TIME IS MONEY.
QUITE IMPORTANT LESSON ON SUSTAINABILITY
FOR EMERGING MARKET ECONOMY.

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1. Introduction

This paper explores some obscured assumptions which need to be brought to light for cities wishing to follow the way in which Warsaw became a leading center of the successful Polish economy. It has been observed that the economical growth as measured by indicators such as Net Domestic Product or number of cars per capita is not correlated with the willingness of neither citizens, nor investors to locate their businesses there. Recently both office and primary residential markets have been undergoing a serious crisis. One could say it is due to a “normal” fluctuation of the aggregated investment cycles. A closer look at the way in which construction investments are developed may take researcher's attention to subtle, but powerful observations that some threshold of satisfaction has been achieved on the basis of the supply-demand mechanism. Nevertheless from the point of view of what Warsaw could offer to both companies and people, it seems that the game either is, or soon will be over. It is believed that no details are of little significance in the development of the city of Warsaw since they make up investors' and citizens' minds in their investment decisions.

2. Legislation in Practice.

The City of Warsaw underwent a set of turbulent historical events in the past century. The Warsaw uprising in 1944 resulted in physical destruction of the city and its population, followed by uprooting of remaining citizens. Unfortunately legislation passed in direct subsequence of World War II (Warsaw Real Estates Nationalization Directive 1945, the one that enabled city reconstruction), occurred to be imperfect, resulting since then in a never resolved legal debate on ownership rights to real estate in the central district of the city. In 1989 the transition to a free market economy in Poland was given full acceptance by the
government. Although the new Land Planning Act was passed in 1994 to face the needs of a market economy, local governments were unable to live up to the terms of the Act. This resulted in a special pattern of land development in which market forces dominated over democratic legitimate planning. A serious backward step was then taken by parliament – amendment to the Land planning act that postponed for 5 years the deadline for completion of local studies for spatial development – the basic documents for spatial policy. For eight years and up to 2003 planning permissions have been based on obsolete knowledge and incomplete urban studies.

Table 1
Percent of obligatory planning studies completed (2002)

<table>
<thead>
<tr>
<th>Type of territorial administration unit</th>
<th>Number of units</th>
<th>Number of units with completed spatial development studies</th>
<th>percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Voivodship (Region)</td>
<td>16</td>
<td>13</td>
<td>81</td>
</tr>
<tr>
<td>Powiat (County)</td>
<td>373</td>
<td>89</td>
<td>24</td>
</tr>
<tr>
<td>Gmina (Municipality / Commune)</td>
<td>2489</td>
<td>748</td>
<td>30</td>
</tr>
</tbody>
</table>

Source: Instytut Gospodarki Przestrzennej i Mieszkalnictwa, December 2002 [0]

Planning studies are the auxiliary tools intended to establish binding regulations for zoning plans and in Warsaw there was a zoning plan in force up to the end of 2003. As the plan was dated from before 1995, it was canceled by a new Planning Act (2003) therefore a range of new opportunities for purely market-driven investments has been opened. Despite of the fact that the current situation seems to be exceptional from the point of view of urban planning, it is not much different from the planning perspective to that period of 1995-2003. The “General Spatial Development Plan for the Capital City of Warsaw” then in force was much criticized as being obsolete and too flexible - practically any desired intensity of land development was allowed, if conformed to the rules of Polish Building Code. This paper explores the period 1995 – 2002, when the practice was marked by the investors’ freedom from any planning restrictions.


“The Warsaw Development Strategy to the Year 2010” (the document issued by the Municipality in 1999) [1] was revised by Alain Bertaud from a market perspective in his report for the World Bank [2] where he represented a free market approach to spatial distribution of the land value. One of his recommendations there was: “The largest area possible should be submitted to market forces to promote land redistribution and increase the
intensity of its use”. Bertaud argues that the intensity of a market driven land use would increase the density of the city and integrate the spatially fragmented labour market. However, the report also mentions that market forces are “usually not able to develop the primary infrastructure required to use land to its best potential”. Another statement from the report indicates that “Historical and natural zones have to be protected by a weakening of market forces inside clearly delimited perimeters. Without a regulatory shield historical monuments would soon disappear being replaced by either new structures, or by adjacent modern buildings which, with height and bulk equal to the value of the land on which they are built, would dwarf them” [1]. However, it is not recognized in Bertaud’s report whether the environmental quality has market value that is threatened by the market forces themselves, or simply collides with another market-sound land uses. This is one of the key discussion points in this article. It should be pointed out that the historical heritage traditionally has a strong protection in Poland regardless of town planning regulations, but historical scenic views for example may be protected only if incorporated in zoning plans.

4. Land development in Warsaw.

As mentioned above, the history of legislation in Warsaw has been marked by irresolvable legal disputes that caused, due to uncertainty of property rights, freezing of considerable land area for investment. On the other hand urban zoning by-laws were practically reduced to non-significant in the process of obtaining planning permissions.

A study has been done to assess spatial distribution of the most intense developments in the years 1995-2002. It revealed that in the lack of strict zoning laws, the pattern of investment shows the extensive consumption of any value of public space up to the point of its disappearance. High-rise buildings especially, consume public realm at an uncontrolled pace. On the other hand there exists in the centre of Warsaw a vast area of land that is underdeveloped from a classical market perspective. This area is the one in which normal investments are proclaimed to be frozen by aforementioned property rights uncertainty. The most interesting observation is that they are far from being “frozen”. A certain type of high user-intense temporal commercial investment takes place there. Architectural idea of temporal city dates back to Archigram Group. Here, in Warsaw, uncertainty about property rights caused the creation of constructions that perfectly encompass the sustainability ideas: the use of better technologies and calculations of the operational cost for the life cycle “from cradle to grave”.

One can observe therefore two different types of investment strategy: the first one based on solid property rights and the other one on owners’ uncertainty. Having in mind practically irrelevant significance of urban planning (see Table 1) one can match those two types of market-driven approaches.

The main question is how do property rights shape urban environment? Do proper land ownership relations help to make development sustainable? It is believed that property relations do matter [3]. One can apply two different measures to land value in the city – private discount rate and social discount rate. What exceptional is observed in land development in Warsaw, is that some private construction enterprise strategies are based on social discount rate because investors use the land without a legally sound, clear and permanent private ownership basis.
5. Private and public space - market-driven difference of discount rates.

It is recognized that there is a difference between public and private discount rates which depend on redistribution of responsibility for the final cost of undertaking [3]. Political game in a free market economy in a democratic system is subsequently focused on proper relations among stakeholders with the public considered an important part of them. The city as a whole is a public asset as a concentration of individual efforts that create new quality to be used and developed recursively. One of the free market assumptions is that proper ownership rights are vital for the proper use of resources. On the other hand, according to the concept of sustainability, the value of the stock of different types of capital should not decrease.

One can make an effort to evaluate changes of value of different capital types – the city as a public good, attractiveness of the city for high educated labour force, attractiveness of the city for investment capital, range of human activities supported in public realm, adequacy of housing stock to meet the needs and adequacy of road networks and other land consuming utilities.

There is an important question to be asked: do we have complete tools to express the different types of capital value in common measure like money value? It is a common practice to estimate money-value of land based on the Net Present Value. Then construction commensurate with the value of the land is developed.

From the investor's point of view, the most important is the proper location placed within the city’s spatial focus of range of externalities, as it makes his investment in the city culture. In Warsaw it is clear that it is the set of externalities that shapes an investor's strategy. Private investment adds some value to the public realm and the overall economy. In the city one can distinguish two types of surplus for the public. One is connected with an economic activity, the other one with impact on the urban system. One of the free market assumptions is that economically effective market equilibrium is achieved not by the public interest in overall effectiveness of economy, but by the dynamic negotiation of particular profits. Then what about dynamics in the city structure?

In Warsaw one can take some interesting observations on this subject.

6. One City - Two Business Cycle Patterns.

There is a conflict in Warsaw between traditional use of space and new developments. Tradition of direct producer-to-consumer sale markets in Poland never yielded in the course of history. In fact it was supported by a socialist government in some areas such as e.g.: fresh fruit and vegetables – goods of short validation period – to be free private enterprises. Conforming to this tradition, especially in the early days of transition from a centrally planned to a market economy, the citizens of Warsaw widely supported emergence of low investment – intense activities such as little kiosks or tents in central places of the city, lots of them located near main public intersections.

In the course of time new global ideas found their way into consciousness of local governing bodies. Street markets suddenly were considered to collide with the image of the city and were promptly combated by use of legal acts and regulations. Nevertheless, considerable pressure exercised by the public managed to save some areas from being cleared from street markets and at the present time it is clear how the pattern of land use fits the array of market and political forces.

As it was mentioned earlier in the article, town planning factors may be considered to be
practically absent. One can then focus on the centre of the city to reveal some interesting interrelations of public realm, social and private discount rates and sustainability of construction activities. In the strict centre of Warsaw two different types of development have taken place. One located on the west side of Emilii Plater Street is based on sound land property rights and the other one, comprising northern side of Jerozolimskie Avenue and Defilad Square, reveals NPV of location into which the social discount rate is calculated. As it is understood, difference between social and private discount rates is a measure between NPV of free market private enterprise and public enterprise. If market-driven behaviour of private investor is to be applied to land development, it must have been the difference in land property rights that caused the divergence in land use. The difference is clearly coincident with investors having or not having the land in their exclusive possession.

The subsequent hypothesis is:
1. Land ownership is more important in the city than any business activity in terms of a profit expectancy
2. It is economically sound from the point of view of an individual investor to develop a short-term enterprise based on short-term land tenancy even if the cost of demolition is to be included.
3. There is a difference in the land use depending on the period of tenancy. Some businesses such as retail are more adaptable to quick changes, while hotels or offices tend to be located in stable environments even if the offices are usually quite adaptable to other uses.

7. Basic Survey of the Subject.
After a few years of a direct retail market in some of the most traffic-intense places in Warsaw such as Konstytucji and Defilad squares and underground passageways characterized by benches, umbrellas or kiosks, retailers got organized in the form of local retailers' associations to face the threat of liquidation of their businesses by the municipality. Subsequently new architectural forms emerged. The most interesting and controversial became part of the contemporary image of the city - Illustration 1.
Illustration 1
Retail hall on pl.Defilad – in the core of Warsaw City

Basic characteristic of this structures is their temporary character due to unregulated tenancy. Another interesting observation is that the process is not only marked by rooting and development of traditional direct retail into more structured form. Illustration 2 depicts that attractiveness of localization is much the same for both local and international companies despite tenancy problems or limitations in architectural form. It is largely believed that the Marks & Spencer store was built on the basis of “construction site facility” building permission, but the relevant documents are difficult to be examined by the third party.
Observed development contradicts widely propagated argument, that foreign investment capital avoids unfavorable planning restrictions of development intensity. On the other hand equally valuable land exists on the opposite to Defilad Square (western side of Palace of Culture - a high rise soc-real style building in the background of Illustrations 1 and 2). It can be observed here that both pace and intensity of development is of considerable larger scale (Illustration 3). In fact, it is the most intensively developed land in whole country. One can see there a difference not only in an intensity but -more important- in primary function of buildings and their relation to public realm. It was mentioned above in the article that what makes the difference is land tenancy and not planning regulations. Therefore one can observe clearly the evidence of ownership’s related investment strategies and subsequently, with the investors’ ownership rights granted, the consequences for the overall development of the city.

Before further exploration of the subject of this article, there is a question of evaluation to be asked. There is an argument widely shared even within the Sustainable Development movement, that proper value for money should be sought in every investment. It is hard to discuss it if there is no clear evidence how the money value of investment serves the “total benefit”. The Coase theorem states that for the efficient allocation of capital it does not matter how entitlements and liabilities are allocated once they are defined. The theorem concerns also existing money value. What is sought in SD is more than existing practice in evaluation, as the concept implements an evaluation model in which long term gain is compared with short term based calculation of NPV. It is proposed that sustainability is first of all an act involving time and sequencing.

Here is a closer look at those factors in Warsaw: there are two different approaches to the concept of decent money value. One is based on the effectiveness of a free market allocation which requires fast and unrestricted flow of capital. The second one can be based on sustainability of urban structures. The very question is what does money value represent? The common misconception about money is that one can buy money with money. It is possible as particular, but false if aggregated. That means we should seek money value not in money value of money, but in money value of urban realization.

How do you evaluate urban development then? Traditional approach deriving from European culture is based on a culture-business feedback. It is underestimated in Central Europe that this approach is outdated. What Central European cities do face is the adjustment to global
economy rules. One of the false beliefs, still present in Poland, is that urban planning is a part of central planning exercised extensively in the late industrialization period following World War II and as such is unfortunately associated with the communist regime – so being a political matter. And on this wave of propaganda foreign capital builds its position in Warsaw. Without further reference one can estimate the money value of investment by consequences of putting land on the free market on the west side of city core:

- Public realm diminishes below the required technical capacity (e.g. traffic between public road networks and underground parkings)
- Intensity of development is driven by current market value of land regardless of impact of development on overall city performance.

Value of land depends on externalities and one of them is the quality of the public realm which, as a public good, is excluded from the free market mechanism of the supply-demand. The public realm is best used by the most demanding investor but dependent on the rule of diminishing benefits from the public realm including its road infrastructure, amenities and capacity of technical systems. So the market value of land diminishes with intensity of adjacent developments, because the supply-demand principle cannot be applied to the public realm.

To make this point clear one can examine the following example of traffic of vehicles: an individual investor has at his disposal a capital, within which he can make a decision of splitting it into usable area and parking area in an economically sound fashion. In each case the public good is consumed by the fact of traffic generation on a public road. As the investor isn't obligated to pay the cost of the road, he is free to “consume” the city’s road network, while the cost is imposed on the city’s road network users (and including, in a way, also the investor as a user).

The diminishing benefits are best illustrated by the traffic itself. If the public road is overused, the velocity of any vehicle on that road decreases up to the point in which phenomena like traffic jams occur. The same principle applies to some other loadings imposed on the public realm by individuals.

9. **Scope Matters – Importance of Scale.**

When performance of the city is considered, several different approaches are at one's disposal to determine problems of harmonious, optimal development. Indicators do matter, provided that one can interpret their background – SD issues ought to be addressed within the particular frame of problems, which may depend on ecological, political, economical, cultural, spatial, historical and other conditions. Without the proper set of benchmarks the aggregated SD indicators may veil mechanisms of city development. It is possible that the aggregated data looks promising, while the underlying process shows another direction. There is no practical use of measures which are not aligned with basic forces shaping the city. Therefore, one needs to find direct translation of basic process into the bigger picture. In other words – SD researchers and practitioners must have a clear image of how the process of urban development could induce the sustainable development. It seems more important if one faces a transition from centrally planned economy into the free market. The process of dismantling of the central planning system had severe negative impact on urban planning, which didn't manage to present itself as a tool for democracy enforcement in Poland, but quite on the contrary, is considered by carefully shaped public opinion as a barrier in “democratic” (that means individual) rights to act on one's free will. Illustration 4 depicts the problem in more precise terms.
It is not impossible that the overall progress of the city would be struck by a local shock to the sensitive area like the city centre. No matter what is the capacity of the city infrastructure to internalize strong impacts, the careful watch should be present in the name of SD rule, i.e.: “to not compromise the needs of future generations”. Traditionally it was an ultimate issue in urban planning to make the city survive. Nowadays, since the idea of globalization is clearly more important in shaping cities than the idea of fortress, one should ask the universal question again: “how to make the city survive?” SD factors pose another question: “how to make the city perform better?” It is important to set the right order of questions:

1. If one considers the city as an environment for people to live and takes for granted that it is our common asset then one preserves it and takes care for its longevity. This corresponds to the rule of the survival of a city.

2. If one considers a city as a medium to achieve some goals – economical, personal, political, ecological etc. - one cares for its performance.

In conclusion we could say that one can split urban issues into two complementary processes:

1. How do citizens build a city
2. How do citizens use a city

The simple market economy models consider that it is the proper use of resources that create common good. Scarcity rent is applied to improve capital allocation. It is far from the interest of transitional economies of the former socialist block to follow directly the evolved market economies. There is a chance to correct some processes to avoid certain imperfections of the free market capital allocation, especially in the face of real confusion about what an economic model for the country should be.
Illustration 4 shows that the scarcity rent is a subject of regulation. There is a direct correlation between the type of development and property rights to use the land. In Warsaw one can observe the extremes with the dynamic nature of capital allocation clearly revealed. The data visualised in boxes are the subject to ongoing study not to be treated as complete. The whole picture can be observed from the direct field survey. Despite the fact that regulation of property rights is unintended, it is in force due to aforementioned historical reasons. And it does work!

One can observe how powerful the law can be and therefore consider the property rights regulation as a tool to achieve proper development scale. Usually effective contribution of investment for common good is resolved with the help of zoning plans which state the local spatial policy. It is resolved with a set of obligations imposed on investor known as “modus of exercising property rights”.

Nevertheless, due to a rule of private property and a Roman legal maxim “superficies solo cedit” [ anything on my land is my own] (the Polish legal system is based on the Roman Law) , common good is in a conflict with private one. As it could be seen at Warsaw’s example, the
limitation of tenancy period can be quite effective way of regulating the pace of development regardless of any complex negotiations between the private land user and the public. There is no place and time here to discuss the issue in extent, but it is proposed to consider more use of time as a planning tool in urban policies. Due to the fact that time plays primary role in the flow of capital, an old saying - “time is money” - perfectly applies here. Why one should allow the scarcity rent and discount rate to be so imperfectly tied together there? There is no way of effective performance of the city because:
1. Proper time-scale for money to grow is internet time.
3 Proper time-scale for city to grow is at least a technical lifespan of a single construction.

One can consider subversive way of achieving Sustainable development: “Do not impose the indicators of performance on investor. Just cut the time of his responsibility down to a time span of his activity”

This is the proposition to be further explored. The authors of the article realize practical obstacles in introducing the idea, but there is still a chance to prove that it may be worth, since it is derived from the real situation in Warsaw, both exploring and perhaps using in democracies where political awareness is more mature.

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ABSTRACT.

Warsaw AD.2004. Warsaw land development market is at the final phase of the second wave of transition from central planned towards market economy. Up to date most of regulations barring the fully laissez-faire model of investment are broken in the centre of Warsaw City. Unfortunately one of the core assumptions of successful free market economy is not fulfilled. Trapped in the very basic legal debate on land ownership and of continuity of rights of which the state took liability along with taking responsibilities for continuing legal order deriving from the pre-World War II Republic, Warsaw city centre is split to areas of firm ownership and “frozen tenancy rights”. Whatever the meaning the “frozen tenancy” therm bears in official reports for the World Bank it is a lively retail business area compelling both domestic retailers and international brands.

The main line of discussion is designed to provoke question of relationship of public realm and private investment without explicit answers, which should be proposed as a research problem. The author of the article wish to open a discussion based on his observation of Warsaw city centre development:

1. The same (in the meaning of the same set of urban externalities) location should be due to the logic of market effectiveness of capital allocation, thus producing similar development, provided that free market logic is true.
2. This is the non-urban-sensitive ownership right that allows companies or individuals to consume public infrastructure beyond responsible, sustainable manner.
3. There is no better way of regulating the pace of irresponsible consumption of public realm but to restrict the time of investment life span.
4. Urban planning based on life-span investment restriction is more powerful than any zoning plans based on negotiations of the public with the private.
5. Harnessing time to work for sustainability is the most obvious response to problems of inequality between effectiveness of urban investment for which technical life-span of construction is a proper measure with capital allocation effectiveness for which internet time is a proper measure.

The author of the article believes the time is a key to sustainability. Therefore some steps should be taken by scientific community to gradually introduce the concept of democratic right of having time into legal systems.

Keywords:
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