

Imbalanced urban growth cycles – the limitations of AD HOC planning in Estonia

Antti Roose^{1*}, Martin Gauk

¹*University of Tartu, Estonia*

**antti.roose@ut.ee*

The housing market experienced a historical volatility in Estonia during the last decade. Influenced by a strong growth of the economy and too-easy spatial planning system, the housing market suffered eventually from a large oversupply of residential projects as the crisis hit. Housing policy and the residential development should deliver a supply of dwellings that satisfies current and expected future demand while minimizing excess. However, it has proven to be a difficult task, as real estate developments are cyclic in nature and usually lagging a little behind the real economic cycle.

This study takes an in-depth look at the real-estate development in Estonia and explores the dynamics and time-lags between urban planning, construction and financial cycles from 2000 to 2014 in the second tier city of Tartu and its fringe. The dataset was assembled using data on 6 comprehensive plans and 681 detailed plans gathered from municipalities and 3598 residential buildings with 7922 dwellings, surveyed by the authors and complemented with the data from the Estonian Building Register, supplemented with information from Statistics Estonia and other governmental resources.

The results show, that as the residential projects have been lagging behind financial cycles, having different delays and strengths of path-dependence across councils and spatial allocations. The mean time-to-plan has taken 25 months in the city compared to 16 months in the suburbs. The mean time-to-build has taken an additional 29 months. Time-to-plan lags vary considerably around these averages depending on the characteristics of the project and its location. For example, time-to-plan lags have been longer for larger, more complex projects, and in heritage protected districts as

well as in areas with greater population densities as there are more stakeholders with different interests involved.

The large scale initiation of preparations of detailed plans for new residential projects started in 2003 within the city limits, but quickly spread to the suburbs as the economy grew, interest rates dropped and the demand for affordable single-family dwellings increased. The initiation of preparation of detailed plans peaked in the city in 2004 with 38 plans for 2328 new dwellings and the adoption of plans in 2005 with 31 plans for 1599 new dwellings. The issuing of building permits peaked in the city in 2005, but most of the new dwellings were completed in 2006. In the suburbs, however, the real estate market was lagging behind at first, but the competition soon took over the majority of the market share for new developments. The large scale land developing in the suburbs gained momentum a year later than in the city, in 2004, with the initiation of preparation of 58 detailed plans for 799 new dwellings, which was three times lower at the time than in the city, but the imminent shift towards suburbanisation took place in 2005 when the initiation of detailed plans in the suburbs was twice as high than in the city. The initiation of detailed plans peaked in the suburbs in 2007 with 58 plans for 3078 new dwellings and the adoption of plans the same year with 51 plans for 2353 new dwellings.

As the boom hit the region, the demand for vacant residential land for construction skyrocketed and prices started to climb drastically to the point where investing in urban land started to become more profitable than to invest in construction. This was especially acute in the suburbs, where developers and suburban land owners started to rezone cheaper suburban agricultural land into residential land by initiating large numbers of detailed plans. As the land price could be increased on average by 92%, the land developers were primarily focused on the purchase of undeveloped agricultural land, its rezoning and subsequent re-sale.

The boom was short lived and the initiation of new plans was halted, but the construction activity did not hit bottom until nearly two years later in 2009. However, a lot of the adopted detailed plans were left pending in the planning offices as the interests of the developers diminished. The capital inflows dried up 2007, as the banks couldn't afford to continue to lend which caused a fall in domestic demand which in

turn lead to lower consumer spending, fewer property transactions, and halt in construction. By the end of 2014, only a third of the planned residential projects had actually been implemented both in city and in the suburbs. This is especially visible in the suburban zone where fragmented and patchy, chaotically built-up landscape threatens the sustainability of the new residential areas with detached houses delivering an average residential density in the fringe 40–70 in/km². The latter is irrational and inefficient in terms of utilities, urban infrastructure and public services.

The massive excess planning was caused by the discrepancies between financial and real-estate development cycles and the related uncertainties in demand and purchasing power on the one hand, and by the opportunistic land price speculations amidst loose planning controls on the other. Neo-liberal planning framework coupled with the fact that 97% of the housing stock is owned by private sector has proven itself too weak for growth management. The study underlines that the ad hoc planning model with strong private interest-driven detail planning at municipality level is inefficient to direct spatially-adjusted residential development, increase urban densities and buffer market volatilities. Emerging call for city-region approach in real-estate development presents a fundamental change in land use planning in Estonia.