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The regeneration deal: Developers, homeowners and new competencies in the development process

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ABSTRACT

Market-oriented housing regeneration policies rely on private entrepreneurs for implementation. As these policies proliferate globally, they increasingly bring developers in direct contact with residents from diverse tenure groups, including homeowners. Building on institutional analysis of developer behavior, we explore the variegated roles and competencies that developers assume and employ in their interaction with homeowners. Raze and Rebuild – a national housing redevelopment program in Israel – serves as the case for analysis. The program presents developers with the opportunity to capitalize on valuable urban land, but also carries a risk that stems from the need to strike a complex deal with multiple and diverse homeowners. Based on interviews, observations, and analysis of shareholder reports, title deeds and media articles, this paper explores the ways in which developers attempt to mitigate and manage this risk. We identify three major approaches to reaching the regeneration deal—a contractual agreement between developers and homeowners. The deal requires developers to acquire new competencies such as organizing homeowners, building trust via interpersonal relationships, and maintaining a strong local presence. The three resultant approaches differ in the way the risk components are distributed between various actors, namely between developers and newcomer intermediaries. The new roles of developers are found to be crucial in implementing the regeneration of homeowner communities, as they motivate homeowners to act collectively towards rent-maximizing.

1. Introduction

Housing redevelopment in the neoliberal era fosters a complex relationship between government, communities and private property developers. Neoliberal regimes, which are rooted in the belief that markets are superior to government regulation (Hackworth, 2007), expect private entrepreneurship to handle planning, funding, implementation, and management of large-scale developments with greater efficiency than public-sector agencies (Harvey, 2005; Lord and Tewdwr-Jones, 2014; Sager, 2011). In housing regeneration, this paradigm is applied in low-income communities, where market-led policies are used to tackle longstanding physical and social problems (August and Walks, 2017; Carmon, 1999). These policies typically aim to maximize the market value of devalorized neighborhoods, attract private investors and homebuyers, and create mixed-income communities (Verhage, 2005).

While neoliberal urban redevelopment is a three-edged relationship between government, communities and private property developers, research on the subject tends to focus on two sides of the triangle – links between developers and government, and between communities and government. The relationship between developers and government is usually studied through the lens of developers' role in and response to particular policy contexts (Coiacetto, 2000; Guy et al., 2002; Leffers, 2017; Rosen, 2017). Redevelopment policies present developers with an opportunity to capitalize on valuable urban land. In return, the same policies require developers to adopt unfamiliar planning frameworks and development paths, such as brownfield cleanup, that entail high risk and uncertainty (Adams, 2004; Payne, 2013). Institutional analysis uncovers the intangible factors that developers build on to address risk, such as networks of trust, and factors that inhibit implementation, such as uninformed policy design (Adams et al., 2012; Henneberry and Parris, 2013). The relationship between communities and government, is often interpreted through a political economic perspective, commonly defined as state-led gentrification (La Grange and Pretorius, 2016; Lees et al., 2015). In this context, the research focuses on governments' shift towards a land rent maximizing model and its adverse effects, namely the systematic displacement and marginalization of low-income communities (August, 2014; Baeten et al., 2016; Chaskin and Joseph, 2013; Goetz, 2016; Hackworth and Smith, 2001; Lees et al., 2008). The particularities of the development process receive less

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attention than the dissemination of market logic into government.

In contrast to the other relationships, the interaction between developers and communities has been surprisingly under-researched. This is particularly striking in light of the interest in the varying "actually existing" manifestations of neoliberalism within locally-distinct governance structures (Aalbers, 2017; Peck et al., 2018). Market-oriented regeneration policies increasingly bring developers in direct contact with residents from diverse tenure groups, including homeowners (Flynn, 2016; Shin, 2009; Unsal, 2015; Yang and Chang, 2018). A conceptualization of developer-resident relations as an inevitable clash between use and exchange value, may not adequately represent cases where individual property owners play a proactive role in redevelopment (Haila, 2017). What is missing is a closer look into the diverse roles that developers assume in their relationship with communities; the way developers perceive this relationship; and the competencies developers employ within it.

This paper expands on these issues through an exploration of a housing redevelopment program in Israel called 'Raze and Rebuild' (henceforth RR). RR serves as a telling case of the ways in which redevelopment programs reconstruct private entrepreneurship. The policy targets privately-owned housing and provides substantial incentives to homeowners and developers. Developers and homeowners within a given redevelopment project are expected to independently reach a collective contractual agreement. Looking into the implementation of twelve RR projects, we analyze the relationship between developers and homeowners from the private-sector actors' perspective. We explore the following questions: how do developers interpret their role in a neoliberal housing redevelopment setting? Which competencies do private-sector actors employ in response to their assigned role? And how do these responses shape the development industry? Drawing on an institutional analysis framework, we address these questions through interviews with developers and other actors, observations, and analysis of shareholder reports and media articles.

Our findings identify the *regeneration deal* as a major component that sets RR apart from traditional development. We define this term as *the contractual agreement between developers and the multiple homeowners in a regeneration project that lies strictly in the realm of private property*. The need to negotiate a *regeneration deal*, we argue, has been interpreted by developers as a *risk*, whose management requires specific specializations. These include organizing homeowners, building trust through interpersonal relationships, and having a strong local presence. Rather than incorporate these capacities into their business model, some developers have turned to the service of appropriately skilled intermediaries that are newcomers to the development industry. We further identify three paths to the completion of a *regeneration deal* that differ from one another in the division of roles between developers and the intermediary actors.

The unpacking of the *regeneration deal* engages with two fields of knowledge. Building on institutional analysis literature, we explore the relationship of developers and homeowners as a driver of diversification in the development industry. For developers, the need to build a relationship of trust with homeowners impedes the acquisition of land, and subsequently, of development. Hence, it is interpreted by developers as a risk factor. The emergence of three paths to the *regeneration deal* and the introduction of newcomer intermediaries demonstrates two attributes of the development process: first, diverging institutional backgrounds affect the interpretation and management of risk; second, relationship with homeowners require a specialization in specific processes of organization, negotiation and trust-building. Adding to the political economic literature, we present a fine-grained analysis of developers' roles in the context of neoliberal housing regeneration policies. Developers seek to profit from processes of urban change, and accordingly, policy is geared towards rent-maximizing strategies. However, in pursuing the *regeneration deal*, developers are also required to employ practices of organizing homeowners, building trust, and maintain a strong local presence. Our findings also demonstrate the need to further explore the role of homeowners who, in housing regeneration, might be marginalized as tenants yet be empowered as landowners.

The remainder of the article is structured as such: the next two sections present the theoretical discussion of developers in urban redevelopment and its application in the context of RR policy. The research methodology is then presented, followed by Sections 5 and 6 that discuss, respectively, the common themes in developers' response to this notional role, and reflections on three varying development approaches with respect to RR: *Adaptive housebuilding, developer-oriented intermediation*, and *resident-oriented intermediation.* Finally, Section 7 discusses the findings and their implications for the conceptualization of developer roles in housing redevelopment.

2. The relationship between developers and homeowners: a case for research

Urban renewal is a product of complex interplays between governments, communities and private property developers (August and Walks, 2017; Fainstein, 1994). In this three-pronged relationship, developers have become ever more prevalent in recent decades. Naomi Carmon (1999) classifies such policies as the "third generation" of renewal policies, marked by the shift from public funding and initiative towards a greater reliance on private entrepreneurship. As part of the global process of neoliberalism, financial incentives and guaranteed rates of return are offered to developers for tackling and redeveloping devalorized urban areas (Verhage, 2005).

At the base of contemporary regeneration policies lie two assumptions regarding the market behavior of the development industry, both of which resonate with neoclassical models of property development (Healey, 1991). First, private entrepreneurs' keen eye for economic opportunities provides them with an advantage to revive devalorized areas by attracting residential and commercial activity. Second, since developers pursue a market rationale, they will readily adapt to policy changes, provided they are adequately compensated (Nappi-choulet, 2006). However, various theoretical perspectives highlight shortcomings of these assumptions (Healey, 1991). Following Hamnett (1991) who argues for an integrated explanation of gentrification, we suggest a synthesis of perspectives to explain current trends in urban regeneration.

Critical political economy ties urban regeneration primarily to the shift in the role of governments away from Keynesian models of social democracy and towards practices of land-rent maximization (Hackworth and Smith, 2001; Harvey, 2005). Urban regeneration is framed in this context as a process of state-led gentrification (La Grange and Pretorius, 2016; Lees et al., 2015) that involves an artificial expansion of potential land rent (Yang and Chang, 2018). Housing redevelopment thus primarily serves those who seek a spatial fix for available capital, i.e. developers, investors and homebuyers (Aalbers, 2017; Harvey, 2005). For incumbent communities, however, the outcomes are detrimental and include an increased risk of displacement (Baeten et al., 2016; Davidson, 2008; Hackworth and Smith, 2001; Lees et al., 2008); systematic exclusion from planning processes (August, 2016; Goetz, 2016); stigmatization of mixed-income communities (Chaskin and Joseph, 2013); and the dismantling of pre-development networks of support (August, 2014; Manzo et al., 2008). Within this extensive analysis of the relationship of governments and communities, political economic literature provides a relatively simplified portrayal of developers as conduits of market forces. Exceptions include research on specific high-profile developers that are strategically invested in social housing redevelopment (Goetz, 2012; Rosen, 2017) and on specific cases of residential resistance to approaches by developers (Goetz, 2016; Unsal, 2015).

The representation of developer-community relations as inherently antagonistic overlooks the fuzzy boundaries between the two. This is true especially where property-owning residents exert their agency to

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