

***“Assembling ideas, interests and institutions:
the delivery of Rio de Janeiro’s port regeneration project”***

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After decades of studies, lobbying and proposals the regeneration of the port area of Rio de Janeiro was announced in June 2009 in an official ceremony attended by the president of Brazil, the governor of the state of Rio, and the mayor. The presence of the political leaders symbolized the union of their governments to overcome jurisdictional barriers and turn the project in a reality.

The *Porto Maravilha* program aims to regenerate 5 million square meters of docklands, rail yards and warehouses into a new mixed-use neighbourhood (figure 1). Signature buildings by some of the stars of the architecture system such as Santiago Calatrava and Norman Foster are changing the waterfront landscape with office towers, residential condos, museums, an aquarium and a renewed public space. Despite not featuring any prominent Olympic facility the program is being heralded as the main legacy of the 2016 Games.



Figure 1. The delimitation of the *Porto Maravilha* regeneration program.

The inadequacies of the port to adapt to the new container technology since the 1960s and the construction of the new Port of Itaguaí in 1982 led to the decline of activities and to the dereliction of buildings. Plans for urban renewal have come in succession but were barred by conflicting public interests, institutional resistance on the part of the port authority, and insufficient support from private investors. Where previous plans failed to progress from the study phase or producing minor interventions, the announcement of *Porto Maravilha* took place in very favourable circumstances.

First, political alignments facilitated negotiations and in this case the release of land belonging to the three levels of government. Second, the strong growth of the Brazilian economy in the latter half of the 2000s, and of Rio in particular, created a strong demand for office space. The growth of the oil and gas industry with the discovery of new deep-sea basins was an important factor pushing corporate demand for new office space in Rio. Third, new planning instruments regulated in 2001 enabled the implementation of self-financed regeneration schemes. The urban operations instrument foresees public capture of planning gain by selling additional building rights to erect taller buildings to developers and the money re-invested in the regeneration of the area. Fourth, was the interest and lobbying of four of the largest Brazilian construction companies which produced the feasibility plan for the regeneration program and won the bid for engineering works and provision of services. Finally, was the momentum given by the hosting of the incoming mega-events, which further enhanced Rio's visibility and pushed for the fast-tracked approval of by-laws and planning permissions.

This presentation analyses the assemblage of the *Porto Maravilha* program and its delivery six years into the development phase. More specifically, it focus on some of the key elements assembled: the *idea* of an urban operation modelled after regeneration experiences in São Paulo; the *interest* of construction companies, the real estate, and the Caixa Econômica Federal (CEF), a national savings bank acting as the main developer; and finally the *institutional* design of the urban development company responsible for implementing and coordinating the program.

The model for the regeneration programme was based on a study commissioned to a consortium of construction companies. The final report advocated strongly to two core premises: to characterise the regeneration program as an Urban Operation (*Operação Urbana Consorciada*, OUC); and to establish a Special Purpose Vehicle (SPV) responsible for the program. The OUC was favoured for its 'assured flexibility in terms of urban parameters'. In accordance to the specifications of federal law 10.251, known as 'the City Statute', this model of urban intervention gives the basis for the review of planning controls to be altered and financially leveraged by the state ('value capture') which in turn is used exclusively to finance the operation. The consortium financial proposal was thus based entirely on the sale of certificates of building rights that allows the development of towers above existing height limits – known as Certificates of Additional Construction Potential (CEPAC) – to cover all the necessary works in infrastructure and the delivery of public services.

Accounts justifying the regeneration of Rio's port area constantly pointed the need to expand the neighbouring CBD. The port area is portrayed as 'a natural vector' of the central district, for its low density occupation and for having most of its land and properties belonging to the public sector. The growth of the national and local economy; the shortage of office space; and the spatialization of the oil and gas

industry in Central Rio were important elements giving confidence to the project of regeneration of the port area. However, the key players in the design and implementation of the program were the Brazilian construction companies and the CEF.

The interest of the construction companies that developed the commissioned proposal was motivated not only by the civil engineering works previously studied for the area – such as the construction of tunnels, express ways and the upgrading of the utilities infrastructure – but also for the delivery of urban services. The provision of services include, among others, street cleaning; waste collection; maintenance of roads and public areas; street lighting; traffic management; and landscaping. Despite the experience in some of these services by the holding of the construction companies the provision of all services concentrated in one company is a pioneering factor.

The estimated costs of the *Porto Maravilha* are of BRL 3.5 billion as to pay for the works and services carried by the construction companies. This amount was leveraged by the auction of all CEPACs in a single batch that was won by CEF in 2011. CEF is the second largest state-run financial institution in Latin America and the federal government's main structure to implement infrastructure, housing and sanitation programs. CEF is also responsible for the management of important assets such as the FGTS which are monthly deposits of 8% of an employee's salary repassed by employers and assigned to individual accounts.

Rather than a politically-motivated investment, the use of FGTS to pay for the CEPACs of *Porto Maravilha* was defended by CEF as an opportunity for investment with great returns.

Having the ownership of all CEPACs, that totals more than four million of additional square meters, and the preferential buying option for most of public land, CEF became a powerful developer of the regeneration program. Since acquiring the certificates CEF has entered into talks with a range of developers. However, rather than the sale of the certificates, CEF decided to form a partnership in most of the developments by bartering the CEPACs and/or the acquired land.

The first negotiations of CEPAC turned out very profitable. Each certificate of the single batch was bought at BRL 500 and according to ADEMI recent deals were set at a price of BRL 1.200 per certificate. The downturn in the Brazilian economy and the local real estate market resulted in few development announcements made in 2015. However, the concentration of risk at the hands of a solid public institution and the long term character of the project gives confidence to interested players in a recovery very soon.

The Urban Development Company of Rio de Janeiro's Port Area (CDURP) occupies the strategic position of coordinating the operation as the intermediary between governments, CEF, developers, the local population and pressure groups. The creation of an autonomous entity linked to the municipal government was one of the conclusions of a previous plan elaborated in the early 2000s. Following the experiences of France's *zone d'aménagement concentré* and Buenos Aires' Puerto Madero, the creation of an urban development corporation was understood as a way to mitigate the influence of electoral cycles and public budget constraints that could compromise the operation. In fact, this was a key argument of the report from the construction companies, which despite advocating São Paulo's OUC model, urged for the creation of a special purpose vehicle (SPV) that did not exist in the case of that city.

Porto Maravilha is a paradigmatic case of institutionalizing an exceptional regulation and governance structure for a specific part of the city. Following the urban operation directives a clearly demarcated area is set up for intervention. In that area planning controls are reviewed in order to stimulate development interest, most noticeably land use changes, the partitioning or merge of lots, and floor-area ratios to allow taller structures. Value-capture systems are envisioned to direct planning gain back into the area by way of upgrading infrastructures, financing engineering works, and the provision of services. The reasoning for the program is bound up with establishing structures that gives confidence to investors. This, in practice means not only isolating the operation from political interference but also from the city. A separate entity is created as development authority and when planning applications go through standard municipal processes, a system is in place to fast-track and give priority to them. Finally, this view is confirmed in the privatization of public services, which set independent targets of performance from the rest of the city.

Beyond the impact of the program in Rio de Janeiro, it is expected that the experience establish a regeneration model to be rolled out in other Brazilian cities. The key elements of this model include the implementation of the urban operation tool, the financing via the sale of CEPACs, the privatization of public services, and potentially the involvement of public financial institution such as CEF to assume the risks of the operation and guarantee the implementation of the model. If that is the case, as indications of visiting mission from other cities to Rio demonstrate, the regeneration of Brazilian cities reinforces the legacy of developmentalist policies in the interest of private capitals with little influence over the making of new places.