

Regeneration in Old Havana and the role of Value Capture

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Research Report

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I. Introduction

The last two decades have been marked by a worldwide explosion in urban regeneration processes, with the main objective to revitalize inner city areas, especially Old Historic Centers. Among the most important causes for this renewed interest in the inner city are cultural heritage, economic and social aspects. Renovation planners have shown a strong tendency to favor diversity of uses, where the same areas will shelter commerce, housing, gastronomy and administrative functions, to improve the local vitality and generate at the same time high profitability rates. The intention to revitalize these sites, making them really competitive, has been the departure for broader development programs, and has made necessary meaningful and accurate urban land and property valorization.

A problem for these processes in the 80s and 90s has been a difficult worldwide financial situation, both from the perspective of the public and the private sectors. For instance, the fall of oil prices in 1981 and the financial situation in Southern Asia in the late 90s both had major global impacts. Over the last two decades many domestic and regional economies have found it difficult or impossible to fund the type of regeneration development programs that are clearly necessary.

In this situation, it is critical to develop new financial methods to foster urban development. The return to the value capture practice is a useful instrument to allow the collection of currency which can then be used as capital for urban regeneration projects. This practice can decrease the financial risks of working with private investors, promote the modernization of infrastructure and a better redistribution of resources, and generally contribute to achieving an efficient and equitable urban development.

The analysis of the generation and capture of urban value in Havana is an especially complex matter due to the peculiarities of the Cuban case. In what way do the issues involved present themselves in a country where the largest amount of land is owned and controlled by the state, where no land markets are legitimately recognized, and where, after decades of having a unique urban land price, it is now fixed according to administrative criteria? Something considered essential to the process in Cuba is the political will of the government officials to permit the development of a number of new legal, institutional and financial arrangements to promote an integrated policy of urban regeneration.

In Cuba, the process of rehabilitation of valuable urban areas has been visibly growing over the last decade. In secondary cities such as Santiago de Cuba, Cienfuegos, Camagüey and Trinidad, the recovery of this patrimony is showing its first achievements. It is, nevertheless, in Havana, the capital city, where the experience of rehabilitation of the historic center has become a formidable laboratory, a unique experiment within the Cuban practice.

The most significant aspects that characterize the process in Old Havana can be summarized as follows:

- Promoting a cautious rehabilitation of the old town, preserving the historic urban layout and other tangible and intangible values that are part of this World Cultural Heritage site. Contradictory as it might seem at first with a simplistic idea of conservation, this objective can best be completed through the urban regeneration of the area.
- A plan to create a decentralized urban management scheme, leaving behind the traditional administrative stereotypes and giving additional authority and roles to the Historian's Office of Havana. This organization will be responsible to create and administer its own financial revenues, operate with them, levy taxes, carry out market transactions, etc.
- The decision to favor the transformation of the Historic Center, introducing new land uses and recovering others that had been lost, to diversify the functions and actors which will be part of the regeneration process.

- The intention to link urban land use to the production of externalities. At this point it is important to give priority to investments that produce positive impacts on economic, social, cultural and environmental issues.
- The presence of an Integrated Development Plan for the area, more flexible and comprehensive than traditional planning, which has the goal of regulating and monitoring the development process in permanent interaction with it. A highly qualified team working for the Historian's Office is responsible for elaboration of the plan, which is theoretically based on strong participation of the local authorities and the population in planning, urban control and management of economic life. In spite of the complexity of such a process, these aspects have improved since the team's creation in October 1994.
- The transformation of parameters such as the density and intensity of land use in an attempt to increase the financial attractions and hence the value capture.
- The inclusion of foreign capital in tourism and real estate, and expanding the participation of financial capital in tourism and commercial management.

It is helpful to recall that as early as 1960, an addition to the law on vacant plots, *Ley sobre los solares yermos*, established a constant price of four pesos per square meter of land. This law eliminated all possibilities to speculate with land, something that had affected the city in the past. A special disposition was included in 1988, to define a minimum price of one peso and a maximum of eight for buying and selling land among individuals as well as for those wishing to sell it to the state. On the other hand, a previous arrangement of the Executive Council of Ministers dated June 25, 1985, established a price for perpetual use of land granted by the municipalities for the construction of social housing. This price could vary from six to thirty three pesos per square meter, according to geographical location (city and neighborhood).

The Civil Code of 1987 established that the Cuban state has the power to give to natural or juridical persons the land use rights over state owned land to build housing or other type of buildings through the compensation of a certain amount of money as equivalent to the *price*. This method prevented the ulterior transference of land use rights to anyone but the Cuban State, with the exception of legal family inheritance. The right to the ground is onerous, perpetual, not transferable and only used for residential purpose.

The promulgation of the "Law of Foreign Investment" in 1995 allowed for investments in real estate, acquiring the right of use of property plus other legal rights. This opening represented a whole new topic of discussion, and acknowledged that for a long time state land resources had been both undervalued and misused by most government agencies. The involved officials recognized that there was a need to recover the place that land deserved in economic considerations.

In Cuba, there are over one hundred juridical codes that apply to land transactions. These include laws, agreements and dispositions dictated after 1959. However, in spite of all these norms, there has not existed the capability to solve fundamental problems such as those dealing with territorial planning and urbanism. Two central problems have been:

- Land management: unsatisfactory occupation and intensity of use in cities, inefficient control of land allocation, irregular and outdated property registers, obsolete land prices and a lack of urbanized land reserved for future growth, among other aspects.
- Management of urban development: reduced legal, financial, material and technical capabilities of municipal governments, excessive sectorial management of elements that integrate urban infrastructure, non existent site and services reserves to avoid the proliferation of illegal settlements and the chaotic occupation of the periphery and the appearance of rural patterns in cities caused by a deficit of urban infrastructure.

An essential development is the proclamation of a general regulation of property rights and other legal status dealing with land. This derives from the need for clarification and an orderly control of the legal schemes set by the different systems of real estate property and land tenure. It would be very useful to unify the established norms, defining the rights of land tenure and the rights that are really likely to be approved, especially those with urban implications, and the relations among the people entitled to the rights, and real limitations. All this would greatly help to guarantee the required urban effectiveness. Considering the comments above on the extent of state property, clarification there is especially necessary, since the current norms have so many irregularities and contradictions that they do not delimit the competence of administrative entities in relation to land in a clear way. Further, there is sometimes a lack of compatibility between planning procedures and some public actions, such as arbitrary land delivery by the Housing Offices, which generates inefficiency and the loss of an important potential source of funds for urban regeneration.

Since the 90s, with the process of general economic reform and the opening to foreign investment, the government has realized that land can play a major economic role. The results of this policy have been manifest precisely through the ground rents that are becoming an element to accelerate and consolidate the process of development and redevelopment.

Another aspect of the process in Cuba is the introduction of new urban management practice (tools and instruments) that have never been applied during the revolutionary period. Among the most recent goals are the collection of special taxes, the creation of a grant system, the concession of land or buildings as an advance to the generation of new values and indeed, as a financial support to the public service entities.

In this essay, the experience of Old Havana is presented as one example of the *new management* in the city and the country, identifying and introducing value capture mechanisms. This last aspect is essential for the success of the regeneration process of the urban patrimony and in the activation of financial flows that can secure its continuity.

Legal, financial and institutional procedures are a vital part of this analysis. In this essay they are introduced to evidence the logic of the financial flows and the decision to generate and assign the new value. The operational patterns of government institutions to make agreements and mobilize and acquire benefits are mentioned along with the main dilemmas and difficulties of the experience.

Some considerations on the conceptual interpretations related to this subject will be included as a complement to the analysis, in addition to some peculiarities of land management in socialism. Finally, a preliminary evaluation will be made on the procedure of using land in an urban setting to capture value and its redistribution to favor urban regeneration in non-capitalist countries.

II -Location of the Study and the Predecessor Institution

2.1 -Old Havana and its Historic Center: An Overview

Havana was founded around 1515 on the southern coast of Cuba. Between 1519 and 1520, it was transferred to the north coast and finally established next to *Carenas Harbour* where the natural conditions favored the development of the city and its port activity. From the middle of the XVI century to the end of the XVII, the village was well known as *key to the New World and main entrance of the West Indies*, referring to its strategic geographical position within the region. The primitive urban configuration was irregular and capricious. The first organized methods to divide and measure land were not established until 1550. In 1592 Havana received the title of City and in 1607 it was given the status of capital of the country. However, it was not until the end of the XVII century that there was a real outburst in military, religious and civilian construction activities.

The town's enlargement determined, from its earliest period, the social structure of the main public spaces. Military, administrative, religious and commercial functions were obviously located within the city walls, which determined the relationships among the most important activities. The early determination of the position of the different squares and other open spaces, the first directing of urban expansion and the class hierarchy, were interesting and valid attempts to *plan* the development of the settlement from the very beginning.

A number of graceful palaces and colonial mansions, magnificent churches and other buildings, were erected as the city developed its economy, fundamentally based on the sugar cane production. The consolidation during this period of new public open spaces of high aesthetic value made of Havana a celebrated place in the world. Since the end of the XVIII century, Havana was considered the most important city of the region.

In the first half of the XX century the capital was the scene of a process of expansion based on the further development of sugar cane production and of the port activities. The first and second World Wars contributed to the economic prosperity of this period. The result is a considerable inherited urban patrimony, recognized as a coherent, beautiful and solid ensemble of constructions that preserved the precedent examples dating from colonial times.

The preservation of the essence and authenticity of Havana's urban structure, in spite of deterioration, spontaneous changes and neglect, is today one of the main goals of the city that in 1982 was declared a World Cultural Heritage site by UNESCO, including the System of Colonial Fortresses¹. Since the declaration, the process of rehabilitation and conservation has received greater support from the state, with the intention to "strengthen the multiple functions that characterize the area and prevent it from becoming a museum site".

A lot of research has been conducted in Old Havana to ensure the protection of its urban patrimony, to distinguish its exceptional values and to facilitate the restoration of the area's natural role as an important business center. The municipality covers a small territory of 4.5 km², with approximately 100,000 inhabitants and around 4,000 buildings. The area inscribed as the Historic Center is only 2.1km² and is inhabited by 70,000 *Habaneros*.

2.2- The Historian's Office: Institutional, Legal and Economic Faculties

The Historian's Office of Havana was created in 1938 by a group of Cuban intellectuals "with a cultural and historical purpose."² At the beginning the main efforts were to reveal the historic values of the municipality and to promote the most important events that took place in the city.

¹ Havana's System of Colonial Fortresses is considered the most complex and the best preserved in all Latin America.

² Robainas Barcia, Ayleen, "*Rehabilitation of Old Havana: New Ways and Methods*", presentation for the International Conference "*Shelter and Revitalization of Old Historic Urban Centers*", Havana, 1998.

In 1964, after the death of the historian Emilio Roig, the initiator of the office, a young man Eusebio Leal who worked at the museum continued Roig's efforts until he was later appointed as the new City's Historian. Leal's inexhaustible capacity to create and persevere, his personal charisma and great gifts for speech, and certain advantageous opportunities, have given him the possibility to surpass the goals of the original institution. Today the Historian's Office is taking part in the larger process of institutional and financial mobilization going on in society, with not only the intention of repairing the critical physical condition of significant buildings, but beyond that, with the goal of building a powerful and efficient institution that can address problems in the cultural, social, and economic domains of Old Havana.

In the early 80s the institution directed its actions towards rescuing buildings, saving an important part of the "memories and culture of the Habaneros"³. Though the government gave it support, the limited financial resources of that period along with the some economic and political misunderstandings, delayed a more comprehensive work at that moment.

After 1982, the year in which UNESCO declared Old Havana a World Cultural Heritage site, the Historian's Office increased its prestige and received more institutional support from the government. However, the economic crisis signaled by the fall of the Berlin Wall and the collapse of the socialist block, known to the Cubans as the *special period*, started almost a decade later. This crisis had strong negative effects on Old Havana, where the inhabitant's living conditions were already precarious. It was evident that the project of the Historian's Office could no longer support itself only on the basis of a very limited state budget and the few donations made by international institutions.

With the government's approval of the Law-Decree 143 of 1993 an important new period in the history of the Historian's Office began. It received wide powers to execute a number of legal, economic and institutional changes in order to continue its restoration efforts, with new impetus and liberty. These powers had never before been granted to a local entity. They included permitting some restoration and other activities in other urban areas in the city with similar cultural and historic values.

The law mentioned above gave the City Historian the necessary powers to generate and manage financial resources⁴ in order to obtain hard currency for some aspects of the restoration work. The new capacities include the diversification of finance sources, the creation and operation of bank accounts in national and foreign currency, the right to import and export equipment and raw materials, the establishment of cooperation agreements, the right to publish and advertise, the reception of donations for cultural and social projects and the possibility to levy taxes on individuals and state entities that operate in the areas being restored, among other aspects.

The earlier institutional framework of the Historian's Office has been gradually adapting to the new changes. The present structure, still in a formative process, is divided into two functional levels. The first level is responsible for the elaboration and approval of projects in the fields of Cultural Patrimony, Architecture and Urbanism, Preservation and Restoration, Housing and Economy. This level is concerned with the technical aspects and corresponds to the *dreamers*, to the people directly responsible for creating a functional balance of the social projects that benefit the community, with tourism, real estate, commerce and culture development. The Board of Monuments also works at this level, supervising the preservation of authentic values in the buildings that will be adapted for new uses.

The second level is expected to guarantee the financial support of the first level. It is formed by a group of enterprises and companies that operate different businesses in hard currency. The profits

³ Leal Eusebio, "*Presentation at the IV Congress of Historic Centers*", Havana, 1998.

⁴ Official Journal of the Republic of Cuba. Law-Decree 143 of the State Council.

obtained expand the reserves of the Historian's Office and thereby enable it to develop different schemes⁵. This group of entities, generators of economic power, could be called the *pragmatists*. They are at present the most dynamic entities, and are influential in determining priorities for development. There are sometimes conflicts of interest between these and the first group, when the social project is the essential goal.

The main entities of the Historian's Office are related as follows, according to their nature and main objectives. The Master Plan Group is not included in the list as it works as a direct advisor of the Historian above both levels.

Technical and Cultural Level

Direction of Cultural Patrimony (City Museum)
 Direction of Architecture and Patrimony
 Direction of Housing
 Direction of Projects
 Direction of Conservation

Entrepreneurial Level

Habaguanex Enterprise
Fénix Real Estate Company
Aurea Real Estate Company
San Cristóbal Travel Agency
La Begonia enterprise

It is widely acknowledged that to reach a consensus of interests between the two levels of the structure is a great challenge, particularly when the agreements concern the desired balance between equity and efficiency. A lot of internal efforts are being made to improve the collaboration among the different parts of the system in order to minimize the conflicts and achieve the ideal integrated development. As a result, in 1998, from the 40 million dollars of profits made by the Office, the percentage dedicated to social programs was increased to 35%, and 45% was dedicated to productive activities.

2.3 -The Master Plan and its faculties to anticipate the future of Old Havana

The Master Plan Team was created in December 1994 as part of the institutional expansion of the Historian's Office in the face of its new needs. Its essential function is to elaborate different strategies to guide and secure the comprehensive rehabilitation of the Municipality of Old Havana, focusing on original core of the city. It acts as a "methodological instrument of planning, information and control, responsible to generate the development guidelines for the locality"⁶.

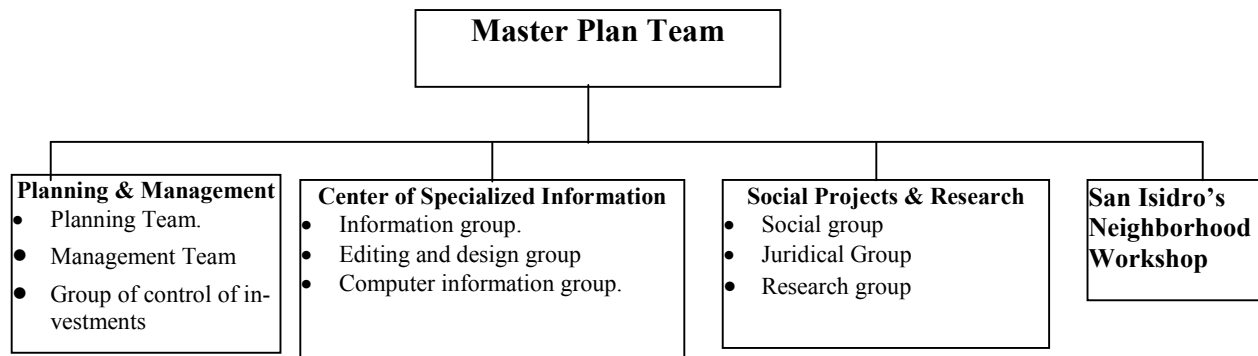
Its philosophy of work includes the development of sustainable alternatives that combine, in a common process of participatory planning, the social, economic, physical and environmental spheres. The main activities developed by the group of experts are:

- Elaboration of the Integrated Development Plan for the area.
- Research of different problems of the Historic Center.
- Characterize and diagnose the area.
- Definition of intervention policies and strategies.
- Update the information on inventories, social surveys, and cadastres.
- Development of an adequate legal framework, norms and codes.
- Land use approval and construction controls.
- Coordination among actors taking part in the development process.
- Project consultation and assessment.
- Development of social benefit programs.

⁵ Robainas Barcia, Ayleen, "*La Rehabilitación de la Habana Vieja: nuevas formas de abordarla*," Ponencia parra la Conferencia Internacional *Shelter and Revitalization of Old Historic Urban Centers*, La Habana, 1998

⁶ Plan Maestro, "*Plan de Desarrollo Integral*", 1998, pag 30.

The structure of the Master Plan has been designed in areas and groups according to its different functions:



This organization guarantees that the Office has a significant influence on the scope of the plan, and on the perfection of the regulatory framework through the introduction of control methods. The Master Plan Team is the group that authorizes land use, and together with others participates in defining the lines of social and cultural development in the community, in the evaluation of projects, and in the maintenance of the most updated database of the municipality.

III -Changes to the land use patterns: impacts and case studies

3.1 Introduction

In the first paragraphs of this paper, it was assumed that through land management and especially through the introduction of new functions in a specific urban area, the process of urban regeneration could be activated.

The following analysis will attempt to prove the above assertion by presenting two case studies where the role of land has been the major cause for improvement. In both cases, the first step has been the introduction of new uses which has subsequently allowed the generation of urban rent, the increase and rotation of cash flows, the consolidation of clusters, the variation of densities and intensities of use and the revitalization of streets, buildings and open spaces.

3.2 Case study: "Mercaderes street - Squares"

This axis concentrates some of the most important baroque palaces and mansions dating from the XVIII century. At present, the ancient structures have been adapted for new uses such as hotels and museums. In the same street there are less opulent but equally valuable buildings from the beginning of the XX century, like the *Ambos Mundos* Hotel, that harmoniously coexists with above mentioned earlier buildings.

In the last decade this street has undergone an accelerated process of building rehabilitation beginning with functional changes. "The area is characterized by long and narrow plots, where buildings are often divided by common partition walls. When walking the street, one gets the feeling of a long corridor that goes from the environs of the Cathedral Square in the North, to the Old Square in the South"⁷. This area belongs to the functional sector defined by the Master Plan as Tertiary Sector No. 1⁸.

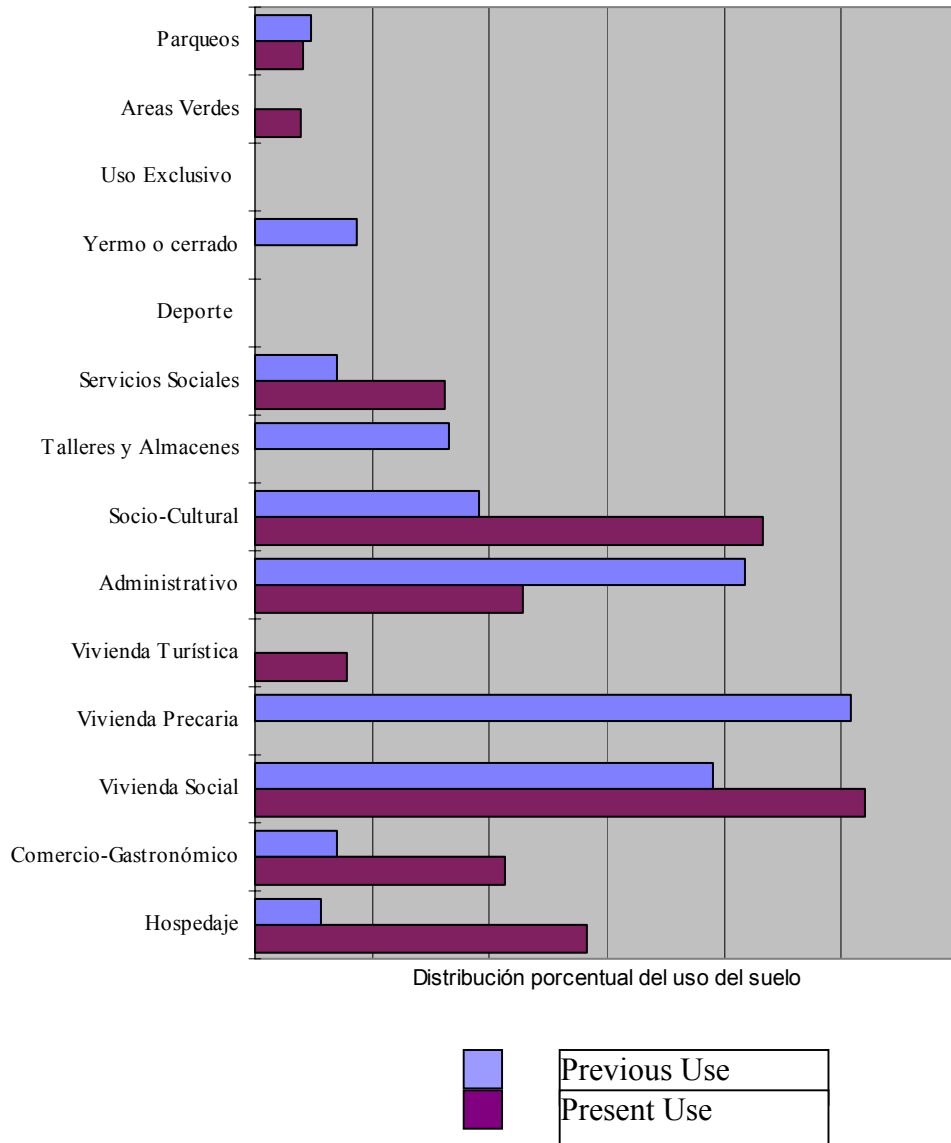
⁷ See annexe No. 2 "Study Area *Mercaderes-Plazas*", Plan Maestro, 1998.

⁸ See annexe No. 3 "*Functional Sectors*", Plan Maestro, 1996.

The rehabilitation process of the 80s started at the corner of *Obispo* and *Mercaderes* streets. Since then it has expanded, already reaching the two squares mentioned above. The following table shows some land use changes, the earlier and current percentages of built areas for various uses.

Land Use estimated distribution. (%)

Land Use	Previous	Present
Hotel Accommodation	2.79	14.12
Commerce, Gastronomy	3.49	10.68
Social Housing	19.53	26.03
Precarious Housing	25.39	0.00
Class A Housing	0.00	3.93
Administrative	20.86	11.42
Social and Cultural	9.54	21.65
Workshops and Warehouses	8.23	0.00
Social Services	3.46	8.13
Sports	0.00	0.00
Vacant land or Uninhabited buildings	4.33	0.00
Exclusive Use	0.00	0.00
Green Areas	0.00	1.96
Parking Lots	2.37	2.09
Total	100,00	100,00



The table of land use distribution shows that 38% of the land plots, previously used as warehouses, slums, vacant sites or partially crumbled buildings, have now been replaced with use for social and cultural functions, hotel rooms, restaurants and tourist oriented real estate projects. The recent regeneration process has built the first three of these up to 45% of the area, respectively 21%, 14% and 10%.

The social-cultural uses include museums, art galleries, concert halls and private artists' studios. A positive aspect of the regeneration process has been the successful combination of free of charge services (some even use part of their space for social programs associated to the community) with profit generating activities, including in hard currency revenues. In 1997 the City Museum and the Automobile Exhibition generated profits exceeding 1 million dollars from sales of entrance tickets to foreign visitors.

Despite the variety of activities that distinguish the above institutions, there are cases of excessive concentration of similar uses in the same area. For example, the cluster of museum-like institutions close at night, and hence nearly all activities in those areas ceases. The Master Plan experts are

looking for alternatives to improve this situation that considerably affects the financial and functional efficiency of the areas based on the promotion of a balanced introduction of housing, night centers and changes in the opening and closing hours of some establishments.

The increase in hotel and commercial uses (24%) complements the dynamics and attractiveness of *Mercaderes* Street. The existing functions are still considered insufficient, though the hotel rents and the profits obtained from commercial activities have contributed to the development of more hotels, boutiques and small exclusive shops, preferably located in the buildings that surround the squares. All these uses are expected to create a more efficient functional balance and extend the areas' period of use to 24 hours.

Administration and office space represent 11.4% of the uses. These two animate the area during working hours but, as it happens with many cultural functions, these activities cease at night. As an illustration of what sort of revenues could be generated by rent, note that some estimates indicate that these spaces could rent for 10 to 20 USD per square meter. However, this opportunity is totally wasted when most of them are occupied by the Historian's Office or by other Cuban institutions that do not pay rent.

Accommodations and other tourism services have progressively improved their investment performance as indicated by their profits from rents. At present 56 hotel rooms and their corresponding services generate 2 million dollars a year.

The repercussions from the rehabilitations and rising standards of some of the buildings, in respect to financial flows and rent activation, is a very interesting aspect. The successful opening of *Ambos Mundos* Hotel in 1996, with room prices of 80 US dollars a night, has encouraged other 4 star hotel investments in the area. The *Ambos Mundos* was earlier used as temporary residence of functionaries of the Education Ministry, headquartered across the street. At that time the building generated no profits, as the owner had no such interest. At present, it makes an average of 1 million 200 thousand dollars per year.

Another very illustrative case is the *Valencia Hostel*, a 4 star installation of only 12 rooms. In 1998 it generated profits in excess of 900 thousand US dollars. This building was an old colonial mansion subdivided in many small rooms where overcrowded families shared dreadful living conditions.

Some other recent studies of the area to evaluate land prices have estimated rates of around 300 US dollars per square meter.

3.3- Case Study: Paseo del Prado

The *Paseo del Prado* presents a similar situation to the previously described case study, in regards to the changes in the use of the land as central to the regeneration of the area. It occupies part of the ground where the city walls and their surroundings used to be during the XVIII and XIX centuries. The first promenade outside the wall, *Paseo de Isabel II*, preceded the Prado during the XIX century. When the walls were demolished at the end of the XIX century, they gave way to a new urban development known as the *Repartition of the Walls*. The area gained an reputation of importance as large residences, theaters, tobacco factories, hotels and important political headquarters came to dominate the site.

This important urban axis links the waterfront avenue, *Malecón*, with the Central Park area. On both sides of the promenade are 87 plots of land, involving 16 regular blocks of 80 per 80 meters. The Historian's Office has given priority to this area. At present work is proceeding with the restoration of buildings and the public aspects of the central space. The economic and functional advantages of this site make it very attractive for the establishment in the short term of tertiary uses and for the concentration in the medium term of sufficient financial resources and investments to transform the entire area.

The financial opportunities offered by the Prado are confirmed by the results so far achieved. A first class hotel cluster of around 500 rooms is being developed in the environs of Central Park. Specifically, at the intersection of Neptuno and Prado Streets there is a concentration of new functions. Some hotels have already opened to the public, while others are under construction. Some of the investments have been made as joint ventures with foreign capital like Grand Hotel and Saratoga Hotel, respectively with France and England, but the main trends are to develop 100% Cuban investments. There are other uses such as restaurants, cafes and shops that complement the functional operation of the site.⁹

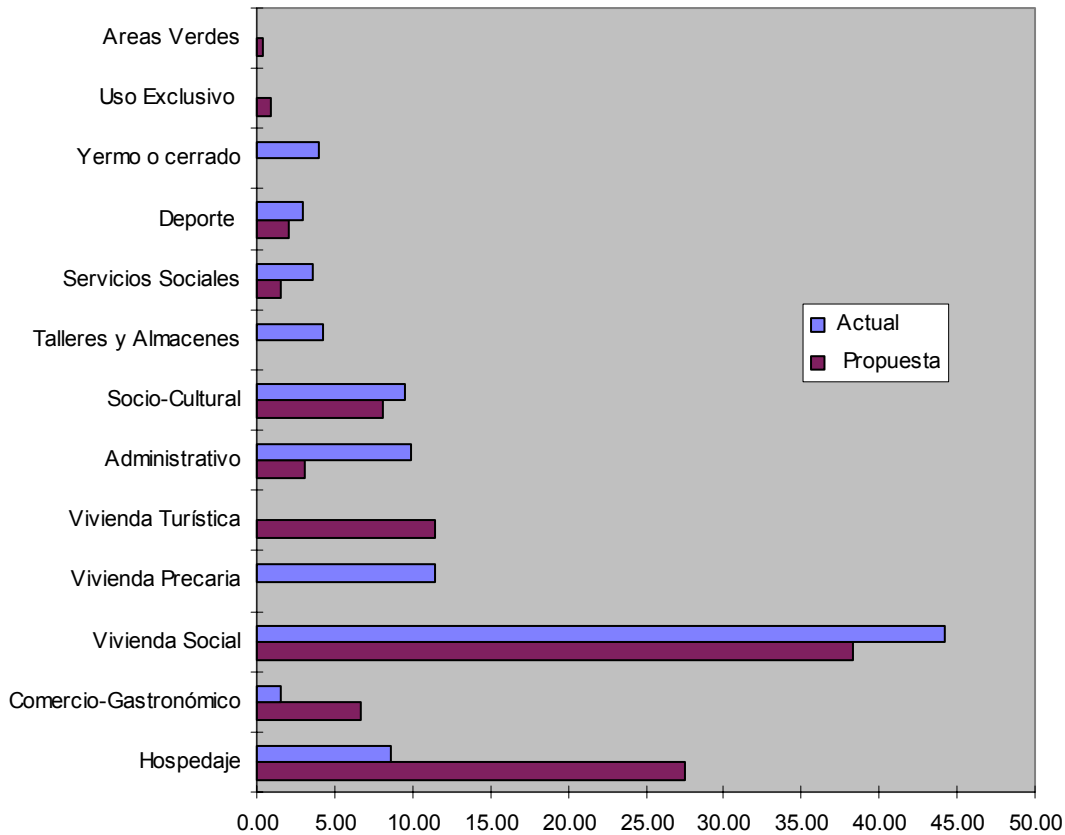
The following use changes are proposed in the area.

Estimated Distribution of Land Use (%)

Land Use	Present	Proposed
Hotel Accommodation	8.58	27.51
Commerce Gastronomy	1.51	6.65
Social Housing	44.25	38.32
Precarious Housing	11.47	0.00
Class A Housing	0.00	11.43
Administrative	9.94	3.02
Social Cultural	9.47	8.14
Workshops and Warehouses	4.29	0.00
Social Services	3.59	1.52
Sports	2.98	2.08
Vacant Land or Uninhabited buildings	3.94	0.00
Exclusive Use	0.00	0.90
Green Areas	0.00	0.42
Total	100.00	100.00

⁹ Annexe No. 4 “ Hotel Cluster of the Environs of Neptuno and Prado Streets”

Usos del Suelo en Zona Paseo del Prado



The new plans significantly change existing land uses and will realize the potentials concealed in vacant plots and crumbled buildings. Warehouses and small industries which are considered inconsistent with the area's functional quality will be transferred to other sites or eliminated.

The commercial functions and hotels that at present occupy only 10% of the land will in the future occupy 33%, according to the renewal schemes. The above figures represent the incorporation of 25 new commercial establishments. For hotel functions, the above projects the construction or rehabilitation of 10 new hotels and 5 hostels, with a capacity of 450 rooms. The inclusion of high standard housing will represent 11% of the area, with the apartments to be rented in dollars to foreigners residing in the country.

Although this process is just starting, already some observations can be made in relation to its role as a central instrument for transforming the areas. The determination of land and building values is a crucial aspect of the whole process. Some of the highest land and building prices of the city have been recorded in this area. Some experts even consider that some plots of land in the area could be valued at the very high prices of 400 to 500 US dollars per square meter, a figure equivalent to two thirds that of the most expensive urban plot in Havana today¹⁰.

¹⁰ Plot of land and building ruins at 23 Ave. and P Street, valued in 1996 at 750 US dollars per square meter, with an area of around 4 thousand square meters.

The price of hotel rooms ranges from 80 to 120 US dollars, with the standard dispersion smaller than in the area of the other case study. In the near future it is expected that prices will rise to the range of 120 to 200 US dollars per night. In 1998 with the new hotels in operation, the financial flows recorded exceeded 9 million 200 thousand dollars, and a 70% average occupancy rate was achieved.

Forming new clusters in the Historic Center is a valid option for other locations as well. However, the functional diversity, and in particular the dynamic interrelation between functions, will tend to be more efficient in the *Paseo del Prado* area than in any other area. This is why the Prado area is considered extremely attractive for investments in developments for tourism, culture and real estate.

The two case studies indicate the plan's capacity to change the present land use patterns, increasing retail spaces and real estate developments, which are powerful profit generators. The recovery of the tertiary activity in these areas in turn is projected by the plan to support the goal of serving residential uses.

IV- Value Creation: Sources and Destination

4.1. Subjects and processes generators of increased value

An urban plot of land may acquire additional value for different reasons. Two of them are widely recognized: the execution of public works at certain site to provide service and technical infrastructure, and a favorable change to the land use legislation that may artificially create new land by allowing, for example, buildings of greater height. In both cases, the value of the urban plot of land will increase and, in a capitalist system, this increased market value will belong to its usually private owner.

Any urbanization has costs and benefits (positive and negative externalities), and these are unequally distributed in a capitalist system: the benefits tend to be privatized while the costs are socialized, intensifying the urban inequalities. The interest of both urban researchers and public authorities in the theme of land value capture is, then, very clear. To what extent and in what ways is the appropriation of land value by public entities more justified and efficient?

Multiple theories and techniques have been developed at different times and in different places that address this question, but the issue can take on unexpected aspects in a country where most land is socialized and where land markets are not recognized. The debates and arguments about value capture mechanisms involve the belief in two assertions that may at first seem evident for Cuba, but in truth are not: in the first place, that the mentioned value really exists, and secondly, that there are mechanisms to capture it. Are these really true? The answer is not simple.

If the valorization of real estate is considered as a way to capture value, the first answer would be that there is no value capture at all, for the simple reason that real estate speculation was abolished in Cuba at the beginning of the Revolution, and land markets and hence all market valorization of land went with it. As we mentioned previously in this work, a unique standard price was set for any type of urban land, regardless of geographical location and site characteristics, and the State nationalized most of the land in the country.

Nevertheless, looking at things more attentively, less simple realities come to light. In the last years, some urban differentiation has occurred, due to the capital mobilized by hotel and real estate investments, which always tries to find firstly the locations most appropriate for their particular business strategies, and secondly those sites with the best infrastructure. On the other hand, the State has started to activate certain types of rent, merely in order to consider land as an economic asset in joint ventures with foreign capital in real estate. This makes the analysis of urban value capture a very relevant part of planning, legislation and management. How are these values expressed?

One way to approach this topic is to define additional value as the largest possible amount of profit obtained by an enterprise immersed in an ongoing process of urban regeneration and changes in land use, as in the case studies discussed above.

The first step of the analysis would be to identify the different economic subjects behind the broad concept of *state*. In accord with the political and administrative organization of the Cuban government, in a first approach one could identify three such subjects: a national subject, identified with the national budget or enterprises on this level; a provincial subject, that in the case of Havana would comprise the whole metropolitan area; and finally a municipal subject, somewhat larger than the historical zone. The Historian's Office and its system of enterprises must also be recognized as an economic subject (authorized to levy taxes, obtain profits, promote investments...). This analysis implies that in the same region four different state representatives coexist and act. In addition there is the private sector formed by small Cuban businesses (workers on their own), and foreigners in joint ventures with State capital. These six actors carry out a diversity of actions: some invest in land redevelopment, others operate their business on the redeveloped areas and some combine the two activities. Finally, and according to the initial comments, one or two more actors should perhaps be added to the above, the planning offices at city and local level. These institutions generate additional value without requiring any economic investments. For example, the more or less flexible regulations enforced by these two planning levels could "create" or "destroy" land by changing the codes on allowed building heights, or they could obstruct or enable the economic functioning of the production companies in the area.

This intertwining of economic relations obfuscates basic issues related to value capture. Which actors create additional value for the land? Which actors collect it? And what mechanisms exist to recapture the value appropriated by the private sector? The answers, in the case of Old Havana, are very characteristic within the national context, and at the same time exceptional for the Latin-American region.

An additional interesting point of discussion could be the negative externalities produced by the regeneration process of Old Havana. A number of actions and regulations are being gradually introduced to keep out of the area activities with certain harmful side effects, such as polluting industries, high traffic generators and low productivity enterprises. Other city municipalities incorporate all these activities expelled from Old Havana, thus absorbing these urban *minus values*.

The actors that participate in the transformation, regeneration and provision of Old Havana must be carefully studied to specify and describe the generation and appropriation of the economic flows of additional value. At least five different actors financially contribute to the urban regeneration process. In first place is the Historian's Office, through a complex network of economic entities (hotels, shops, restaurants, travel agencies, real estate companies, museums, advertising and publishing facilities, taxis enterprises, etc.). These entities produce most of the capital (60-70%) that is invested in the area. These financial resources are generated not only from the profits from its enterprises, but also to a certain extent they come from international donations, bank credits and even from the taxed profits made by businesses located in the territory that do not belong to the Historian's structure. In any case, the dominant participation comes from the enterprises themselves (60%), and in particular from the *Habaguanex* Company, which is responsible for the operation of tourism and commercial facilities. At present, this group operates three hotels, 16 restaurants, 21 cafeterias and 35 shops.

A second important actor is the Central Government which, besides overlooking the whole process, finances improvements of the technical infrastructure that unquestionably result in the improvement of the area. Important examples include the rehabilitation and modernization of the telephone network, the restoration of the railroad and the Central Station, the pollution control of the harbor waters, the modernization of the electrical network and the creation of a special police.

Paradoxically, the contributions made by the third and fourth actors, the provincial and municipal governments, are very restrained. However, this ceases to be surprising when one takes into account the strongly centralized character of the country's financial structure.

Finally, the contribution of the fifth subject must be considered, the associations of foreign capital and national capital. These associations operate in real estate and hotel enterprises, and for now have been negotiated only with European countries (Spain, France, England and Italy). At present only one real estate company is in operation, the Lonja del Comercio.

These flows of capital are divided into operational costs and investment costs (proportionally larger). Most of the capital is divided in similar portions between productive investment (55%) and social investment, housing and services (42%). A smaller part is dedicated to urban infrastructure (3%), works generally assumed by the Central government.

In parallel, the profits derived from the rapidly increasing revenues (from 4 million dollars in 1994 to 40 million in 1998) obtained by the enterprise system of the Historian's Office, have different destinations. As we have seen above, the most important is the reinvestment in the same area into productive and social activities, and into some direct subsidies to the resident population. The rest is basically divided into contributions to the central government (not more than 10%), to the provincial government by means of support for the rehabilitation of other areas like the *Malecón* or prompt repairs to the city's water pipes or financing construction of housing for residents of Old Havana, and to the municipality, as direct financial support to the budget or as cooperation projects with priority sectors like health (maternity homes), education (municipal library) and community services (garbage collection, water supply).

The above indicates the complex flow that exists, in both directions, between the Historian's Office and the government institutions at the three administrative levels. The Office reinvests almost all its profits into operations and investments for development and, at the same time, it collaborates to some degree with the central budget. In turn, the central government makes certain contributions to the area, but leaves to the local officials the whole responsibility for their economic management.

The Historic Center is obviously giving rise to processes, be they real or virtual, that are generating considerable and increasing amounts of additional value. It is almost impossible that an area undergoing such a socially and environmentally committed process of rehabilitation, restoration and regeneration could fail to generate value. However, it is very difficult to quantify the volume of this process in the absence of a traditional and recognized market in land. To analyze this complex situation would require indirect measurement techniques and, because the theme is sufficiently complex, an *ad hoc* research program.

In any case, the question of who appropriates the value can be formulated. A preliminary examination would seem to indicate that all the additional values were being captured and reinvested in the same territory. However, a closer look at the economic relationships among the different enterprises operating with joint or state capital (be it national, provincial, municipal or from the Historian's Office) reveals that there are asymmetries in the conditions of operation. The mere fact of being located in the historic area gives enterprises the benefit of various urban conditions that allow them to operate advantageously with respect to other enterprises. While these companies themselves finance the creation of local value, no *undue appropriation* should take place.

Whenever this proportion is altered, in one direction or the other, the mechanisms to reabsorb the created value will have to be retuned. Nowadays the additional value created by enterprises external to the Historian's structure is captured only through a tax on profits, while the additional value created by the Historian's entities either goes to the Office system itself or the central government through the fixed contributions already mentioned. Both mechanisms have obvious limitations. The tax only affects commercial activities. The state contribution is not legislated and for the time being is a fixed value. Hence even being an absolutely *sui generis* case, it seems that, more intuitively than scientifically, some channels for appropriation of value have been created.

There are, however, other ways of appropriating value. In the first place, the case of the foreign capital invested in real estate is worth examining. However, while the present legislation has not changed, in cases of a sale the State always has the right measure and determine the value, thereby controlling the possibilities for a private party to appropriate value. (Furthermore, in the historic area there is a law that prohibits selling land.)

In the second place, when the added value produced goes to the owners of buildings who can raise their rents because of an urban regeneration process to which they do not contribute, the added value is not reabsorbed. Taxes do not absorb the added value because the taxes to these activities are fixed.

In the third place, another set of agents that unduly accumulate value are the private owners that operate in the *permuta* underground market, who demand large amounts of additional money to swap a real estate property between two neighborhoods of different category. In this case the new value that has been generated for one of the properties exchanged as an externality of the investments, made either by the Historian or by other public entities, is appropriated by individuals operating in the underground market. The new added value remains uncaptured and is not legally recognized. This new value could be identified as underground new value. It should be noted, however, that the *permuta* market is extremely controlled and limited in the territory of Old Havana, and the only possible ways to gain value through it are illegal or submerged.

4.2- Identification of forms and instruments of value capture

This part of the work will discuss the forms and instruments that are being used for value capture in Old Havana. Some mechanisms will resemble international examples found in other cities. However, there are variations that are mainly based on the differences of the legal framework and in the management methods applied. For some aspects, instead of radical differences from the best practices or from the specialized literature, the solution applied will resemble a mixture of, or adaptation of, established practices.

The first way to appropriate value is through **taxes** that, as it was mentioned before, in Old Havana are “...a form of tax on the profits of juridical persons...or known as a special tax on the gross revenue derived from the mercantile transactions of juridical persons...”.¹¹ This tax system is applied to a number of enterprises and profit-making entities, external to the Historian’s Office structure, that are located in the zone known as the Historic Center. The fixed values establish that the payments will consist of 5% and 1% of the gross revenue in hard currency and the national currency, respectively¹². (Ricardo- check that the change I made in the last sentence is what you wanted to say, that the tax is 5% and 1%- if you use “affect 5% and 1%” it suggests that only that much is subjected to a tax, which I think makes no sense, but I of course do not know the real world there) By nature, this is an objective, direct and periodic tax that exclusively affects wealth. The law specifies which actors are excluded from it, including the subsidized entities that cannot cover their expenses with their revenues and the partnerships whose revenues come from fixed contributions of their members. The law also includes other exemptions. In practical terms, this tax is similar to those usually known as *Other Local Taxes*, a category of taxes usually applied to industry, commerce, businesses and professions, that can take different forms.¹³ Some of these are applicable in extended forms to the case of Old Havana.

However, there are a few comments that pertain to this issue:

¹¹ Master Plan, *Integrated Development Plan*, 1998, page 61.

¹² Since 1994, the year in which the possession and use of dollars was legalized, the country has operate with a dual currency. This implies planning, management and controls for two different currencies according to the regulations of the Ministry of Finance.

¹³ Otros Impuestos Locales en la ciudad de San Salvador han llegado a representar el 80 por ciento de los ingresos locales.

- The network of contributors is not very wide even though the process of tertiary development favors its growth. There are a number of juridical persons (enterprises, etc) that are benefiting from the process of renewal, that not subject to this tax. A particular example is the case of CUPET (the Cuban Oil Corporation) with headquarters in the area that does not contribute because it does not carry out commercial transactions.
- The tax design is not flexible enough, as it undermines the relation between the amount of tax and the amount of revenue, that is, it lacks a progressive structure that would take into account the capacity of different levels of revenues to pay different rates of taxes. The above may be influenced by the poor culture in the management of tax systems, leading to the decision choose the concept of *easy to manage* in the first stages.
- Another vulnerable aspect is the lack of juridical precision on the destination of the taxes collected. This problem reflects the lack of transparency in the process and limits the willingness of the contributing entities to pay.
- The exclusion of other forms like a property tax, a tax on real estate transactions, etc. puts limits on the possibilities for recovering the investment costs directed at services and public space rehabilitation, which are essential for creating new value in real estate and public spaces. This is the case for the investments in infrastructure made in the *Plaza Vieja* and in *San Francisco Square*, where because of these many excluded forms there is much possibility to recover the investment costs.

A second form of value appropriation is through *Profit Delivery*. This method is the one applied to the very centralized system of enterprises of the Historian's Office. Instead of paying a tax, the economic entities contribute all their profits directly to the Economic Office of the Historian. To ensure the effective flow of tribute revenues to the economic central apparatus there is a system of accounts and subaccounts where the incomes and expenditures are properly registered and carefully controlled. This financial scheme cause the enterprises to take interest in the increase of their revenues and profits, since the expansion and/or consolidation of their production and services depends on these results.

The fact that the central Economic Office of the Historian has all these profits at its disposal enables the following:

- Social activities can be planned and coordinated with the works to improve the urban conditions of the area.
- *Financial pools* can be created to promote actions with synergy effects.

The redistribution of value to the benefit of institutional or political priorities which impact negatively on entrepreneurial initiative and individuals could be a questionable result. However, in spite of this, the officials interviewed declared that to consolidate their commercial objectives it is extremely important that financial resources are reinvested in their area, in order to counterbalance negative effects, the lack of completion of the infrastructure, and they reduce the social conflicts within the community.

It is clear that the two forms practiced of value capture are based on monetary contributions. Up to this time no other methods have been experimented with or developed, in part because some of them require the presence of a land market. However, there seem to be other ways that could be incorporated into the project of Old Havana, such as the introduction of other forms of tax, the payments for artificial land increasing the building indicators, the compensation for intensive uses that represent an overload to the infrastructure, etc..

Other methods such as ones based on transfers of land property are a lot less likely to be applied in Old Havana, to a large extent because land is a monopoly controlled by the State. In the case of the small and fragmented pieces of land in private hands, this method would not be beneficial, because the design of the Cuban economic policies does not include arrangements for these connected to the processes of urban redevelopment.

The introduction of the payment of a certain percentage on the sales price whenever it exceeds the value of the fiscal assessment is not appropriate for the reasons explained above. In the same way to transfer or authorize urban concessions is not appropriate, as up to now the Cuban State by law is responsible for the provision of all public and urban services.

V- Final Considerations

1. To study and analyze the flows connected to the generation and capture of value in Old Havana is a very complex issue due to the peculiar economic, financial and juridical national context. Some of the facts that influence this context are the dominant patterns of state-owned land, the lack of recognized land markets, the one-sided activation of land rents and the artificial way to determine land prices. The quantity and the diversity of the actors are other important features of the process. Their participation in the generation of value varies according to their role in the investment process. The enterprises of the Historian's Office have the leading role followed by the central, provincial and municipal governments. The role of foreign capital is still modest. A certain amount of the new value is being captured, mainly by the Historian's Office and the central government, in accord with the high proportion of profit reinvestments that they are making in the area. An eventual reduction of this quantity would require the establishment of adequate mechanisms for value capture. On the other hand, the appropriation of value by the national private sector is very limited as a consequence of the limited dimensions that these businesses are allowed (*paladares*, room renting, etc.). An expansion of the economic capacity of this sector would equally demand an urgent revision of the value capture methods.
2. One must not forget that connected to the regeneration process in Old Havana, some incompatible uses, either residential or productive, are gradually being transferred from the Historic Center. Other municipalities of Havana must absorb them. This exportation of negative values or negative externalities justifies the resources that the Historian may wish to contribute to other city areas. In the future some mechanisms should be designed to quantify and control these economic flows between the city and this area.
3. The fact that the Historian's Office plays a two faceted role, that of enterprise developer and at the same time regulator and controller of the territory through the Master Plan, can undoubtedly weaken the role of counterpart that any urban authority should play in respect to business interests. There is some ambiguity in a scenario where public interests are expressed through planning, regulation and local tax collection simultaneously with entrepreneurial interests such as the search for profits by the Office of the Historian enterprises.
4. The case of Old Havana is the first Cuban experience of urban value capture. Two models have been identified: tax collection and delivery of created profits. The first acts on a reduced tribute base, and leaves unexplored other forms not yet tested in the Cuban experience. The second model through its lack of transparency limits the search by enterprises for higher economic efficiency but, on the other hand, it allows the accumulation of significant financial revenues needed for new investments in the area.
5. The planning, management and decision making entities of the Historian's Office are directly subordinated to the State Council of Cuba (Decree-Law 143 of 1993). This makes the Historian's Office, and with that the local urban authority, a structure independent from the system of local government, Poder Popular. For this reason, this experience is, fundamentally, part of the country's centralized approach and is, according to the powers granted by the 143 decree-law, immune to the controls of the Municipal Assembly. It is, then, more a de-concentration example (delegation of central powers) than a real decentralized one which would imply a real local capacity of self-management.
6. The decision of the Cuban State to *rediscover* land as a valid economic asset must be acknowledged. This has enabled the recognition of land rent and the implementation of systems of value capture in the area. The legal framework is still, however, incapable of controlling such processes. There is an urgent need of a law that regulates land management and the instruments of real estate, and makes the processes of land valuation, mortgages and fiscal aspects, and other related processes transparent.

7. The poor role of local investments by the Historian's Office in the improvement of infrastructure is one of the weaknesses of the experience. This will become a major obstacle in the near future for the development of the area and will also affect the generation of additional value. It would be interesting in this regard to compare the benefits obtained with the amount of investments in infrastructure.

The above considerations offer a first approach to a problem of vital importance, not only for Old Havana, but for the whole city and the country. The issue of land value capture undoubtedly needs further analysis and debate. This article is only intended to promote the initiation of these discussions, and to contribute some preliminary reflections to the investigation of these questions.

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