Rethinking of current property-led redevelopment of urban villages in China: a step away from liveable cities

Introduction

There can be no doubt that the older inner cities in China witnessed a significant increase in the amount of development activities in the past two decades. Both public-sector and private-sector were actively encouraged in this behavior by property booms and by urban regeneration. One of the interesting issues is how a location can be chosen as a candidate site for redevelopment. It normally depends on a set of social, economical and political judgments upon which it will be difficult to obtain general agreement. From the point of view of supply-side approach, rent gap theory provides us with important insights into this issue. If, for example, we predict, a location contains a huge rent gap, it will be more likely to be renewed because of an extra land rent which can be appropriated by the flow of national and international banking capital into development. This implies that an increasing rent gap can present local rentiers and property developers in effect with the opportunity to speculate. Two types of sites thereby become hotspots for redevelopment, namely, industrial land sites and land from urban villages. The big rent gap embodied in derelict industrial land is partly derived from capital depreciation and urbanization, which has been clarified by Neil Smith and his followers, and is partly derived from institutional changes in a property rights regime, which remains unclear in the Chinese context. The 1990s was a particularly prosperous period in China within which industrial sites redevelopment took a dominant form. However, Firms in search of cheap industrial sites have found opportunities closed off as industrial sites gradually disappeared at the late part of the decade. Property developers thereby diverted their attention to land sites in urban villages where rent gap also increased. In general, urban village redevelopment involves complete demolition of the existing low-rise dwelling housing and new construction of new properties in the refurbished land. The main driving force behind the projects and the partnership in Chinese cities is typically local authorities. These projects logically reflect a fundamental principle of urban renewal policies whose primary thrust is to achieve urban regeneration through attracting and assisting investment in property development. The paper attempts to examine, primarily through empirical research on an actual urban village redevelopment project, the impact of such urban policy on the area. Comment is then made on two major issues, namely: who in the population has benefited from the policy pursued and who has not; and is this policy helpful to create a liveable city. These are the kinds of questions which we must eventually face up to. Notably, a set of ethical standards and social preferences always exert negative influence on measuring the success or failure of planning policies. A generally accepted social objective is thereby needed for the analysis. We consider that the rationale for the policy is to create a liveable city where inhabitants have equal accesses to social-economic resources necessary for production and consumption. The research emphasis is on the mechanisms which tend to bring about changes in an individual’s income in urban village areas.

Real income in an urban village system

Urban villages in China are commonly defined as those rural settlements which are deprived of arable land and are enclosed by urban built-up areas. Being independent from a traditional Chinese urban system based on state-owned land ownership and formal economy, the property rights regime of urban villages is collective ownership. It is a new spatial form caused by Chinese rapid urbanization initiated from the 1990s. Although there has been a profusion of studies on it, mirroring the growth of the phenomenon itself (Li, 2001; Zhang, 1998; Qiu, 1998), few firm conclusions have yet been reached in relation to the mechanisms which generate income inequality in the area. Urban villages are often misinterpreted by some as no better than Chinese slums because the area is commonly inhabited by the poor and transient, and as such it is associated with bad environment, overcrowding and social problems. This causes a very poor understanding of urban villages. In fact, they are by no means slums from the point of view of production and consumption. The rationale for slum is
an area where the population lacks resources to compete successfully and where collectively it lacks control over the channels through which such resources are distributed or maintained (Harvey, 1973). However in an urban context, urban villages (in China) can be regarded as an aggregation of natural and artificial resources to provide necessities for the population in the area, for instance, low-income housing, cheap daily service and new employment in the unskilled low-income category. Although the difficulty of expanding the supply in the inner city (partly due to institutional constraints) means that these resources are relatively high priced and frequently more profitable for the property owners than it seems to be under true equilibrium conditions, there can be no doubt that urban villages have thus served to improve the options for both the local residents and the low-income immigrants to survive in the area.

Local authorities and professional developers usually take a leading role in land and property development in urban area. However, thanks to the collectively-owned land ownership which empowers the property owners (most of them are local villagers) to directly participate in land and property development, they take the place of local authorities and professional developers and therefore become the main beneficiaries from land exploitation activity within the jurisdiction.

It appears that the judgment upon whether it is a liveable city depends on an individual’s command over the use of a society’s scarce resources. This power can be perfectly reflected by income. It is therefore rather important to begin by examining the existing income structure in urban village areas which consist of two types of population, namely, local villagers and immigrants.

An urban villager’s income is composed of two parts, namely, earned income and unearned income. Earned income refers to the income earned by putting labor force on the market, for example, working at local restaurants or manufacturing plants nearby. The wage is the price they get when they succeed in selling it. Notably, the majority of these activities are informal economic activities which, whether remunerated directly or indirectly, are not officially included in any national accounts for purpose of taxation, social security contributions etc. This reminded us of a strong sense of coherence between informal economy and urban villages, which can be summarized as follows: on the one hand, urban villages provide the required environment for the growth of informal economy, namely, exemption from taxation or regulation and a low ground rent for reproduction; on the other hand, the informal economic activities have correspondingly brought benefits for the development of urban villages, namely, new employment, cheap daily necessities and economic vitality. Notably, this part of income accounts for a small proportion of total income of urban villagers according to the statistic of Guangzhou case and the proportion is gradually shrinking partly due to an increasing unearned income and partly due to an oversupply of labor supported by immigrant wave. Conversely, unearned income refers to the income earned through putting property (fixed capital) on the market. The income is the price they get when they succeed in renting it. Normally, unearned income is the algebraic sum of 1) annual rent which is appropriated by leasing private property and 2) annual bonus which is mainly derived from leasing collectively-owned property or raw land. This has some interesting implications, one of which is that the change of income is bound up with the change of land rent. The actual annual rent of a structure, whatever it is a private housing or a collectively-owned property, depends on both building value and land value. In the context of urban villages, the building value is quite low partly due to lack of inward investment on the area and partly due to fixed capital depreciation. The land value is conversely quite high because of continued urban development and expansion which has historically raised the ground rent level in the inner city. As thus, the land value, which is appropriated in economic transactions as ground rent, plays a decisive role in the annual rent which is the major income source of urban villagers.

For the immigrants, the only way to obtain income is putting their labor force on the market. Compared with formal economy which requires educated and skilled workers, a large number of immigrants who are uneducated or semi-educated therefore have little option but to engage in the informal economic activities. Household production of goods and services is one of typical informal economic activities which the immigrants can easily get access. A win-
win situation thereby arises: informal economic activities provide the immigrants an access to income on the one hand and offer cheap living materials and services for the communities and neighborhoods on the other hand.

If we change our perspective and look at the way in which the location of jobs and housing has changed, it cannot be denied that the “hidden mechanisms” in the complex urban village system have simultaneously caused an income inequality and have exerted a negative influence on social mobility in the area. For instance, most of the growth in new employment has been in the suburban ring caused by industrial relocation and by suburbanization and hence the low-income immigrants have gradually been cut off from new sources of employment which plays a decisive role in social mobility. In conclusion, although there are some limits (as discussed above), the urban village area can still be regarded as an ideal place which can offer the majority of the population in the area considerable opportunities and benefits.

**Property-led redevelopment of urban villages and its redistributive effects**

Chinese cities have grown very rapidly in the past twenty years or so and this growth has raised a crying need for available construction land. Since the urgent demand cannot be fully satisfied by limited urban expansion restricted by institutional constraints, such as zoning regulations, local authorities have to shift their focus on the inner city area where rent gap has also grown. In this context, a property-led urban village redevelopment was initiated. From the policy point of view, it should be clear that the redevelopment strategy is likely to bring about a redistribution of income by restructuring the social space of the area. It is possible in this essay to discuss its mechanisms and proceed largely by way of examples.

In a general redevelopment project, land (collectively-owned) is in the first place reclaimed by local authorities from original householders. The use of compulsory powers is normally necessary where a site scheduled for redevelopment is in fragmented ownership. Then the cleared land is disposed of to an outside party at a negotiated price, that is, land transfer fee. In the end, a property-led redevelopment is started according to conditions imposed on the disposal (Figure 1). Notably, a local authority decides to clear an area, not merely because redevelopment is desirable, but also because it is profitable, either to remove dwellings that are considered unfit for human habitation, or to fulfill a wider planning objective, in this case, to fill up a deficiency of land supply in the inner city. If it decides to launch such redevelopment program, it is required to do so at an appropriate price (land transfer fee) to achieve a balance of revenue and expenditure. This implies that the success of such property-led redevelopment fundamentally relies on an appropriation of extra rent. In an urban context, the rent for a piece of land normally depends on a set of natural and artificially created scarcities. In this case, for instance, a stiff monopoly price can be asked for a luxurious community rebuilt in the cleared area because it can offer middle class an opportunity to move back to the inner city. Urban village redevelopment, to some extent, is such a process to create scarcity by offering new offices, new dwelling housing, new shops, and new transport links and so on. Therefore, there can be no doubt that the redevelopment brings benefits to the area. But the question is who in the population has benefited from the redevelopment policy pursued and who has not.
We now turn to a consideration of the hidden distribution mechanism, which can be an attempt to answer the above question. In order to be more certain what has happened, it requires a thorough investigation into the decision-making system, which plays a leading role on the final distribution. Notably, since the distribution between the state and local authorities has a fixed ratio, namely, 8% - 10%, a particular emphasis is thereby put on the bargaining processes among the other participants.

We drop the assumption adopted by game theory claiming that participants are equal in their command over resources and consider a “weighted decision game” which accords with the reality. In a weighted decision game, each person brings to a coalition a certain “resource” which can be used in the bargaining process. This resource may be a vote, it may be money, it may be influence, or it may be information. The outcome depends on the emergence of a coalition which has enough resources to “win” (Harvey, 1973). In addition, it can be noted that whether a group can function effectively within the bargaining process also has a direct bearing on the decision-making system. It is brought out most clearly in the analysis of group choice provided by Olson, claiming that “The smaller groups – the privileged and intermediate groups – can often defeat the large groups – the latent groups – which are normally supposed to prevail in democracy. The privileged and intermediate groups often triumph over the numerically superior forces in the latent or large groups because the former are generally organized and active while the latter are normally unorganized and inactive (Olson, 1965).” These general conclusions have significant implications for our understanding of the decision-making process as it operates in an urban village context. I shall begin the discussion by identifying three participants, namely, local authorities, professional developers and property owners.

**Local authorities**

By virtue of the devolution stimulated by the economic reform, Chinese local authorities are appointed to carry out daily land management, namely, withdrawing rural land, leasing urban land and formulating land-use plans under their jurisdictions. In return, more than 90% of total land transfer fee will be acquired by local authorities as a local finance. In this way, the local authorities become the promoter and server as well as supervisor of such rent extraction based activities. Notably, although the local authorities are a well-structured organization composed of minority political elites, there was bad bureaucratic habits muddle over its effectiveness in the bargaining process. We thereby regard the local authorities as a “medium group”. Outwardly the local authorities are the most powerful actor involved in the redevelopment but its ability seems to be confined by a set of factors, such as, investment and political achievement. It thereby causes a relatively weaker bargaining position,
especially after 1998 when professional developers take a leading role in property development.

**Professional developers**

In a free market economy, professional developers are normally defined as a well organized group who can promote an optimal timing of land-use change, ensure that the current value of land and housing reflects expected future returns, seek to organize externalities to enhance the value of their existing developments, and generally form a coordinating and stabilizing function in the face of considerable market uncertainty (Neutze 1986; Hall et al. 1973). This definition can be perfectly applied to Chinese context even though national capital plays a significant role in the capital composition. It cannot be denied that those state-owned or partly state-owned developers are deeply influenced by the non-market factors, partly going against the principle of market economy. For instance, such companies can be required to participate in some government-led projects which are non-profit making. However, it is also worth noting that the existence of national capital indeed promotes a long-term cooperation between the developers and Chinese local authorities by building trust when the land and property markets are uncertain in 1990s. In this context, professional developers of any size can be classified as a “small group” because of its effectiveness in operation and organization. Investment, both direct and indirect, can be considered as a useful bargaining counter in the disarmament talks. Notably, a close affinity with the local authorities enables the professional developers to be more influential in the decision making process.

**Property owners**

Concerning the property owners, it is difficult to categorize them to any group due to their uncertainty. Normally, it is unlikely for such self-interested property owners to come together to form a well organized group which will then act voluntarily for Pareto Optimality. However, large masses of property owners have a chance of being an integrated group through external coercion, such as that imposed by property-led redevelopment policy. In the context of urban village, the property owners usually keep themselves in an advantageous position partly due to the collectively-owned land ownership which provides them the most valuable bargaining resource and partly due to the effectiveness caused by the village committee, an administrative unit elected by all the villagers.

Although this section cannot provide detailed information for how the bargaining process affects the real income, the analysis provides us with important insights into the issue. Some predictions can be summarized as follows: 1) Because of taking a strong bargaining position, the property owners can benefit from the property-led redevelopment no matter whether the income takes a form of rent or interest. It implies that if the revenue property owners expected is less than what they gain before, the redevelopment will never happen. 2) Both the local authorities and the professional developers are beneficiaries in the game through cooperating with each other in the beginning process.

Who is the loser? The answer is in the affirmative. The low-income immigrants become the final loser and meantime lose up the access to social-economic resources necessary for social mobility. Firstly, boom of urban village redevelopment directly causes a decreasing supply of low rental housing. It implies that a higher rent can be charged for this type of housing. As a result, the real income of the low-income immigrants is accordingly reduced. Secondly, the collapse of urban village also causes a complete breakdown of informal economy in the area, which was an essential provider of necessary resources for the low-income immigrants. This without any doubt cuts down all the possibilities for the low-income households to settle down in the renewal area.

If we consider a liveable city should be a place where all the residents can enjoy equal access to social-economic resources. It appears that the current property-led redevelopment policy is not designed for such a goal. In reality, the “hidden mechanisms” of income redistribution in a complex city system usually increase inequalities, rather than reduce them (Harvey, 1973). The redevelopment strategy has thereby deviated from the original target of
building a liveable city.

Case study: Property-led redevelopment of Yangji urban village

This chapter is a critique of the property-led urban village redevelopment on the basis of a prototype Guangzhou (China) case, namely, a redevelopment of Yangji urban village. In assessing the impact of the project, the paper focuses on the thorny issues of the limitations of a rent extraction based redevelopment activity to revenue growth of population in the area, and also gives witness to a fact that the “hidden mechanisms” of property-led redevelopment in urban villages usually increase income inequalities.

Background

Yangji village, located in the urban new centre of Guangzhou, was one of the first urban villages in Guangzhou to achieve major physical regeneration. In 1980s, the first land acquisition was launched in Yangji village by the local authority in respond to the new construction of Tianhe sports centre which was a flagship project for the 6th National Games. The success of this radical scheme has paved the way for a second and more ambitious urban development projects in this area. A large scale of land acquisition in Yangji village has thereby been accomplished in the next two decades, which has contributed to a miraculous rise of Tianhe urban new zone on the one hand and an emergence of typical urban village characterized by rentier economy on the other hand. Rentier economy has a special definition here which refers to a type of economy where a large amount of profit-income generated takes the form of property income, received as interest, intellectual property rights, rents, dividends, fees or capital gains. The identity of villagers has therefore been changed from agricultural producer to rentier partly due to a decrease of available arable land and partly due to an increase of urban land rent. Figure in 2008 shows, regardless of reserved land of 223300 square meters and rural housing site of 107600 square meters, all the arable land has been acquired by the local authority in the name of urban development. Meanwhile, Guangzhou local authority, a group of progressive leaders worried about a shortage of land supply in the city centre and the city’s fiscal position, combined forces with professional developers in search of cheap sites to produce a redevelopment plan for the area. Notably, where property development has been the key objective, the strategy often adopted has used environmental and other image improvements to coax others into development (Bianchini, 1990). It gives a false color to the real objective of the redevelopment project, which is supposed to push up rents and land values and to create active markets where formal economy has become stagnant or collapsed. It implies that the redevelopment scheme is directly framed as attempts to redistribute benefits among the various social groups through taking a series of measures, for instance, clamping down on informal economic activates and land acquisition to re-taking control of the area. The redevelopment project has thereby a major impact on income distribution which is in relation to the larger issue, namely, our judgment on whether the property-led redevelopment policy is in keeping with the principle of liveable city.

In chronological sequence, Yangji urban village was composed of old village part which was characterized by old style multi-storey dwelling units and new village part which has become fully integrated into the surrounding urban environment. The redevelopment project was conditioned to the old village area where impressive rent gap most certainly acted as a provocative stimulus to the participators. Within the target area which consisted of reserved land of 10700 square meters and rural housing site of 107600 square meters, all the structures which amounted to 347600 square meters have been demolished to pave the way for new property development. The scheme without doubt has changed the flows and institutional relationships through which development took place. It brings in new participators and resources at the cost of considerable subsidy. This has a powerful impact on what was built and who was involved in and benefited from the plan. Therefore, we now turn to a consideration of the financial problems. These issues are very serious and unless
they can be solved satisfactorily, are likely in practice to prevent private-sectors from the redevelopment of Yangji urban village. With this question solved, the question of what exactly each group gained or lost in the redevelopment is also provided with an answer.

**Financing plan**

In Yangji urban village it was to be expected that the market value and consequently the compensation payable in respect of individual properties was low. But these areas tended to be very heavily built up with an FSI of 3.12. The cost price of achieving acquisition and clearance thereby greatly exceeds the price of new land if the same FSI is applied. It is also clear that the cost of maintaining and servicing the project could constitute a long-term drain on public finances. In order to avoid these potential dangers for local economies, a special financing plan was initiated by the local authority to get rid of a planning loss. The rationale for the plan was to achieve a balance of revenue and expenditure by disposing of cleared land to private developers. It implies that the success of the redevelopment project primarily depends on whether the total cost can be fully covered by the fee a developer will pay for the site. Notably, how much a developer will pay is defined by a set of factors, the most critical one of which is supposed to be conditions imposed on the use of land/or its disposal. In this context, the local authority may, in the interests of a wider objective, wish to impose more stringent conditions on development on the area to be compatible with their logic by way of conditions in a planning permission or conditions on disposal of land. However, developers may, motivated by self-interest, look for less stringent conditions to maximize the profits. In Yangji case, for instance, one of the key issues of their concern was FSI, which was used as a measure of the intensity of the site being developed. Local authority might want to secure development in a low FSI in the inner city area which might not satisfy the desire of the developer, who were always in search of a high FSI to produce more skyscrapers. In this bargaining, the developer had the initiative partly due to its efficient organization and partly due to the role of investors. By exerting pressure on political mechanisms for land-use regulation and provision of infrastructure, monopoly price for new high-grade offices and luxury dwelling units would be required in the renewal area. This monopoly rent accounted for a high proportion of a developer’s earnings. In addition, the local authority could also benefit from the high rents motivated by the redevelopment project. Indirect evidence comes from Figure 2, which shows that, in a given financing target (2.269 hundred million EUR) together with a given land area (3.69×10³ square meters), a negative correlation could be found between estimated land price (capitalized land value) and FSI. This implies that it is necessary for the local authority to maintain a high land price to achieve a low FSI in the renewal area.

<table>
<thead>
<tr>
<th>Financing Target (Hundred million EUR)</th>
<th>Plot Area (10³M²)</th>
<th>Land Type</th>
<th>Estimated Land Price (EUR/M²)</th>
<th>FSI</th>
<th>Estimated Building area (10³×M²)</th>
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<tr>
<td>1</td>
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<td>3.69 Commercial Property</td>
<td>850</td>
<td>7.23</td>
<td>26.69</td>
</tr>
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*Figure 2: Financing plan of Yangji case
Source: 2008 Regeneration Planning of YANGJI City Village, GUANGZHOU*
Bargaining between the local authority and the developer thereby has led the local population to a position which is far from optimal since the other two communities, namely, the villagers and the tenants are ruled out. Notably, these two communities will confront different conditions. For the villagers, since most of them are property owners who can benefit everywhere where property values sustain an increase, what they concern is whether they can retain the rights of habitation in the renewal area and how much compensation they can obtain. Conversely, the tenants are actually losers because they have no command over resources. Although the study is limited by a lack of access to original source data, which would make a hidden weighted decision game visible, there are still some implications to issues of redistribution and access. On the basis of a consideration that the villagers and tenants make up of the majority of the population in the area, the rest of this essay therefore concentrates upon them.

**Urban villagers and compensation**

The general basis of the compensation code was that a property owner/household who was dispossessed would receive a replacement dwelling unit in situ together with compensation for disturbance where appropriate. The building area of replacement dwelling unit depended on individual circumstances – the two main factors were building area and storey of standing property on the site, which could be summarized as follows. Firstly, all the 4-storey or lower dwelling units would be fully rebuilt and if a dwelling unit was more than four floors, the extra part would be proportionally rebuilt, namely 2 to 1, in a collectively-owned property form. For instance, one household who owns a six-storey dwelling unit with 300 square meters will be rehoused to a private dwelling unit with 200 square meters and obtain an annual bonus which was derived from the 50 square meters collectively-owned property. Secondly, a special building permit of an extension to 3.5-storey would be given to those households whose properties were less than 3.5-storey. Thirdly, households who had only one dwelling unit with less than 130 square meters would be distributed to a dwelling unit with 130 square meters. This compensation has changed some of the rules of the redevelopment game, which suggests that few economic benefits flowing from investment in property-led regeneration strategies would automatically trickle down to local communities. But in Yangji case, there can be no doubt that the owners, whether they were owner-occupiers or not, can benefit from the redevelopment. The compensation has a powerful influence on real income of the property owners. This can be achieved primarily by, on the one hand, rapid growth of ground rents and property value in the area (primarily due to a return of private capital investment), and, on the other hand, an intensive rentier strategy promoted by the redevelopment plan, linked to fully transforming agricultural production into primarily service nodes. This has an immediate implication for real income in that it indicates earned income becomes of little contribution to the income of the property owners. For instance, forecasts show that average rents of the dwelling units will be increased from 2 EUR/ m² to 4 EUR/ m², and that average rents of commercial properties will raise to the average level in the periphery, namely, 7 EUR/ m². Notably, the compensate code also witnesses of a strong position of the property owners in the negotiation with the local authority. Olson seems offer an explanation, pointing out that large mass of people motivated by self-interest can be organized for their own collective good only through inducements, for instance, in this case, the right of habitation and the right to development, or through coercion, in this case, the conditions imposed by the redevelopment scheme.

**Tenants**

We now turn to a consideration of the tenants in Yangji village who constituted over 65% of the total population in the area. We consider a weighted game exists in the redevelopment. In this type of game, each group brings a certain “resource” which can then be used in the bargaining process. The outcome depends on who has enough resources to “win”. Obviously, the tenants in this case had no resource to win and thereby became a loser. In practice, far from producing a trickle down of economic benefits to the tenants, property-led redevelopment strategy poses a negative influence on real income of the tenants, who are
normally low-income immigrants. On the one hand, most of the tenants engaged in the informal economy activities have suffered from unemployment because of the removal of informal economy form the area. Besides, the tenants have little opportunity to tap new sources of employment since there are mainly located in low rented areas. On the other hand, the strategy pushes up rents and land value, thus making, for instance, the construction and maintenance of affordable housing in the vicinity a less economically viable proposition. Most importantly, the tenants have been deprived of the access to the socio-economic resources necessary for production and consumption.

Conclusion

Although the redevelopment scheme can offer the richer and privileged considerable opportunities and benefits, it has also serious limits to what they can achieve, one of which is that it provides little help for the poor. In fact, an intensive income inequality has been created through such property-led redevelopment and this is likely to threaten real economy. Under such policy, the rich and relatively resourceful can reap great benefits while the poor have no access to the necessary socio-economic resources. The main reason is, as Harvey suggests, that inequality of resources available for the bargaining process creates a condition for the further disposition of resources so as to reinforce that inequality. It would be wrong, therefore, to adopt such property-led redevelopment, though they might meet the needs of the rich and relatively resourceful, as an alternative to less immediately visible and longer-term strategies aimed at providing an equal opportunity to all the residents, namely, the rich and the poor. In a nutshell, what a real liveable city requires is social justice supported by a package of right policies, not just statistical growth.iv

Zhe GAO, PhD candidate at ASRO, K.U.Leuven, Belgium

i Floor space index (FSI) is the ratio of the total floor area of buildings on a certain location to the size of the land of that location, or the limit imposed on such a ratio.

ii The difference between the costs of acquiring and clearing a suitable site for redevelopment, and its market value for the new use, may conveniently be described as the planning loss or gain.

iii A dwelling unit with 3.5-storey refers to a 3-storey dwelling housing with an attic.

iv All figures quoted in 2008 Regeneration Planning of YANGJI City Village, GUANGZHOU

Reference

Harvey David (2009) Social Justice and the City, Athens: The University of Georgia Press