Background

Difficulties in financing area development:
Standstills in development as result of economic crisis
From active land policy (municipality as developer)
  to more involvement of businesses / local owners

New instruments required: Tax increment financing (TIF)?
Pre-finance investments in area by future tax revenues generated by investments
Introduced in 1950s; popular in Anglo-Saxon world

TIF is currently not applied in the Netherlands, therefore unclear:
roles of municipality and private developer
consequences for program to be developed
distribution of contributions to TIFs
**Research objective**

IF has not yet been applied in the Netherlands: Modification of TIF to Dutch context is not straightforward deeper insight in relation municipality-developer is required:

How will introduction of TIF change negotiations between municipalities and private developers in area development?

- How do (public and private) contributions to TIF affect the program to be developed?

- What is the role of information availability in such negotiations?

- How does communication affect the negotiations on TIF?
Experimental design (1) - Hypotheses

In contributions and program to be developed:

1. Municipalities provide higher contribution to pre-investment if more social housing is included in program.

2. Private developers provide higher contribution to pre-investment if more expensive housing is included in program.

In information availability and communication:

3. If information on payoff structures is available, negotiations will be more efficient and will result in better balanced public and private contributions.

4. If communication is allowed, negotiations will have a greater chance to result in an agreement and will result in a better balance between social and expensive housing in development program.

Layers: Municipality & private developer played by:

Area development professionals

Students urban planning (control group)

Negotiation:

Housing program; mix of social and expensive housing

Financial contribution to pre-investment

No agreement: no TIF and no profit

Settings:

- Limited Communication
- Open Communication
- Closed Information
- Revealed Information

Municipality

Public Benefits from expensive housing
Public Benefits from social housing/unit

Private developer

Development costs/house/unit

Selling price/unit of expensive housing

Selling price/unit of social housing

TIF outcome

Total house can be developed

Limited communication

Open communication

Revealed information

Closed information

TIF outcome

Tax Increment Financing of expensive housing

Tax Increment Financing of social housing
Round 1

Round 2

Closed information

Revealed information

Limited communication

Open communication

Communication influences number of agreements, especially for closed info, why?
Players choose to share info through communication
If info is revealed, communication becomes less important

Elements (students; limited communication)

Results in round 2 through learning:
Negotiations: better accustomed to TIF, negotiation setting and procedure:
"Easier if you are more accustomed to the negotiations’"

Bids in total, for successful and unsuccessful negotiations

Revealed info limits amount of bids in negotiation

Low amount of bids revealed info can also be ascribed to player strategy:
Strategy: wait until there are only 10 seconds for negotiation, cause then the opponent needs to accept to prevent him/her from getting nothing”.

Average number of bids total
Average number of bids success
Average number of bids no success
Average profits of players

Negotiations do not commonly end up in equal profits. In general, open communication brings profits closer together. However, only open communication - limited info, profits really approach each other. Why? Participants often decided to share information voluntarily, leading to better relations and results than in ‘forced’ revealed info setting.

Program remains similar, but municipality decreases contribution. Revealing info strengthens negotiation position of municipality. Social housing increased if communication allowed:

Municipality aim more at developing social housing, than gaining profits: “I have tried to develop social housing as much as possible, while preventing to get a loss on the development”
Hypothesis 1: Municipalities provide higher contribution to TIF pre-investment if more social housing is included in program. Contributions municipality considerably higher than private developers. No direct relation between higher contribution and more social housing. Municipalities cut profits for social housing → willing to invest in more social housing.

Hypothesis 2: Private developers provide higher contribution to TIF pre-investment if more expensive housing is included in program. Private developers seek profit, i.e. return on investment. Developers only increase their contribution to reach an agreement: developers do the necessary minimum to please municipality. Agreement developers contribute less; get a profit equal or higher than municipality. Inverse hypothesis also rejected: private developers do not lower contribution if less expensive housing is included.

Results: hypotheses (2)

Hypothesis 3: If info payoff structures available, (1) negotiations are more efficient and (2) will result in better balanced public and private contributions. (1) confirmed: players need less bids to come to an agreement. Known profit margins reduce trial-and-error in negotiation. (2) unclear: if revealed info contributions better balanced than closed info, but only in open communication the contributions become more or less equal.

Hypothesis 4: If communication allowed, negotiations have greater chance to result in agreements and have better balance between social and expensive housing. Open communication positively influences chance to reach agreement. Amount of social housing is considerably higher in open communication setting.
Communication helps to establish social housing programs, but at the expense of municipal profits. Information sharing can speed up negotiation processes and cut down TIF transaction costs, but practical limitations to open-book negotiations (competition-sensitive info!)

Two-fold objective (economic and social) of municipality in TIF provides private developers opportunity to reap benefits from public investments.

Recommended research into:
- Structured assessment of different TIF models (experiment only one TIF model)
- Guarantees and safety precautions in TIF (deal-makers and -breakers)
- Role of communication on negotiation strategies in area development

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