

## URBAN REGENERATION FINANCING IN MALAYSIA

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### ABSTRACT

Property development is seen as one of the key element in urban regeneration process in halting decline in town and cities. Moreover, the regeneration policy is viewed as a key driver of economic, physical and social growth. Thus, it is an expansive and pervasive measure to policy making decisions. Post 2007 sets the challenges as Global Financial Crisis (GFC) led to the uncertainty and financial constraint for urban regeneration. The traditional practice to finance the development is by way of public investment. This places a huge burden on governments in terms of raising sufficient investment. In the face of continuing economic crisis, this study examines alternative funding vehicles to fund urban regeneration projects. One possible alternative financing tool is Land value capture (LVC). This study explores an alternative financing mechanism designed to capture the uplift in land value due to development activity. This study also examines the application of value capture in terms of its prospect and challenges in Malaysia. Furthermore, this paper provides the first comprehensive empirical investigation in urban regeneration financing and LVC in Malaysia. The analysis also identifies various LVC mechanisms that are applied around the world and their potential for application in Malaysia.

**Keywords:** *Urban, Regeneration, Land, Malaysia.*

### 1.0 INTRODUCTION

Urban regeneration aims to address economic; social; and community issues [1-3]. Hence, the official definition based on government perspective as —*A holistic process of reversing economic, social and physical decay when it has reached a stage where the market alone is not sufficient*” [4, 2]. A new area of research for urban policy aims to examine the link between central government and local authorities [1, 2, 5, 6]. One of the major themes that can be extracted is the evolution of the urban policies and funding structures for urban regeneration projects. Most of the governments in the UK, Europe and US have adopted regeneration as a policy objective, particularly when faced with urban, decline, and deteriorating physical amenities. The concept of urban regeneration overlaps with built environment research. A similar point is made by Roberts and Sykes [7], who define urban

regeneration as a “*comprehensive and integrated vision and actions which leads to the resolution of urban problems and which seeks to bring about a lasting improvement in the economic, physical, social and environmental condition of an area that has been subject to change*”. Furthermore, Lang [8] adds that urban regeneration actually involves integration across the social, environmental, cultural and economic spheres, which is able to explain the problems, potentials, strategies and aims of urban regeneration.

Urban areas are evolving relative to the continuous changes in modern society. They change according to local needs, economic, physical and environmental changes [9]. As the process continues, the inner urban area becomes saturated and enters urban decline. The development process then continues towards urban redevelopment and regeneration. Urban land development and regeneration is a key process to ensure an adequate investment return on land and property. Land value creation arises from gains accrued from the development as a result of public and private sector investment in land. Fensham and Gleeson [10] advocate that the incremental land value exists based on three basic land elements: (i) private benefit or development infrastructure investment; (ii) social infrastructure investment and (iii) urban externalities [11-13]. Hence Medda [14] opines that accessibility creates urban value due to transport investment [15]. This concept is generally referred as Land Value Capture (LVC).

The issue on finding alternative funding mechanisms for urban regeneration requires an understanding of the LVC concept: its appropriate mechanisms to provide a sustainable alternative for urban regeneration funding. Overall, the study of LVC mechanisms shows that every mechanism has its own objectives, which are sometimes adopted in parallel with the other approaches in realising the increment land value. However, the comprehensive analysis of LVC mechanisms requires multiple objectives. The ideal conditions for funding urban regeneration projects are a strong economy [12], and adequate public and private resources which are coupled with the determination from every stakeholder to help solve the social and economy problems in the inner cities [1, 11, 16, 17]. However, the current lack of traditional resources from public and private participation in projects has halted much regeneration work, which has become a major issue in urban regeneration policies [11, 18, 19, 20]. The issue of funding has recently become a common goal of many urban regeneration developers. One way to overcome this problem is to find alternative funding vehicles [16, 20-22]. Moreover, there is less funding from traditional sources and the government does not have enough funding to finance urban regeneration projects [19, 20]. The decrease in capital funding merits further investigation to explore alternative financing models for regeneration projects. Recent concerns about the Global Financial Crisis (GFC) especially the lack of traditional funding from the public sector to fund urban regeneration projects have generated a considerable body of research [10, 12, 15, 22-24]. There are however, growing interest in other alternative financial models such as Tax Incremental Finance (TIF), Betterment and Land Value Tax (LVT). Hence, it is a central aim of this research to investigate the appropriateness of urban regeneration financing using LVC (LVC).

## **2.0 URBAN REGENERATION AND URBAN DEVELOPMENT**

All cities and urban spaces are dynamic and change overtime; which involves a process of

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urban growth and decline. Cities that are growing slowly and cities that are declining are a familiar phenomenon on every continent, mostly as a result of political, economic, and planning issues [9, 25-27]. There is currently a growing global interest in urban regeneration, especially among policy makers, property development actors, and the community [7, 28, 29]. Most interest has been paid to the problem of overcoming social ills and economic deprivation. This can help to enhance the inner cities and create a more vibrant area. It will also help to meet the growing demand for sustainable economies and address the needs of the physical environment of the local area.

The traditional perception of cities is that they provide shelter, security, social interaction and a place for selling goods and services. However, the functions of modern cities have changed beyond these perceptions [8, 25, 30]. The trends of urban development are relevant to the physical changes and their social response [8, 9, 26, 27, 30]. They are also relevant for economic development comprising housing and activities for living, working, recreations and environments [3, 31]. Although, research in urban studies works from a multidisciplinary perspective; most studies are concerned with the economic, social, environmental, physical and political aspects of urban development. Similarly, Roberts and Sykes [7] stated that the pressures on the political, economic and social system would create the need for new policies to cater for economic growth and for public improvement.

Williamson et al. [26] define urban development as a wide range of activities that take place on different scales. The process could be establishing a new town or cities (e.g. new residential, commercial, or industrial areas) or may just be as simple as building a house or an extension. In general, urban development can be defined as the process of producing urban space. Urban development is closely related to the changing patterns of urban areas. Significantly, Pacione [9] in his study of urban morphology argues that urban development has happened as a result of:

- i) The process of urbanisation, which happens when there is an incremental increase or decrease of population living in the city areas;
- ii) Urban growth, which happens when there is a growing population in towns and cities; and,
- iii) Urbanism, which happens when the behaviour and social characteristics of urban living among the people living in the city are more demanding when compared to a society as a whole.

In an urban development context, urban decline been viewed as a natural process that happens when „*urban changed results from lifecycle that ends inevitable decline*“ (Chicago School of Urban Sociology cited in the study by Martinez-Fernandez et al. [25]). Urban decline occurs when there is an undesirable change that happens together with physical decay, growing unemployment, worsening living conditions as well as a rise in social problems. Hoyt [32] developed a cyclical urban approach in his study for resident structure and growth in American cities, and concluded that the residents will undergo changes and evolution towards decline, which is a process that continues [25]. In the 1960s, many towns and cities within the UK and other European countries faced long-term decline [3, 9, 31].

This corresponds to the idea of the cyclical city that was developed by Hoyt [32]. The main reason for this decline in the city is generally due to population decline and loss of employment [3, 8, 31]. Globalisation and the de-industrialisation process have led to the migration of high skilled labour to more competitive markets [25, 30] which has resulted in the outwards migration of the population and migration of businesses from the inner-city areas to minimise their costs [8]. As such the concept of urban regeneration was introduced to revitalize the city development to be more livable, sustainable and continue to growth.

The regeneration phases and risk profiles are illustrated in Figure 1. At the start of the development, the land value could be zero or negative value (i.e. liabilities and assets). Developers who operate at this stage need to do a large amount of preliminary work, such as remediation of the land or dealing with contaminated land (brownfield). To add value to the land, developers need to invest (or have some financial assistance) in providing infrastructure on the land; therefore, with a time element this would increase the land capital value. Development activity would provide the added value and appreciation in capital land value in every regeneration development stage. Consequently, it represents a possible exit to the developer or investors to get their investment return from the possible regeneration project (Figure 1).

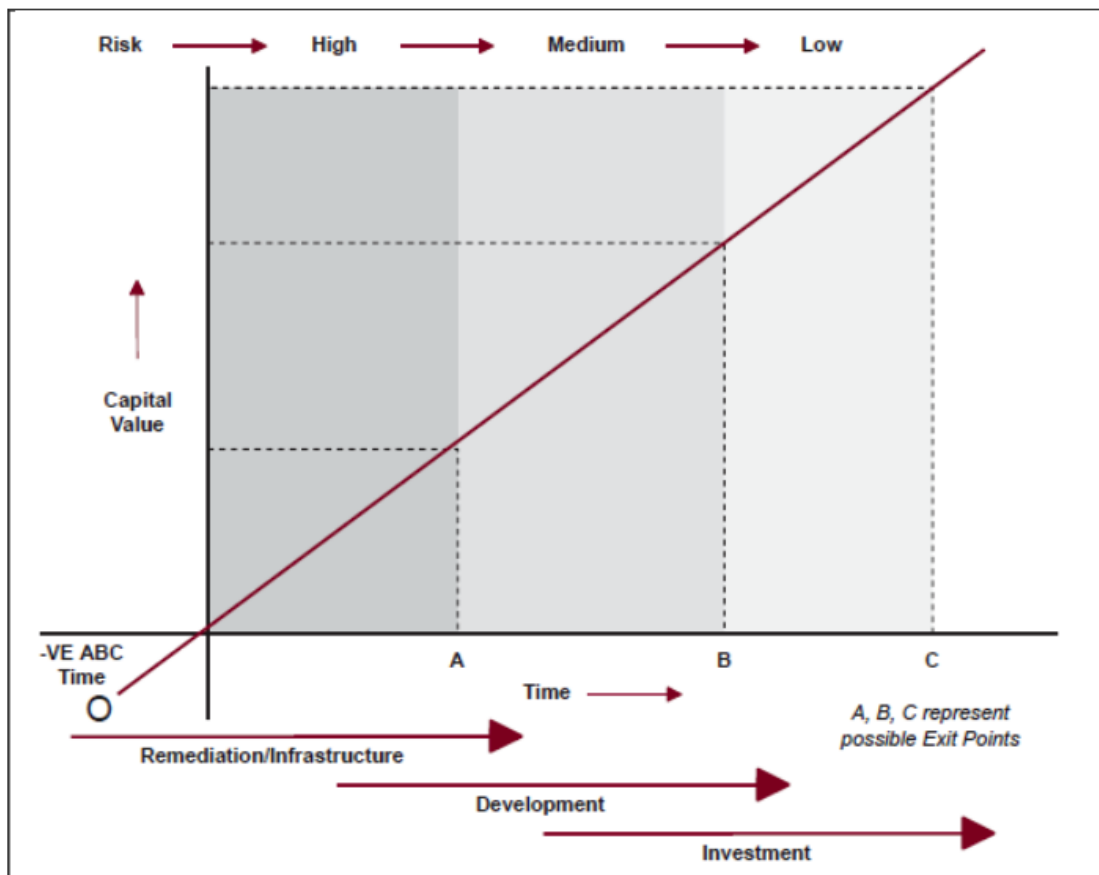


Figure 1. Regeneration phases and risk profile.

Private finance in urban regeneration demonstrates the varying risk-return element adopted by different actors within the regeneration process [1]. The schematic diagram shows that the primary factor influencing the investment in regeneration is the total returns that the investor would receive from the regeneration project. However, the risk and return would vary from one regeneration project to another. The uncertain prospects for the property market would deter the performance of long term investors in urban regeneration [2, 1, 18]. The negative image of urban regeneration locations would influence the institutional investment for the prospect of having expected rental growth in the long run.

### **3.0 RESEARCH METHODOLOGY**

This research provides the first comprehensive empirical investigation in urban regeneration financing and LVC in Malaysia. The analysis also identifies various LVC mechanisms that are applied around the world and their potential for application in Malaysia. The research presents the first substantial Malaysian study that explicitly explains the role of key property players in urban regeneration and LVC. Case studies in Kuala Lumpur and Johor Bahru are utilised to show the need for urban regeneration. A qualitative methodology is adopted to gain quality data from the respondents. This study aims to use qualitative research because the problem needs to be explored within a group or population, and it can identify variables that can be measured rather than using information from a literature review. Hence, in order to produce a rich understanding of the complexity of the subject matter, especially in urban regeneration subject in Malaysia, the researcher needs to be in direct contact with people. The design of this research project will first give an overview of urban regeneration as a main theme before focusing on the LVC model as an alternative financing vehicle.

A comprehensive literature review is conducted that is mainly founded in the western literature focussed on the key concepts of urban studies, including: growth and decline, urban redevelopment, urban regeneration, property development process and funding for urban regeneration projects. Consequently, the main interest of this research project will be an exploration for the potentiality of LVC application in Malaysia. Secondly, for the field work, i.e data collection to analyse all the data empirically and scientifically analysed. The data collection activities involve case studies and interviews This research documented the findings and results analysis from the structured interviews (stakeholders) and semi structured interviews (end user groups) representing various public and private personnel in property industries. The results obtained were then presented as a policy outlook for the LVC potential in Malaysia.

The study took place from February to June 2012 in both case studies areas (i.e. Kuala Lumpur and Johor Bahru). The data gathering involved structured and semi-structured interviews with the selected stakeholder group and end user group, which were mainly senior or managerial positions involved in property development. The research process effectively considers three methodologies that influence the research instruments, which are: a literature review, case studies and interviews (i.e. in-depth interviews and semi-structured questionnaires). The case studies are the initial phase of the empirical investigation and are carried out in the two-selected jurisdiction of Kuala Lumpur City Hall and Johor Bahru City

Council. Case study was used as the main focus of this research to identify the motivation for urban regeneration purposes to be carried out within these two jurisdictions and explains further detailed in Chapter Six. The selection of a case study approach has been justified by design criteria covering two different local authorities, variation in jurisdiction boundaries, approaches to land development, diverse arrangements for the provision of funding and the need to address the funding criteria. Following these criteria, city-regions of Kuala Lumpur and Johor Bahru are selected for the study. The case study approach further draws on the information collected through in-depth and semi-structured interviews with the of City Hall of Kuala Lumpur (DBKL) and Johor Bahru City Council. The reason for using different localities is that it provides a good mix of understanding of urban redevelopment issues for discussion on the institution of property development in Malaysia.

## **4.0 CASE STUDY CONTEXT**

### **4.1 Kuala Lumpur City**

From the period of British colonial rule, Kuala Lumpur has functioned as a centre for the country's executive and judicial government as well as a business, financial, and economic centre. Despite the growth in real estate development, there is a pressing need for redevelopment in Kuala Lumpur (especially within earlier growth areas such as Bukit Bintang) so that it can be competitive in terms of rental and capital value while at the same time addressing the slow-down in its position as a strategic business location. For example, the KLCC building was built on the site of a former race course and was a joint venture project between Kuala Lumpur City Hall and Petronas. Another important factor for the accelerated urban growth of Kuala Lumpur is due to its strategic central location on the west coast of peninsular Malaysia, which has contributed to its faster development than other cities in Malaysia. While the federal government exercises macro strategies for urban regeneration, Kuala Lumpur City Hall (KLCH) is responsible for exercising micro strategies for urban regeneration. The local authority in Malaysia is bound under the Local Government Act 172, which clearly states and limits the power for the local authority to act as developer but which allows them to exercise their power for land use planning, approving projects, and providing local municipal services. However, the KLCH has fewer lands of its own to be developed. Furthermore, the power to exercise land development is limited to the existing Local Government Act and does not permit the local authority to become directly involved as a property developer. There are several models of urban regeneration in Kuala Lumpur. For example, the plans to revitalise the indigenous land located in Kampung Baru, within the heart of Kuala Lumpur, started in 1995 but have yet to be fully developed, mostly due to the issue of property rights, funding, as well as restrictions due to its indigenous land status. Although this is a very case sensitive area, the KLCH did not have any objection to its redevelopment as long as they can comply with the planning guidelines (KLCH Mayor during open forum, the urban regeneration models for Kampung Baru are mainly influenced by the stakeholders, political decisions, and intervention.

Private land owners and corporations have their own models for urban regeneration. For example, many of the older office buildings located in the secondary areas or fringe areas

have been tastefully refurbished, especially those located near to the KLCC building, such as the Wisma Selangor Dredging, Angkasa Raya building. This development is viewed as a long-term gain, which is raised through competitive rental rates, higher occupancy rates, attracting future tenants and the new profile of the building owner. A survey done by a property and valuation firm, Rahim and Co (<http://rahim-co.com/art4.htm>) shows that most tenants prefer to operate within the golden triangle KLCBD areas rather than relocating to other areas in KL city.

Another model that is considered to have been successful is the urban regeneration projects involving collaboration among the landowners. This practice was successfully exercised in Section 13, Petaling Jaya. This township was the first urban town to relocate industrial activities and accommodate housing needs for growing Kuala Lumpur and Petaling Jaya in the 1960s. Previously, this land had been used for industry but it now has more applications for commercial development (Petaling Jaya City Council website). The private owners have agreed to redevelop their properties or to sell them to a developer who sees an opportunity in buying their land. The intended development includes an office tower and high-rise service apartments, which will be redeveloped on a commercial land status. In view of this, Petaling Jaya City Council is in the opinion that these new developments will eventually generate more income for the council ([www.theedgemalaysia.com/2](http://www.theedgemalaysia.com/2) December 2009). Nevertheless, there is also an issue about the adequate infrastructure of this area (such as roads, open spaces, and recreational areas) that is to be provided by the council.

From the above discussion it can be seen that few urban regeneration strategies show the various ways that local authorities (as well as land owners and developers) are increasingly using to embark upon urban regeneration projects. Consequently, in this research there are no specific guidelines for urban regeneration in Malaysia. This supports the claims made by the former lord mayor of KLCH, who said that even though redevelopment, renewal and regeneration is a new subject. Nevertheless, much has been written about this subject in newspapers, property news, and forums (Ng, 2011). However, the National Physical Plan (NPP) and National Urbanisation Plan (NUP) that have been prepared by the Town and Planning Department have issued guidelines for appropriate land use planning and urbanisation. This can be argued to be a measure to compensate for urban regeneration guidelines in Malaysia, even though they are not clearly clarified on urban regeneration.

#### **4.2 Johor Bahru City**

Since 2000, it has been evident that the process of urban regeneration has been gaining in importance. As has been experienced in other cities, the city centre of Johor Bahru has been neglected due to the process of urbanisation. Therefore, the plans for a key development regeneration strategy under South Johore Economic Region (SJER) for Johor Bahru is to regenerate it into a vibrant economic centre while preserving its cultural and heritage value. Therefore, the key for success is via a set of comprehensive action plans, such as urban redevelopment and urban beautification.

The city of Johor Bahru already has a problem with blight areas due to the rise of urbanisation and the spread of urban sprawl towards the other inner areas. Economically, the city is based along the major main and inner roads of Johor Bahru city. This has led to more urbanisation and urban sprawl, and the opening of new residential and commercial centres along the major ring roads. Realising this, the Johor Bahru City Council has taken action and have produced a plan to revive the city. The Revitalisation Action Plan was put in place by the planning department of the local council in 2000. Most of the programmes in this plan are meant to revitalise Johor Bahru. However, these plans have not been fully materialised. When SJER was formed as a federal government programme back in 2005, Johor Bahru City Council saw this as an opportunity for them to work hand in hand with SJER, which was piloted by the Iskandar Region Development Authority (IRDA). The impetus for urban regeneration in Johor Bahru city centre can be placed largely to the national policies that are supported by the federal and state government. IRDA acts as a federal government agency and it promotes the regeneration project to investors who can act as a catalyst for economic development in the area. More than five years since the establishment of IRDA and IM, the infrastructure work has been accomplished and a number of significant investments have been secured by IRDA. The joint venture and collaboration between IRDA and local authorities (such as MBBJ) has demonstrated the spill-over changes in terms of the physical and economic development in the region. As such, it opens up more opportunities for urban regeneration. The JB Transformation plan that has been executed by MBBJ with the support from the state government and IRDA as federal government agencies show how the three-tiers of government function.

In summary, urban regeneration trends and development in Johor Bahru have aimed to revitalise and beautify the city centre. The relocation of government offices to Kota Iskandar has enabled the existing city to become more competitive and develop its commercial and business activities, as well as tourism and retail activities. Support from federal, state and local government for the JB Transformation Plan has enabled the project to succeed and many business owners have taken advantage of the incentives given by MBBJ to beautify and refurbish their old and dilapidated buildings.

In the last 10 years, regeneration has constituted substantially to economic growth. The overview of national economic development policies provides an underpinning of urban regeneration trends within the two case studies namely Kuala Lumpur and Johor Bahru. Given the strong emphasis on political, economic and social partnership in empowering the states in Malaysia, this research found that the urban regeneration approach is heavily influenced by federal government initiatives, which includes states and local government. In addition, there is a need for continued support for growth from federal, state and local governments, especially by providing adequate infrastructure to attract private investment into urban regeneration projects. Despite the public sector having an important role to play in supporting urban regeneration, it is found that LVC is underdeveloped although there is an element of value creation arising from the on-going and proposed projects by the public sector.



## 5.0 POTENTIAL OF LVC IN MALAYSIA

This section reports the findings from the structured interviews. A qualitative approach was used to obtain rich data from the respondents to analyse the subject on LVC in urban regeneration context. The interviews focused on the respondent's degree of understanding of the concept of urban regeneration as well as the role of LVC as an alternative financing vehicle to finance urban regeneration. The results examine the perceptions of the stakeholders based on the key themes derived during the interview session. Nine structured questions were designed to gain rich information from the respondents (see Table 1). Meanwhile, nine faces to face in-depth structured interviews were conducted with stakeholders who are directly or indirectly involved in urban regeneration within two case studies areas: Kuala Lumpur and Johor Bahru. The key stakeholders included politicians, senior officials from various levels of government (federal, state and local authority) and an expert group from the private sectors (urban planners, property developer and property valuer). The interviews were conducted between March and June 2012. In-depth interviews were mainly used to gather a clear view of urban regeneration practices in Malaysia and, thence, focus on financing and the alternative financing vehicles using LVC mechanism.

All the information gathered was assembled for analysis. The main contribution of this section is to explore the stakeholders' perceptions of urban regeneration in Malaysia, focusing on the introduction and the acceptance of alternative funding vehicles to finance urban regeneration projects using LVC mechanism. Table 1 demonstrates the key themes and gives a summary of the interview guided questions.

Generally, the respondents agree that national policy on land use management does support the implementation of urban regeneration. One of the officials from the federal government stated that urban regeneration has been given much priority during the 9<sup>th</sup> and 10<sup>th</sup> Malaysian Plan. For example, more emphasis was given to create liveable cities, smart cities and sustainable cities. This policy eventually focuses on upgrading transportation networks; demolition and refurbishment work for the inner cities area and beautification of city centre. Another respondent from the local authority also stated that in order to achieve this goal, his department persuaded and negotiated with private building owners in Kuala Lumpur to take part in refurbishing their buildings. The respondent from the federal government confirms that they (federal and KLCH) are taking the first steps to initiate urban regeneration in Kuala Lumpur. She gave examples of the beautification of Klang River and Gombak River project. According to the respondents (Stakeholder 1 and 2) the government vision is for the private sector to follow the lead to refurbish their old buildings and enhance the business strategy for waterfront regeneration to take place. Personal correspondence with a staff member from KLCH reported that the upgrading of transportation networks in Brickfields, Bandar Tasik Selatan and Pekeliling has created further economic gain for property owners in surrounding areas (value creation). He further added that, a joint venture project with the private sectors (value realisation and value capture) to regenerate Brickfields area (former railway depot) is currently achieving its target. What was once blighted and neglected areas are now developed with commercial offices and leisure buildings. This example demonstrated that Kuala Lumpur has accelerated in practising urban regeneration.

An interesting finding that can be concluded from this interview is that the majority of the stakeholders are in agreement that all urban regeneration projects initiated by them have elements of LVC.

**Table 1.** Interview theme.

<b>Group of Questions</b>	<b>Summary of Interview Questions</b>	<b>Key theme from the structured interview questions</b>
<b>Section A</b> Property development and urban regeneration	i. National policies supporting urban regeneration	i. Urban regeneration policies
	ii. Motivation for urban regeneration	ii. Urban regeneration concept public and private perspective
	iii. Government intervention in property development	iii. Government intervention in property development/ urban regeneration
	iv. Perception on urban regeneration funding-LVC	
<b>Section B</b> Alternative financing -LVC	i. Existing financing strategy for property development/ regeneration	i. Existing financing strategy for urban/development regeneration
	ii. Sustainable financing for urban regeneration	ii. Potential for LVC in Malaysia
	iii. Other alternatives to finance urban regeneration projects	
	iv. Acceptance of LVC concept	
	v. Potential of LVC in Malaysia	

The respondents were then asked about the implementation of policy for urban regeneration. The respondent from Johor state government (Stakeholder 5) opines that previously, government agenda was mostly on urban development to house the nation, and to balance the income disparity among the population. He strongly emphasised that even currently urban development (by means of NUP and NPP policy) is still the main policy agenda for the government. State Economic Planning Unit (EPU) normally will draft a policy for the state and thus approve any projects that will benefit the people. He further added that, by creating new economic clusters, creating more job opportunities for the populations are

considered as urban regeneration. He further claims that as a government entity, their main focus is in social and economic regeneration. Another respondent from the federal government (Stakeholder 1) was also in agreement with this. Furthermore, the respondent task as senior federal government planning personnel allowed her to conduct policy evaluation as well with regards to this aspect. The opening of new urban growth and urban nodes together with the increasing urban population is the result of good land use planning policy.

Regarding on the topic of urban regeneration implementation, respondents were asked if there are any specific guidelines to implement urban regeneration. Majority of the respondents from Kuala Lumpur and Johor Bahru agreed that there are no clear provisions on rules and guidelines. The unclear provisions on standard land use guidelines in urban regeneration meant that there is a very strong tendency towards selective implementation of urban regeneration within the city centre. A lack of information and the need for regeneration has led to the question of blighted areas being not very well defined by the local authority and public. However, they do realise just how blighted the city has become. Johor Bahru, for instance, is a clear example of a neglected city area. Many of the property players are unsure if the aim is to preserve the heritage or to redevelop and regenerate the areas. In addition, the lack of clear guidelines was perceived by interviewees as increasing uncertainty as well as the possibility for manipulation. One of respondents from planning department MBBJ opines that his department has difficulty in adhering to their local plan. He indicated that through his own experience there are conflicting opinions from the private sector to redevelop and regenerate the area in the one hand and at the same time, pressure from the public sectors to preserve the cultural heritage. In addition, this lack of clear guidelines was perceived by property players as creating ambiguity and increased the possibility for property speculation manipulation (Stakeholder 8 and 9). On the other hand, , flexibility in urban redevelopment strategy and enforcement creates both opportunity and risk (Stakeholder 3). This includes opportunity for property manipulation and risk for no government control on market demand (Stakeholder 9). One of the stakeholders reported that the property development process in Malaysia is complex:

*It is collaboration. They need us for their KPI. The entire revitalisation plan is ours. The transformation is that there are several things that should be done by the local authority and some we just request help from IRDA. Sometimes they are full of frustration because there are a lot of amendments with the township (JB) transformation. When Dato Najib (Malaysia Prime Minister) came, we gave him a briefing and at night he went to visit the city (JB) himself. After, he gave his assurance to speed up the JB transformation development. (Stakeholder 6).*

The implementation of national development policies sometimes may not parallel with state planning policy. Due to the hierarchical nature of organisations, the state has to accept planning from the federal government if the particular project will benefit the community at large. Consequently, the state and local authority have had to change the modify plans to match the new development and urban scenario. Pressure from the federal government to implement the national policies and projects has resulted in the state government and local

authorities to agree to this change. This may be due to the fed government exercise their legislative power over the two other authorities. For example, Stakeholder 6 explained that they had to collaborate with the federal government agency (IRDA) to realise their initial aims for the Johor Bahru revitalisation plan. Local authority has the benefit of urban regeneration through collaboration with IRDA, since as federal agency they have more access in terms of funding and approval from federal government. Pressured into giving in, and at the same time, having to adhere to the legislative power of the federal agency, resulted in frustration among the top management in State/local level.

Generally, the respondent feels a multi stakeholder collaborative approach is needed in order to implement urban regeneration. This is in response to the question if the national policies supporting urban regeneration. Multi sectorial approach in terms of the roles and functions taken by federal government represented by its federal agency, state government and local authority in implementing and enforcing urban regeneration activities in their areas. Structurally, land administration is a matter under state government. To respond to this issue, one of the respondents from the Johor state government (Stakeholder 5) said that his office generally handles urban development projects that are proposed by federal government and state government. However, due to the state land administration, all projects that are proposed by the federal government or from the local authority need State Economic Planning Unit (EPU) approvals. This may create problems in terms of administrative function and authority. Overall, all the interviewees from the two case studies supported the urban regeneration concept. They believed that the market creates demand for more urban development. This in turn creates revenues for the local authority in terms of assessment rate. The current national development policies also help to ensure proper planning and development over the next ten to twenty years to achieve Vision 2020. Nevertheless, all the interviewees reported that unclear urban regeneration policies, especially within the public point of view, could create further disparities in socioeconomic among the ethnic groups.

In short, Malaysia does recognise the importance of urban regeneration as suggested in the 9<sup>th</sup> and 10<sup>th</sup> Malaysia Plan. In terms of practitioner acceptance, many policies were well drafted but not implemented. Nevertheless, the public sector improved their strategy by making an effort to inform the general public of such policy.

## **6.0 URBAN REGENERATION- FINANCE STRATEGY**

This section elaborates viewpoint of every stakeholder on financing strategy, and the type of Government initiative is needed for infrastructure funding (public goods). Furthermore, this section also discusses the existing financing mechanism adopted by private sector (property developer) to support urban regeneration agenda. First of all, the respondent was asked the types of financing strategy that has been adopted within their role. There were mixed responses to this question. Majority of the respondents who were senior government officials can only share their views on the infrastructure project funding. Thus, the discussion is solely based on their experiences in approving Federal and State Government projects. Most respondents strongly believed that PPP/PFI is the best solution for funding infrastructure project. In this case there is an element of partnership between public and private sectors to

undertake infrastructure projects. On this note, the respondent from State EPU suggested that all infrastructure projects are currently being handled by a special unit known as Public Private Partnership (PPP), a body in the Ministry of Finance. He further added that in order to speed up the infrastructure work or urban development, the government will help the private sectors through PPP/PFI agreement. Even though there is an element of partnership between public and private sectors, however, there is an element of risk and return that sometimes is not in favour for the government in relation to government projects, funding is normally budgeted and planned at the federal level. Therefore, a special grant will be distributed among the federal government agencies at the state and local level. The IRDA for instance gets special funding from the federal government to plan, execute and invite investors to invest in Iskandar Malaysia (IM) (Stakeholder 3). The respondent from the local authority (Johor Bahru City Council-MBJB) confirmed that to get a grant from the federal government, they have to put in a request and reasons for the grant to be given to them (Stakeholder 5). For example, Johor Bahru City Council (MBJB) managed to get an additional grant from the federal government to improve their inner-city road networks. Since most of the properties within the city centre are pre-war buildings, not much tax revenue is generated. The respondent confirmed that the assessment and council tax is only able to pay for municipal services, such as rubbish collection and streetlights. The local authorities located at the fringe of Johor Bharu city (like Johor Bahru Tengah local authority or Kulai local authority) enjoys a bigger collection in terms of higher number of properties and range of properties thus a bigger portion of revenue generation through assessment tax can be allocated for better local/municipal services. This finding confirms research by Smolka and Amborski [33] and Fensham and Gleeson [10], who found that even though the assessment is part of the property tax, the revenue collected was not able to pay for any major infrastructure, let alone urban development or urban regeneration.

Since most of the respondents came from the public sector and worked at the decision-making level, the next question probed their opinions on continued government funding of urban development and regeneration projects. The key theme was the sustainable financing for development. The majority of the respondents felt that, at the present time, while the country economy is growing, certain measures or incentives from government are needed to accelerate urban growth and development. This includes for urban development/regeneration projects. However, when looking at the global crisis, the respondent from the federal government (Stakeholder 1 and 2) felt that it is timely for government to look at other alternatives. Adversely, the respondent from state government (Stakeholder 5) felt that it is time for the government to re-evaluate their policy, especially those involving budget, risk and enforcement to enhance the public-sector capability in managing better urban development and regeneration projects.

In terms of wealth creation, the respondent from EPU (Stakeholder 5) felt that there is an unbalanced situation between public and private sectors. His experience in land administration for the state showed that to get investment from private sector in terms of partnership, the government has to offer them incentives. In the case of IM, there are too many tax incentives given to the private sector (Stakeholder 3). For example, a company tax waiver for ten years and two years income-tax waiver for resident working in the IM areas. In

addition, one of the respondents (Stakeholder 8) confirmed that his company who has a land bank within IM enjoyed the benefit of timely approval of their development plans, including support from various government agencies. Hence, they also assist the private developers by putting in a good word and assurance (guarantee letter especially for PPP projects) to the financial institution to release the bridging loan (Stakeholder 9).

Investment is an important factor in the decision-making process for urban regeneration; therefore, the respondent was asked about their willingness to invest. Most respondents strongly believe that they are willing to invest in urban regeneration projects. This statement was strengthened by the respondents who remarked that any property developer would invest in projects that generate benefits in terms of good return on their investment. One of the respondents from semi-government (R11) stated that even though they are willing to develop their lands (they have several prime limited commercial properties), there are too many restrictions from their company. For respondent views on the potential of LVC as an alternative financing strategy to be applied in Malaysia, majority of respondents from the public sector agreed with the possible application of LVC to generate funding. Government empowerment to undertake certain economic activities and policies will determine the successful application of the LVC concept. The feasibility of the LVC application in Malaysia can be assessed along two continuums: the political and the administrative. From a government agency's point of view, there are possibilities for the application of LVC:

*“Can be an excellent way to raise funds subject to proper planning/execution”*  
(Respondent R3).

In regards to the acceptance of LVC as an alternative funding vehicle, the majority of the respondents from the private sector clearly rejected this ideal concept. One respondent (R6) provided an argument basically stating that Malaysia has limited urban redevelopment opportunities. Furthermore, land and legal provisions are not clear, thus creating restraints for the application of this new concept (LVC). One of the private sector respondents (R4) may have identified a typical answer generally agreed upon amongst private sector players:

*Not sure. But government should invest in infrastructure development to help the private developer in urban redevelopment project”* (Respondent R4).

A useful way to describe the end users' perspective is that one should leave to the government any issues concerning the possibility of LVC application as an alternative financing vehicle in urban regeneration contexts. It is totally based on the exposure and enforcement by the government (Respondent R8). Overall, the acceptance of LVC is dependent on the cooperation between public and private sectors, as follows:

*It is depending on people mindset. Normally they will oppose to any new development or financing concept. It is all left to their mentality in accepting this LVC concept”* (Respondent R13).

In a broad sense, it is understood that urban regeneration projects would create benefits

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for the general public due to resultant enhanced facilities and services. Furthermore, improved facilities may lead to economic and social returns for the public, as well as for local authorities in terms of enhanced property market values and property taxes (unearned increment). Between the general public/government agencies and private entities, urban regeneration growth benefits are enjoyed by public and private stakeholders in terms of social returns, security, economic returns and enhanced development [7, 8].

A different scenario arises from the above finding. The respondent is more aware of some of the terms with which they are familiar based on their experience. The results distinguish response behaviour between public and private sectors. Mainly, respondents reject the LVC mechanism on the grounds that they are not familiar with it, and have never heard of such term (land value tax; tax incremental financing (TIF); special assessment district; windfall tax on development; and developer exaction and impact fees). However, there are mixed responses to accepting LVC finance mechanisms between government and private sectors, because it depends on a different type of application for land use management. This particular finding is deemed an important factor that distinguishes the applicability of LVC in Malaysia. First of all, the finding confirms the stakeholder views on the LVC mechanism, whereby they are confused by the precise definition of the term. Secondly, it can be generalised that the acceptance level for LVC as a financing mechanism is far from being exercised.

Analysis of urban regeneration shows that there are provisions from national policies to implicate urban regeneration as one of the urban agenda policy. Theoretically, the policy looks good on paper but in practice there is no sense of urgency in adopting urban regeneration in Malaysia. Thus, this finding confirms the literature on urban regeneration practices in Malaysia, which is still at its infancy stage. Malaysia is still redeveloping and urban decay problems have yet to be seen, except for older established cities. There are several important observations that can be made from this scenario:

- i. The behaviour of property players in recognising the importance of urban development/regeneration and its ability to unlock the development potential within cities.
- ii. Government intervention in public goods/infrastructure for urban development/regeneration has resulted in opportunities for the private sector.
- iii. Economic regeneration is the main motive to undertake urban development/regeneration projects. To the public sector, local authorities are able to collect higher revenue from the taxable properties. Thus, reducing the funding dependency from State and Federal government. While the private sector aims for profit maximisation.
- iv. The present awareness on urban regeneration practices in Malaysia confirms the urban regeneration literature.
- v. Urban regeneration is one of the measures for government agencies to implement policy for land use management.

The results for understanding LVC concept, as well as its mechanisms demonstrates that some of the mechanisms exist and have been implemented in Malaysia. The existing mechanisms are evident as one of the tools for land use management. For example, land readjustment and development charge. But the result from the interviews shows that even though the LVC tools are in place, some of the stakeholders (government agencies) and the private sector are not aware that they are capturing value or to what extent the mechanisms are able to capture land value. There are several important observations that can be made from this scenario:

- i. Government intervention in urban development/regeneration offers opportunities to capture the unearned uplift in land value and LVC.
- ii. The behaviour of the property players, lack of knowledge of LVC hinders the application of alternative financing method. The interviews, especially among the private practitioners (end user group), demonstrate the lack of informed knowledge on urban regeneration and LVC.
- iii. Some of the LVC approach has been applied (land swapping, land readjustment, joint venture/development) however lack of enforcement for the implementation to recoup the increment land value. In addition, there are no proper rules or guidelines for urban regeneration process and the LVC tools
- iv. Some of the projects are influence by the political interference for its approval. This is the biggest barrier for not enforcing capturing the actual amount tax/fees for land value increment from new development or regeneration projects.

In summary, the key messages arising from the interviews with the private sector end user group indicate that urban regeneration projects are not attractive due to perceived lower returns and higher risks. This finding corresponds with the research of Adair et al. [1], indicating complexity among the multiple stakeholders within regeneration projects. The private sector sees the benefit of redevelopment to maximise income. The interviews reveal that without the assurance and help from the government, they are not interested in developing inner city areas. Moreover, urban regeneration is seen as costly and cumbersome to deal with in terms of legal, multiple ownerships, irregular land shape which is uneconomical to redevelop as well as high demolition costs. However, despite these challenges, property developer attitudes towards urban regeneration are positive, especially when the public sector gives some element of support to offset any risk arising from the cost of construction.

However, the biggest challenge for the implementation is when there are no proper guidelines for urban regeneration financing especially in determining the risks and benefits for both the public and private sectors. The lack of expertise among the stakeholders in terms of financial commitment to determine the financial and delivery mechanisms are the main issues for implementation. Moreover, both stakeholders and end users could not just rely on support mechanism since no two projects are the same. These have to be market demand to support sustainability of values. The findings from the Rasch Model reveal a high degree of acceptance of urban regeneration among the property players in Malaysia and potential for LVC. The contribution of this chapter confirms that a lack of awareness of LVC is hindering



its potential in Malaysia. High dependence on public sector funding to provide essential support without proper risk sharing has resulted in the public sector losing opportunities for capturing value.

## 7.0 CONCLUSION

LVC is a process whereby a funding agency (e.g. the city, the region or the state) attempts to recover a share of the value added to property resulting from infrastructure development. Various mechanisms have been used in an attempt to capture the unearned uplift in land value that has resulted from public works. Value capture is currently discussed in the context of other infrastructure investments, including public transport and housing. This study focuses on alternative financing vehicles for urban regeneration. The mode of delivery for LVC involves a partnership between industry and local government where the private sector would create job opportunities, physical and social regeneration of the renewal site without significant public spending. The ideal concept that links both LVC and urban regeneration is through private sector investment in property development which will eventually make a significant contribution to driving economic recovery. The discussion of the potential for LVC indicates that stakeholders are uncertain of the application of LVC as a funding mechanism. The analysis shows that land swapping methods, land readjustment and joint ventures are the most common LVC mechanisms. However not all stakeholders are well informed of LVC as a funding vehicle. Yet they can strongly accept the concept of unearned land increment resulting from government intervention in urban development/regeneration as being used to unlock the development potential within urban areas. Nevertheless, it is found that the political influences can hamper the potential of LVC mechanisms from being fully exercised and implemented. The key message is mainly to confirm that lack of awareness of LVC is hindering its potential in Malaysia. High dependence on public sector funding to provide essential support without proper risk sharing has resulted in the public sector losing opportunities for capturing value. Clearly, derived from the empirical findings LVC is not well understood and has a very low acceptance level. In addition, there is a need for continued support for growth from federal, state and local governments, especially by providing adequate infrastructure to attract private investment into urban regeneration projects. Despite the public sector having an important role to play in supporting urban regeneration, however, it is found that LVC as a funding model is underdeveloped although there is an element of value creation arising from the on-going and proposed projects by the public sector.

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