

Sustainable Urban Renewal in the Context of Public Urban Finance

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[Editor' s Note]

The issue of urban finance plays a crucial role in urban renewal. As China's urbanization transitions from a phase dominated by rapid physical expansion to an era of slower spatial growth and higher quality development, the immense demand for renewing aging urban areas has come to the forefront. Compared to the land development and housing construction of new towns, cities and towns without the indulgence of "land finance" resemble those experiencing withdrawal after prolonged dependence on an abundant supply of "financial opiates." In the context of urban renewal, how capital is introduced, how fiscal discipline is maintained, and how towns achieve self-reliance and sustainable development not only become more complex but also serve as a true test of their vitality.

A decade from now, some cities will thrive, while others will undoubtedly struggle to rise. Urban planning, as a profession, should assist more cities in overcoming their dependence on the "land finance addiction" and finding renewed vitality. As a repository of professional knowledge in urban planning, the Urban Planning Forum aspires to use this unprecedented thematic discussion on new urban finance to explore sustainable mechanisms, models, and pathways for urban renewal supported by public finance.

To this end, the editorial board has invited 10 experts to participate in an academic discussion on "Sustainable Urban Renewal through Public Finance." The experts have analyzed this topic from three perspectives: challenges and issues, mechanism innovation, and planning responses. Their insights are presented below.

1. Challenges and Issues

Unlike previous articles and reports that primarily emphasized the socioeconomic background changes surrounding urban renewal implementation, the experts in this discussion have sharply identified the core focus of achieving sustainable urban finance: avoiding common pitfalls in urban renewal, clarifying its objectives, establishing multi-dimensional resource supply systems, and diversifying the evaluation of renewal outcomes.

Professor Zhao Yanjing, a joint faculty member of the School of Economics and the School of Architecture and Civil Engineering at Xiamen University, highlights the need to address three major misconceptions for achieving sustainability: equating urban renewal with government funding, confusing the balance sheets of different entities, and neglecting the role of cash flow. Professor Wang Weishan from the School of Architecture at Huaqiao University argues that efficient and intensive land resource utilization and comprehensive improvement of urban living environments should be the fundamental goals of urban renewal. A clear understanding and accurate judgment of these objectives can prevent a relapse into the pitfalls of land finance from the expansion era. Furthermore, Professor Zhao Min from the College of Architecture and Urban Planning at Tongji University emphasizes that urban renewal projects are diverse and systemic, forming a complex system. He asserts that sustainable public urban finance can only be achieved

through financial feasibility analysis and performance evaluation of public investment outcomes.

2. Innovative Mechanisms

Experts have approached the topic by proposing innovative financial mechanisms for urban renewal, drawing from both practical and theoretical perspectives. Zhan Yunzhou, Chairman of Shanghai Chengcexing Architectural Planning and Design Consulting Co., Ltd., emphasizes managing "three accounts" (long-term accounts, public sentiment accounts, and comprehensive accounts) and proposes using diverse financial toolkits to reconstruct fiscal sustainability in urban renewal.

More specifically, Xu Jingyun, Deputy General Manager of Shanghai Urban Renewal Construction Development Co., Ltd., uses Shanghai as a case study to analyze cost-reduction and efficiency-enhancement technical solutions for old district redevelopment, focusing on the practical aspects of the entire urban renewal process.

Beyond financial innovations, experts also highlight the importance of governance model innovations. Tang Daizhong, Deputy Director of the Department of Construction Management and Real Estate at Tongji University, points out that urban renewal involves multiple stakeholders with diverse and often conflicting interests. He suggests that governments establish normative allocation mechanisms, addressing multi-stakeholder demands and improving the distribution of benefits.

Furthermore, Professor Yuan Qifeng from the School of Architecture at South China University of Technology and Dr. Liang Xiaowei from the School of Culture, Tourism, and Geography at Guangdong University of Finance and Economics advocate for a categorized approach to urban renewal. They propose dividing projects into "government-led" and "market-led" types, with distinct implementation models tailored to each type.

3. Planning Responses

When it comes to urban planning practice itself, Liu Zhi, Director of the Urban Development and Land Policy Research Center at Peking University – Lincoln Institute, believes that it is necessary to assess the degree of decay in urban villages and propose low-cost feasible measures for their renewal based on this assessment. Chen Jie, a tenured professor at the School of International and Public Affairs at Shanghai Jiao Tong University, combines rent gap theory and scale theory to argue that the spatial scale of renewal units must be defined creatively and timely, with a focus on the moderate production of total physical space.

In addition to focusing on planning objects, Wang Wei, Director of the Urban Management Department at the School of Government Management at Central University of Finance and Economics, emphasizes the role of planners in urban renewal projects. He suggests that planners must possess more forward-looking skills in industrial planning and financial analysis. These skills should include calculating financial solutions from various perspectives, such as government fiscal budgets, social capital involvement, and bank loans, in order to facilitate consensus among all parties.

In conclusion, the fiscal sustainability of urban renewal requires not only that we face the challenges at hand but also that we engage in profound reflection and bold innovation in both mechanisms and planning responses. Continuing with traditional land finance models, given their disadvantages, is tantamount to drinking poison to quench thirst. It is hoped that this academic

discussion will provide valuable ideas and references for urban renewal practices and push policymakers and practitioners to jointly work toward creating a more sustainable and equitable future for urban development.

Diversity of Urban Renewal Projects and the Multi-dimensional "Financial-Economic" Evaluation

Zhao Min (Professor at the School of Architecture and Urban Planning, Tongji University, Vice Chairman of the Planning Implementation Branch and the Foreign Urban Planning Branch of the Chinese Society of Urban Planning)

In recent years, the transformation of China's economic and social development and urban construction has become increasingly apparent. The new "dual circulation" economic development pattern is being constructed, with a significant decline in the incremental demand for urban real estate and the national population growth showing signs of peaking. At the same time, local governments are under considerable financial pressure, with some even facing high levels of debt, and it is no longer possible to rely on land as an "anchor" for fiscal revenue. Under these circumstances, urban stock development has become the main theme of urban planning and construction in the new era. Urban renewal is closely related to stock development, as it pertains not only to high-quality development but also to improving people's livelihoods, while operating under the "hard budget constraint" of tighter financial conditions.

Urban renewal is a broad concept with many implications, involving various aspects of urban construction. Taking the "Urban Renewal Action Plan of Shanghai (2023-2025)" as an example, its "six key urban renewal actions" actually encompass a wide range of renewal projects. These are summarized as follows:

① Comprehensive Regional Revitalization Action: Focuses on updating areas such as the "One River, One Canal" coastal regions, the "second facade" of the Bund, the Hengfu Historical District, North Bund, Wusong Innovation City, and Hongqiao International Central Business District.

② Improvement of Living Environment Quality: Promotes the renovation of "two old, one village" areas, the completion of scattered second-level old housing in the central urban area, and the basic completion of small 梁薄板 housing renovations; implements higher-level renovations for 30 million m² of various old housing, installs 9,000 elevators in existing multi-story buildings, and fully starts urban village renewal projects surrounding the city center. The creation of 1,000 "Beautiful Homes" characteristic communities and 100 demonstration communities is also part of this action.

③ Optimization of Public Space and Facilities: This includes addressing public service shortages, revitalizing stock land and buildings for public facility construction, advancing the "15-minute community life circle" initiative, initiating high-quality campus construction projects for primary education, completing the undergrounding of overhead cables and pole box rectification (480 km), replacing old gas pipelines (600 km), and upgrading 423 power distribution networks.

④ Restoring Historical Charm: Focuses on completing projects for more than three historical and cultural preservation districts, streets, and roads, advancing over three historical town protection and renewal demonstration projects, and creating more than 15 historical building protection and revitalization projects.

⑤ Industrial Park Quality Improvement and Efficiency Enhancement: Promotes the transformation and upgrading of stock industrial land, supporting innovation and development,

and shifts towards more compact, multi-functional, and low-carbon efficient use of space, revitalizing 30,000 mu (20 km²) of industrial land.

⑥ Commercial and Business Vitality Rejuvenation: This action involves revitalizing stock resources to create an environment with a rational layout, flexible structure, and diverse functions. Focuses on upgrading traditional commercial districts in several cities and districts, creating over 100 "quarter-hour convenience living circles."

Urban renewal projects are diverse and systemic, and can be considered a systemic engineering process. The development of urban functions and structures is always in a state of "balance—imbalance—a new balance," representing a dialectical movement. Therefore, urban renewal is a perpetual process. It inevitably involves physical replacement, such as demolishing dilapidated houses, old houses, and simple dwellings, and replacing them with new housing. It may also focus on functional replacement, such as transforming old factory areas into creative parks, or incorporating land value capture, to exploit the locational value of land and extract premiums. In the development of the new era, improving urban quality is also an important goal of urban renewal, involving the configuration of public service facilities, the renewal of infrastructure, the construction of public spaces, and the development of green spaces and squares. Without these updates, cities will decline, losing their attractiveness to talent, capital, and other resources, ultimately losing their competitive edge for development. Therefore, decision-making and evaluation of urban renewal must not only focus on the financial feasibility of individual projects but also take a broader urban perspective—using the contribution to the overall economic and social development of the city as the key criterion.

Given the diversity of urban renewal projects and their varying economic attributes, such as competitiveness, exclusivity, and the various combinations and constraints they represent, it is not possible to make a one-size-fits-all judgment regarding whether to apply financial evaluation or national economic evaluation, or which financing model to use.

Taking residential renewal as an example, commodity housing has both competitiveness and exclusivity, and is generally operated in a market-driven manner. In prime locations, during a market upturn, land use rights for residential areas often fetch high prices due to locational premiums and market bidding. After deducting redevelopment costs and the "debt" of future public facilities and services expenditure, there is still a substantial surplus. As a result, such renewal projects are not only financially feasible but can also contribute to urban public finances. However, if the location is suboptimal or if there are specific constraints, the comprehensive cost of residential renewal land may exceed the price of land use rights. This is the case with the current renewal of old residential areas in Shanghai, where these plots often overlap with historical preservation areas, limiting the development capacity after renewal. The land development revenue cannot cover the early-stage costs, making it difficult for market entities to directly undertake the renewal projects. In this case, government funds and policy support are needed, as it is the government that is "paying the price" for alleviating the difficulties of residents and preserving the city's historical features. Therefore, it is necessary to move beyond the financial evaluation dimension of individual projects.

In addition, a significant portion of projects within historical preservation, public space renewal, and integrated regional renewal are non-exclusive public goods. Due to technical reasons or policy restrictions, they cannot generate charges or taxes. Examples include urban squares, greenways, and riverside walkways, as well as public parks, libraries, and public restrooms. Some

public facilities, even if exclusive, must charge fees much lower than their actual financial costs, such as museums, opera houses, concert halls, and sports venues. However, these public spaces and facilities play an indispensable role in the social development of cities and the enhancement of life quality. From an economic perspective, they create a favorable environment for urban entrepreneurship and innovation, which helps improve the city's overall competitiveness. Therefore, the evaluation scale must be expanded to the city level, considering the overall national economic development and the sustainability of urban public finances, rather than being limited to the financial calculations of individual projects.

However, even for public goods in urban renewal, financial analysis and cost-benefit considerations are still essential. Urban public finance is essentially the "big finance" of the city, where cost savings and increased revenue are always the top priority. The public financial capacity of any city is limited, so urban renewal must focus on efficiency and operate within its means. First, the feasibility of projects should be based on financial viability, adhering to business accounting principles. Second, for projects requiring fiscal support, market pricing principles should be applied—such as using shadow pricing methods to evaluate the performance of public investment outputs. Only by doing so can we achieve sustainable urban renewal within the framework of urban public finance.

Sustainable Urban Renewal

Zhao Yanjing (Dual Professor at the School of Economics and the School of Architecture and Civil Engineering, Xiamen University)

Where does the money for urban renewal in the era of existing stock come from? A simple answer is: "who benefits, pays." This "benefit" is the source of the funds. However, in reality, the users and owners of existing assets are not always the same. Therefore, the basic financial solution for urban renewal is "owners pay and then charge the users," and all solutions are variations based on this rule. This basic model seems simple but often deviates in practice.

The first misconception is treating urban renewal as a public welfare issue, assuming that urban renewal is a government duty, and the money should naturally come from the government. Urban renewal involves huge investments, which government finances cannot support. However, "land finance" gives governments the illusion that they can finance any renewal project by increasing the floor area ratio. With the decline of the real estate market, this approach is no longer feasible as the floor area ratio no longer sells well. Revenue from land sales and fiscal income are fundamentally different kinds of income. Land transactions involve the transfer of "rights," and can only be counted as fund income, with expenditures needing to generate incremental cash flow. If future revenues are lower than the interest income from bank savings (a risk-free income), the expenditure represents a loss of state-owned assets. Clearly, most urban renewal projects do not meet this requirement.

The second misconception is confusing the balance sheets of different entities. When evaluating the financial balance of many urban renewal projects, planners often only look at whether the increased floor area income exceeds the renovation costs. In the context of existing stock, the targets of renewal are often different property owners, and the investment and output are divided among the different balance sheets of these owners. While it may seem that the financial balance is achieved when investment exceeds costs, in reality, the government's liabilities often do not create assets, and private entities acquire substantial assets without incurring liabilities.

Some argue that income from selling the floor area ratio is not a liability, but in the balance sheet, the floor area ratio is an equity item on the liabilities side, different from the nature of government tax revenues. If urban renewal does not generate assets for the government, it results in the loss of public assets — transferring collectively owned assets to the renewal targets.

The third misconception is the failure to generate cash flow. Like any asset, urban renewal, if it does not provide enough cash flow to investors (greater than the risk-free interest rate), results in negative assets. Negative assets not only fail to generate new wealth but instead reduce future wealth. Since there is no property tax in China, the appreciation of assets does not generate new tax revenue, and increased floor area actually leads to higher future government public service costs (such as education). The more such renewals take place, the greater the future fiscal burden, making the government "poorer" and reducing public services.

According to the above rules, the difficulty of urban renewal greatly increases. Especially in the absence of property taxes, urban renewal in Chinese cities is unlikely to bring new cash flow to urban finances. Therefore, it is necessary to consider future costs at the very beginning of planning renewal projects:

① Avoid increasing the number of households: Public services, such as education, water, electricity, and other services, are more closely related to population numbers than to the area. As long as the number of households does not increase, at least the future fiscal burden of the government will not increase.

② New property rents: China's land system involves a one-time purchase of land use rights and floor area ratios for decades. Urban renewal generally captures lost land value through increasing the floor area ratio or changing land use. However, this is a violation under the current land system. If we charge an annual rent for the changed land use and increased floor area, we can generate new cash flow from existing stock.

③ Third-party charges: In the case of the renovation of the old city of Kashgar, there was no increase in the number of households, and residents were responsible for updating their own homes, while the government updated the infrastructure. Due to the successful preservation of the old city's character, it has become a famous tourist attraction in southern Xinjiang, bringing new cash flow to both the city and its residents.

Clearly, different urban renewal models lead to entirely different financial outcomes. This requires planners to fully understand the financial characteristics of urban renewal when planning projects and to apply advanced design skills. A large-scale demolition and construction model may appear financially balanced on the surface, but in the end, it not only results in massive loss of public assets but also enlarges the future fiscal deficit. The financial issues encountered in urban renewal are actually faced by all stock-based planning projects. Modern planners are mostly trained to address issues of urban expansion, where projects can be passed as long as costs are controlled within budget. But in the era of existing stock, such a simple balance is far from enough. A more comprehensive dynamic assessment of government and property owner interests is necessary. Urban planning professionals must quickly bridge the gap in financial knowledge to adapt to the role urban planning will play in the era of existing stock.

The Impact of Urban Renewal Projects on Local Finances

Liu Zhi (Professor and Director of the Urban Development and Land Policy Research Center,

Peking University – Lincoln Institute)

From the perspective of urban economics theory, a city with economic vitality should have the capacity to generate sufficient urban fiscal revenue to support the operation and development of the city. Otherwise, the city will decline. However, even a city in good economic condition needs to provide public services and support urban spatial development based on its fiscal capacity, in order to meet the operational needs and future development demands of the city. Urban construction that is detached from fiscal constraints will make urban finances unsustainable, leading to high government debt. In reality, few cities can manage to live within their means. One major reason is that under soft constraints of debt financing, city governments often over-rely on public investment to promote urban development. This tendency can lead to inefficient or ineffective investments. Currently, urban renewal actions in various regions show a pattern of numerous projects, large investments, rapid actions, and widespread distribution. This is especially true in mega and super-large cities, where the efforts are even greater. The industry is eager to seek various financing methods, but rarely strictly examines whether the purpose of a project is necessary. In many urban village redevelopment projects, there is little assessment of the extent of deterioration in these villages, and low-cost feasible measures for renewal and renovation are rarely proposed according to their state of decay. In fact, many urban villages in China have buildings of decent quality, basic public infrastructure services such as electricity, water, drainage, sewage, and paved roads, and are well-managed communities. They not only house many energetic and hardworking new citizens but also have numerous small shops providing thousands of jobs. These urban villages are far better than the slums I have seen in other developing countries (including Brazil, Colombia, Mexico, South Africa, India, Bangladesh, and Indonesia). Undoubtedly, our urban villages provide a large number of affordable housing for low-income individuals, playing an important social role in providing adequate housing. When developing urban renewal strategic plans, it is essential to first ask: Are the residents of these urban villages living comfortably? Are they in a state of decay that makes them uninhabitable? What are the shortcomings in community quality that need improvement? Will rents increase after the improvements? Will the beneficiaries of the projects be the tenants who already live there?

The above issues are related to urban finances. Empirical studies have shown that large-scale demolition and reconstruction projects in urban villages force original tenants to move to other urban villages, negatively affecting many people's commuting for work and children's schooling. Additionally, the rent in the remaining urban villages increases due to higher demand, which burdens the families' expenses and indirectly increases the financial pressure on local governments to provide affordable housing. The rise in rents in urban villages can also exclude some new-generation immigrants from the city. This potential loss is substantial for the urban economy. Our cities are aging rapidly, and the urban economy not only needs educated young people to support it but also requires a large number of young individuals to maintain basic city services. Therefore, in the competition for talent in super-large cities, relying solely on fiscal subsidies to provide talent housing is insufficient; there must also be effective protection of the housing market for low-income groups. Urban villages can provide affordable housing for low-income people, so why should we transform them into gated communities to accommodate high-income groups who do not require government support? During periods of strong demand in the real estate market, housing investments by high-income families can bring significant land

transfer fees and taxes to local governments, helping stimulate the urban economy. However, today, housing investment demand has decreased with the increase in stock, and developers are facing greater investment risks than ever before. Imagine this scenario: if local governments use special bonds for the first-level redevelopment of urban village land and related infrastructure, but developers do not participate in the second-level development due to lack of profitability, the situation would be as difficult as unfinished buildings. Of course, local governments might let state-owned real estate enterprises take over the second-level development, but the outcome may not be optimistic, likely resulting in more inventory and higher debt. The correlation between urban renewal and urban finances is indirect, latent, and long-term. Urban planning professionals must not only recognize this connection and the associated financial risks but also have an obligation to help government decision-makers understand this relationship in order to avoid implementing inefficient or ineffective urban renewal projects.

The report from the central government released in March 2024 clearly stated that it is essential to prevent inefficient and ineffective investments. Achieving this is not difficult, as we have technical tools in place to avoid the occurrence of issues related to ineffective investment in urban renewal projects. These tools include feasibility studies and the investment project approval process. Urban renewal projects often involve significant investments, frequently including public investments, making it necessary to conduct rigorous assessments of economic, financial, and fiscal feasibility, and to optimize project design based on these evaluations, providing a reliable scientific basis for implementation decisions. This ensures that the projects being carried out are economically viable, financially sustainable, socially acceptable, and environmentally sustainable. The central government has always required feasibility studies for large public investment projects as the fundamental basis for project approval. The National Development and Reform Commission published the "General Outline for Writing Feasibility Study Reports for Government Investment Projects (2023 Edition)", which specifies clear requirements for feasibility studies of public investment projects. In my opinion, since urban renewal has become one of the main paths for urban space development in China, local governments should establish regulations requiring rigorous feasibility studies for large urban renewal investment projects and implement a strict and transparent external review mechanism to prevent inefficient investments and avoid financial losses at the local government level.

Strategic Leadership, Financially Sustainable Urban Renewal

Yuan Qifeng (Professor, School of Architecture, South China University of Technology), Liang Xiaowei (Lecturer, School of Cultural Tourism and Geography, Guangdong University of Finance)

The key issue of urban renewal is whether its financial sustainability can be achieved. First, what is the driving force behind urban renewal? The driving force for urban renewal comes from the huge gap between the land location value and the stock property value in existing urban areas, leading to the so-called "flour being more expensive than bread" phenomenon. Therefore, market capital is bound to flock to it from a profit-seeking perspective. However, due to the need for the protection of cultural heritage and historical districts, cultural value often outweighs economic value. Even so, for historical and cultural districts, as long as the interests are large enough, the developer's strength is sufficient, and the political capital is solid enough to expand the scope of renovation to cover the cost of preserving historical and cultural districts, urban renewal can still be realized. For example, projects such as Shanghai Xintiandi and Foshan

Lingnan Tiandi, developed by the Hong Kong Shui On Group, saw huge land profit transfers in urban renewal, allowing historical and cultural districts to be revitalized and gaining broad recognition from society, the market, and the government.

Secondly, what is the goal of urban renewal? Urban renewal projects can meet the multiple goals of the government in urban construction: first, it should implement the urban development strategy; second, improve the living environment; and third, generate land fiscal revenue. However, in urban renewal projects in the Pearl River Delta, we find that urban renewal has essentially deviated from urban development strategies, and strayed from optimizing spatial structure, enhancing public services and municipal infrastructure, ecological protection, and historical cultural preservation. It has become a collusion of interests among city governments, developers, villagers, and property rights holders — city governments gain land finance from this, developers earn profits, and villagers and property rights holders see their assets increase. Urban renewal is not based on the needs of urban development strategies, but rather becomes widespread and large-scale, creating significant negative externalities (such as insufficient public services, road congestion, etc.), and puts additional pressure on the city (e.g., housing prices decline due to the influx of urban renewal projects, villagers' “overnight wealth” causes strong feelings of unfairness among other citizens or villagers).

Urban renewal must return to its essence, following the principle of “strategic leadership, targeted strategies, area-wide coordination, and interest balance,” meaning it should primarily optimize existing space to achieve urban development strategies, rather than being broadly and extensively promoted across all areas.

1. Urban renewal requires "strategic leadership."

The overall urban renewal plan should be determined based on urban development strategies, with clear identification of the key areas that need urban renewal—these are the areas crucial for the implementation of urban development strategies. Therefore, they should be designated as urban renewal planning units. Urban renewal planning units do not need to cover the entire city area but should target strategic areas. That is, urban development strategies require the renewal of specific strategic spaces. Thus, urban renewal elements should be assessed based on urban development strategies before defining urban renewal planning units. Simultaneously, control planning units should be adjusted to maintain consistency. The planning and construction of urban renewal planning units are led and organized by local city governments, which must balance economic and social benefits while coordinating the development of these units. When urban development strategies change, the urban renewal planning units can be adjusted accordingly, with additions or reductions as needed.

2. Urban renewal requires "tailored policies."

It is important to clarify that top-down "strategic-driven" urban renewal projects should focus only on urban strategic areas. Urban renewal planning units should be defined for these areas, and planning documents for these units should be developed. Bottom-up "market-driven" urban renewal areas do not need separate planning units. Instead, the development entities and property holders can submit applications for renewal projects to relevant departments, making adjustments through partial regulatory changes, balanced within existing control planning units. The implementation of urban renewal should adhere to the city's government's primary role, balancing economic and social benefits, avoiding negative externalities on surrounding areas, and preventing social burdens and inequities. Such projects must be planned based on detailed

regulatory plans as the foundation for planning and strategy.

(1) "Strategic-driven" should adopt a "top-down" urban renewal organization: For urban strategic areas, the existing control planning units should be adjusted first during the overall land space planning phase, and new "urban renewal planning units" should be redefined (making them a special type of control planning unit). The government organizes planning and implementation, coordinating public service facilities, municipal facilities, and other components within the unit to achieve balanced development in the area. The government must consider both economic and social benefits for the overall unit, rather than focusing solely on economic benefits. To achieve the set goals, the government can consider investing resources to implement the urban development strategy.

(2) "Bottom-up" market-driven urban renewal does not need to define separate urban renewal planning units. Instead, the development and ownership entities propose urban renewal projects under the rationale of "improving the quality of life of the ownership entities" and submit them in the form of projects to the relevant departments. These projects must achieve self-balancing within the involved control planning units (including costs, public service implementation, municipal facilities, etc.) and be implemented through local adjustments in the related control planning units.

(3) The single-focus path of urban renewal prioritizing economic benefits urgently needs correction. It should be clarified that urban renewal projects aim to implement the urban development strategy by optimizing the spatial use of urban stock areas. Economic-driven, widespread urban renewal is harmful to urban development. The participation mechanisms of urban governments, market players, and ownership entities need to be clarified. The urban government must achieve the urban development strategy through urban renewal, so urban renewal paths and participation mechanisms vary across regions and require classified guidance.

"Scale Principle to Enhance the Public Fiscal Sustainability of Urban Renewal"

Chen Jie (Professor of International and Public Affairs at Shanghai Jiao Tong University, Researcher at the China Urban Governance Research Institute)

The essence of the challenges faced by China's urban renewal today is that the "compression-type" urbanization has led to a rapid expansion of urban space supply, meeting the slowing urban space demand caused by aging population, the late stage of urbanization, the transformation of the economic development model, and the acceleration of digitization in production and life. In other words, urban space is no longer in short supply and may even be over-supplied in some areas. Therefore, the logic of urban renewal in the era of urban space shortage is no longer applicable today. At the same time, the fundamental task of urban renewal is to strategically select and redevelop the spatial assets and resources accumulated in the era of urban expansion, maximizing both the preservation and appreciation of spatial assets and the public value of spatial resources in the era of stock.

In the context of significant changes in the supply and demand relationship of urban space, the spatial renewal of old urban areas requires high wisdom. The "rent gap" theory of geographer Neil Smith has been an important theoretical framework for understanding the operation mechanism of urban renewal since it was proposed. Smith believes that a sufficiently large rent gap between potential urban space rent and current actual rent is a prerequisite for attracting capital to implement spatial renewal. The rent gap is not limited to economic rent (economic

value); it can be extended to the difference between the potential public value of space and the public value currently realized, thus providing legitimacy for the government to initiate urban renewal.

At the same time, to understand the driving forces of urban renewal, it is also important to pay attention to Smith's scale theory. This theory suggests that the scale of various spatial units is not naturally formed but is socially constructed as a hierarchical spatial structure, with capital appreciation as one of the most important driving forces. Based on the combination of Smith's rent gap theory and scale theory, urban renewal with public fiscal sustainability should follow the following "scale principle."

First, it is crucial to focus on defining the spatial scale of the updating units. In the context where urban space is no longer generally scarce, it is difficult to find sufficient potential "rent gap" in each old community to attract social capital. Therefore, it is important to prioritize defining the updating units as a planning tool to enhance the renewability of old urban blocks. In many cities in China, including Shanghai, the "district-based update" approach has been implemented in old urban area renovation practices, replacing the single-block "small balance" with a district-wide "large balance." Some good case studies have already been accumulated in this regard. The July 2023 Guiding Opinions of the General Office of the State Council on the Active and Steady Promotion of the Renovation of Villages in Large and Super-large Cities also proposed encouraging regional coordination and large-area development. However, to create replicable experiences, more research and practical exploration are needed on the mechanisms for promoting cross-block update integration.

Second, creative exploration of defining spatial scales for updating units. As urban updates become more in-depth, there are fewer high-value old blocks, making it increasingly difficult to achieve district-wide updates within a single administrative region. It is necessary to go beyond administrative boundaries to implement cross-district updates, even non-contiguous "outpost-style" updates. Shenzhen explored this approach in 2019 by using "outpost" areas within the same administrative region to address the issue of insufficient public facilities land for urban update projects. Drawing on this experience, it is possible to expand this approach to cross-district urban update coordination. The July 2023 Guiding Opinions also proposed that village renovation could be planned and balanced across the city. However, this requires high levels of cross-district and cross-department coordination, including cross-district transfer of floor area ratios and innovative practices in unified land assembly, planning linkage adjustments, and balancing mechanisms across blocks.

Third, the determination of the spatial scale of the updating unit should consider the timing of the intervention. If the government starts the spatial update of an old urban area too early or too late, the potential rent of the block may either not be high enough or already in decline, and the actual rent may either not be low enough or already on the rise, leading to insufficient "rent gap." This makes it difficult to attract social capital for the renovation, and the necessity and value of the update may be questioned by the public. Additionally, resistance from the current users of the space is likely. From the perspective of the spatial scale of the updating unit, not only should the "rent gap" be sufficiently high for a given block, but the amount of "rent gap" must also cover the costs of updating and the net profits for the entire updating unit. At the same time, there should be an inherent demand for updating and renovation from most or all of the relevant stakeholders within the updating unit. Only then will it attract the interest of all parties involved.

This requires the government to remain highly sensitive to the changes in both the potential and actual value of the old urban space, to have timely awareness of the willingness of the relevant stakeholders to update, and to have sharp insight into the arrival of the appropriate time window for intervention. The spatial scale of the updating unit should be determined in accordance with the time window.

Fourth, the determination of the spatial scale of the updating unit should be guided by the spatial production content. In the process of urban update and reproduction of space, it is necessary to grasp the principle of moderate total urban spatial production, avoiding the dilution of urban space value in a particular location due to local oversupply. The maximization of the potential value of specific urban spaces is not fixed but shaped, depending on the relative scarcity of that urban space for a particular use in a given area. To ensure a sufficient "rent gap" in a specific area, it is necessary to reasonably plan and combine spatial production content over a sufficiently large range, with an appropriate time window, and to gain recognition and cooperation from the current users of the space. Only then can the "rent gap" be sufficiently large to support the updating and renovation within a given spatial range. However, the optimal spatial scale for different types of spatial production content will vary greatly.

Basic Goals, Value-added Orientation, and Coordinated Balance — Discussing Financial Sustainability in Urban Renewal

Wang Weishan (Professor and PhD Supervisor, School of Architecture, Huaqiao University, Institute of Urban Construction and Economic Development)

From the perspective of the scientific and rational use of land and spatial resources, implementing urban renewal can save land resources and improve urban living environments. Urban renewal is an inevitable choice for new-type urbanization and an important action for achieving high-quality urban development in the new era. Just like other urban planning efforts, urban renewal emphasizes the comprehensive benefits and sustainability in social, economic, and environmental aspects. Financial sustainability is a crucial "hidden order" in the reshaping of urban space in urban renewal actions. As urban renewal includes more diverse goal orientations and influencing factors, its corresponding financial relations are also more complex. According to China's current national conditions and systems, achieving financial sustainability in urban renewal requires recognition of three issues: the basic goals of urban renewal, value-added orientation, and coordinated balance.

1. Although research warns about the "financial traps" of urban renewal, such as avoiding the mistakes of land-based finance in the era of expansion, the first step is to clearly understand and accurately judge the basic goals of urban renewal. The greatest significance of urban renewal lies in the efficient and intensive use of land resources and the comprehensive improvement of urban living environments. The efficient and intensive use of land resources is demonstrated by changing inefficient land uses and increasing land utilization intensity under the support of carrying capacity, that is, "land transformation" and "development capacity enhancement." The goal is to achieve higher urban land and space utilization value through urban renewal, which seeks to maximize the economic value of land and space, along with environmental quality improvement. Non-"land transformation" and "development capacity enhancement" urban renewal mainly pursue the comprehensive improvement of urban living environments, which involves enhancing social, cultural, and spatial environmental quality, i.e., "environmental

quality improvement.” The goal is to achieve the comprehensive improvement of urban living environments through urban renewal, while also increasing the value of existing properties (such as higher property prices or rents), and simultaneously pursuing social, environmental, and economic value.

Corresponding to the above value goals, urban renewal forms are roughly represented by land redevelopment, building reuse, and environmental improvement. Different degrees and forms of urban renewal correspond to different financial sustainability solutions. The most fundamental influencing factors, such as land transformation, development capacity enhancement, and environmental quality improvement, involve financial input-output analysis, which can often be calculated using quantitative indicators as the basis for implementation decisions. The social and historical-cultural environmental benefits in environmental quality improvement are often overlooked because they cannot be specifically quantified. The corresponding issue here is the disintegration and disappearance of social (district) relationships and urban history and culture in urban renewal. This is the basic understanding that must first be established for the financial sustainability analysis of urban renewal.

2. Urban renewal must achieve comprehensive appreciation in economic, social, and environmental values. In the process of value capture, the "value attribution" is a key issue affecting the financial sustainability of urban renewal. Unlike the era of incremental growth, the renewal implementation carrier, which focuses on stock land and space, has a diverse and complex ownership structure. The rights to use urban construction land include various types, such as time-limited paid use, unlimited free use, and unlimited collective use, in addition to public, private, and mixed ownership of buildings. These complex ownership structures make the financial relationships in urban renewal intricate. Therefore, it is necessary to establish a value orientation for the attribution of value in urban renewal to effectively promote its financial sustainability. I believe that "value attribution" should be oriented towards "fairness" and "sociality." For example, in the current nationwide renovation of old communities and "villages in the city," the financial logic is mostly government investment in "practical matters for the people," while community residents "unfairly" benefit in the short term but lack sustainability. Further, if the property management system in communities could be extended and improved, including the payment of property fees at corresponding standards and introducing social capital to operate community resources, a "fair" financial sustainability mechanism could be formed. Based on current urban land policies, planning regulations, and the diversity of potential stakeholders in urban renewal, the attribution of value can stimulate the enthusiasm of stakeholders by reflecting a "social" orientation, thereby promoting urban renewal. For example, based on the protection of the social structure and historical culture of old neighborhoods, community "micro-renewal" emphasizes small-scale updates, decentralized updating subjects, and aims to achieve sustainable and diverse urban renewal development. Therefore, starting from the "social" perspective, value attribution can choose to offer better policy tools to private owners in old neighborhoods, including permissions for "land and building transformation" and appropriate "increased capacity" in updates, thus encouraging private homeowners in old areas to actively participate in renewal. This can be achieved by establishing incentive-based "implicit rules" to ensure the financial feasibility of urban renewal. Of course, inefficient industrial land in old neighborhoods, such as the "retreat of secondary industries to tertiary industries," is not part of the "micro-renewal" policy scope and should be strictly restricted from the value attribution

orientation.

3. Financial sustainability of urban renewal emphasizes coordination and balance. "Plan first, then act, and success is assured" is the basic guiding principle for major project development in the era of urban growth. Similarly, urban renewal should account for long-term, comprehensive, and dynamic calculations, emphasizing various balanced combinations such as "local, precise, dynamic, and comprehensive." In addition to the traditional one-time sale model of "expropriation—construction—sale," urban renewal includes more diverse land and space utilization transformation models, which are fundamentally reflected in the shift from "spatial construction" to "spatial services." Urban renewal is a transaction process of resource reallocation and interest redistribution among multiple and decentralized property owners, and its financial sustainability lies in reducing the transaction costs of property transfer. For example, in the protective use of urban space, market behaviors such as "repair instead of rent" and "unified rental operation" emerge as the lowest cost financial models for building preservation, renovation, revitalization, and the reuse of existing buildings. These models emphasize the integration of investment and income in urban renewal and balance the funding for renewal through operational dynamic revenue. Furthermore, from the perspective of fairness, for retained "villages in the city," updates can be achieved by charging community "capacity fees" from owners who operate side businesses such as homestays, and by collecting "property fees" from permanent residents, alongside the coordinated operation of community collective assets. This approach effectively manages transaction costs, achieving the sustainable renewal of "villages in the city" through diversified coordination and balance, thus ensuring the financial sustainability of urban renewal.

The economic sustainability of urban renewal requires balancing three accounts.

Zhan Yunzou (Chairman of Shanghai City Planning and Architectural Design Consulting Co., Ltd., CEO of Shanghai Urban Real Estate Appraisal Co., Ltd.)

China's urban renewal action will move from "orderly advancement" to a "steady implementation" phase. With the expansion of the renewal areas and scales, it is necessary to shift the driving mechanism, mobilizing market forces to participate in the renewal and share the financial burden. However, whether government-led or market-driven, for urban renewal activities to be sustainable in the long term, they must follow basic economic laws, that is, the expected total revenue (U) / value (V) > current value / aggregation cost (V0) + renewal process cost (C).

Under the current situation, the difficulty of achieving economic balance in urban renewal has increased, which can be explained by the above formula: First, on the expected revenue side (U), the real estate market has shifted from rapid turnover and high growth to a new development stage that focuses more on quality and growth, gradually transitioning from a development model to an operational model, with land prices, housing prices, and market expectations becoming more stable. Second, in terms of current value/aggregation cost (V0), with land plots having poorer housing quality, lower average capacity, and fewer aggregation costs gradually being updated, future renewal targets will have higher current valuation and aggregation costs. Third, in terms of renewal process costs (C), the renewal activities often incorporate various public requirements, and the actual costs borne by the implementers, including taxes, fees, funds, and public welfare contributions, are generally high.

Faced with this situation, some local governments, in the past, preferred to increase the expected total revenue by raising the planning capacity, as evidenced by the frequent appearance of high plot ratios in urban village renovation projects. This is a direct reflection of this idea. However, the "advantage" of planning tools is that, on the surface, they do not incur direct costs, but the actual costs are long-term and dispersed. The widespread use of such tools will exceed the capacity of public facilities and the market itself, and it is obviously unsustainable.

Therefore, to rebuild the financial sustainability of urban renewal, it is necessary to address both sides of the inequality simultaneously—by increasing income and reducing expenditure, and calculating the long-term account, the people's account, and the overall account.

First, calculate the "long-term account," which means comprehensively considering the expected revenue throughout the entire lifecycle of urban renewal, trading time for space, and innovating financial instruments to support corresponding renewal activities. Compared to traditional incremental real estate development, urban renewal (especially involving the protection of historical features) has a relatively long operation cycle. The renewal entities not only need to gather property rights but also incur a large amount of compensation and merger and acquisition costs before net land is formed, and they must face strict long-term property holding requirements. For many renewal projects, although the discounted cash flow over the entire lifecycle can cover total costs, traditional financial tools (such as development loans) cannot meet the needs of such long cycles. At this point, financial product innovation is needed to solve the mismatch between the funds and the timing of renewal projects: First, by having development-oriented financial institutions lead and provide foundational support, introducing syndicated loans, and designing long-cycle, cash-flow-characteristic loans suitable for renewal projects; second, rebuilding the credit structure with policy support; third, creating asset securitization products for urban renewal to open the channel for monetizing the value appreciation of the assets post-renewal.

Second, calculate the "people's account," which involves fully understanding and considering the actual demands of different residents and providing diversified solutions to reduce early-stage costs. Currently, the demands of residents in old district and urban village renovation projects are becoming increasingly diversified. However, under the traditional expropriation model, the compensation approach mainly based on cash and resettlement housing is relatively simple, making it difficult to respond to the differentiated demands of residents of different ages, family structures, and economic abilities, and the costs remain high. By insisting on full public participation throughout the project process, accurately grasping the differentiated demands of different types of residents, and providing adaptable compensation pathways, it is possible to truly reduce resistance to progress, accelerate implementation, reduce financial costs and direct cash compensation expenditures, and alleviate the pressure on property disposal in the future. Recently, in projects such as Ruikangli and Maoming Road, this approach was introduced, changing the traditional one-size-fits-all expropriation model. Based on thorough research, residents were offered "menu-style" options, including resettlement housing, leaseback, and repurchase. At the same time, for non-residential property owners, compensation methods such as "house for house" and "house for land" were also introduced to encourage businesses to continue operating long-term in the local area. From a practical perspective, this model saves a certain percentage of early-stage costs compared to a single expropriation model, accelerates

implementation, and yields more significant results.

Finally, calculate the "overall account," which requires expanding the perspective from a single implementing entity to society as a whole, integrating government finances and other public benefits into the consideration. It moves from individual projects to project packages that span across projects, regions, and cycles, focusing on the overall balance. Based on past project experience, urban renewal projects have long-term positive externalities in terms of improving urban quality, increasing local tax revenue, and enhancing employment. Some urban renewal projects, when viewed from the social perspective, are economically feasible, but from the perspective of the implementing entity, the economic evaluation may be unfeasible, resulting in a "win-lose" situation between the government and the implementing entity, which impacts the enthusiasm and feasibility of the renewal project. Therefore, it is necessary to appropriately adjust the interest structure of all parties involved, striving for a win-win or multi-win situation. In policy design, these external values can be organized and expressed explicitly through institutional innovations. Under the premise of scientifically measuring public welfare contributions, local governments can, within the limits permitted by law, reduce taxes and fees collected during the renewal process, reduce land transfer fees, and introduce installment payment methods or allow early-stage property collection costs (audited) to be included as deductions from land prices. For urban renewal projects in industrial park areas, the government and the coordinating renewal entities can reach a "revenue-sharing agreement" on incremental tax revenue and reinvest in urban renewal through special funds. Furthermore, for various types of urban renewal projects in a region, a "compensatory mechanism" can be established, creating an urban renewal fund pool, etc., to achieve dynamic balance across projects, regions, and cycles.

The financial difficulties in urban renewal: Solving the problem together.

Xu Jingyun (Deputy General Manager of Shanghai Urban Renewal Construction Development Co., Ltd., Senior Engineer)

Urban renewal is connected to people's livelihoods and development, and is crucial for improving public welfare and promoting high-quality urban development. It is necessary to balance both the people's needs and the economic balance. At present, urban renewal projects are generally facing significant issues such as high upfront investment costs, long financial return periods, and a serious imbalance between costs and benefits, leading to difficulties in implementing some renewal projects. How can we balance the needs of various parties and find an "economically balanced, fiscally sustainable urban renewal model"? From the practical operational level of the entire urban renewal process, the following considerations and measures are proposed.

First, control the pace.

The primary issue faced by large-scale old district renovation, old housing renovation, and urban village renewal is the massive upfront funding required. According to relevant data: between 2018 and 2022, the total cost of land acquisition for old houses in Shanghai's central urban areas amounted to nearly 700 billion yuan. From 2023 to 2027, the direct investment in urban village renewal in super-large cities is expected to exceed 10 trillion yuan. Therefore, the implementation pace and speed of these renewal projects must consider the affordability of government public financial inputs, special bond support, state-owned enterprise capital injections, policy loans from financial institutions, and other financing methods. It must also reasonably estimate the possibility of market forces and social capital involvement to drive

investment. In addition, with changes in the macroeconomic environment, the market absorption of various functional products launched after renewal will take time and may have certain uncertainties in the short term. As a result, urban renewal implementation must proceed according to capacity and with proper pace control, and an overall and sustainable financial strategy should be developed.

Second, reduce costs.

Urban old districts are densely populated, with property rights and usage rights dispersed, making sustainable protection and renewal difficult. At present, the capital costs of land acquisition compensation, property rights consolidation, and land reclamation in the first-stage development phase of urban renewal have become the largest part of total project investment. In pilot urban renewal projects, Shanghai is actively exploring feasible methods to reduce upfront costs. For example, in the renewal of the second facade of the Bund, instead of following the traditional single land acquisition model, it encourages strong state-owned enterprises to reorganize the dispersed properties and carry out updates and resettlement. It also allows qualified original property owners to entrust the update and management (to receive rental returns) or carry out self-renewal under the general framework. This way, the original property owners, once the objects of acquisition, are transformed into cooperative subjects in the regional renewal, effectively reducing the cash compensation costs and motivating various parties to participate in urban renewal. Additionally, the Ruikangli renewal project explored a combination of resettlement methods, including voluntary relocation by residents, physical resettlement in other locations, repurchase or re-rent on-site, allowing residents to choose according to their needs, and effectively reducing the update costs. Moreover, measures such as reducing financing rates, reducing the residual value of public housing, and seeking special fund subsidies are also cost-cutting measures that can be considered based on the specific situation of renewal projects.

Third, increase the value.

Rational spatial planning constructs the "fundamentals" for realizing the value of urban renewal projects. The built environment of old urban areas is complex, with tightly constrained spatial relationships, and stock-based renewal needs to take into account numerous limiting factors, facing the complexity of decision-making trade-offs. While the planning should adhere to the priorities of public welfare, addressing deficiencies, ecological restoration, preserving architectural styles, and cultural heritage, relying solely on the spatial expansion of the project itself to achieve financial balance is unrealistic. The feasible way to increase value is to change the past "top-down" planning inertia and ensure maximum participation rights for market players during the renewal process, to motivate their enthusiasm for participation. Especially in high-difficulty, low-profit renewal projects, market enterprises focus more on precise project positioning and product operations, fine-tuning business layout and spatial design, as well as how historical building structures and future functional uses can become "both attractive and practical," thus unlocking and realizing more potential market value. Therefore, "planning empowerment" must comprehensively address both public interest and market value, balancing the demands of multiple stakeholders. This is the ultimate test of the rationality and operability of a planning scheme.

Fourth, streamline control.

Urban renewal involves numerous uncertainties in the stages of project approval, construction, and more. The implementation cycle of primary and secondary projects is long (ideally, the early

stages take 1.5 to 2 years, and the construction phase takes 3 to 4 years; in special cases, the coordination time for complex matters cannot be precisely estimated), which inevitably leads to high financial costs. If conventional planning policies, design norms, and technical management regulations for new construction projects are simply applied, urban renewal projects will face significant implementation difficulties and income risks, greatly reducing the willingness of market enterprises to participate in the project. It is important to recognize that each renewal project is a “non-standard” case and cannot rigidly apply standardized technical controls. Instead, management collaboration between multiple departments (such as planning, construction, housing, cultural heritage, fire safety, landscaping, transportation, and power) must be strengthened. Through reasonable demonstration, the plan can appropriately relax certain control requirements, ensuring safety and not falling below current levels.

Fifth, supplement operations.

The financial balance of urban renewal projects relies not only on the partial recovery of funds through property sales in the short term, but also on obtaining sustainable revenue through long-term property ownership and good management. Successful urban renewal requires creating functional spaces that align with contemporary trends, introducing new ways of working, living, and consuming. Through a period of urban operation, improving the quality of renewal, enhancing asset value, and promoting regional economic growth and tax revenue, the project can achieve dynamic financial balance throughout its entire lifecycle and ensure the sustainable development of the city's public finances.

In conclusion, there may be no "one-size-fits-all" solution to the financial balance issue in urban renewal. Rather, it relies on many directions of "drops," and only when government departments, state-owned enterprises, financial institutions, and numerous market investors work together can a win-win situation be achieved, reflecting the concept of a people-centered city.

The Organic Integration of Government and Effective Markets to Promote the Fiscal Sustainability of Urban Renewal

Tang Dai Zhong (Associate Professor, Deputy Director of the Department of Construction Management and Real Estate, Tongji University)

With the arrival of the stock era, urban renewal has become an important means to solve urban problems and promote sustainable development. China's urban renewal largely relies on municipal financial investment. However, under the current multiple pressures of economic downturn and resource-environment constraints, the traditional financing model based on land finance has become increasingly ineffective and cannot meet the needs of large-scale urban renewal. To solve the problem of sustainable development in urban renewal and promote holistic governance of urban renewal, it is necessary for the government and market participants to play an active role and form a joint force to promote sustainable development.

Firstly, through effective market mechanisms, social capital can be introduced, and a multi-channel financing mechanism throughout the lifecycle of urban renewal can be established to promote sustainable development. In the early stages of a project, such as the expropriation and development phase, a policy combination can be adopted, which is a policy system combining conventional financing, special financing, and social capital introduction. Conventional financing includes commercial bank loans, land reserve funds, etc., which can provide basic financial security for the expropriation stage. Special financing includes supplementary loans

through policy banks (PSL), local government special urban renewal bonds, and special urban renewal funds. Special financing is more targeted and can fully leverage the effect of leverage to expand effective investment. The government can also introduce social capital through means such as selling revenue options, innovating service value-added income, or through pre-REITs funds, thus broadening financing channels and promoting healthy flow of social funds.

Second, in the sales phase, under the pre-sale system, developers should focus on improving product capability, creating an effective market, and accelerating the sales process. By accelerating the use of market-oriented mechanisms, forming high-quality sales returns, and advancing the transformation of real estate investment and financing models into successful organic renewal models. Third, in the operation phase, for de-sold properties, property management funds and other financial tools can be used. For hold-type properties, external financing can be quickly obtained through rental income rights pledge loans, operating property loans, etc. Financial tools such as REITs and CMBS can also be used to realize asset securitization, and the pre-REITs of the development phase can be organically linked throughout the entire lifecycle, attracting long-term investors, providing continuous funding support for the project, and achieving self-financing for the project, accelerating the capital return.

Secondly, through the active government and regulated allocation mechanisms, top-level design should be well done. First, urban renewal involves multiple stakeholders, including the government, developers, the public, and investors. The active government should maintain and balance the rights and interests of each participant, optimize the establishment of interest protection and allocation mechanisms, such as strengthening a housing strategy that integrates both rental and purchase, achieving a balance between work and residence, so that urban renewal projects can balance economic and social benefits, thus stimulating the vitality and creativity of urban renewal at a deeper level. Through community participation, public consultations, and other methods, the public is given the right and opportunity to participate in renewal decisions, enhancing their sense of identification with the outcomes and stimulating endogenous motivation for urban renewal. Second, once the basic project costs are determined, finding ways to increase project revenue becomes key to improving benefit distribution. During the construction phase, the government should supplement supporting functions and infrastructure according to the current operating status of the industry, thereby increasing the project's capacity and creating strong competitive advantages, thus enhancing project profits. The organic integration of the active government and effective market can innovate the sustainable development model for urban renewal. Taking Shanghai's Zhangyuan project as an example, the government led the overall planning of the Zhangyuan renewal while encouraging and introducing social capital, improving resource allocation efficiency through market-based methods. The government and the market each play a key role, constructing a pattern of multiple stakeholders jointly participating in urban renewal, successfully achieving the harmonious integration of historical cultural heritage protection and modern urban functions. Achieving sustainable public finance in urban renewal depends on a dual-drive system: on one hand, fully unleashing the vitality of market mechanisms to effectively improve the operational efficiency of urban renewal projects; on the other hand, the government needs to implement precise policies to ensure that urban renewal processes are socially equitable and avoid imbalances of interest. By coordinating the roles of the government and the market, achieving an organic unity of efficiency and fairness, and gradually realizing Pareto improvement in urban renewal practices,

the deep integration and interaction between the active government and the effective market will drive China's urban renewal toward more connotative, intensive, and sustainable development, creating a more enduring and vibrant urban living environment.

Supply and Demand: Reshaping the Logic of Value Generation in Urban Planning under the Fiscal Construction-Oriented Paradigm

Wang Wei (Associate Professor, Director of the Department of Urban Management, School of Government Management, Central University of Finance and Economics)

Urban planning is a system embedded within the vast machinery of the nation and society, balancing and adjusting the relationship between spatial supply and demand. It plays a role in discovering, creating, distributing, and regulating spatial value. The supply-demand logic and relationships among people, land, and finance fundamentally determine the value generation mechanism of urban planning.

Since the launch of the reform and opening-up in 1978, China has experienced the largest and fastest urbanization process in world history over the past 40 years. Behind this remarkable achievement, urban planning has played a crucial role in value generation and creation. This success has also fostered an inertia of thinking — that growth is “natural,” and only growth is “correct.”

If the Central Economic Work Conference at the end of 2013 presented the “new normal” as a strategic forecast for the development phase, the judgments made at the end of 2021 regarding contraction in demand, supply shocks, and weakened expectations represent a rational recognition of the current situation. This indicates that the conditions for value generation in urban planning have undergone significant changes, and the operational logic of value generation urgently needs to be adjusted.

A careful comparison between China’s rapid urbanization in the past 40 years and the Western urbanization process over 200 years reveals significant differences in their development models. Western urbanization can be seen as an “industry-driven value generation model.” In a matter of decades, China has completed and partially surpassed the Western industrialized urbanization process, not only due to the advantage of latecomers but also due to following a “land rent-driven value generation model.” This model has led to at least two major shortcomings when compared to Western developed countries: On one hand, the real estate industry has become an economic pillar, intertwined with an export-oriented economy, squeezing out local industrial economies and leading to a lack of strong industrial support. This lack of self-financing capability has become the Achilles' heel limiting China’s urban development. On the other hand, the ease of returns from the initial resource inputs, such as land, has caused local governments to develop a “land finance dependency syndrome,” generating wealth from land and using that wealth to sustain more land development.

The transformation of planning today is not simply defined as a shift from incremental planning to stock-based planning, but rather requires a systematic redefinition. It is a shift from land-centered planning to people-centered planning, from resource-based planning to asset management-based planning. It is increasingly necessary to understand and elevate the "ways of generating, accumulating, operating, managing, and saving wealth" in urban planning from the perspective of "finance" (government public finance and market social capital).

Faced with the profound changes in supply and demand relations in the new stage, urban

renewal actions should be people-centered. Space construction is the "body", and financial source construction is the "soul." It is not only necessary to seek financial balance at the project level, but also to focus on fiscal health and sustainability at the city level. With financial source construction as the guiding principle, the logic of value generation in urban planning should be reshaped to promote the coordination of the three major subsystems of people, land, and finance, repair the balance sheets of governments, enterprises, and residents, and help China overcome the middle-income trap in urbanization.

Demand-driven, to generate wealth through people: People are the fundamental source of value creation and realization. Whether people's needs are met fairly and effectively is the measure of success. The transformation from incremental planning to stock-based planning is essentially a shift from a land supply-driven growth path to a people-centered, demand-driven development path. To solve the problem of excess, attention must be paid not only to the supply side but also to the demand side. It is crucial to know where the users are, what they need, how much they need, who will supply it, what will be supplied, and how much will be supplied. A quality urban space asset list based on "demand—rights" should be constructed, and resources and assets should be allocated and revitalized from a global perspective to reduce the possibility of "new excess" in urban renewal.

Space activation, to accumulate wealth through land: Land finance has a rational existence at all stages of urban development, but it needs to be constantly adjusted to meet the demands of urban development. In the urban renewal phase, planning faces more issues regarding the reactivation and value regeneration of stock space assets. The government should guide social capital through the formulation of scientific and reasonable planning and land policies, directing investments to areas that can use updated income to address historical deficits in public services, support sustainable public services for urban development, and build functions that support long-term urban growth. This will promote the iteration and upgrade of space services, content, and products, create new scarce values, and lead consumer demand, forming a well-balanced, sustainable cash flow.

Pre-operation, to operate wealth through business: Different financial balancing approaches greatly influence and determine the model and path of urban renewal. The shift in urban renewal policy from "demolish, modify, keep" to "keep, modify, demolish" has made it difficult for local governments and social capital to gain large returns from land and property transactions, as they did in the past. This requires starting with the end in mind, shifting from "development mode" to "operating mode." Integrated promotion of project planning, design, construction, and operation should be implemented. Planners need to have more forward-looking industry planning and financial analysis skills, calculating financial solutions from different perspectives, including government budgets, social capital participation, and bank financing. This will help build consensus among all parties. High-quality business formats and stable investment returns should be used to attract quality long-term investors. Actively explore investment and financing approaches and paths for urban renewal.

Planning and Finance Coordination, Financial Management by Efficiency. The seminal work in modern urban planning, "The Garden City of Tomorrow," proposed implementation suggestions for funding sources, land distribution, city finance management, and the operation of garden cities. The "New Urban Agenda" opening declaration pointed out that "our cities and habitats should be well-planned, well-designed, well-funded, well-developed, well-governed, and

well-managed." The United Nations Human Settlements Programme's "Fiscal Planning – A Guide for Urban Leaders," which I translated, provides a thorough overview of global urban fiscal management, urban construction financing theories, and practices. Therefore, strengthening the coordination between urban planning and fiscal planning and policies in China is necessary. During the planning phase, specialized planning for investment and financing, and revitalizing existing assets should be incorporated, aligning with the general and detailed plans. During the implementation phase, it is essential to enhance fiscal policy design, fiscal performance assessment, and urban fiscal health assessments, establish spatial-fiscal coordination performance evaluation mechanisms, and ensure reasonable fund allocation, tight risk supervision, and transparent financial disclosures to ensure the long-term stability of urban renewal actions.

Smart Empowerment, Saving Funds with Technology. Faced with the current fiscal constraints of local governments, in addition to increasing revenue, it is essential to reduce expenditure. The shift from a past, unfocused and unaccounted-for construction spending model to a more efficient and strategic financial management model focusing on returns and financial balance can be achieved with the help of digital technologies. By relying on the implementation monitoring network of national land spatial planning (CSPON), a land spatial financial model can be developed, with data connectivity and shared access between fiscal departments. This ensures that every fiscal expenditure is reasonably allocated, and the use of funds is monitored, promoting a shift from coarse to intensive and efficient fiscal management. Moreover, monitoring secondary added-value returns from urban renewal and creating a scientific incentive and exit mechanism will ensure the sustainability of these gains. The five interconnected and mutually reinforcing steps of “earning, gathering, managing, budgeting, and saving funds” can be integrated into the new planning talent cultivation and educational systems, helping planners "rethink" and better tackle complex urban renewal tasks.

Finally, I would like to express a point: entering the era of urban renewal, planning work has not weakened, but has become even more important. However, we still face two very critical questions: who will pay for urban renewal? And who will pay for the operation of urban renewal? The former concerns how to construct new financial balance models, while the latter pertains to whether we can support the continuous and healthy development of the planning profession, returning to the origin of the value creation that planning can provide.

