

# THE BUILT ENVIRONMENT: ECONOMICS AND MANAGEMENT STRATEGIES

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## Summary

The strategies of economic valorisation of the cultural and environmental assets, which can be of a monumental or widespread nature, vary depending on the economic and social systems in place in the concerned country, the architectural characteristics of the assets and the dynamism of the territorial context. In addition, one must consider whether the assets are public or private, who are the enhancement accomplishers, the aim and, finally, the directly or indirectly concerned social groups.

The strategies can be classified, for instrumental purposes, as private and public, depending on whether they aim to maximize the profits of the investors or maximize the social benefits of the community. In reality, mixed types of strategies are becoming increasingly more popular. In this case, public institutions, in order to pursue objectives of a social nature, help put in place the conditions necessary for the intervention of the private sector. The private sector, in turn, must comply with the restrictions set up to protect the assets and, often, is also involved in the management of the assets and the recreational and cultural activities.

The strategies of economic valorisation of the cultural objects have as objective not only the eradication of the physical degradation but also of the social, economic and functional degradation, which is not normally limited to the property but permeates the territorial context.

The most critical moment of the process that aims to create additional value of a social, cultural and monetary kind, is the identification of new functions. On one hand, these must be compatible with the decorative, architectural, volumetric and distributive

characteristics of the assets and, on the other hand, they must meet the real demand for services and recreational and cultural activities for which the assets are destined.

The segmentation of the reference public, the identification of underground demand, the creation of demand if necessary and the promotion and management of the assets of historical and architectural interest are, hence, some of the most crucial moments of the enhancement process. These moments are able to condition the outcome.

In fact, the existence of demand for services and activities translates into financial inflows that must be adequate to guarantee the expected returns for private investors or guarantee at least the achievement of the so-called break-even point for the public accomplishers.

The strategies of economic valorisation must create the conditions necessary for the projects to be realized and prepare all the actions necessary for the directly or indirectly involved parties and the public or private accomplishers to be available. In other words, they involve promoting and managing the entire process of the enhancement project and seek to bring together all the different interests and responsible parties.

Thus, the main objective is to make interact the accomplishers and the involved social groups and solicit participation – taking into account that often the projects have multiple decision makers, accomplishers and reference social groups in addition to the community considered overall.

In summary, different resources, parties and social groups must come together and interact during the project process. The objectives of all the involved parties, directly and indirectly, must converge: the ones of the public sector must be compatible with the ones of the involved construction companies, promoters, management companies, consumers, beneficiaries and social groups. To do this, it is necessary to prepare measures, actions and regulatory provisions of a legal, tax, economic and social nature able to induce the potential accomplishers to intervene in a coordinated manner.

## **1. Enhancing Architectural and Environmental Assets**

Today, for many countries, enhancing the architectural and environmental heritage is a high-ranking priority. This produces notable effects on the economy, society and on human capital; at the same time, it promotes competition between cities at the European and worldwide level and helps the development of the urban tourist industry and the city's ability to attract capital.

The enhancement of the historical and architectural assets, though, runs into numerous constraints and problems of an economic, financial and legal nature.

First and foremost, the financial resources are often inadequate or anyhow too scarce compared to the magnitude of the architectural and environmental assets.

Then, the legal restrictions imposed by the fragmentation of the assets have a negative impact, as is frequently the case of the historical urban fabric.

Usually, assets of historical and architectural interest are so physically, functionally and socially degraded that it is necessary to intervene not only on the property itself but also on the territorial context and on their economic and functional structure.

Especially in the case of pinpointed property of architectural or historical value, like large monumental complexes or industrial buildings of historical interest, it is difficult to identify new functions, which are compatible with the historical nature of the cultural objects and, at the same time, are in keeping with the actual demand for services or activities.

The possibility of enhancement correlates negatively with the degree of weakness of the economy of the country in question and with the degree of lacklustre of the territorial contexts in which the intervention occurs.

Moreover, when the historical and architectural value is considerable, this is not sufficient in itself to trigger enhancement processes if some underlying conditions, which have nothing to do with the assets, are missing.

The enhancement usually involves a project, meaning a group of solutions that not only aims to get rid of the physical degradation but also of the social, functional and economic degradation of the property or surroundings. According to the principle of integrated conservation, restoration is not enough: in most cases, it is necessary to identify new functions and regenerate the context.

Doubly in this case, the strategies of economic valorisation should be seen as a group of projects, actions and measures aimed at transforming the projects into interventions and pursuing the established objectives, whether these are public or private.

Since the economic valorisation potential depends on multiple factors, if the factors change, this has an impact on the objectives and the economic strategies.

For example, there are notable differences between the strategies of the most industrialized countries and those of the most marginal realities, in terms of creation and distribution of income.

In the poorest nations, enhancement is only possible if the State steps in. Although, this ends up entering into conflict with primary needs of a social nature, which are not yet satisfied. In these countries, property of historical, architectural and environmental interest is degraded and the territorial context does not allow the intervention of private funds. In richer countries, instead, even if enhancement always comes up against the lack of financial resources, there are greater opportunities for intervention in the form of public and private funds and, thus, it is possible to delineate more mature and articulated economic strategies.

In addition to changing in relation to the economic and social systems, the strategies also change depending on micro-territorial contexts and on the demand for ownership or utilization of property.

Especially when refunctionalizing monumental complexes or abandoned industrial buildings, the dynamism or staticness of the economic, social and cultural conditions is decisive for defining the actions and the interventions necessary to get rid of not only the physical degradation but also the social and economic one.

Thus, one can deduce that enhancement does not only depend on the intrinsic historical value of the property (although this remains a fundamental prerequisite), but also depends on numerous other variables of an economic and social nature that are strictly tied to the territorial context within which the assets carry out or can carry out their actions.

In particular, the economic strategies depend on more than the characteristics of the cultural and environmental assets, on their being exceptional and unique as in the case of monuments or widespread assets (for example, urban fabric). These strategies change in relation to the public or private nature of the property and the upgrading accomplishes. Finally, they change in relation to the availability of financial resources.

All in all, the actions aimed at eliminating physical, functional and economic degradation take on, individually, different forms depending on the physical, economic, legal and financial scale of the architectural and environmental resources to be enhanced. The actions are defined in relation to the characteristics of the economic and social systems; they depend on the specificity of the territorial contexts and, not least, on the nature of the involved parties and the characteristics of the interested social groups.

As a first approximation, the strategies can be classified, for instrumental purposes, as “private” and “public” according to the traditional divisions established by economics and the law.

This classification leads to the identification of pure private assets and pure public ones, the market value of the former and the total economic value of the latter, the legal statuses of the private and public properties and, above all, the different rationalities adopted by the involved parties.

The economic logic of the private sector is based on maximizing profits and involves the principle of the opportunity cost of capital, to the point that it can achieve high profitability. Who invests in the field of the cultural objects, in other words, expects similar earnings to those that he/she could obtain by investing the capital in other fields: the investment decisions depend on the profitability of the projects.

The public-type strategies, instead, aim to maximize social benefits and, therefore, privilege society as the point of reference that, incidentally, is increasingly less considered as an undefined whole but as many directly or indirectly interested social groups.

The public logic, as is known, places the future before the present and, thus, tends to privilege future generations. The private one, instead, privileges the present and only considers investors.

The private-public distinction still has its validity in some economic and social realities.

Until a few years ago, public and private interventions were considered separately and were viewed as being in conflict with each other. In many economic and social systems, during the periods of greatest urban development, the infrastructures necessary for the organization of the civil society were assured completely by the State. While private interventions were devised completely disregarding the interests of society.

This distinction between the two spheres by now clearly shows all its limits, in particular in the field of cultural and environmental assets where the financial and social logic often complement each other rather than being at odds.

The enhancement of the built environment leads, as everybody is aware, to notable benefits for society; these can be economic, social, cultural and territorial. Intangibles and external effects are often so evident that they can be measured through the cost-benefit analysis.

However, when in addition to the impacts also the economic feasibility of the projects is considered, the financial logic must be reckoned with and, thus, must be a part of the public one.

In many countries, the enhancement of the architectural and environmental assets, seen from the viewpoint of conservation and sustainability, is carried out thanks to the participation of public and private parties and financial resources and, thus, is based on the convergence of the objectives and strategies.

All in all, the strategies of economic valorisation of the architectural and environmental assets can be of the pure public, pure private or mixed type.

In the first case, financing is granted to interventions that have important effects in terms of benefits to society. The funds are public as are the accomplishees. This occurs mostly in those countries or in cases in which private capital cannot or is not able to contribute to the enhancement of the architectural and environmental property, since the conditions that guarantee financial returns are missing.

In the second case, the pure private kind, where there are favourable market conditions, the architectural and environmental assets can completely follow the enhancement logic. In some old city centres, the buildings have reached soaring market values, which actually pose the problem of price containment. Oppositely, in other cases, the physical and social degradation can be so far gone that it does not leave any room for the intervention of the private sector, in spite of the high historical and architectural quality of the property.

Strategies of the commercial type, aimed at making a profit on increases in value, and of an income type, aimed at maximizing earnings, are particularly widespread in all those realities in which the society is able to appreciate the value of the historical and architectural resources and in which pinpointed property can be destined for functions capable of guaranteeing adequate financial returns on the invested funds.

In this case, the property is private as are the funds and the accomplisners.

Finally, in the case of mixed strategies, public-private, it is necessary to find a convergence of the objectives, which were considered conflicting in the past. In many cases, the public resources are not adequate for the enhancement interventions or, once the degradation is eliminated, the problem arises of managing the property and its activities. In these cases, it is necessary to consider also the logic and the instruments of the private economy and, thus, different value components coexist (market value and total economic value) and there is also the co-presence of public and private parties and funds.

## **2. The Economic Strategies for Enhancement**

### **2.1 The Public Strategies**

If public financial resources are available, this definitely simplifies the economic strategies and the prevailing line of reasoning becomes to balance the costs and the social benefits.

For example, restoring and enhancing a monumental building must assure social benefits that are greater than the costs in order to justify the intervention instead of other possible alternatives.

In this case, the project of enhancement places the future before the here and now, it places future generations on the same level as the present one, according to an intergenerational instead of infragenerational type of reasoning.

Obviously, the value of the property or projects depends on the strength and the ability to distribute the social, economic, historical and environmental benefits. This implies the effects that the project or property is able to create on the direct beneficiaries of the resource; the indirect beneficiaries, even only in aesthetic-visual terms; the potential beneficiaries (who currently are not beneficiaries, but could be); and, finally yet importantly, as was already mentioned, the future generations.

In addition, according to the principles of environmental economics, the benefits attributable to the mere existence of the property should also be considered, regardless of any type of use.

In the pure public sphere, which features public funds and accomplisners, the goal is to maximize the total economic value, broken down into its utility and non-use value components.

The former is determined by the actual use of the architectural and environmental resources, including in simple aesthetic-visual terms. However, this also embodies the option value, which refers to the potential use of the resources and to their future usability.

The latter (the non-use value), which implies that the resource has an intrinsic value regardless of its use, is difficult to identify in the case of historical and architectural assets, for which it is difficult to leave out the components of direct and indirect use.

In other words, the public strategies pursue the objective of maximizing the difference between the social benefits created by the intervention and the incurred costs, in the form of NPV (Net Present Value) that is measured by means of the cost-benefit analyses. The NPV that, as is known, represents the increase in social benefits created by the intervention, in the shape of intangibles and external effects, is actually determined as the difference between the discounted social benefits and costs with and without a project.

If one assumes the strategic moment of the enhancement, it is not possible to fully accept the logic of the cost-benefit analysis from the public viewpoint. In fact, this adds benefits and financial inflows from which the financial and social costs are deducted, considering the difference in aggregated form. It does not take into account the methods and the extent that the intangibles and external effects affect the different social groups found in society.

Already during the project phase, the economic strategies aimed at maximizing the social benefits, according to the principles of sustainable development, must exceed the formulation of the cost-benefit analysis that, incidentally, is often used to sanction political choices and decisions that have already been made.

The benefits that can be generated from the conservation interventions should not be considered indistinctly. The project, viewed as a combination of actions and measures, must be defined after identifying all its possible effects be these of an economic, social, cultural and territorial nature. It is necessary to identify all the directly and indirectly affected parties and social groups and take into account the locations affected by the intangibles and external effects.

The project or the strategy must identify the property or the parts of property and the elements of the context on which to intervene. At the same time, it is necessary to identify the accomplishes or the directly concerned parties, both in the implementation and management phases.

This approach refers to the layout detailed by Lichfield for the Community Impact Evaluation. The only difference lies in the fact that the CIE is not considered as an ex post evaluation tool of the project, but as a supporting tool used to define the project of restoration and enhancement. Obviously, the project is not only meant as design or technical choices but as the combination of actions and measures required for its realization.

If the public financial resources are adequate to cover the intervention and management costs, no particular problems exist. Even when the economic strategies are of the public type, the enhancement must anyhow tackle the problems relating to the identification of new functions and the management phase. Clearly, this does not apply when the

destination is determined beforehand and meets the needs blatantly expressed by the economic and social reality.

When the public financial resources are lacking or are inadequate, it no longer suffices to show the relevance of the social benefits. Nor is it adequate to consider only the financial costs of the interventions of restoration or renewal. Rather, one must also evaluate the costs attributable to the upkeep and management of the realized works and of the activities for which they are destined.

Consequently, obtaining public financing is evermore influenced by criteria of economic efficiency and the need to attract resources coming from the private sector. Today, public administrations are more worried about obtaining the financing required to sustain the management activity in time rather than supplying the outlay necessary to carry out the restoration.

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