploits the rise in economic value and hence the increase in tax receipts which accompanies urban redevelopment. Prior to the enactment of this law, municipalities were limited to federal urban renewal programs administered by the U.S. Department of Housing and Urban Development, state assistance in the form of capital grants, the intervention and assistance provided by the Urban Development Corporation, locally funded urban renewal projects, locally financed improvements to the public infrastructures, tax abatements authorized by the state or local governments, or the issuance of industrial development bonds by a local industrial development agency. Although a recent addition to the New York arsenal of redevelopment financing tools, tax increment financing is not a new concept. It has been or is now authorized in thirty-eight states [15].

There is mounting evidence that unfettered competition among states and city governments to attract corporate investment, which includes deep subsides to private real estate developers and other private capital interest, actually generates unanticipated cost to the public, as prices do not necessarily produce higher profit, there are fewer jobs than were promised, and local or city-wide economic growth are not clearly stimulated [16].

In Tel Aviv, an existing mechanism for development is the "Integrated National Master Plan for Construction, Development and Conservation, Plan No. 35", which was promoted by the Planning Authority and approved by the government in late 2005; it aims to meet the needs of the construction and development of the country while maintaining open spaces and land reserves for future generations. Emphasis has been laid on developing and curbing sprawling cities, the promotion of public transport, the renewal and development of existing settlements while reducing gaps in investment, and environmental protection. To ensure the achievement of the program's goals and to implement the design principles equating the instructions of the plan, the government attached a series of additional policy instruments, including economic and social policies, renovating and strengthening cities, the preservation and care of open spaces, strengthening cooperation between the authorities, and others. The Israeli government decided that the ministries and bodies of its divisions will make every possible effort to implement the policy measures accompanying their activities, and will report to the government every year on their implementation.

Using the "Integrated National Master Plan for Construction, Development and Conservation, Plan No. 35", the Municipality incorporates its own master plan. Guided by the directions of the master plan, the Municipality draws up a detailed plan. It is then incumbent on the Municipality to

manufacture consent. Existing conditions indicate that this mechanism does not work, however hard the government tries. The Municipality, with its master plan and detailed plans, has a hard time enforcing such an intention. Resorting to eminent domain entails a long and hard struggle. Injustices occur when one owner has to vacate his plot while his neighbor enjoys prosperity; when one owner is forced to move while the neighbor can build a high rise.

4. New Proposed Mechanism

The ongoing debate about eminent domain suggests that it is advisable to look for alternatives to the government's urban renewal projects. A complete solution to the problem of land assembly must have two characteristics: First, it must ensure that developers can assemble the parcels if and only if the social net benefit of redevelopment exceeds the sum of the values of the individual properties. Second, the owner of the property receives an opportunity to view the planned development and thus receives an adequate value for his property.

Consider a developer who wants to implement a project that requires the simultaneous redevelopment of a number of properties that have multiple owners. The developer values the combination of these properties as the present value of the project's net benefits, minus the project's construction cost, minus the cost of demolishing any existing structures. Determining whether it is optimal to implement the project requires defining a property's value. For the purpose of evaluating a redevelopment project, an attractive definition of a property's monetary value is the cost of using the parcel for the project. Thus the monetary value of a piece of real estate is the lowest amount at which its owner would be willing to sell it voluntarily to someone who is not interested in assembling multiple parcels. The owner's price and therefore the value of his property is likely to vary over time; it is higher when the owner regards moving as a nuisance, and it is lower when the owner intends to move and wants to sell his property [17].

In regular situations, once an owner learns of a land assembly plan, he knows that the developer is almost certainly willing to pay more for the joint area than he would pay for the individual properties if they were to be left unassembled. In the literature, when an owner demands the development amount, this is usually defined as a hold-out. It is called a hold-out because the developer is either forced to abandon a worthwhile project or to implement a less efficient version of the project, and this either on the subset of parcels that he can acquire or at a less desirable location. This is the situation in Tel Aviv, where more housing is required; owners are not willing to part with their property even if a land assembly plan is exposed. This hold-out is what happens in cities that have one-storey buildings in the center, and the owners know that in ten years' time double the building capacity will be desired. What does this imply for finding a solution to the land assembly problem? Land assembly will not be efficient if (a) owners can increase the amounts at which they are willing to sell their properties when they learn about the developer's intention to assemble a number of properties; and (b) developers are motivated to implement inefficient projects because they do not need to pay the owners full prices [17].

While there is little disagreement that hold-outs can be costly, there is considerable disagreement about whether the social cost of hold-outs is high enough to warrant government intervention. The main difficulty in assessing the social costs of hold-outs is to determine when an owner's refusal to sell actually constitutes a hold-out—that is, whether the owner is demanding a high price because s/he

wants to get part of the gain in assembling the land or simply because s/he values his property highly. The owner is holding out in the former but not in the latter case. Hold-outs are socially costly. Grossman and Hart [18], Eckart [19], Asami [20], O'Flaherty [21], Menezes and Pitchford [22] and Rasoolimanesh [23], analyzed the strategies that owners may follow. This point of view of who profits in the process of land assembly is important and land owners should not be deprived of their investment, but the process in Tel Aviv demands a different approach, one that ensure that entire neighborhoods can be rebuilt in orderly fashion. In Tel Aviv the majority of residences do not want to vacate, and a measure of social justice should be enforced. Thus the key to solving the land assembly problem is for the municipality to develop a comprehensive plan of what it wants to do with this land. In order to keep the project in private hands, the municipality will then authorize several developers to run the project against the owners of the plots of land [20]. Announcing the plans will ascertain that the owners of the parcels of land do not get cheated. In order to prevent a hold-out, at this stage the municipality will tax the owners on the new monetary value of their property. This will ensure that the land does get developed, since the owners now have diminishing returns that balance out the owners' expectations of holding out. In many of the historic districts, development is hindered by the multiple owners to each plot; nonetheless this tax will ensure that they will deal with the property without delay. During construction this tool can be used to negotiate a time line by taxing the developer, or on the other hand allowing for benefits according to sustainable criteria. Land assembly will now be efficient if (a) owners have equal monetary pressure; and (b) developers are motivated to implement because they are tied to a contract from the municipality [24].

In the case of Tel Aviv, increasing the value of the parcel of land by allowing six-storey buildings would incur almost 6 times the taxes the owner would have to pay, which makes owing such an undeveloped property a costly enterprise. Taxing all the owners in a neighborhood will allow for the entire place to be molded into the desired state without worrying about its implications.

The risks to the project achieving its objectives in terms of private investment and new business creation include:

- Failing to provide the legislative framework and to transfer responsibilities to the municipality, focusing investment elsewhere, with investors neglecting old buildings in favor of new buildings and other parts of the city;
- A lack of sufficient support from the central government for specific projects and programmers;
- The purchase of private land owned by the upper strata of society with financial means;
- A government whose interest is to keep the high monetary value of the land as a source of revenue.

In addition, this procedure will allow a more transparent municipal practice of exposing the future plans of the city. This plan of re-layering the city offers many opportunities in terms of correcting the many flaws that exist due to its historical development. Each neighborhood should be treated as a whole. This will allow the Municipality to control the planning process and the public access to the information through public meetings, design contests or both. It will allow the public, via the Municipality, to control the quality of the plan product and to manufacture consent. It will also allow the public to judge the proposal without prejudice, knowing that the proposal is fair to the owners of the property. This gives the public a yardstick by which to consider how much of its history it wants to preserve and how much housing it needs.

Such exposure to the public is similar to the way things are done in Singapore, where the plans are debated in public meetings. The difference lies in the way the planning is handled. In 1966 Singapore created the Urban Renewal Department (URD) as part of the Housing and Development Board (HDB) to expedite the renewal process. The Land Acquisition Act, enacted in 1966, empowered the government to acquire land on a compulsory basis for public development. The physical impacts on Singapore's urban landscape brought about by URA's Sale of Sites Program were considerable. The dramatic change in scale from the ubiquitous low-rise two- or three-storey shop houses to the high-rise mixed-use complexes was remarkable, both in terms of bulk and height.

In Europe—notably Britain, the Netherlands and Germany—the governments exert control over planning of the housing market through social housing. Housing authorities or nonprofit organizations run social housing projects in some cases up to 50% of the market. This allows them to plan and direct urban growth by renewing complete neighborhoods without the hold-out problem.

In Israel, the private market has almost absolute control over housing rental. The Tenant Protection Act is applicable to only about 2% of the rental apartments. Previously the situation in Israel was better. At the time of the Rent Protection Act in 1959, for example, 23% of Israel's housing stocks were publicly owned. In the late 1960s, public companies owned 206,000 units. In the 1970s, public housing demand fell due to neglect, and led to the stigma of buildings of poverty and hardship. This resulted in the reduction of public housing construction by the state, and part of the policy of privatization involved getting rid of the massive inventory of homes owned by government companies. Public companies currently hold 75,000 apartments out of a total of 2.4 million, a meager 3%.

5. Conclusions

The purpose of this paper is to examine an alternative to eminent domain. This study demonstrates that taxing plot owners can serve as an incentive to break the hold-out. However, levying tax is an integrated balance between all the aspects of the economic, social, environment, and government services. Therefore, it needs government and municipality support.

The situation in Tel Aviv is an example of how things can go wrong. In the last decade Tel Aviv has been moving from "new uses for old" to "consolidation"; now it has to achieve "adaptation and renewal". Avoiding any control allows sparse, random development. This situation suits certain groups that derive benefit from it, but the majority of people see no advantage. Social pressure is mounting for more housing. Israel must choose either to go back to social housing or to start taxing plot owners. Taxing those property owners will expedite land assembly and the city can then develop faster. The tax will ensure that the Municipality will have leverage in the real estate market. Taxing home owners who refuse to sell is a delicate negotiation, but with transparency from the Municipality deals can be ensured. Building rent-controlled environments will require building 125,000 units to achieve the American equivalent of 5%. Creating rent-control units might be the government's choice, but is it sustainable? The only place the government can build without using eminent domain is on the periphery, involving long commutes. We can therefore deduce that unless there is public support, the government will continue in its old ways.

Conflicts of Interest

The author declares no conflict of interest.

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