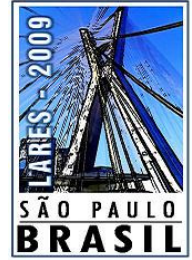




# LARES 9<sup>a</sup> Conferência Internacional da LARES

REAL ESTATE E OS EFEITOS DA CRISE FINANCEIRA



## Passage Roads in Megacities: the case of Dr. Zuquim Street in São Paulo, Brazil

### Ruas de Passagem em Megacidades: o caso da Rua Dr. Zuquim em São Paulo, Brasil

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#### ABSTRACT

The typology of Passage or ‘Drive Through’ Roads is common in large cities, where they were originated as local avenues and evolved to structural traffic arteries, with citywide influence. These roads present in most cases good quality infrastructure and it would be in the public interest to see these properties used efficiently. However, in many cases a decadence of the properties along these roads is noted, and the research aimed to verify possible causes for such decay. The approach of the research was to understand the points of view of public and private players for the lack of investment often verified, and possibly identify common causes. For most main arteries of São Paulo, the zoning regulation and fragmented lot structure were the most frequent justification on the private side, which also applies to Urban Regeneration Projects in general. Special preoccupation with return and building occupancy in the long run was detected. For a specific road in a secondary location, low demand and land prices were cited as possible justifications. Investments in these locations appear to be subject to the initiative of local developers and investors, as most large players clearly favour already consolidated areas. From the point of view of public authorities, such roads have adjusted to a low income retail market that works normally, despite their visual aspect. In fact, surveys and interviews identified that, despite the perceived lack of investments, some economic activity does take place, even though in a slow pace. These new developments apparently respond to the land use taking place in the surrounding area. Further research should address long term monitoring of similar roads, especially if subject to public intervention; case studies of particular roads; observation of pedestrian, bus and car behaviour and consequent generation of urban design proposals.

## RESUMO

A tipologia “Ruas de Passagem” é comum em grandes cidades, onde foram originadas como avenidas locais e evoluíram para vias estruturais de grande alcance e influência. Essas avenidas apresentam boa infraestrutura na maioria dos casos, e seria de interesse coletivo que os imóveis distribuídos ao longo dessas vias fossem utilizados de forma eficiente. Porém, o que se nota em vários casos é um cenário de decadência de tais imóveis, e a pesquisa visou detectar possíveis causas para tal cenário. O enfoque da pesquisa foi obter pontos de vista de agentes públicos e privados, buscando as razões para a falta de investimento por vezes verificada, e possivelmente a identificação de causas comuns. Para a maioria das artérias viárias de São Paulo, o zoneamento e a fragmentação da estrutura fundiária foram as justificativas mais frequentes do ponto de vista privado, motivos aplicáveis também a Projetos de Regeneração Urbana em geral. Preocupação com o retorno dos projetos e a ocupação futura dos edifícios no longo prazo também foram citadas. Com relação a uma rua específica em localização secundária, baixa demanda e preço do terreno foram citados como justificativas possíveis. Investimentos nessas áreas parecem depender da iniciativa de empreendedores locais, uma vez que as maiores incorporadoras claramente preferem regiões consolidadas. Do ponto de vista do Poder Público, tais avenidas se adaptaram a um uso comercial de baixa renda que, apesar do aspecto decadente, têm funcionamento imobiliário normal. De fato, levantamentos de campo e entrevistas mostraram que, apesar da aparente falta de investimento, atividades econômicas acontecem, mesmo que em ritmo lento. Esses investimentos aparentemente têm abrangência local, respondendo ao padrão de uso que ocorre nas imediações. Sugestões para pesquisas futuras são o monitoramento de avenidas similares, especificamente se sujeitas a intervenções públicas; estudos de caso de ruas específicas; observação do comportamento social de pedestres e motoristas de carros e ônibus e consequente geração de propostas de desenho urbano.

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## **1 INTRODUCTION**

São Paulo is the largest city in South America, with a total population estimated in 10,886,518 (IBGE, 2007) with another 8,699,747 (Emplasa, 2007) in the metropolitan region that comprises further 38 cities.

The city developed as an industrial economy, but lately the service sector is predominant, with 62,5% of all jobs in this sector, being the rest in the industrial sector. (IBGE, 2005)

Despite being economically active, the metropolitan region suffers from problems that are common to urban regions that developed fast with no planning: high crime rates, traffic congestion, pollution and income concentration.

Over the past 20 years, the city growth relied on the expansion of the urban limits, which sprawled to suburbs and metropolitan towns. Conversely, the CBD had a decrease in its population, even with better infrastructure and supply of jobs. As the outer rings do not share the same infrastructure, its population require long commutes, which generate increasing traffic congestion, a situation that can hardly be solved by building additional roads.

### **1.1 Efficiency of Transport Infrastructure and Housing In The Centre**

The initial approach to the research is the apparent opportunity to solve two important issues relating to the infrastructure of the City by connecting them in a comprehensive urban plan:

- Firstly, the availability of cheap housing in the City Centre, as well as the existing plans to renovate it through tax incentives to final occupiers
- Secondly, the low use of road, transport and metro infrastructure in peak hours towards the North in the morning and South in the evening

The assumption is that, by stimulating office and retail activity in the North Zone, thus creating new jobs, it would be possible also to encourage people to move to the Centre and create further activity beyond regular weekday work hours. This would also provide a more efficient use of the transport infrastructure already available that connects the North Zone to the Centre. Finally, the plan would promote the creation of local jobs, decreasing commutes off North Zone in peak hours.

### **1.2 Elaboration of the Hypothesis**

The research aimed to investigate the attractiveness of the North Zone for investors and developers for the creation of a new commercial property location in São Paulo. Likewise, it attempted to investigate the way that public authorities look at the North Zone both in terms of Urban Planning and its strategic importance to the City as a whole.

A specific subject was chosen. *Rua Dr. Zuquim* (translated as Doctor Zuquim Street) is a major connecting street that links the local CBD (*Santana*) to the upper part of the district. It is surrounded by two residential neighbourhoods and contains a series of small, low rise residences

among some larger properties and other uses in a smaller amount. The tract chosen for analysis contains approximately 1.2 km of extension.

Such road was chosen due to its proximity to a metro station, availability of large parcels of land and/or derelict buildings along its course, flexible zoning (however limited in terms of potential), low density and proximity to middle class neighbourhoods. It is also a ‘passage’ or ‘drive-through’ street, a typology that is common to most sizeable cities and a tentative diagnosis for their situation is sought after. This typology, as a convention, will be referred to as Passage Roads in the text to follow.

Hypothetically, these features indicate that Dr. Zuquim St. is an example of a place fit for welcoming new commercial development (such as call centres or back offices), thus generating new jobs while stimulating the use of the metro more efficiently and the existing housing infrastructure in the City’s historical CBD.

*Hence the hypothesis:*

‘If zoning codes are flexible and a planning proposal makes sense for a city, both financially and socially, then the preference of developers for increasing density in established areas, rather than developing new centralities, is the reason why some good quality existing public transport infrastructure becomes underutilized.’

A series of objectives was proposed for this research, listed below:

1. To characterize current uses and determine the amount of underutilized spaces in *Rua Dr. Zuquim* available for (re)development and the potential for renovation
2. To assess current land values in the surrounding district – aiming to confirm that prices in Dr Zuquim Road are lower than similar function roads located nearby.
3. To demonstrate if expropriation and future development would be in the interest of the municipality and society in financial terms
4. To collect opinions about the redevelopment of the road from market players including: developers, tenants, public authorities, real estate brokers, urban planners and transport authorities.

## **2 LITERATURE REVIEW**

The following topics were researched under the existing literature.

### **2.1 Urban Change**

Brazilian literature on urban change, taking the property market in consideration is practically non-existing. This connection has only recently been established due to increasing professionalism of the development market and property consulting. However, previous attempts of explaining the conformation of cities due to the operation of the property market have been made, mostly in the light of a Marxist approach in the same way pointed out by D’arcy and Keogh (1995) when they mention the works of Harvey (1982; 1985); Luithlen (1992, 1993, 1994) and Massey and Catalano (1978). (Campos Filho, 1999; D’arcy & Keogh, 1995; Kara José, 2007)

Other difficulties in analyzing the Brazilian literature, particularly with regard to the location chosen, was the limited number of works found and, in these, a lack of proper referencing and structure to the research documents. Consequently, particular attention has been paid to the work of a number of European writers in developing a conceptual context for the urban regeneration activity with which this dissertation is concerned.

## 2.2 Evaluation of Urban Regeneration Projects (URPs)

Urban regeneration is a relatively recent subject in terms of academic records. The initial attempts to create an analytical methodology for the problem are about half a century old, even though *URPs* have been active for centuries if we consider the reconstruction of cities due to fire and war.

These primary and very rational attempts advocated that proper evaluation of *URPs* must take into account not only the ‘hard’ aspects of it, such as roadwork, expansions, rezoning and expropriations, but also the measure of ‘soft’ benefits a given project brings along. In this sense, items such as the creation of new jobs, better security, health and traffic conditions and aesthetic improvements through landscaping and urban design should also be taken into account in the overall economic evaluation of an *URP*. All these aspects should come together in a Planning Balance Sheet, which ultimately will result in a Net Output. Lichfield (1964) *apud* Lean (1969)

An implication of evaluating an *URP* in economic terms is the possibility of double counting the benefits, which causes the evaluation to be also a matter of subject consideration. For example, when a project causes a decrease in the number of traffic accidents, it should also be reflected in savings in public health and insurance costs. Gains in efficiency due to more fluid traffic condition is also another benefit that is hard to measure in economic terms, but does have an impact on pollution levels and workers efficiency. Double counting is therefore a problem found in the evaluation of regeneration projects. Lichfield (1964) *apud* Lean (1969)

The theory of urban regeneration is, therefore, a discipline that will always carry a certain degree of imprecision due to the tangible and intangible factors involved. During the planning phase, such imprecision implies a certain degree of flexibility, not only of perimeter but also of scope of uses, allowing for a smooth connection with the market forces and trusting their capacity of efficiency increase. It has been suggested that the assessment of economic value would be enough for a reasonable evaluation, with the underlying assumption that the intangible factors will eventually affect the tangible ones. Under this assumption, the value of a project is its cost, which allows for comparison with other projects. (Lean, 1969)

Finally, an urban redevelopment master plan must be dynamic, in the sense that it should comprise a series of smaller scale development plans which are interconnected and changeable over time, due to market conditions and the evolution of the project in face of the actual conditions found during its implementation Lichfield (1964) *apud* Lean (1969)

## 2.3 Urban Change and Regeneration Analysis

According to Adair *et al* (1999), urban regeneration can be considered:

*“The process of reversing economic, social and physical decay having reached the point where market forces alone will not suffice”.*

Historically, governments in the U.K. have been encouraging urban regeneration initiatives since the housing legislation of the late 1960s and early 1970s, followed by the inner urban areas act of 1978. After the election of a Conservative government in 1979, the guiding philosophy of urban planning was to stimulate urban regeneration through radical public intervention including

*“pump priming finance, infrastructure and removal of supply-side constraints on the development process”* [(Healey, 1991; Jones, 1996 *apud* Adair *et al* (1999))].

The instruments created for the management of such view were the Urban Development Corporations (UDC) and the Enterprise Zones (EZ). Their main focus was to promote property-led redevelopment, with a focus on the economic aspects of the intervention and little concern for its social aspects, which meant high profile physical interventions such as the London’s

Docklands, Salford Quay and Liverpool's Albert Dock. (Adair *et al*, 1999) A critical assessment of this kind of intervention, classified as 'property-led development' was made by Turók (1992), who advocates that expectations must consider broader implementation conditions that include expanding economy and existing constraints in established locations.

Unless the local population has the proper training or skills to benefit from improvements brought by physical regeneration projects, it is unlikely that their economic condition will improve. Jobs brought by the construction work are temporary, and it is necessary that the workers who remain in the location receive proper qualification as well. As a consequence, it is more likely that only local moves occur, transferring the economic burden to the location that was left behind, and '*undermining city wide coordinated strategies.*' (Turók, 1992).

On the corporate side, previously poor constructions might indicate poor performances. Better buildings and infrastructure increment staff retention, image and working efficiency, but if activity remains low, it will become even more difficult for firms to stay in business due to increased occupation costs. (Turók, 1992)

The revision of property-led urban philosophy occurred from the early 1990s, when the focus shifted to a more holistic approach to planning that included increased citizen involvement and the formation of efficient partnerships between public authorities, private developers and investors and community groups. (Adair *et al*, 1999)

### **2.3.1 Investor Behaviour and Urban Regeneration**

Adair *et al* (1998) and Adair *et al* (1999) devised a method to analyze the investor behaviour in *URPs*. These works defined some of the basic indicators that investors generally analyse in this kind of project.

In England and Wales, the main concern for investors when analyzing regeneration projects is the 'perceived total return'. While *URPs* are thought of as carrying higher degrees of risk, investors tend to analyze them similarly as for ordinary development projects, even though there can be some risk adjustment reflected on the expected return.

In these countries, the participation of the public authorities in organizing and promoting *URPs* are valued by private investors and developers as most effective when grants are involved, as opposed to tax breaks. The participation of major private investors in *URPs* increased during the 1990s, when this type of project was encouraged by agencies such as the English Partnerships, which managed grants and were less dependent on the market situation, which at the time was at a downturn. (Adair *et al*, 1999)

Following similar criteria as those devised by Adair *et al* (1999), the work of Nappi-Choulet (2006) detailed the investor behaviour towards *URPs* in France. There, projects were coordinated by the Caisse des Dépôts et Consignations, of the Direction du Renouvellement Urbaine (CDC). Considering the regeneration experiences in the Paris region, three factors arise as fundamental: (i) availability of information; (ii) capital constraints and (iii) market trends. (Trache & Green, 2001 *apud* Nappi-Choulet, 2006) It has also been observed that in these projects the pioneering investments were carried out by small local companies and private funding was difficult due to the small number and scale of projects. On the public side, the guidelines for the French *URPs* were: (i) crime reduction; (ii) job creation; (iii) economic development and; (iv) urban regeneration.

It is interesting to note that both in England and France, regeneration initiatives started with speculative projects: Canary Wharf and Bercy Metro, respectively. (Nappi-Choulet, 2006)

Further implications of the operation of the property market arise as important regulators of urban change. It is the case of markets where brokers and consultants are highly involved in transactions, in which owners and occupiers tend to be more easily influenced by ‘herd instinct’. Another case is to consider the relative positioning of actors with regard to their market function. An owner-occupier, for example, may choose to remain in an obsolete building, presenting a constraint to urban change, even in the face of consistent renovation of the surroundings. A similar observation can be made with regard to different types of investor, which tend to value a property or project differently. Therefore, urban change is conditioned also to particular physical, institutional and legal structures of a given market. (D’Arcy & Keogh, 1995)

These different approaches for analyzing investment behaviour regarding urban change and regeneration shed lights both on common aspects of investment quality analysis and public approach and the cultural particularities of each location. The public and private approaches suggest generally adopted countermeasures to the constraints found for a given project, which can be summarized according to the Table 3-1 below:

<b>Project Constraint</b>	<b>Countermeasures</b>
Weak, volatile demand	Grant aid, rental guarantees
Poor tenant covenants	Rental guarantees, financial support for tenants, tax relief
Few large development lots, complex patterns of land ownership	Land assembly and servicing
Fragile, illiquid market	Implementation of infrastructure, tax relief, financial support for tenants

Public and Private Countermeasures to constraints in *URPs* (Guy *et al*, 2002)

The work of Guy *et al* (2002) which allowed the Table 3-1 above show also a great resemblance with Adair *et al* (1999), this time calling the traditional decision making criteria ‘development culture’. However, even coming to a well defined set of criteria, the authors are aware that portfolio construction cultures and the way that grants in general are priced are unique and the study may show a possible imprecision.

### **3 METHODOLOGY**

Due to the lack of literature support for local issues regarding urban regeneration, particularly with regard to Passage Roads, and even more particularly to the North Zone of São Paulo, primary research was defined to be the main source of data, while secondary data should furnish the underlying theory in urban regeneration.

The next sections describe the strategies and methods used during the research.

#### **3.1 Field survey in *Rua Dr. Zuquim***

This strategy had the advantage of acquainting the author with the street’s environment at no cost and, before engaging on the interview schedule, to allow for an informed presentation of the situation. The survey also allowed confirming or denying perceived impressions on the market operation of *Rua Dr. Zuquim*, so that the development of the research could be made accordingly.

An additional outcome was the acquisition of phone contacts of brokers responsible for properties on sale, which were important to define the price levels of the avenue, as stated in the Objective 2. An unplanned outcome was the acquaintance with some of the street’s inhabitants which yielded non programmed interviews.

### 3.2 Interviews

With the results and proper processing of the field survey in hand, a series of interviews were then scheduled with selected market actors. Due to time and money constraints, a limit of 10 face-to-face interviews was planned (with 12 interviews being made at the end) and the following criteria were used for the sample selection:

- a. All of the interviewees should live and work in São Paulo so that interviews would not require extensive travelling.
- b. They should provide a relevant opinion on his field of work or position, having had proven prior experience.
- c. When engaged in private enterprises, interviewees should hold a decision making position in the company's structure. Preferably, their firms should use internationally recognized parameters of analysis and, if possible, have some foreign capital in their funding structure.
- d. The interviews were not intended to provide statistical evidence, given the reduced sample. However, due to the relatively small market, they should be able to indicate significant trends or descriptions of the market mechanisms that shape the city.

The interviews were structured in two blocks.

The first block included investors, developers and property-based fund managers, representing the private sector of the market. The purpose was to test the level of attention that publicly promoted *URPs* and Passage Roads receive from their organizations. By collecting the personal opinions of the interviewees it would also be possible to make a set of standard questions to check the parameters already devised by Adair *et al* (1999), allowing for a simplified quantitative analysis of results.

The second block included specialist professionals with unique experience relating to the mechanisms such as *Operações Urbanas*, which are very recent and, in terms of statistical universe, there are actually few representatives in the market that have their experience.

Therefore, the size and quality of the intended sample, compared to the size of the market, should provide a trustworthy picture of the situation regarding Passage Roads and urban regeneration from a practical point of view.

## 4 DATA COLLECTION

### 4.1 Documents and Internet: Secondary Research

#### 4.1.1 Literature Research

Most of the literature research was done at FAUUSP's library. There was an early recognition of the nature of the subject as a mostly urban planning matter, rather than a property-related one. Thus, it was a qualified place for research, containing some of the most important international journals on urban planning and studies. Besides, further internet research revealed that the retrieval of specific urban planning articles through the internet would have a cost, which was not planned.

Further document research was done with the author's own books and existing material from the MSc in Real Estate course, which also included core articles about the property industry.

#### 4.1.2 Laws Governing the Land Use in São Paulo

Current laws and regulation regarding land use in the City of São Paulo and Brazil were researched through the internet. They were also discussed in some of the interviews of Block 2.



### 4.1.3 Maps and Plans

Also the main source of literature references for this dissertation, the Faculty of Architecture and Urbanism of the University of São Paulo (FAUUSP) has a department of historical maps, plans and models. There, it was possible to retrieve a detailed map containing the topography and the historical lot structure of *Rua Dr. Zuquim*. For the purpose of the planned field survey, it was important to have a graphic representation of all existing properties within the chosen perimeter. The map was scanned, re-scaled and printed using graphic manipulation software. Several copies were generated for field notes.

## 4.2 Field Surveys

When in the field, a number of information on each property was collected according to a pre-designed form, so that three basic features: (i) current use; (ii) state of conservation and; (iii) construction height could then be transferred to a graphic language and shown to prospect interviewees. Three maps and a spreadsheet containing all numerical data were then generated, which allowed for the elaboration of graphs and further quantitative analysis of the street, included in the next chapter.

## 4.3 Face-to-Face Interviews

### 4.3.1 Contact and Scheduling

A standard method was used for contacting and scheduling the face-to-face interviews, which is described below.

An e-mail with a reading confirmation request was sent to each interviewee, containing (i) a brief presentation of the author, (ii) the subject matter, (ii) a sample of the questions to be made during the interview and (iv) a PDF file of the presentation letter provided by The College of Estate Management. A few days later (according to what was suggested in the e-mail), a direct call was made to the prospect interviewee for the arrangements of date, time and place. A total of eight (66,7%) interviews were arranged this way. Other two attempts, one with a local broker, another with a local property owner of great parcels of land, yielded no results.

Two casual, non programmed interviews were made opportunistically during the field survey (a property owner of *Rua Dr. Zuquim*) and a visit to the Prefecture (a public officer).

Finally, two interviews were scheduled directly by phone: the mass valuer, that was already of the author's acquaintance and a public officer, appointed by the mass valuer.

Following the interview, a thank you note or call was made a few days later.

The interviews were recorded, whenever possible (all but one interview). As they were conducted in Portuguese, two processes were necessary: the transcription and translation to English. Considering the objective character of the research, no consideration was made with regard to psychological reactions by the interviewees.

### 4.3.2 Interview Formats

The interviews with the first block (investors, developers and property-based fund managers) were semi-structured and generally started with a brief introduction to the subject by the author, followed by general impressions by the interviewee. Next, if the interviewee allowed extra time, six standard questions were made so that there was a possibility of a simplified quantitative analysis to follow. Sometimes repeated topics already discussed were developed further if there was opportunity.

As for the second block, the format of the interview was open, even though the main topics were shortlisted by the author prior to each interview. Also in this case the interviewees were very receptive and allowed the necessary time for all desired topics to be explored.

Two of the interviews of the second block were not recorded as they started as casual conversation with a property owner and a public servant and evolved to relevant aspects of the research.

### **4.3.3 Profile of the Interviewees**

The profile of the interviewees resulting from the sampling criteria and the eventual level of response generated the following sample:

#### **Interviews of Block 1**

*Interviewee 1 (I1-1)*: Associate director of the local branch of an American property investment and development company. Her background is in property consulting and valuation. The company is currently structuring a private equity fund in order to invest predominantly in logistics oriented building.

*Interviewee 2 (I1-2)*: Project Manager and Development Director of a Brazilian company listed in the São Paulo Stock Exchange (Bovespa). Also formerly acting as a consultant and valuer, now focus on the analysis and development of residential, office and mixed use projects. His company has original Canadian capital in its structure.

*Interviewee 3 (I1-3)*: Partner and Chief Operating Officer of a property investment company, listed in Bovespa with original American capital. The company has a focus on commercial property of diverse uses and analyses only build to suit and sale leaseback (non speculative) projects, and has a specific experience on call centre development.

*Interviewee 4 (I1-4)*: Partner and Chief Investment Officer of a property investment company, listed in Bovespa with original American capital. The company has a focus on commercial property of diverse uses (especially offices) and is involved both in speculative and non speculative projects. The company has also a development activity.

*Interviewee 5 (I1-5)*: Partner in a property based fund (private equity) management company with original American capital. The company has a focus on commercial property of diverse use and is involved both in speculative and non speculative projects.

*Interviewee 6 (I1-6)*: Managing Director of a property based fund management company, with original capital from an investment bank of the same corporate group. The interviewee has special experience in the Brazilian format of real estate investment funds (Fundo de Investimento Imobiliário – FII).

*Interviewee 7 (I1-7)*: Project manager of a commercial property investment and development company, a spinoff of the largest residential developer in Brazil. The company is especially active in high class office projects in the main locations of the São Paulo office market.

#### **Interviews of Block 2**

*Interviewee 5 (I2-1)*: Retailer and Property owner in *Rua Dr. Zuquim*.

*Interviewee 1 (I2-2)*: Architect, Development Analyst of the *Operações Urbanas* Department of Emurb, a company owned by the Prefecture of São Paulo that coordinates major urban development projects.

*Interviewee 2 (I2-3)*: Engineer specializing in valuations, partner in one of the largest valuation companies in Brazil. Also a member of several professional bodies relating to engineering, valuation and community development.

*Interviewee 3 (I2-4)*: Architect of the Secretariat of Urban Development of the Prefecture of São Paulo, was actively involved in the structuring of *Operação Urbana Água Espraiada* and the elaboration of the *Plano Diretor Estratégico* (Municipal Masterplan) of São Paulo.

*Interviewee 4 (I2-5)*: Owner of the largest real estate brokerage company in the North Zone of São Paulo.

#### 4.3.4 Analysis of Interviews

The analyses, both quantitative and qualitative, were made according to the answers given to six standard questions asked to the interviewees, in the second part of the interviews of Block 1. Such questions were partly based on the studies by Adair *et al* (1999) and partly aiming for an ‘official’ diagnosis, by the interviewees, of the situation of *Rua Dr. Zuquim*.

The quantitative analysis carried out was rather simple, due to the size of the sample, consisting basically on the frequency of response to a specific item. As the interview suggested some possible answers but was open to particular views, alternative answers were often given. Thus, they were tentatively grouped in connecting topics so that critic comments could be developed.

Qualitative comments were then made with regard to such topics. As a consequence, similar or connected aspects of the decision making criteria appeared in different questions and this was used to reinforce some of the perceived tendencies. The two analyses are condensed in this paper due to length constraints.

The questions are reproduced and explained next.

*Question 1*: Does the strategy of your company include investments in *URPs* or in redeveloping areas?

The relevance of the question lies on the fact that, in the context of São Paulo the history of publicly promoted *URPs* is still recent. However, it also includes the investment in places such as Passage Roads like *Rua Dr. Zuquim* or Avenida Santo Amaro.

*Question 2*: What is your motivation for investing in *URPs*?

This question is basically aimed at the interviewees that responded positively to the first question and was followed by some suggestions for decision making criteria such as return, above the market return, institutional image, establishment of local presence and expertise in a specific area.

*Question 3*: What would make you consider investing in *URPs*?

This question is aimed at those who answered negatively to the first question, but it also mentions other motives for those who responded positively, so that they could develop the subject further.

Among the items, the following were discussed:

- |  |   |
|--|---|
| a. Fiscal or Tax Incentives                      | f. Public Investment                              |
| b. Grants  | g. Partnership with a local expert or developer   |
| c. Project Scale                                 | h. Prelease or presale (non speculative projects) |
| d. Availability of positive market information   | i. Presence of competitors in the location        |
| e. Specific Project of Law by Public Authorities |   |

Question 4: What is the average length of investment retention by your company?

This question aimed to determine if the company had a short or long term view of investment strategy. Initially it was proposed that ranges (for example: ‘from 2 to 5 years’) were indicated by the interviewees. However, as suggested by I1-1, the question was changed to proposed lengths in the format ‘up to 2 years’, ‘up to 5 years’, ‘up to 10 years’ and ‘more than 10 years’.

The length of investment retention is an indicator of the willingness of the company to realistically consider the potential of an area that is still to be redeveloped, rather than focusing in consolidated areas.

Question 5: When is your preferred market cycle phase for investment?

This question, even though proposed for general investment, aimed to determine the behaviour of investors with regard to regeneration projects, i.e., their willingness to invest in periods of undetected demand, still to materialize.

The possible answers were: upturn, downturn and stability, but additional comments were often made by the respondents.

Question 6: What is your diagnosis for the situation in Avenida Dr. Zuquim?

This question was followed by some likely motives to be pointed as reasons for the decay of *Rua Dr. Zuquim*, such as:

- |   |   |
|---|---|
| a. Urban Design                                     | f. Area is not acknowledged as adequate for offices and shopping centre |
| b. The fact that it is a passage street             | g. There are no competitors in the region                               |
| c. There are consolidated areas with available land |   |
| d. Presence of the bus                              |   |
| e. Does not know the area                           |   |

The question also explored if the interviewee knew or did not know the location, so that some insight on its attractiveness could be drawn from the answer.

Of particular importance, this question allowed the connection of all aspects of the research, in particular the investment in alternative areas and Passage Roads.

## 5 ANALYSIS AND PRESENTATION OF EVIDENCE

### 5.1 Field Survey

The field survey was conducted in the beginning of the research process, right after the lot structure maps were acquired sometime in October, 2008. Monitoring of the information was done through calls to brokers of properties on offer at the survey date, which happened only in February, 2009, so that changes could be detected.

The following sections describe the situation found in *Rua Dr. Zuquim* with regard to building use, state of conservation and building height. Due to their size and formatting criteria, the maps were not included in this paper.

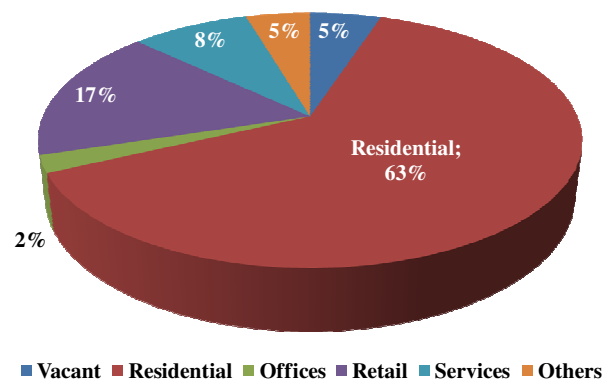
#### 5.1.1 Building Use

The map shows that residential use is predominant in the area, followed by retail. The expected result was of a higher number of vacant buildings. Even so, the predominance of residential use which could indicate, in theory due to the busy condition of the area, that current occupiers would be willing to relocate. This would present an opportunity for land assembly.

Another important aspect is that the availability of vacant land was lower than expected. One reason is that a large parcel of land was left outside the defined perimeter and was not included. For reference purposes, such site has approximately 12,400 m<sup>2</sup> and has been recently sold, according to local dwellers, for a build to suit project that will render a hypermarket premise.

The Graph below shows the participation of each use:

Graph 1



Land Use in Rua Dr. Zuquim (Author's own, 2009)

The survey detected that 5% of the properties were vacant (a total of 21 units in the whole perimeter and 9 in *Rua Dr. Zuquim*). Besides this, a total of approximately 8,900 m<sup>2</sup> of empty or scarcely built land was identified so that new developments could take place. Considering a building potential between 1,5 and 2,5 times the land area, according to the zoning in each tract of the avenue, a total of about 17,600 m<sup>2</sup> of new construction could be built without the need of land assemblies.

### 5.1.2 State of Conservation

The survey could only detect the external conditions of most buildings, and the following criterion was used:

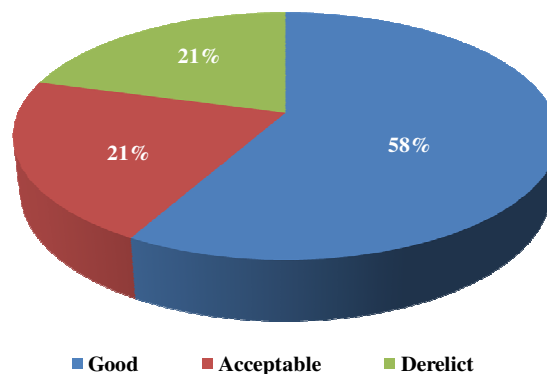
*Good State of Conservation*: relatively new paint, all constructions solid, all windows with glasses, gates operational, no signs of invasion.

*Acceptable State of Conservation*: all constructions solid, all windows with glasses, some signs of deterioration (roof tiles missing, damaged gate, old paint, graffiti) or abandonment.

*Derelict*: Flaws in the building walls or structure, windows with broken glasses, graffiti, signs of invasion or abandonment, damaged doors or gates.

The Graph below depicts the proportions found for each state of conservation:

Graph 2



State of Conservation of buildings in Rua Dr. Zuquim. (Author's own, 2009)

The graph shows that most buildings are in good condition. Even so, the number of derelict buildings is still high (a proportion of 21% of total buildings), and the acceptable are in similar quantity.

This situation reveals a lack of investments by owners and occupiers in 42% of the sample, which is considerably higher than expected in neighbourhood streets. The results confirm the perceived situation.

### 5.1.3 Building Height

This analysis is justified by the assumption that low rise buildings are easier to buy out or expropriate so that land assembly can be made more easily. The expected situation was that most buildings were houses or duplexes, which was confirmed in the survey.

The criterion for analysis was to segregate the buildings according to a height range, composed by ground floor plus a number of additional typical floors. The confirmation of a majority of low rise buildings is assumed to be another indication that a land assembly process in this area would be easy. The explanation is that, due to the low cost of constructions, it would be easy for developers to buy properties for a value close to the actual land value.

### 5.1.4 New Developments

Four important new developments and activities were detected, which also denies partially the initial perceived situation of absence of investments.

Besides the already mentioned (i) build to suit hypermarket project in a 12,400 m<sup>2</sup> site (despite being outside the study perimeter), a (ii) new tapestry shop was opened, a (iii) residential

multifamily tower is planned for launch in the next few months and (iv) a 1,400 m<sup>2</sup> site sale transaction took place recently. These projects are identified in the map in APPENDIX D with the numbers below:

- i. The already mentioned build to suit hypermarket project is being developed in a site previously used as a complex of tennis courts, as informed by the complex manager consulted in the date of the survey. During this consultation, the manager explained that the access to the premises will not be from *Rua Dr. Zuquim* but from an avenue still to be built, at the current back of the site. This project is explained in the Interviews.
- ii. It was possible to consult briefly with the manager of the tapestry shop. He explained the location choice by considering that the surrounding area is a dense middle class residential area and that most inhabitants drive through *Rua Dr. Zuquim* on a daily basis. The project includes a large frontage to the street and generous parking, which provides visibility to the business. No information could be collected on the price paid for the land. During the survey, the shop was still going through preopening procedures but as of February, 2009, it is already operational.
- iii. The multifamily residential tower will be built on a 4,500 m<sup>2</sup> site, according to the broker responsible for the presale of units. The developer (Goldfarb) is known for their low income housing projects. The proposed 2 and 3 bedroom units are designed to have privative areas of 72 and 85 m<sup>2</sup> approximately. The selling price will be between R\$2,800 and R\$3,000/m<sup>2</sup> privative. It is still to be launched to market.
- iv. Another broker informed about the recent transaction of a building that had been empty at least since the beginning of the research. Formerly a bakery, the site has 1,400 m<sup>2</sup> and was sold for R\$1,500,000 – a unit value of R\$1,071,43/m<sup>2</sup>.

## 5.2 Analysis of the Interviews

### 5.2.1 Question 1

The attractiveness of *URPs* presents a relative balance among the interviewees of Block 1. According to the Table 6-2 below, 42,86% of the sample (3 interviewees) favour the development of such projects, all of them having participated or currently participating in one.

The justification for those not attracted to *URPs* (57,14%; 4 interviewees) lies greatly in the fact that these are considered risky projects, and there is availability of land and projects to be carried out in consolidated areas.

### 5.2.2 Question 2

According to the interviews, the main motivation for investing in an *URP* is the expected Internal Rate of Return (IRR). For 71,43% of the interviewees it is a decision making criteria, while for I1-1 and I1-2, the expected return should be higher than the returns expected for ordinary development projects.

I1-2 details his criteria by saying that an ‘above the average IRR’ is important in projects of long maturation, while the return could be lower for short length projects. I1-1 is more specific, declaring that the return should be at least the double in the case of *URPs*.

It is important to comment that the element of ‘risk’ was frequently mentioned during the interviews, even if expressed differently. Some of the interviewees indentified what could be the risky elements to *URPs*, represented by:

- a. The fragmented lot structure, which causes the land assembly process to be slow and demands a great deal of management time for bureaucratic actions (I1-1, I1-3, I1-4). The final assembly is not guaranteed, and often there are requests of bribery by notaries and public servants. (I1-3)
- b. Tax grants could be easily suspended after the next elections by the new public administration. (I1-1)
- c. Cultural lack of continuity of infrastructure projects due to changes in political leadership (I1-3)

Thus, however not mentioned by all interviewees, the reference to the IRR may in fact mean the 'risk adjusted' IRR. It is evident with I1-4:

*"The return has to be adequate to that specific market, and the perceived risk may be higher than in consolidated office areas."*

The concept of consolidated areas was explored in the interviews in a number of ways by the interviewees. One of the strongest concepts, cited by I1-1, I1-4 and I1-6 is 'demand' which, according to them, must be clearly identified in market studies so that an investment decision can be made. However, the concept of demand can also be noted when companies declare that they would not invest in speculative projects. In other words, this means that the demand (the occupation of the premise and consequent generation of income) must be guaranteed by a build to suit or a sale leaseback contract' perceived as legally stronger documents. This is mentioned by I1-1, I1-3 and I1-7.

The I1-2, a pure developer, is more concerned with 'creating the demand', in the sense that a redeveloping area is an opportunity for future gains. In his words:

*"Investments (in URPs) are analyzed as opportunities, places where today there is no demand and we can buy cheap and go for some appreciation through the phasing of the development."*

The 'institutional image' aspect yielded two responses (28,57%), however both actually referring to green building projects, which from now can be considered a benchmark for high profile corporate buildings. A project mentioned by I1-3 is more solid in a broader aspect of institutional image and includes social improvement besides the technical aspects of construction and market.

The establishment of 'local presence' in a different market and 'expertise in a specific area' were not cited by any of the interviewees.

### **5.2.3 Question 3**

The reasons that would lead the interviewees of Block 1 to invest in URPs were explored both spontaneously and by stimulated response. Two aspects arise as most important for the interviewees.

First, 'Fiscal and Tax Incentives' were mentioned by four (57,14%) of the respondents. This kind of incentive is popular in Brazil as many cities, in order to compete with others, adopted a policy of reducing tax for the Tertiary sector (services). Well known examples are Santana de Parnaíba and Barueri, in the Metropolitan Region.

Fiscal and Tax Incentives are also a current discussion because a high profile, publicly promoted URP (Nova Luz, in the central district of São Paulo) offers tax reduction for companies that choose to relocate to the area. This project apparently was seriously considered by most of the interviewed companies' representatives, as I1-3, I1-4 and I1-6 mentioned having studied non speculative investments in the area.



Finally, as tax incentives reflect on the operational costs of the future tenants, there is more space for ‘rent’ (I1-4) and/or, could be argued, an increased guarantee that the tenants will be solvent during the contract term. Both situations ultimately reflect on ‘return’.

Second, ‘Public Investment’ was also mentioned in the same proportions. Although some of the answers were not very detailed, in general companies understand that *URPs* demand public participation at some level. The answers to ‘Grants’ and ‘Specific Public Project’ can be welded into the same intention as the answers to some extent reflect public investment at different levels or phases of the project.

Recalling the analysis for Question 2, the land assembly process is a role that investors and developers consider crucial that the Prefecture plays. Interviewees I1-2, I1-3, I1-4 and I1-6 mentioned at some point in their interviews that the development of Project Nova Luz has been delayed because, tentatively, the Prefecture let the investors and developers negotiate directly with land owners. This caused asking prices to rise above reasonable levels.

As I1-6 states:

*“As investors, we had a lot of interest in Project Nova Luz. But we think that there are some mistakes in the project design. We understand that the Prefecture has to facilitate the acquisition of sites by the developers. In the presented model, the negotiations have to be made directly with the current owners. If it wasn’t for this, we’d probably be there as investors, together with a development partner.”*

According to I1-3, land assembly is also a problem when, considering build to suit projects, a bidding process requires a solution in ‘eight months’. In this case, the time necessary for land assembly means losing the bid and generally the solution is retrofitting an existing building. This position is confirmed by I1-4.

Following the relevance of responses, the ‘scale of the project’ also was considered important by four (57,14%) of the interviewees. Despite giving specific answers to the level of investment required, as shown in the Table 6-4 above, it is probably more important to understand their reasoning for arriving at those numbers.

For I1-1, it is important that the investment has such a volume that, in the long run, it is possible to see some capital appreciation. For I1-5, a large volume of investment is important because, comparing projects of different sizes, the labour necessary to close the deal is basically the same. Being a fund manager, he understands that his work is more efficient if larger projects are considered. For I1-4, the level of investment has to be such that other players in the location are together sharing the perspective of return, i.e., they

*“would rather hold a small portion among many other projects than holding an exclusive position of the full project. The rationale is that it would create a new office reference in the city, causing the asset to appreciate in value in the long run, and also stimulating the presence of more sophisticated retail and services infrastructure.”*

This reasoning connects with ‘presence of other competitors in the location’. Such aspect was mentioned also by I1-1. Her rationale is that

*“somehow my competitor considered the same basic variables of my equation and maybe he saw something I didn’t. In a city like São Paulo, you can’t assume that you know the whole market. Such thing is impossible.”*

The need for well funded information and positive prospects was mentioned by I1-1, I1-4 and I1-6. However, this is an item that apparently seemed obvious for the interviewees and therefore

was not developed. The reasons can probably be drawn from other answers as, according to interviewees, perspective of capital appreciation, exit strategy of the investment and a consistent demand must be assessed prior to commitment.

#### **5.2.4 Question 4**

This question, despite being quite straightforward, was answered according to the specific characteristics of the interviewees' organizations.

For I1-1, I1-5 and I1-7, the investment period has a maximum of 10 years, which is the duration of the private equity funds (FIP, Fundo de Investimentos em Participações) in Brazil. According to this maximum duration, their strategies are established. It is important that the answers from this group varied from three to eight years, which in terms of *URPs* could be considered short term. In fact, I1-1 and I1-5 revealed no attraction for this kind of investment.

For I1-3, I1-4 and I1-7, representatives of patrimonial real estate companies, the duration of each investment is not defined, and the intention is to keep the assets until an attractive proposal arrives. From this group, the first two seriously considered Project Nova Luz, already explained and I1-3 was involved in an *URP* in Rio de Janeiro.

For I1-2, a pure developer, the objective is to sell the project as soon as possible, but he considers that each project has to be analyzed according to its own characteristics. His company is also studying Project Nova Luz.

Finally, I1-6 was involved in *URPs* in São Paulo, Rio de Janeiro and studied Project Nova Luz, despite declaring investment holding periods of three to seven years.

#### **5.2.5 Question 5**

The disposition to run the risks of an urban development project was also measured in terms of the market cycle phase in which companies choose to invest.

The only respondent that positioned partially as a risk taker is I1-2, which is consistent with a developer attitude. However, the 'demand' aspect is mentioned again.

For I1-6, the countercyclical attitude, a 'corporate culture' according to the interviewee, could also be interpreted as a risk taking position. Despite being part of a financial group, the interviewee declared interest in Project Nova Luz. He also declares having invested in redeveloping areas in central São Paulo and Rio de Janeiro, with the proper risk-mitigating mechanisms.

For I1-3 and I1-5, generally assuming investments in build to suit and sale leaseback projects, the question is not applicable, as they will only invest if the demand is guaranteed, i.e. if the building already is occupied and generating income. Even so, I1-3 is well advanced in a build to suit project in Projeto Nova Luz.

For I1-4, the answer considered the current global economic crisis and can be interpreted as a 'wait and see' attitude.

Interviewees I1-1 and I1-7 prefer a stable market, which is also consistent with a more conservative policy already declared in other answers.

#### **5.2.6 Question 6**

This question allowed an in-depth discussion about the particular topic of Passage Roads, including the opinion of interviewees of Block 2. However, the analysis is drawn from several references and these should be organized in subtopics.

a. Investments in the North Zone of São Paulo

A number of reasons were found for a lack of commercial property developments in the North Zone in general.

From a market point of view, there is preference for more consolidated areas, as has been explored previously. And the assumption that land has become scarce in these locations is partially incorrect according to most interviewees (I1-1, I1-4, I1-6, I1-7). The impression is that, even if the readily developable sites are no longer available, it is apparently preferable for developers to assemble land in locations of high demand (according to investors' judgements) than moving elsewhere. Finally, there is an implied hierarchy that puts central areas before the North Zone in terms of preference from investors. (I1-1, I1-4, I1-6, I1-7)

A more radical position is assumed by I1-7, according to a previous experience of his:

*“Forget about high class office buildings, there is no visibility, nobleness, anything. We had a site in Marginal Tietê, very visible, with good road and metro access, where we studied a back office project. But we couldn't find anyone willing to move there. We expected to develop it as a series of build to suit buildings, with low prices. We developed the project, made a marketing campaign, but had no response, whatsoever.”*

From the public point of view, the Municipal Masterplan is explicitly restrictive so that there is no pressure on Serra da Cantareira, a large mass of Atlantic Forest North of the urban limits (Prefeitura do Município de São Paulo, 2004)

According to I2-4,

*“... the Masterplan is concerned with not putting pressure on Cantareira, we really don't want the city to develop that way. On the other hand, the City recognizes that there are some traffic problems leaving and arriving there, but compared to other districts, North Zone is relatively balanced and with few traffic problems.”*

b. Investments in New Centralities

The research has shown that, in special market conditions, preference for certain locations encourage developers to initiate the land assembly themselves, despite the difficulties already discussed. Considering the additional building potential allowed for *Operação Urbana Faria Lima*, I1-7's company is in the process of assembling a site very close to the corner of avenues Santo Amaro and Juscelino Kubitschek.

According to I2-4, the Municipal Masterplan stimulates the creation of new centralities and she reveals certain resentment about the fact that developers give excessive preference to high profile locations. The case described in the last paragraph reveals to which extent they prefer to limit their role to locations of more clearly identified demand.

c. Investments in Passage Roads

In general, Passage Roads carry the reputation, among private market actors, of having limiting zoning regulation, particularly with regard to maximum allowed building height (I1-2, I1-4, I1-7). This would be one of the reasons that make investments in these avenues so rare.

Still considering a market standpoint, the interviews with I1-2, I1-4 and I1-7 reveal that such roads, despite all the appointed problems, are capable of attracting private investments. The example of Santo Amaro reveals a perverse effect of this attractiveness: the use of the avenue's lots in order to create larger sites, with the resulting project turning its back on the avenue. (I1-2 and I1-7) A probable cause of this opportunistic use of Avenida Santo Amaro is the reduced

value compared to inner neighbourhood land. In this case, the owner behaviour is no impediment for the renovation of the avenue, despite the latter being carried out in a disregarding fashion.

In another case discussed with I1-4, the investment was made in an existing building, with the expectation that a new metro station would be implemented nearby, which suggests the necessity of some kind of public intervention. But public interventions have to be analysed with caution: in the cases of Avenida Santo Amaro, Avenida Rebouças and Avenida 9 de Julho, the public investment in bus corridors has been pointed out as the cause of the present degradation of such roads. (I1-1, I1-2, I1-5, I1-6, I1-7) Specifically, the transport infrastructure of choice is the metro. (I1-3)

From a public authority standpoint, according to I2-4, the retail markets of such avenues have adjusted to the users of the bus corridors. Hers is a positive view, denoting that retailers are actually in favour and dependant on this infrastructure. On the other hand, I1-2 agrees about the balance between bus users and retailers but argues that this has brought property prices down, together with service quality.

*d. Investments in Rua Dr. Zuquim*

District main streets and avenues such as *Rua Dr. Zuquim* appear to be the last priority of professional investors and developers with regard to commercial property investments, according to the interviews. (I1-1, I1-3, I1-4, I1-6, I1-7)

According to the interviewees, the reasons for this situation include, despite all the advantages of public transportation, good traffic condition and availability of land:

- The mere lack of demand by the market. (I1-7)
- Same problems than in consolidated areas regarding land assembly (I1-3, I1-4, I17)
- The land price component is too high for the product that the location can welcome (back offices, call centers). (I1-4, I2-5) Moreover, according to I2-5, the land prices in *Rua Dr. Zuquim* are similar to the equivalent tract of Rua Voluntários da Pátria, that plays a similar transport role but has a much better image. As for the price of units, I2-5 believes that values in *Rua Dr. Zuquim* should result in approximately 10-15% less than in Rua Voluntários da Pátria.
- There are no large industrial premises that could be retrofitted to a call centre or back office operation. (I1-3)
- The doubts that brokers and owners have about the eventual expropriation necessary for the planned roadwork prevent possible transactions. (I2-5)
- The retail market is too slow to justify additional investments by the retailers and the level of activity is insufficient to sustain market rate rents. (I2-5)

*e. Urban Planning Culture in São Paulo*

According to I2-2, the urban planning culture in São Paulo is largely based on expansions of the existing road infrastructure. In her opinion, infrastructure bottlenecks are identified and, with time, the necessary expansions are included in the City's budget. However, these must also be agreed by the City Administration, which might give differing priorities to each zone.

The event of *Operações Urbanas* is, according to I2-2, the first attempt of the Prefecture to plan in advance the necessary demands of the city in the long term. However, despite having been strategically previewed in the Municipal Masterplan, the order in which the twelve planned *Operações Urbanas* are being put in practice obey mostly to a market driven expansion. (I2-3, I2-4)

This has been the case with the most successful *Operações Urbanas: Faria Lima* and *Água Espraiada*. They correspond in territorial terms to two of the most important office locations in São Paulo: *Faria Lima* and *Berrini*. Other *Operações Urbanas (Centro, Água Branca and Rio Verde-Jacú-Pêssego)* have not had the same level of adhesion by investors and developers. (I2-3)

In any case, a very interesting factor is that the Prefecture does not consider, at least in the short term, a revision in the property values that define the property tax. The explanations given by the interviewees include:

- The revision of IPTU is a very unpopular political measure (I2-4)
- The Prefecture does not have a specialized and large enough team to revise the values periodically, and the city is too big. (I2-3)

Thus, the Objective 4 of the research has little effect, as the public authorities do not evaluate public investment in the same way devised by Lichfield (1964) *apud* Lean (1969).

## 6 CONCLUSIONS

### 6.1 EVALUATION OF OBJECTIVES

The research confirmed the hypothesis that private market actors are in great part responsible for the inefficient use of existing infrastructure in the City of São Paulo. However, as detected during the research, some other factors play significant roles in reinforcing the situation.

In terms of Methodology, the proposed form of analysis of Passage Roads as potential URPs can be considered correct, as many of the aspects applicable to them were also mentioned for general URPs, such as Project Nova Luz.

The specific conclusions, however, must be drawn separately for Passage Roads in general and specifically for *Rua Dr. Zuquim*.

### 6.2 Rua Dr. Zuquim

- On a citywide level, the North Zone is considered a ‘dormitory’ by most developers and investors consulted, and its economic development is of little interest to the Prefecture. *Rua Dr. Zuquim* is a major road of the North Zone, but in a macro level its importance as a commercial street is hardly recognized.
- The interviews showed a low degree of interest from private investors and developers in the North Zone as a whole regarding office projects. As for shopping centre projects, even though the demand appears to be evident, there is no possible site in *Rua Dr. Zuquim* for such a development. As for residential projects, the prospects are better than originally assumed.
- The number of vacant properties is lower than expected, and their state of conservation is better than expected, when considered in relative terms. The situation found in the field survey denotes a housing activity that is stronger than expected, and therefore there is less opportunities for land assembly by developers or public authorities. A small number of new investments was also found denoting that the road is not in fact ‘dead’, but moving slowly.

- The behaviour of property owners with regard to expected sales prices in Rua Dr. Zuquim is an important element to explain the small number of new investments. Apparently, the expectative of expropriation and possible improvements in the overall street's environment make owners cautious and lead them to speculate excessively on the price. However, according to the interview with a local broker, avenues in general are not being considered for commercial property development in the district, and this is a further restraint for the full development of *Rua Dr. Zuquim*.
- Another aspect to be considered is the zoning constraints. Despite being flexible as assumed initially, the total building potential proved insufficient to attract new development, possibly combined with the prices asked by the owners. Apparently, the building potential should be in excess of those available in other locations in order to attract more investments.
- All things considered, it is possible to conclude that *Rua Dr. Zuquim* has a local potential that is not being realized due to external factors such as: (i) the doubts on the expropriation process and (ii) the effects of public roadwork to take place in its surroundings. Consequently, it affects the behaviour of the property owners who otherwise would probably prefer to sell at a lower price.
- Even so, the attempted valuation of land prices in Rua Dr. Zuquim revealed that market values that would attract potential investors to the area are lower both than the ones being practiced, and the 'official' value used by the Prefecture to calculate the property tax. A possible explanation is in the expected return of professional developers and investors. On the other hand, local investors seem content with lower returns, which allow higher land prices to be paid.
- Internally, the lot structure is too fragmented and the combination with the factors above may keep local investors and developers away from this market. Again, local entrepreneurs seem to have an advantage due to the proximity to the area and the possibility to identify land assembly opportunities.
- As for large developers and investors from other locations, the interviews showed that they tend to look at more consolidated areas, where there is still a large quantity of good quality sites to explore, with a stronger demand. They also understand that before investing in commercial properties in the North Zone, they will probably (i) assemble land in consolidated areas and then (ii) look at more central locations.
- The consequence of this analysis on the use of the available public infrastructure confirms the hypothesis, even though in the case of the North Zone there is also a lack of encouragement for new developments by the Public Authorities.

### 6.3 Other Avenues

- The presence of bus corridors is a probable motive for the decadence of these avenues, as it brings low income buyers to the surrounding of each stop. Specifically to Passage Roads, the land assembly process seems to be an impediment and a shared diagnose with Rua Dr. Zuquim.
- Passage Roads were not originally designed as commercial roads like Avenida Paulista and Avenida Eng<sup>o</sup> Luis Carlos Berrini. On the other hand, they are sub dimensioned for

their present function, which makes their current urban role hard to define, having evolved from local avenues to urban transport arteries.

- The previous zoning has also been appointed as the historical factor that defined the present shape of Passage Roads. The verticalization in these avenues has been deliberately repressed so that the number of cars entering buildings would not affect the traffic flow significantly.
- Other influence of the past zoning law is that it apparently failed to prevent such expansion in traffic volume and did not forecast the need for additional lane expansion. This is illustrated in the timid recesses of the building lineup from the street limit. The current number of cars requires a large frontage for traffic reduction, associated with a good number of parking spaces, which means that most building would have to be demolished to match today's requirements.
- Traffic congestions are also elements that have to be considered in a city with so much problems relating to it. Secondary roads are now preferred against avenues for the development of office buildings, as they can provide better parking, noise and traffic conditions for the users.
- If located close to important locations, such avenues can be used as components of assembled sites if they can be bought by a reasonable price. However, the tendency is that the relation of the final development with the avenue is minimized.
- From the interviews, these avenues become a 'secondary location within the location', i.e., they become low priority investment areas unless they present some evident opportunity.
- The apparent conflict is that the current condition of Passage Roads is of low image, consequently attracting second class occupiers which cannot afford a market rate rent. Thus, a full development process is unlikely to occur at the moment under the current conditions of market and zoning law.
- It becomes evident that some public intervention is necessary to stimulate investors and developers to consider *URPs*. According to the interviews, punctual interventions tend to have little effect in the urban structure, while *Operações Urbanas* are more effective when the proper market conditions are in place. This is true not only because it encourages group action by developers but also provide the necessary infrastructure for the specific area.

#### **6.4 Public Administration**

- The *Operações Urbanas* are not treated as development projects by the public authorities. This means that a counterpart in tax collection is not immediately expected when a new *Operação Urbana* starts. Rather, the Prefecture is expecting to respond adequately to a market demand for infrastructure without direct investment other than the coordination of the process.
- It was not clear from the interviews if there is a pressure from developers and investors so that the property tax is not adjusted periodically according to property market value, which would optimize the rent element in the composition of occupancy costs. However, it was clear that a lobby for additional building potential in consolidated areas does exist.

This observation reinforces the hypothesis while it reveals an additional role of developers, not initially assumed in this research.

- The guidelines contained in the Municipal Masterplan for the North Zone demonstrates that, besides the market side of the equation, this district has also little stimulus for its economic development. As a matter of fact, the Municipal Masterplan tends to discourage investments in the North Zone so there is no development pressure on Serra da Cantareira.

## 6.5 Investment Quality Indicators

- The Investment Quality Indicators used by investors and developers differ slightly from the ones used in England and Wales, but some issues have to be considered.
- The first is the acquaintance that Brazilian entrepreneurs have with regeneration projects, which due to market functionality is much lower in Brazil. The affirmation holds true for public authorities which are still familiarizing themselves with the recently approved urban planning mechanisms of Operações Urbanas and still have not had the experience to test other available instruments.
- Among the used indicators is the risk adjusted rate of return, and in this aspect the rationale is quite similar: eventual grants received enter the equation as return components, while risks are considered to be greater than in ordinary development projects.
- Still under the ‘risk’ assessment criteria, differently from what has been reported by Adair *et al* (1999) and Nappi-Choulet (2006), developers and investors in São Paulo appear to condition their participation in URPs in a non speculative basis.
- The size of the project represents the measure of possible capital appreciation and, as mentioned more than once by the interviewees, ‘it is the same work to develop any size of project’.

## 7 RECOMMENDATIONS FOR FURTHER RESEARCH

- An evident suggestion for further research is a periodical monitoring of changes that should occur in each of the streets and avenues cited in this dissertation such as: *Rua Dr. Zuquim*, Avenida Santo Amaro, Avenida Rebouças, Avenida 9 de Julho and many others that face a similar condition: a change of use due city growth and structural changes in their design or function. Particularly to *Rua Dr. Zuquim*, there is an opportunity to monitor the changes that should occur due the new road to be implemented. This new road is intended to play a similar role as Dr. Zuquim.
- Another suggestion is the elaboration of case studies of Passage Roads that were identified as problematic by the public administration and some specific plan was devised for their surrounding location. The present research was able to identify but not explore a few neighbourhood commercial streets that have successfully altered their image using urban design interventions and community organization among users and owners. However, the majority of the largest arteries in São Paulo that were conceived as neighbourhood avenues are still to be analyzed properly. Ideally, the research should incorporate internationally recognized common practice as well as local aspects of urban planning.



- In terms of urban design, a suggestion is the observation of pedestrian, bus and car behaviour according to the quality of structural elements such as sidewalks, landscaping and signage. In order to come up with relevant proposals it is necessary that these elements are taken into account, as they reveal very specific needs and cultural behaviour of citizens in a particular area.
- In terms of community involvement, it would be interesting to study the ways by which dwellers could get organized in order to create conditions for change in Passage Roads, with the help of planning professionals and public authorities.
- As a recommendation, all research should be based on field surveys and interviews. This research indicated that misconceptions suggested by the visual aspect of problematic Passage Roads can be quite common. Even though the image may seem 'apocalyptic', it was clear in the example of *Rua Dr. Zuquim* that some economic activity was taking place and the originally assumed rejection for the residential use proved partially false.

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