

Inter-American Development Bank



OLD CITIES, NEW ASSETS

Preserving Latin America's Urban Heritage

Eduardo Rojas

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Eduardo Rojas

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**For Cristina,
Francisca, Diego and Jimena**

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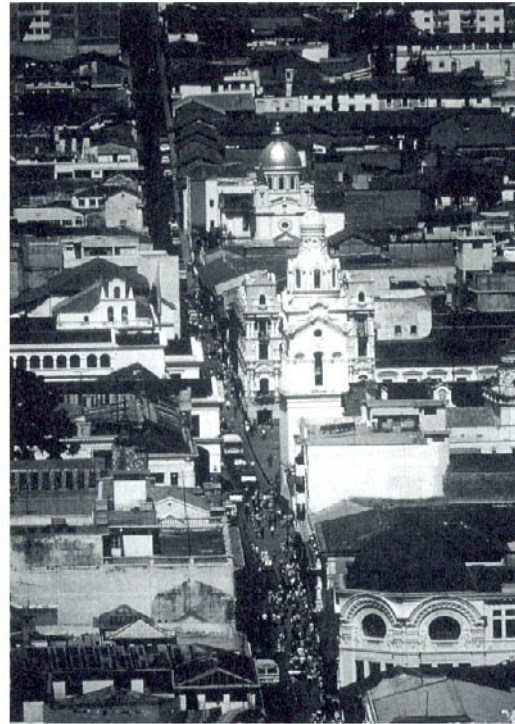
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Foreword

The unique and varied cultures that enrich Latin America and the Caribbean do more than just define regional and national identities—they also constitute a valuable asset for socioeconomic development. Valuing a common past furthers social cohesion and enhances a society's capacity to build a shared future. And in today's global economy, cultural heritage attracts international interest and opens access to expanding markets for culture-based products and activities.

National and local governments increasingly recognize the potential contribution of culture to development and are moving to protect and promote the different expressions of their local culture. One such expression is urban heritage, the complex and varied array of historic buildings and infrastructure that form the core of cities and towns throughout Latin America. Neglected for many years, urban heritage is finally be-



ing restored and revitalized by enlightened communities that are discovering its historical value and economic potential. Preservation and development efforts are even moving beyond the promotion of tourism to

more pragmatic objectives, such as maximizing the use of centrally-located and potentially valuable buildings and public spaces.

Just as attitudes toward urban heritage have evolved in Latin America, so has the role of the Inter-American Development Bank in supporting urban heritage preservation. With its 1994 loan to Ecuador to help preserve the magnificent historic center of Quito, the IDB became a pioneer among multilateral development banks in urban heritage investment. Other projects soon followed, including an innovative program to rehabilitate Montevideo's historic central railway station, and a loan to Brazil to strengthen national support for municipalities and states carrying out local preservation programs.

The magnitude of the task of preserving Latin America's vast urban heritage is clearly beyond the scope of the limited resources available from the public sector or

the IDB. In all of its programs, the Bank has emphasized the need to involve all stakeholders in urban preservation, including civil society and—most importantly—private real estate investors. International experience strongly suggests that urban heritage preservation is sustainable only when the whole community is involved, with each stakeholder participating in the capacity in which it is most efficient.

Of particular interest to the Bank is private sector involvement in urban heritage preservation. As part of its efforts to identify sustainable preservation processes, the

Bank conducted studies of Latin American urban heritage programs with successful private involvement. The results, as reported in this book, are encouraging. Local governments in Cartagena, Recife and Quito have established productive working relationships with private investors who are rehabilitating historic buildings. It was also found that conditions exist for sustaining private interest in historic preservation.

The purpose of this book is to draw the attention of governments, investors, citizens and nongovernmental organizations to the development potential of a collaborative

approach to preserving urban heritage. Its objective will be achieved if it stimulates interest in historic preservation among private entrepreneurs who perhaps had not considered investing in historic city centers, and if it prompts governments to design inclusive preservation initiatives that incorporate all of the stakeholders necessary for successful and sustainable programs.

Enrique V. Iglesias, President

Inter-American Development Bank

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**"The city does not tell its past,
but contains it like the lines of a hand..."**

– Italo Calvino, *Invisible Cities*

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Old Cities, New Assets

INTRODUCTION

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In Latin American cities, people walk on their history every day. Living amidst the legacy of one of history's most remarkable periods of urban settlement, city dwellers work, trade, learn, pray, debate or simply relax, all the time surrounded by reminders of their Indian and European ancestors.

In the short span of some 50 years, starting with the founding of Santo Domingo at the end of the 15th century, the Spanish and Portuguese conquistadors established most of the cities that today are the cornerstone of Latin America's urban structure, including most modern capitals. Following the dictates of good sense and the experience of many military campaigns, the conquistadors founded the cities in or near Indian settlements, taking advantage of favorable climatic conditions and abundant land and water. The proximity of the local population also provided labor and subjects for evangelization.

The interaction of the newly arrived with the original dwellers made the new cities the meeting place of European and

American cultures. In terms of architectural heritage, the outcome was sometimes negative, as when churches or public spaces were built on the sites of Indian temples destroyed to erase the symbols of indigenous religions. However, most interaction was more positive, and its legacy forms the core of today's urban heritage in Latin America. The blend of the Baroque style imported from Europe with the skills and fertile imaginations of local craftsmen spawned the unique form of Baroque architecture, sculpture and painting in Latin America's historic churches, convents and palaces. Housing designs brought from Spain and Portugal—which had evolved over centuries from old Roman and Arab models—were enhanced and adapted to local climatic conditions and materials. Palaces and houses of the colonial bourgeoisie were built around patios in the Mediterranean tradition. Facades decorated with locally carved stone entrances and window lattice were designed so that cool breezes could flow through.

Architecture was of course but one aspect of art and culture that changed and

benefited from the meeting of cultures in Latin America's cities. Indian crafts incorporated European themes imported through the Catholic religion, and music blended these traditions with those of African slaves. Successive waves of immigrants who arrived in the 19th and 20th centuries added their own contributions to the cultural melting pot.

In short, the mixed culture of today's Latin America was born in the region's cities and flourished there. The physical manifestations of urban heritage that remain—religious and civic buildings, fortifications and barracks, public spaces, and palaces and residences—show how this cultural mix evolved and, in their splendor, reaffirm the distinctive identities of Latin America's diverse societies.

Today, most of Latin America's urban population still lives in cities founded in the early 16th century. Yet the very definition of these urban areas has changed dramatically in recent times. Rapid urbanization over the past 50 years expanded metropolitan areas well beyond the

limits of the historic city centers that housed urban life for more than four centuries. Downtown areas lost importance and presence in city life. As cities burgeoned outward, their historic centers deteriorated and were abandoned. In an age of modernism, historic centers and their urban heritage came to represent all that was traditional and backward. The high-rise building and the highway became the symbols of modernity on whose behalf large portions of urban heritage were destroyed.

Fortunately, enlightened individuals and organizations stepped forward to press for preservation by promoting legislation and public investments. Governments became more active in protecting urban heritage and there are now a number of public institutions devoted to historic preservation.

Although these efforts have saved many landmark sites, there is mounting evidence that preservation of Latin America's vast urban heritage is beyond the capacity of governments, which have many competing demands for their scarce resources. Success stories in heritage preservation have shown time and again that the task requires the involvement of all social actors—not only public institutions but also civil society organizations concerned with preservation, private investors and developers, and residents themselves of historic city centers.

The key to involving all these stakeholders is to strike an effective balance between the interests of historic preservation and the profitability of investments. This book explores the practical implications of this thesis and examines cities where the

private sector is involved in urban heritage preservation. The cities studied—Cartagena, Colombia, Recife, Brazil and Quito, Ecuador—were chosen not because they are representative of preservation efforts in the region but because they have used different approaches to engaging stakeholders, ranging from uncoordinated interventions by public and private actors in Cartagena, to operation of a mixed-capital corporation in Quito and government-induced private investment in Recife. The experiences of these three historic Latin American cities can provide significant clues about the conditions under which private investors get involved in preservation, which is key to maintaining the momentum of heritage preservation efforts in the region.



Latin America's Urban Heritage

CHAPTER 1



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From the administrative and missionary settlements of Mexico City and Quito, to mining towns like Potosí and Ouro Preto, to ports that were gateways to wealth such as Cartagena and Recife, the rich urban legacy of Latin America is a blueprint of history and a beacon of regional identity. Graced with priceless historical buildings, monuments and public spaces dating from the colonial era to the early 20th century, historic cities or urban centers from throughout the region have been named World Heritage Sites by UNESCO.

An increasingly broad coalition of public and private interests are working to preserve and restore these areas. Once a concern only of a cultural elite, preservation is gradually finding its way onto the policy agendas of central and local governments, and preservation programs are being carried out by nongovernmental organizations.

Despite these efforts, however, Latin America finds itself in a race against time. The traditional patterns of streets and public spaces that give historic centers so much

of their value and charm are threatened by contemporary urban development. Many historic buildings have never been adapted for modern use. Others are simply falling apart.

Debate on the most effective approaches to preserving Latin America's urban cultural and historical treasures has led to consensus on at least one point: the task is beyond the sole capacity of the public sector, which over the years has attempted with only limited success to shoulder the burden. For all the legislation enacted and institutional experiments attempted, the region's vast urban heritage is steadily deteriorating.

An initial effort by the region's cultural elite to protect urban heritage through legislation rescued a number of sites from the ravages of rapid urban growth. But it also had the perverse incentive of encouraging private owners of historic buildings to abandon them, in the hope that the resulting disrepair would enable them to evade the restrictions imposed on developing the buildings under preservation laws.

LATIN AMERICAN CITIES DESIGNATED AS UNESCO WORLD HERITAGE SITES

1. Potosí, Bolivia
2. Sucre, Bolivia
3. Brasília, Brazil
4. Olinda, Brazil
5. Ouro Preto, Brazil
6. Salvador da Bahia, Brazil
7. São Luís, Brazil
8. Cartagena, Colombia
9. Mompox, Colombia
10. Havana, Cuba
11. Santo Domingo, Dominican Republic
12. Quito, Ecuador
13. Antigua, Guatemala
14. Guanajuato, Mexico
15. Mexico City, Mexico
16. Morelia, Mexico
17. Oaxaca, Mexico
18. Puebla, Mexico
19. Querétaro, Mexico
20. Tlacotalpan, Mexico
21. Zacatecas, Mexico
22. Panama City, Panama
23. Cuzco, Peru
24. Lima, Peru
25. Colonia de Sacramento, Uruguay
26. Coro, Venezuela

During a subsequent stage of the preservation process, governments began investing in historic city centers, creating specialized institutions and implementing demonstration projects. The preservation of the Pelourinho in the old city of Salvador in Brazil and restoration of the city walls of Old Cartagena in Colombia bear witness to many dedicated efforts by the public sector, which often had to carry out such programs amidst major budgetary constraints.

These few success stories notwithstanding, a strategy that makes preservation strictly a government endeavor clearly is unequal to the task of protecting Latin America's vast urban heritage, only a fraction of which has been preserved. There are no assurances that such efforts will be sustainable over the long term without continuous infusions of public funds. In addition, this form of public expenditure is highly regressive, since governments recover little of their investments and the beneficiaries are mostly affluent property owners.

Because of these limitations and the magnitude of the challenge facing the re-

gion, a consensus has been forged on the need to involve the private sector in efforts to preserve urban heritage. Sustainable, long-term preservation of the multitude of monuments, historic buildings, public spaces, and residential and commercial structures that make up Latin America's urban heritage can only be achieved with the support and participation of property owners, communities, real estate investors and private philanthropists.

"Sustainability" in this context refers not to fossilizing a historic site in time but to a dynamic process in which urban heritage is preserved by the social and economic activities that make use of it. In operational terms, preservation is sustainable when buildings or public spaces permanently retain their structural, stylistic and functional characteristics without requiring new investment in rehabilitation. In practical terms, this is more likely to happen when historical sites are devoted to social and economic uses capable of undertaking their proper routine and preventive maintenance.

Furthermore, the experiences of similar efforts throughout the world show that urban heritage can be preserved only by reversing the pattern of deterioration and abandonment of historic centers. This requires revitalizing the local economy by attracting private investment, but implementing such an approach involves coordinating a broad range of public and private sector stakeholders, often with widely differing agendas. The public sector has an indispensable role in developing the institutional mechanisms needed to balance these interests and promote collaboration among the many different players. The challenge is to ensure that government does not end up taking on tasks that can be carried out more efficiently by the private sector.

The goal, then, is for each of the various stakeholders in the preservation process to assume responsibilities for which it has the greatest comparative advantage. The public sector can establish a regulatory environment that is attractive to private sector investors while protecting the public interest. Existing or new businesses and

households in historic city centers can generate demand for the stock of residential and commercial real estate, thus supporting its maintenance. By rehabilitating buildings for commercial and residential uses, real estate investors can take advantage of the business opportunities afforded by historic centers, which offer their clients exceptional location graced by unique heritage treasures.

Modern Stresses on Old Designs

The downtown layout of most Latin American cities today is virtually unchanged from colonial times. In the cities established by Spain, this urban structure (dating from the late 15th and early 16th centuries) is based on a strict gridiron pattern. The practice of establishing the settlements on the basis of square blocks surrounding a central square can be traced to the military settlements established in Spain in the 15th century to consolidate the territory gained from the Arabs during the *reconquista* wars. This practice, which traces its origins to the Roman



García Moreno Street, Quito.

castrum and was later codified in the *Leyes de Indias*, produced what some authorities consider the only true Renaissance cities ever built. The regular pattern of square blocks centrally organized around the main square, and the regular placement of the main buildings in that square, reflect the Renais-

sance ideal of achieving beauty through regular forms and classic proportions.

For their part, colonial cities founded by the Portuguese generally inherited a traditional organic pattern of streets and public spaces that evolved over the years according to the growth of settlements, de-

fense needs and topography. Still, modern stresses have affected these cities in ways similar to those built by the Spanish.

Throughout Latin America, this inherited colonial structure of streets, squares and residential lots that accommodated urban growth for more than 400 years is showing signs of stress and is increasingly incapable of absorbing the demands of urban life in the late 20th century. Narrow streets are congested and polluted by vehicular traffic, public spaces are invaded by informal street vendors, subdivision of land constrains redevelopment of the parcels, and aging infrastructure cannot provide needed basic services. As a result, the most dynamic urban economic activities and high-income households often have abandoned the historic centers, leading to the further deterioration of public spaces and buildings.

The vast array of historically and architecturally significant buildings contained in the historic centers of Latin American cities are caught in a similar cycle of deterioration or abandonment. Many government buildings, churches and con-

vents, hospitals, military installations and defense perimeter walls throughout the region are fine examples of Baroque and neoclassical architecture and colonial military engineering, while many railway stations and port facilities are examples of industrial architecture of the late 19th century. Still, on a practical level, these historic buildings have not been adapted to accommodate households and firms comfortably and efficiently in today's world. This obsolescence reduces demand for these buildings, lowering their market value and leading to depressed real estate markets in historic centers (see Box 1.1).

The Preservation Process

Reversing the deterioration of historic city centers in Latin America requires significant changes in the social valuation of urban heritage, in government policies and practices, and in the prevalent trends and fashions of the real estate industry—all of which at present promote the abandon-

ment and degradation of these assets. Implementing these changes requires clarifying the rationale for investing public funds, defining priorities, identifying the most efficient types of interventions, determining who should bear the cost of renovation, and identifying viable means of cost recovery (see Box 1.2). Underlying these policy and financial issues is the broader question of the division of responsibilities between the private and public sectors, a key concern when defining efficient strategies for promoting the preservation of urban heritage.

The market itself may allocate considerable resources to preserving urban heritage, particularly when households in historic centers care for their own properties. As seen in certain cities of Europe and the United States, functional historic centers often become fashionable, attracting high-income homeowners who restore buildings as permanent or temporary residences. Communities also invest in preservation to safeguard their history and cultural identity, and tourism promotion is

BOX 1.1. PATTERNS OF OBSOLESCENCE

Functional, physical and economic obsolescence lie at the core of the urban heritage preservation problem because they generate the process of deterioration of historic buildings and their surrounding public spaces. With the march of time, it is a problem difficult to avoid and even more difficult to reverse.

Functional obsolescence of buildings and public spaces occurs when they become inadequate for the functions for which they were originally designed. The traditional houses of wealthy families in historic centers of cities of Spanish origin are a classic example. These buildings accommodated the domestic activities of extended families well into the 20th century, when changes in fashion and the desire for modern amenities made suburban dwellings more desirable. Once wealthy homeowners left the historic core of the city, the neighborhoods were turned into overcrowded slums, with what were once single homes often occupied by several families. The poor benefited by being centrally located, and landlords by extracting rental income from otherwise useless real estate. A similar pattern of functional obsolescence affects other types of historic buildings: old hospital buildings that become obsolete as a result of new medical technologies, old libraries incapable of accommodating modern-sized book stocks or new information technologies, railway



Abandoned homes in Old Cartagena.

stations no longer used, or convents and churches that communities can no longer support.

Physical obsolescence refers to the deterioration of the structure, installations or finishings of

buildings to the point where they cannot accommodate the functions they house. Usually the outcome of poor maintenance, physical obsolescence may also result from natural disasters or the sustained effect of weather or changes in urban activities (for example, vibrations generated by vehicles). Regardless of its cause, physical obsolescence leads to abandonment, since buildings can no longer be used for the economic, cultural or residential activities for which they were intended.

Economic obsolescence occurs when it is no longer profitable to continue operating the building given its physical characteristics. If the land on which the building sits increases in value, for example, there may be increasing pressure to tear it down and put the land to the market's best and highest use. A typical example of economic obsolescence is the tearing down of single family homes to use the land for high-rise housing or office buildings. Although this phenomenon mostly occurs in areas undergoing rapid changes in land use, it also affects heritage buildings and traditional homes in historic districts, particularly those close to expanding office or commercial centers. Efforts to preserve historic and culturally important buildings and public spaces must counteract speculative real estate pressures—a difficult task indeed, as seen by the rapid disappearance of historic buildings in city centers throughout the region.

BOX 1.2. KEY ELEMENTS OF THE PRESERVATION PROCESS

Designing an effective program to preserve urban heritage sites requires careful analysis of priorities, activities already in progress, the regulatory environment, private sector willingness to participate, and the capacity of a country's institutional structure to take on the preservation tasks involved.

Definition. The first step is to determine the magnitude of the preservation problem. Knowing the number, cultural value, condition and location of monuments, buildings or public spaces is key to the decision-making process. As an example, countries with a large number of monuments scattered in many localities may find it more convenient to decentralize urban heritage preservation activities to local authorities rather than promote centralized management better suited for countries with fewer and more concentrated sites. If heritage sites are severely obsolete, proactive intervention may be more efficient than the loosely organized, community-based and adaptive approaches suitable to preserve sites already in acceptable condition.

Priorities. Setting priorities for urban heritage preservation can be both complex and highly susceptible to political manipulation and professional and local bias. The legitimacy of the preservation effort rests on setting priorities through consensus. The whole community must be convinced that priorities as defined represent their wishes, or that they at least are the result of a reasonable compromise with other stakeholders. Strategies should also be flexible enough to accommodate changes in priori-

ties that may emerge as the preservation process evolves.

Institutional audit. The public, private, national and local institutions that must work together for effective urban preservation in Latin America generally have many technical, operational and financial weaknesses. An institutional audit provides early detection of these constraints and technical input into the design and costing of the institutional reforms required.

Regulatory framework. The success of a preservation strategy often hinges on existing regulations and policies. Two levels of preservation-related laws, ordinances and practices need to be investigated and reformed as needed. First are those directly aimed at promoting preservation. The golden rule is to balance the restrictions imposed on private development rights with monetary or nonmonetary (prestige and social recognition) incentives. Second are indirect regulations that affect preservation. Land use ordinances can open opportunities for preservation by allowing transfer of the development rights of protected property to other locations in the city. If these rights can be applied to high-growth areas, and are tradable, the benefits of the sale can compensate the owners for the development restrictions imposed by preservation ordinances without burdening the public budget. Softening tenant protection regulations promotes a market for rental housing that can foster the rehabilitation of heritage buildings. Finally, the tax code can be amended to provide tax credits for investors willing to rehabilitate buildings.

Subsidies. Public funds can be used to induce involvement by the private sector through investment incentives, household subsidies, or incentives that complement regulations. Investment incentives involve governments luring investors by reducing risks through guarantees, monetary transfers, or other services that make heritage preservation projects as attractive as alternative investments in other areas of the city. Guarantees may involve assurances of purchase or lease of space by public entities. Monetary transfers may take the form of direct subsidies for capital investment, that is, tax credits applicable to preservation or transferable to other projects or to the financing partners. Services such as parking or improved public transportation can be provided to the developer. One-stop window processing for the necessary permits and registrations is another incentive for developers. Household subsidies may be needed to retain a mix of households from different income levels in the historic centers, since purchasing and maintaining residential space in heritage buildings is usually more expensive than in new buildings. Direct up-front subsidies that reduce the initial cost of purchase are preferable, but they are onerous for public entities, difficult to target, and better financed with local taxes and contributions. Intergovernmental transfers can also be an efficient source for financing the subsidies. Incentives that complement regulations can also be used to induce both preservation and maintenance of urban heritage by private owners, developers or other users. Estimating the correct



Restoration work on the Pasaje Baca shopping arcade in Quito.

incentives poses a significant technical problem, particularly in areas under pressure from real estate developers. Further investigation is needed to determine whether the incentives should compensate landowners for lost rents or simply promote preservation by retaining current uses of the buildings.

Institutional framework. As with legislation, attention must be paid both to institutions directly and indirectly linked with urban heritage preservation. Policymakers need to define the roles and enhance the

operational capacity of these institutions before committing resources for institutional development. Staff training and new procedures and technical practices are often needed. The best option may be to reorganize regulatory institutions or downsize them in order to transfer operational capacity to new organizations such as mixed capital companies. The key is to enhance institutional capacity to deliver an innovative product in collaboration with the private sector. For example, creative approaches are needed to break the

vicious cycle in which housing finance institutions redline historic districts, citing the high commercial risks involved in costly rehabilitation and uncertain valorization. This in turn blocks other sources of financing for developers, as banks perceive this reluctance of housing institutions to be an additional risk for construction loans for preservation. Government guarantees on mortgages for historic buildings reduce this risk, while direct, up-front subsidies for households compensate for high rehabilitation costs.

often invoked to justify public investment. Finally, a business rationale can come into play when the historic heritage of buildings is used as a marketing device for commercial development.

Above all, effective intervention in urban heritage preservation must not only rehabilitate the physical fabric of the historic centers, but also stimulate the social and economic processes that can make efficient use of historic buildings and infrastructure and maintain them properly. Experience with urban heritage preservation has shown that the process generally progresses through three identifiable stages: isolated interventions led by concerned groups, structured government action, and, finally, preservation as a shared concern of both public and private stakeholders.

Stage One: Preservation as a Concern of a Cultural Elite

Initial preservation efforts are generally led by a cultural elite concerned about losing historical monuments and areas because of

real estate development pressures.¹ Typical of this stage are projects to preserve individual buildings of historic or architectural significance. Funding usually comes from a variety of public and private sources, the scope of the project is limited, and the heritage site being preserved is usually devoted to some public use. At this stage, the sustainability of preservation efforts rests mostly on the energy of certain individuals from the cultural elite. Consequently, investments are often lost due to lack of continuity.

This stage often sees the enactment of legislation aimed at protecting historic buildings from the ravages of real estate developers. The net effect of this approach is mixed. In many cases, legislation has prevented the destruction of historic buildings by buying time while more efficient approaches could be developed. But by limiting development options available to the owners of historic buildings, and providing no incentives for proper maintenance by owners and tenants, well-intentioned legislation can end up having the opposite effect of what was intended. Owners some-

times intentionally allow their property go into decline, with the expectation that if the property is in poor or dangerous condition, local authorities will be forced to order its demolition. This opens the way for owners to make more profitable uses of their property, even as parking lots. While waiting for physical deterioration to run its course, property owners sometimes subdivide large buildings according to market demands (low-income housing, warehousing, repair shops), thus contributing to the degradation of historic buildings and the deterioration of the area.

Stage Two: Unsustainable Government Interventions

A second stage emerges in the preservation process when governments adopt more proactive approaches, passing legislation and creating heritage preservation boards and specialized institutions. However, when

¹ The notable exception is Mexico, where the state was the early leader.

BOX 1.3. REHABILITATION OF URBAN HERITAGE IN SALVADOR AND SANTO DOMINGO

The Recovery Program for the Historic District of Salvador (the Pelourinho, a UNESCO World Heritage Site) adopted the strategy of heavy public intervention in a reduced section of the downtown area. Since 1993, a public entity, the Cultural and Historic Heritage Institute of Bahia, with financing from the state government, has rehabilitated more than 300 buildings located in 16 downtown blocks of Salvador. Using the city blocks as rehabilitation units, the institute has undertaken all the works on both public and private properties, offering tenants the option to stay or collect a monetary compensation and move.

While the program has succeeded in rehabilitating buildings and supporting tourism, cost recovery has been weak and little diversification of residential and economic activities has occurred. In fact, recreational and tourism activities have displaced many residents and craftspeople who worked and lived in the historic center, to the detriment of diversification. The program's top-down approach achieved impressive physical results, unfortunately at

significant cost to the public budget. It is yet to be seen whether the effort will be sustainable over the long term.

In Santo Domingo, the Government Office of Heritage Preservation followed a similar approach toward rehabilitating the downtown historic area.



A restored city block in the Pelourinho, Salvador.

Combining public investment in infrastructure and building rehabilitation with strict enforcement of regulations on preservation, the program succeeded in reconstructing the monument section of the colonial city as it might have looked in the 17th century.

But although it has been successful in rehabilitating landmark buildings and establishing first-class museums, the endeavor has had difficulty attracting the private investment required to diversify the area economy. Private investors cite the regulations that limit the uses of the buildings and problems with vehicular access as the major constraints preventing the flow of investment into the area. Inefficient electricity and drainage facilities also hamper development, as do the complex institutional arrangements for development control currently split between several entities. Upkeep of the restored buildings and public spaces falls entirely under the purview of the central government, an arrangement that neither ensures sustainability nor provides for the equitable distribution of costs among beneficiaries.

confronted with other pressing social needs, most governments find it difficult to systematically mobilize taxpayer funds to pay for the rehabilitation and upkeep of urban heritage sites. Weak institutions and lack of

technical skills often compound the ill effects of insufficient funds. Further, in most cases, the interventions do not achieve the right balance between the roles played by the public and private sectors. Examples of

this approach include Salvador (Brazil) and Santo Domingo (Dominican Republic) (see Box 1.3), where public intervention ended up narrowing the scope left to the private sector to conduct business and make real es-

tate investments in historic centers. In these cases, a well-intentioned but excessively proactive public sector not only crowded out potential private investment, but also undertook the impossible task of operating and maintaining a vast array of buildings and public spaces with limited resources.

Stage Three: Preservation of Urban Heritage as a Social Concern

Under this more advanced stage of preservation—still to be achieved in Latin America—the preservation of urban heritage becomes a concern and responsibility of a wide variety of social actors. As such, it derives momentum and dynamism from the interplay of different interest groups and the real estate market. Private philanthropy, civil society organizations and local communities become involved in the process with clear and complementary roles. The public sector provides the regulatory environment and invests in the rehabilitation of public spaces and the infrastructure to at-



Madre de Deus Church, Recife.

tract private investors. As communities increase their appreciation for urban heritage, the commercial value of historic buildings and areas increases. Preservation then becomes a relevant commercial concern, attracting private investors who rehabilitate buildings to satisfy the demand for space

for a variety of economic activities. At this stage of development, the most critical issues confronting urban heritage preservation are solved through the collaborative efforts of different actors. Critical to reaching this stage of development is reaching a consensus in the community about the social and economic value of historic heritage itself, a process that can be promoted through public education and information campaigns.

Gentrification

Preservation of urban historic centers generally involves gentrification, with higher-income residents and economic activities supplanting poorer ones. How effectively the positive and negative consequences of gentrification are dealt with can have an important impact on the viability of the preservation process.

On the one hand, successful rehabilitation of historic districts attracts new residents and economic activities, boosting land and building prices. This market-driven process generates positive externalities for

commerce, tourism, recreational and other economic activities interested in locating in historic centers, increasing demand for space and contributing to the long-term sustainability of the preservation effort.

However, while gentrification benefits municipalities and landowners, it tends to expel low-income families and less profitable economic activities from the area. The poor lose access to cheap housing and to the economic and social opportunities offered by a downtown location. Efforts to mitigate this social inequity caused by gentrification often include low-income housing and microenterprise programs supported by national or local governments.

Side effects of gentrification may be so significant as to jeopardize political support for preservation. There are but a handful of cases—Bologna and Barcelona are examples—where this problem has been mitigated to the satisfaction of local residents. In all successful cases, interventions involved significant central government subsidies, a price not many countries can afford.

One Latin American success story in the making is the preservation of the historic city center of Quito. Through an ambitious residential building rehabilitation program, the city is working to keep current city center residents in the area. In one renovated building, the program succeeded in retaining 75 percent of the original occupants by working with the community and strictly controlling costs, and with financial assistance from the central government in the form of direct subsidies. Plans are to extend this approach to several other buildings set for rehabilitation over the next two years. The program recuperates its investment from the beneficiaries who pay for the homes with their own savings, bank mortgage loans and government subsidies.

Preservation Challenges and Strategies for Latin America

In terms of the three evolutionary stages of urban heritage preservation described above, Latin America in general has not progressed

beyond the second stage. Historic centers in most colonial cities have been abandoned or are in serious disrepair, and efforts to revitalize them are still plagued with inefficiencies and gaps in coverage, particularly regarding preservation of monuments and public buildings. The limited preservation programs underway are still being shouldered by governments, whose budgetary constraints prevent them from making a noticeable dent in what needs to be done. Institutions created to promote preservation face chronic shortages of resources and manpower, and the regulations put in place to promote preservation tend to have negative side effects that in fact impair it. Further, public resources that *are* allocated to the task are not being used efficiently, as evidenced by the lack of sustainability of many publicly-financed preservation projects.

The challenge for Latin America is to propel urban heritage preservation to the third stage—that is, to a sustainable level involving the various public and private stakeholders. Several strategies can be fol-

lowed to achieve this end, some applicable immediately and others as preservation processes progress.

Societies invest in the preservation of urban heritage for a variety of reasons. Lobbying by pressure groups may bring government intervention, or international concern for cultural artifacts may promote the establishment of institutions devoted to preservation. Once consolidated, these institutions develop their own agendas and seek resources. But in Latin America, where private philanthropy is not well developed, these institutions usually end up being supported by national budget allocations that almost always are insufficient for them to fulfill their preservation mandates.

Local governments incorporate urban heritage preservation into their political agendas in order to foster local pride and identity, or to promote tourism. However, the economic rationale for public investment in urban heritage for tourism needs careful analysis on a case-by-case basis. Tourists do not always flock to historic centers, and often are neither the principal

visitors nor users of these areas. When tourists do come, there is the danger that historic centers unprepared for such an influx will be overrun, causing deterioration.

The private sector also invests in preservation, albeit for different reasons. Businesses occasionally choose historic buildings as their headquarters for prestige or public relations. In such cases, the building is usually a well-known landmark, and its preservation can be presented as an enlightened investment in the community. The historic center of Cartagena has become a fashionable location for high-income residents who restore buildings as permanent or temporary residences. Sometimes the heritage of buildings is used as a marketing device for commercial development, as with Quincy Market in Boston and the Cannery in San Francisco in the United States.

Experiences in the preservation of urban heritage vary according to the scope of the interventions (individual buildings, historic areas, and preservation as part of broader urban renewal) and the type of intervention. Command and control interven-

tions involve the public sector defining preservation regulations and either hoping private landowners will comply or forcing them to. Providing incentives promotes preservation investments by owners of historic properties. A more proactive intervention is to promote private-public partnerships in urban heritage preservation projects. Finally, at the extreme end of the public-private continuum are direct government investments, under which the public sector bears the entire burden of intervention.

Preservation of Landmark Buildings

The preservation of individual buildings focuses primarily on restoring or rebuilding a cultural landmark. Historic accuracy is paramount, and the building is often devoted to public use or used as a prestigious setting for a private institution. Such an undertaking can play a significant role in the early stages of a preservation effort, particularly when small groups of citizens struggle to preserve important buildings from real estate speculation. However, this approach



San Francisco Square and Convent, Quito.

often leads to public projects that rely heavily on public funding and subsidies, not only for the preservation effort but also for operation and maintenance of the building.

Justification for the investment is normally based on the “existence” and “option” values of the building expressed in the will-

ingness of the population to devote resources to make sure that the site can be used or seen in the future (existence value), or to ensure the *option* to use or see it (option value). The rationale for devoting public resources to these investments is difficult to evaluate, however, because instruments to measure individual and community pref-

erences are limited, and there are no clear mechanisms through which a community can express a preference on heritage issues.

Further, this approach does not ensure the long-term viability of the preservation effort, since, more often than not, the deteriorated surroundings of the building conspire against the sustainability of the investment. This also makes this approach unsuitable for private commercial investment, since it does not remove the central risk of investing in deteriorated areas—namely, the uncertainty of demand for the preserved buildings.

Thus, while this approach may be valid for preserving a few landmark buildings that communities hold in great esteem, it is not sustainable on a large enough scale to preserve the vast array of decaying historic buildings and sites in Latin America. Neither is it sufficient to sustain preservation efforts over the long term. Rather, it is a transitional strategy that can be used in the absence of the social consensus and institutional maturity that characterize later stages in the evolution of preservation efforts.

Preservation of Historic Areas

A broader strategy overcomes the limitations of preserving one building at a time by focusing on the preservation of a coherent functional or historic area that includes several buildings and public spaces. Implementation of this type of project usually requires the commitment of significant financial resources—mostly public funds, although public-private partnerships are sometimes forged. The interventions are generally justified on the basis of the existence value of the site, although the impact on tourism is also stressed. The economic rationale is difficult to ascertain, however, given the diffused (although not necessarily small) benefits generated by such projects. Effective coordination of numerous public agencies is also important because the diversity of actors involved and the extended period of time during which the investments take place pose significant institutional challenges. The paragraphs that follow outline examples of preservation programs for historic areas according to the type of intervention.



Building rehabilitation in Recife.

Direct government investment. This approach is much favored in Europe, where governments have taken the leading role. A striking example is the reconstruction of the historic core of the city of Warsaw, Poland, which was destroyed during the Second World War. In the early 1950s, several

blocks of downtown Warsaw were painstakingly reconstructed using old maps, plans, drawings, photographs and, notably, works by the Italian painter Tintoretto. Preservation of historic centers in Salvador (Bahia) and Santo Domingo also used direct public sector intervention and financing, but with mixed results (see Box 1.3).

Public-private partnerships. Barcelona attracted international interest for its public-private partnership approach to rehabilitating and preserving depressed sections of its historic center. As part of a major modernization drive, the municipality implemented a strategic plan to work with the community and the private sector to rehabilitate deteriorated neighborhoods in and around the historic center. The approach was based on the impact of key public investments on private investment, since improvements in urban services and public spaces generate externalities that attract investors. Whenever possible, urban services were housed in rehabilitated historic buildings, and assistance was given to private owners to rehabilitate their historic proper-

ties. Drawing on its experience in operating mixed capital companies to promote joint ventures with the private sector, the municipality embarked on a program to upgrade living conditions in the historic center. Private partners brought capital and real estate development expertise into the mixed capital company, while the municipality contributed land and its coordination powers. Participation in the joint ventures allowed the municipality to capture part of the betterment generated by the rehabilitation effort. Using resources from existing national and regional low-income housing programs, the mixed capital company managed to retain a significant portion of both poor and middle-income residents in rehabilitated areas. Restored buildings also provided space for craftsmen and small merchants, financed partially with cross-subsidies from fully commercial ventures. These efforts allowed the retention of some of the original occupants.

The municipality of Bologna, Italy first adopted a preservation plan for the city's historic center and then invested heavily in rehabilitation of public areas and

urban services. It then turned to restoring buildings for residential and commercial uses, initially with public funds, but later by entering into partnerships with landlords. The municipality would finance part of the rehabilitation of residential and commercial buildings of historic significance in exchange for commitments from landlords to retain existing tenants and economic activities. This helped make Bologna one of the few cities where the rehabilitation of a historic center managed to retain a significant number of the original occupants.

Regulations and incentives. This approach can be used to promote private preservation or as a preventive approach to deter the decay of historic areas. As a mechanism promoting private preservation, tax incentives have been widely used in the United States. The Federal Historic Preservation Tax Incentives Program provides a tax credit equivalent to 20 percent of precertified expenditures made in the rehabilitation of certified historic structures, and 10 percent of expenditures in the rehabilitation of nonhistoric, nonresidential buildings

built before 1936. The tax incentives can be traded, thus turning them into cash contributions to the developers allocated through a market mechanism. The program has succeeded in attracting private investment to the rehabilitation of historic buildings listed in the National Register of Historic Places.

In terms of deterring deterioration of historic areas, the public sector grants tax exemptions, direct subsidies or special rights to the owners of the affected buildings at the same time that it establishes regulations to protect buildings of interest in a target area. The subsidies compensate owners for the loss of revenue or the extra expenses involved in complying with preservation regulations. The special rights include the option to transfer the development rights of the protected building site to other parcels of land. This reduces the pressure to redevelop sites containing heritage buildings. However, the approach is demanding in terms of the institutional resources needed to devise and implement the regulations, and burdensome to the public sector that finances the subsidies.

Combining regulations and incentives, the city of Edinburgh in the United Kingdom succeeded in preserving the Georgian New Town. Owners of registered historic buildings are prevented from making structural and cosmetic changes to the buildings. In compensation, they receive free technical assistance and tax reductions from the city. These actions complement direct investment in specific historic buildings undertaken by the National Trust, a privately funded nongovernmental preservation organization. In this case, the combination of regulations and subsidies has succeeded, aided by such factors as reduced real estate development pressures on the historic center, sufficient resources to cover the subsidies, and sustained public support for the protection effort.

Command and control regulations. The municipality of Cartagena implemented an elaborate preservation plan for the historic buildings within the walled city. The plan, geared to regulate private investment, was complemented by public investment to rehabilitate walls and preserve public spaces.



Cartagena's bustling Barrio Centro attests to the historic center's ongoing economic role in city life.

As Cartagena turned into a fashionable resort, the private demand for historic houses attracted unsubsidized private investment to restore many buildings in the historic center as residences or tourist facilities. Although investors often resent the rigid building regulations, it is unclear whether these con-

straints have discouraged private investment in the fashionable sections of the walled city. And at the same time, those regulations have until now successfully preserved the character of the historic area, including buildings housing middle-income local families.

Preservation as Part of Revitalization

The most current approach to protecting urban heritage emphasizes the role that it can play in promoting the revitalization of areas where historic buildings are located. This provides an additional justification for the expenses involved in preservation. The approach pivots on the restoration and adaptation of historic buildings for public or private uses, complemented by improvements in public spaces and infrastructure. This in turn generates positive externalities that attract economic activities into the target area, propelling the rehabilitation process into a self-sustained stage. Preservation of heritage buildings is financed either with public funds or through joint ventures with private investors.

Effective implementation of this approach requires long-term commitments on the part of the public and private investors, as well as development of effective private-public partnerships. Cofinancing also demands changes in traditional approaches to public financing, including the acceptance

of a private sector style of decision-making and risk-taking in the use of public funds.

Using an approach like that of Barcelona, the Municipality of Quito is engaged in both preservation and urban renewal of its city center. The dominant feature is public intervention as a catalyst for private investment. A clearly defined master plan along with public investments give clear signals of the government's commitment to long-term rehabilitation of the area, a key element in attracting private investment. The master plan also provides assurances about the nature of future development, easing private sector fears that it could jeopardize the future value of real estate. This is a concern not only of buyers, but also of lenders who worry about the value of loan collateral.

Corporations or mixed capital companies assume part of the business risk, which tends to be high in the early stages of the rehabilitation process. Further, these entities also perform land-banking services by assembling developable parcels, a feature attractive to private investors who lack

a comparative advantage in performing this function.

An important feature of this approach is that it takes advantage of synergies between heritage preservation and urban renewal. While preservation of urban heritage improves the chances of successful urban renewal, the economic and social benefits of urban renewal support expenditures for preservation. In turn, the rehabilitation of historic areas improves the city's functional efficiency, maximizing use of physical capital and reducing transportation costs.

Moving Ahead with Urban Heritage Preservation in Latin America

Experiences with urban heritage preservation suggest moving along three major fronts in order to push the process into a sustainable stage in Latin America.

First, the preservation effort should involve the widest possible variety of social actors. This will encourage the general public to perceive and value the relationship

between its cultural identity and the preservation of its urban heritage. Leading roles must be played not only by government agencies and the cultural elite, but also by community organizations, NGOs, civic alliances, political parties, real estate investors and the general public.

Second, governments must take advantage of the synergies that exist between heritage preservation and urban renewal. Using preservation as a catalyst for urban renewal expands the development impact of preservation, fostering its legitimacy and sustainability. The complementary nature of these investments makes this approach appealing to governments, communities, real estate investors and lending institutions.

Third, to promote the institutional and operational reforms needed to ensure the efficient allocation of public resources and the sustainability of preservation efforts, priorities should shift from government-financed preservation of individual buildings and monuments to preservation of historic areas, with private sector participation. This strategy greatly increases the chances that historic

monuments, buildings and public spaces will retain their structural, stylistic and functional characteristics without requiring new investments. Full involvement of the private sector in setting priorities, defining preservation plans, financing and carrying out preservation works, and even operating and maintaining some heritage sites, guarantees sustainability of the preservation effort and relieves the government of many of the burdens associated with long-term preservation.

Although some progress has taken place in Latin America in the direction of socially shared and more sustainable forms of urban heritage preservation—as described in the chapters that follow on preservation programs in Cartagena, Quito and Recife—the overall sense is that the region is in need of change, in need of a different outlook on the role that the preservation of urban heritage can play in cultural identity and urban development. It also needs institutional and operational reforms to increase the efficiency with which public resources are spent and to ensure the long-term sustainability of preservation. These changes

will not take place spontaneously. There is a development task to be undertaken by local, regional and central governments. The public sector is the only actor in the preservation process capable of maintaining the long-term perspective required to conceive and implement change and induce the private sector to take a larger role.

Public policy design can be enhanced by a better understanding of the conditions under which the private sector ventures into urban heritage preservation. Because experiences in Latin America are limited, available studies concentrate on Europe and North America, where market circumstances are significantly different. By examining preservation processes in Cartagena, Recife and Quito, this book aims to identify factors that can induce private investment in historic city centers in Latin America.

Preservation in Progress: Cartagena, Recife and Quito

Although the urban heritage preservation programs described in this book do not constitute a representative sample of current efforts in the region, they do show a variety of options for increasing private sector participation, ranging from the externally-generated participation of the private sector in Cartagena, to the government-induced role of the private sector in Recife, and to the establishment of a semi-public development corporation in Quito. All three cities have achieved some degree of success in preserving their urban heritage with private sector assistance, yet each has had its problems as well.

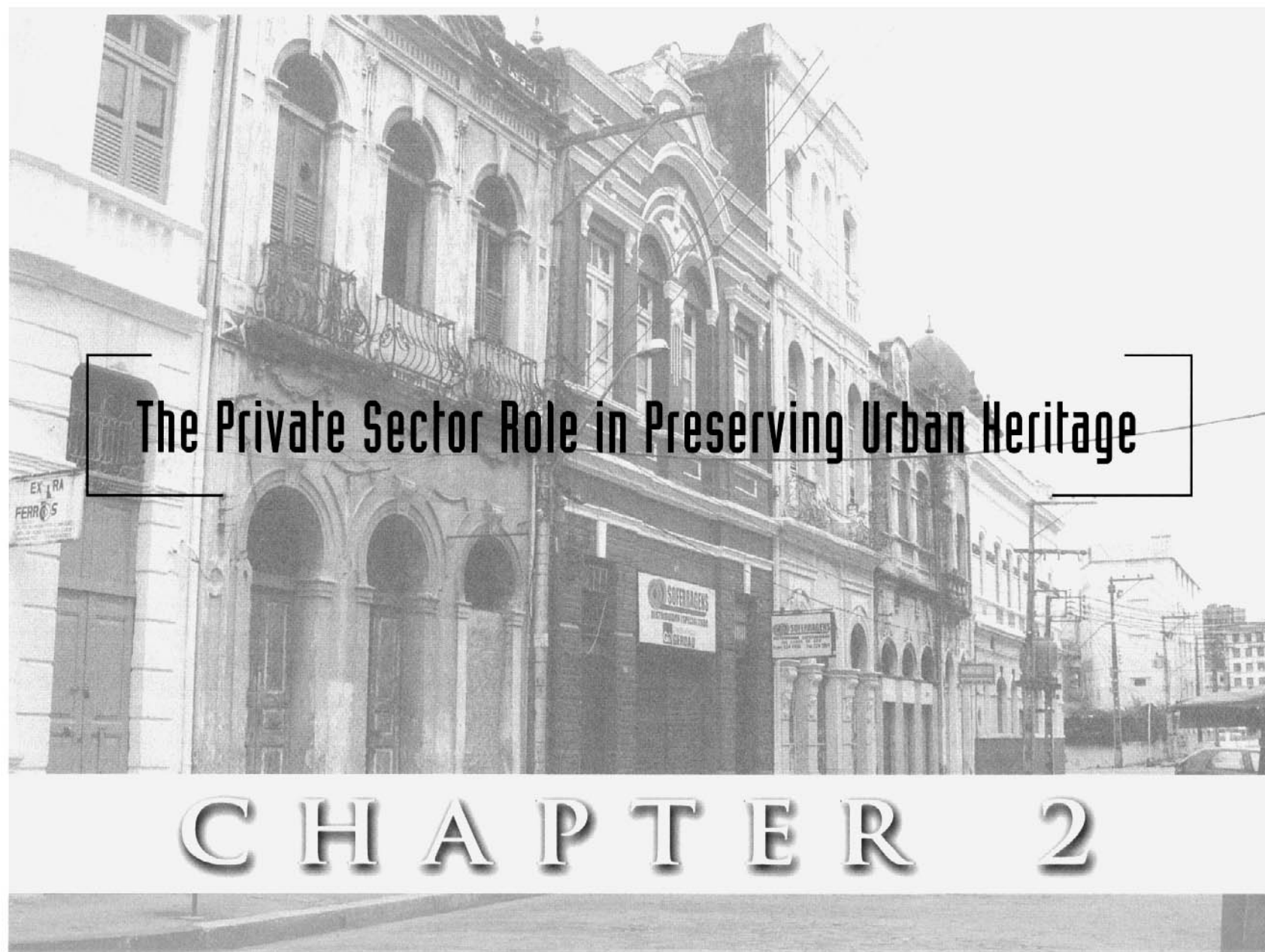
In Cartagena, the private sector rehabilitated and preserved residential buildings in the historic center by building on the success of both the central government, which had rehabilitated the city's magnificent walls and monuments, and the municipal government, which had upgraded city center infrastructure and public spaces as part of a bid to promote the city as a tourist destination. Colombia's economic elite, motivated by the prestige associated with rehabilitating vacation homes in the historic center, invested on their own, without much intervention needed from the public sector. The government's involvement focused instead on regulating private real estate development in order to maintain the historic and spatial values of the city center, as well

as on continued investment in preserving public buildings and spaces.

In the Bom Jesus area of Recife, the municipal government spearheaded revitalization of the city's founding site, attracting the private sector with pioneering investments in rehabilitation and promoting the area as a new recreational and cultural center.

Quito showcases yet another approach—partnership between the public sector and private owners and investors through the activities of a semi-public corporation established specifically for this purpose.

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Motivating the private sector to invest in urban heritage preservation has proven to be a difficult but not impossible task. The experiences of Cartagena, Quito and Recife show the importance of sustained commitment by the public sector, which must play a leadership role in reversing the complex patterns of obsolescence associated with the deterioration of urban heritage. The result—unsubsidized private sector investment in the preservation and adaptation of historic buildings to make them viable for modern use—takes time to materialize and is difficult to sustain over the long term. Government support is particularly important in reducing investor and client uncertainty about the medium and long-term return on investments.

In Cartagena, the situation is encouraging. For reasons essentially unrelated to government intervention, private investment has materialized following the initial efforts of national and municipal governments to preserve the heritage of an historic city center whose significance extends beyond the hemisphere. However, the sustainability of the

process is still subject to external factors, including the performance of Colombia's economy and the continued preference of high-income groups for vacation homes in Cartagena. The city would benefit from a management plan for its historic city center to coordinate the activities of the various levels of government, facilitate private investment, and encourage diversification of services and real estate endeavors. Such steps would make the preservation process more stable by reducing dependence on a limited number of participants and investors.

In Recife, the public sector has spearheaded efforts to revitalize the Bom Jesus area of Bairro do Recife, the historic city center that had become marginalized from modern city life. The sustainability of this effort is still uncertain and will depend on the continuity of the municipal government's efforts to revitalize other parts of Bairro do Recife. Diversification of both activities (recreation, culture or export services) and clientele (tourists and residents) should reduce the volatility of demand in the local economy. Ensuring sustainable de-

mand for space in historic city centers is the best guarantee of sustainable preservation. Ultimately, only private investors and consumers can provide the necessary stability for this process.

In Quito, the public sector has sought to involve private investors through joint ventures to rehabilitate a historic city center that had been declining. The sustainability of this effort may be less volatile than in Cartagena because the Quito preservation program is based on more diversified activities. The involvement of efficiently managed institutions with clearly defined mandates also raises hopes for the long-term viability of preservation in Quito. These institutions ensure the continuity of the public sector's role, which in turn reassures private investors.

Deterioration and Preservation

Despite their differences in location, function, size and history, the historic city centers of Cartagena, Quito and Recife have

endured similar processes of deterioration and preservation.

Decline set in with the explosive urbanization process that affected all three cities (and all of Latin America), along with the spatial dispersion of urban life that came with the use of the automobile on a massive scale. In less than 40 years, the cities surpassed the boundaries that had defined their urban identity for almost 400 years. In each case, the space currently identified as the historic city center ended up accounting for a very small proportion of the geographic area covered by the city as a whole. As these city centers were deserted by more prosperous businesses and residents, a spiral of urban deterioration began, affecting both buildings and historic monuments.

When economic and residential activities abandon a historic center, the return from private real estate assets decreases. As the demand for space declines, the flow of income is reduced, and the speed at which real estate can be sold also declines. Furthermore, preservation ordinances combine with the deterioration of the buildings to

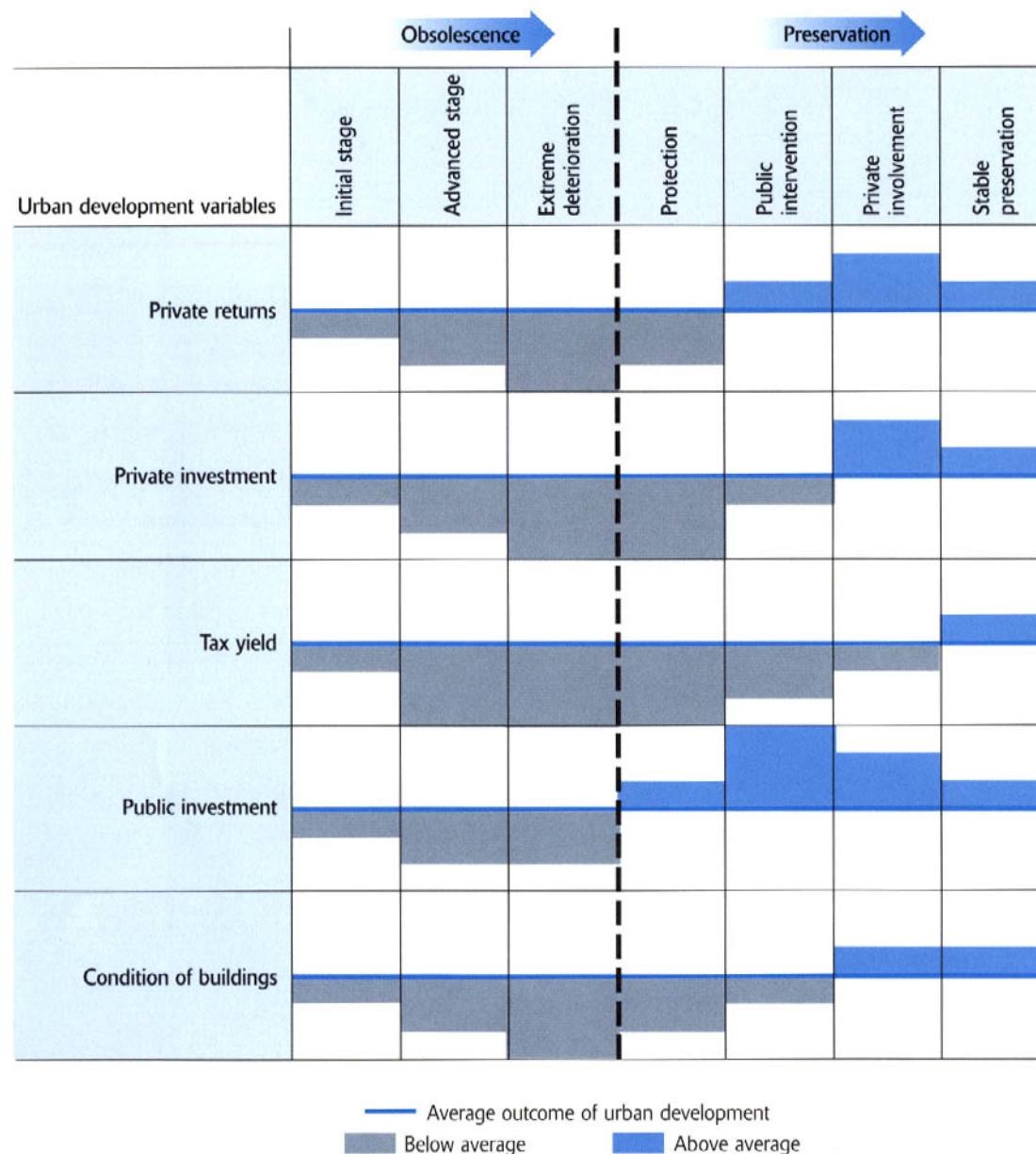
drive up construction costs, making the rehabilitation of buildings uncompetitive with construction in outlying areas. These trends reduce or eliminate incentives for the private sector to make new investments in expanding or maintaining the building stock in the historic center. As the return on private investment drops below the city average, investors seek out opportunities for urban expansion elsewhere, leaving downtown areas neglected.

The decline in downtown business and residential activity, along with decreased construction, reduces the tax yield. This trend, compounded by explosive growth in outlying areas of the city, shifts public investment away from city centers, accelerating the downward spiral. As the process continues, these various indicators drop further and further below city averages, worsening the city centers' image of urban blight. The Bom Jesus area in Bairro do Recife is an extreme example of this process. By the time government began efforts to rehabilitate this area, the neighborhood was in such a state of decay that landowners

were neither earning rents nor making investments. In Cartagena and Quito, some central activities were retained, primarily linked to the presence of government and the activities of lower-income groups. But shifts in the demand for space also led to uses that promoted the decay of buildings and public spaces.

Table 2.1 summarizes the process of obsolescence and decay of urban centers—essentially similar to what happens to downtown areas of many cities, historically significant or otherwise. The table compares the behavior of key urban development variables in historic city centers—private returns on real estate assets, private real estate investment, tax yields, public investment in infrastructure, and the condition of buildings—with a theoretical average in other growth areas of cities. The variables are shown as either above or below average during the different phases of urban obsolescence and preservation. The rapid and simultaneous drop in public and private investment in historic centers as private returns drop below the city average is

Table 2.1. Process of Obsolescence and Preservation of Historic City Centers



immediately reflected in urban decay during the early stages of obsolescence. This can be reversed only after significant and sustained public effort. The table shows that the slow recovery of private investment reaches levels comparable to the citywide average only after the public sector has made above-average investments over an extended period. A stable preservation process is attained only when private returns and investments, public investments and tax yields for the historic center have the same behavior as for other areas of the city.

Strategies

The preservation strategies for the three historic city centers analyzed here have all moved beyond the initial stages described in Chapter One, when efforts focused on preserving landmark buildings and implementing land use and building preservation ordinances. Preservation efforts are relatively advanced in comparison with other Latin American cities, and the private sector is playing a recognizable role. However, in

each case, private investment was preceded by a sizable public investment with similar goals and patterns.

The main purpose of public sector intervention in city centers has been to arrest the process of decline. In Cartagena, the goal was simply to protect heritage sites, while in Recife and Quito an additional objective was to attract private investment, in part by reducing uncertainty about real or perceived risks. Efforts have centered around changing the decaying image of historic city centers, generating externalities conducive to private investment, and demonstrating the viability of a variety of real estate ventures.

The case studies highlight the various approaches used to address problems associated with the image of urban blight. In Cartagena, monuments were rehabilitated and public spaces restored. In Recife, investments were also made in rehabilitating building frontages and promoting new activities in the city center. And in Quito, public services were improved and new facilities established such as the City Museum



Santa Teresa Hotel, Cartagena.

and Cultural Center. In all three cities, externalities were generated conducive to private investment through improvements in infrastructure and public spaces. Quito and Recife also improved accessibility to city centers, established partnerships with the private sector to rehabilitate major

buildings, and undertook demonstration investments to test the viability of commercial ventures.

Government efforts to allay the fears of private investors have taken various forms. In Cartagena, a more indirect approach focused on enforcing a rigorous preservation plan that guarantees the quality of works undertaken by private investors on properties within the walled city. In Recife, the Office of Bairro do Recife helped interested investors identify property owners willing to enter into partnerships for the rehabilitation and marketing of buildings. In addition, special events held in the Bom Jesus area have positioned it as a cultural and recreational center. The mixed-capital development corporation in Quito has gone even further by entering into partnerships with private investors and taking on part of the commercial risk.

In short, the preservation process for the three historic centers has essentially consisted of three phases:

1. The public sector spearheads efforts to preserve urban heritage of city centers by

enacting protective legislation and preservation plans, and by initiating the process of investing in the preservation of heritage sites.

2. Government agencies invest in preserving monuments and improving the infrastructure and public spaces surrounding them. These investments not only preserve sites of cultural and historic significance, but also help to reverse the image of decay in historic centers and generate externalities to attract private investors

3. The private sector invests in preservation or rehabilitation of historic buildings, but only after the preservation process has achieved some degree of continuity.

Sustained public sector intervention that helps improve preservation triggers private sector investment in the long term and tax revenues in the still longer term. In its final phases, the preservation process should acquire its own momentum and encompass the entire target area, chiefly through investments by private developers. Of the three cities examined here, the final stage has been reached only in Cartagena, where the demand for vacation homes led private de-

velopers to rehabilitate buildings for sale on the market. Thus, private sector participation in the preservation process transcended the individual rehabilitation of homes that dominated the initial phase, adding a commercial dimension to the role of the private sector.

Planning

The three cities studied have used different approaches regarding the role of planning in the design and implementation of preservation projects.

In Cartagena, the public sector financed the preservation of heritage sites without a defined plan, but adopted a regulatory framework. The municipal government in consultation with the National Monument Board has enforced controls on private investments in preservation. However, the city has no explicit plans coordinating the activities by agencies of the central, departmental and municipal governments. Positive results are attributable more to a fortunate convergence of interests between the

cultural elite, who lobbied for public regulations and investment, and the economic elite, who preserved and rehabilitated homes and commercial buildings for tourism.

At the other end of the planning spectrum is Bairro do Recife, where public interventions were structured within a revitalization plan that specifies types of investment and priority areas. The investments made under the Bom Jesus development project reflect the priorities of the plan. Through the Office of Bairro do Recife, the municipality made intensive use of coercive instruments (expropriation) and coordinated private investment liaison between prospective real estate investors and property owners. Projects currently being carried out by the municipality in the Alfandega area also reflect the priorities set in the revitalization plan. In short, the strategic sequencing and continuity of public investment have been key to ensuring the sustainability of preservation in an area that is gradually returning to its former prominence.

The case of Quito illustrates a middle course between these extremes. The munici-

Table 2.2a. Theoretical Public-Private Relationships in Historic City Center Preservation

		Type of intervention							
		Free market		Incentives		Association		Public intervention	
Preservation activities		Public	Private	Public	Private	Public	Private	Public	Private
Traditional private functions	Building management								
	Marketing								
	Building rehabilitation								
	Financing								
	Land consolidation								
	Economic development promotion								
Traditional public functions	Direct subsidies								
	Tax incentives								
	Preservation of heritage sites								
	Improvements to public spaces								
	Improvements to infrastructure								
	Revitalization plans								
	Preservation regulations								

pality designed and implemented a preservation plan that regulates private investment for the historic center. At the same time, the semi-public corporation established to promote rehabilitation of the historic center operates according to a flexible investment strategy. It plays a proactive role, but it does not follow a rigid, predetermined investment plan, pursuing instead a strategic

approach geared toward harnessing investment opportunities as they unfold.

Private Sector Participation

Options for public-private association in preserving historic city centers vary in terms of the degree of coordination or interdependence between the public and private

activities, and in terms of the risks the public sector is prepared to assume to lead the preservation process (see Table 2.2a).

At one end of the spectrum are what could be called “free-market” strategies, in which the roles played by the two sectors are clearly delineated. The public sector assumes its exclusive responsibilities: planning urban development, improving infrastruc-

Table 2.2b. Actual Public-Private Relationships

		Type of intervention					
		Cartagena		Recife		Quito	
Preservation activities		Public	Private	Public	Private	Public	Private
Traditional private functions	Building management						
	Marketing						
	Building rehabilitation						
	Financing						
	Land consolidation						
	Economic development promotion						
Traditional public functions	Direct subsidies						
	Tax incentives						
	Preservation of heritage sites						
	Improvements to public spaces						
	Improvements to infrastructure						
	Revitalization plans						
	Preservation regulations						

ture and public spaces, and preserving public monuments. This strategy may include incentives such as tax exemptions and direct subsidies for promoting preservation of surrounding buildings, since this has externalities on the preservation of the monuments. The remaining responsibilities are entrusted to property owners and private investors, including promotion of local economic devel-

opment, land consolidation, and financing and execution of investments in the rehabilitation and preservation of buildings, as well as their marketing and commercial operation.

At the other end of the spectrum are strategies where the public sector assumes the entire range of preservation activities. This state intervention strategy has been at-

tempted in a number of cities, but its sustainability has proven problematic because it is almost wholly dependent on public funds. The process is thus at the mercy of ever-changing political support and the always uncertain availability of government resources.

An intermediate strategy is to promote partnerships between the public and private



Restored residences on León Street, Quito.

sectors. In these cases, the participants join forces to undertake complex tasks such as promoting local economic development and land consolidation, making full use of their respective skills and strengths. Such partnerships can also be used to facilitate the financing of pioneering investments, with the public sector assuming part of the initial risk.

The actual strategies used to link public and private investment have varied (see Table 2.2b). In Cartagena, the linkage was indirect, since the motivation for private sector investment was independent of government intervention. Because there were no public sector efforts to promote economic development or to consolidate land,

Cartagena's strategy leaned more toward the free market model. However, it is clear that private investment would probably not have materialized (at least not on the scale observed today) if the public sector had not invested in preserving heritage sites and improving infrastructure and public spaces. The public sector also regulated the private preservation and rehabilitation efforts on the basis of a preservation plan. Although few would dispute the merits of the plan and its contribution to the quality and consistency of efforts to protect Cartagena's historic city center, many take issue with the procedures used to enforce it. For example, not all investors agree with the municipal government's interpretation of the regulations. This highlights the complex issues involved in implementing preservation plans based on regulations whose enforcement requires some degree of technical discretion in considering each case on its merits.

In Recife, the association between public and private investment was more direct, in part because the municipality had to

overcome private sector uncertainty caused by the dilapidated condition of the Bom Jesus area. The municipality purchased and rehabilitated buildings whose owners showed no interest in participating in the preservation effort, even after infrastructure and public spaces had been improved. This allowed the public sector not only to demonstrate the feasibility of rehabilitation, but also to show its commitment to promote historic center preservation. The public-private partnership in Recife does not adhere strictly to a specific strategy, but rather incorporates a variety of interventions addressing the need to promote joint investment under particularly adverse circumstances.

In Quito, the interventions and institutional framework were designed to promote public-private cooperation, so this case is closer to the theoretical partnership model shown in Table 2.2a. The semi-public institution in charge of the preservation process was created to implement investments in partnership with the private sector. As a result, the public sector has been in-

involved in land consolidation, promotion of economic development, financing, and the rehabilitation and marketing. The high degree of public sector involvement is reflected in Table 2.2b, which shows that the interaction with the private sector occurs further up than would be expected under the pure partnership model. In its later stages, public sector involvement in the process is expected to decline until it reaches an apportionment of responsibilities and risks characteristic of the theoretical model shown in Table 2.2a.

Precise conclusions about the merits of one particular strategy over the others are difficult. As a matter of theoretical speculation, it could be argued that Cartagena's approach allows for less control of the impact of the public preservation effort than does the public-private association strategy followed in Recife or the partnership used in Quito. If the public sector is not involved in promoting private investment, it loses control over the volume and timeliness of that investment. It therefore cannot guarantee that

the potential multiplier effects of public investment will materialize, which ultimately increases the uncertainty as to whether the benefits justifying the use of public resources will be realized. At least in the initial stages of the process, the Recife and Quito strategies give the public sector greater control over private investment. At later stages, however, these strategies run the risk of leading to excessive public sector involvement, which could crowd out private investment.

Subsidies

All three preservation programs studied here include tax exemptions in the package of incentives for private investment. These range from total exemption from the land tax on investments in heritage site restoration that have licenses from the National Monument Board in Cartagena, to exemption from the service tax on business activities established in rehabilitated buildings in Recife. While there is insufficient quantitative information to analyze the impact of such subsidies on

fostering private investment, experts consulted in the three cities felt tax exemptions had little impact on the decisions of private investors. More of an effect came from public investments in infrastructure and public spaces that changed the decaying image of the historic city centers.

Further study is needed on the role, volume, form and sequencing of indirect subsidies in promoting preservation of historic city centers through private investment. By way of illustration, the tax exemptions used in the cities studied benefit investors or property owners equally, regardless of the timing of their investments. Strictly speaking, however, the government should reward pioneers with greater incentives than those received by investors following an already established trend.

Quito has used direct subsidies from the central government to facilitate access by low-income families to ownership of rehabilitated homes in the historic city center. Such incentives have a clear role to play in preservation programs, particularly if, as in Quito, they target the poor and are funded

by national programs for subsidizing low-cost housing.

Multiplier Effect of Public Investment

Because the preservation experiences analyzed here are in initial implementation stages, multiplier effects can only be estimated.¹ The revitalization plan for Bairro do Recife estimated an average multiplier effect of about \$2.50 of private investment for every \$1 of public investment. No significant private sector participation was expected in the first few years, but it is assumed there will be a sharp increase toward the end of the program (a multiplier effect of 3.5 in years 11-15).

In Quito, the expected multiplier effect for the initial investments is 30 cents of private investment for every \$1 of public investment. These figures may underestimate the actual multiplier effect of government action, since they include only those investments identified during planning and fail to assess unplanned investments.

The assumptions set out in the revitalization plan for Bairro do Recife seem reasonable, as they assume that private sector resources will not be mobilized until three or four years after initiation of public sector activities. However, in both Quito and Recife, private investments are moving ahead faster than had been expected, suggesting the multiplier effect may be greater than expected.

Social Impact of Preservation

Increases in property values are one of the effects of preserving and revitalizing historic city centers. In Quito, there are indications that land values have increased 30 percent in the last three years, reflecting expectations generated by government investment. Properties in the Bom Jesus area have also increased in value since the launching of the revitalization plan. This phenomenon is

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¹ The data needed to conduct such an analysis for Cartagena are not available. The data for Recife and Quito refer to programmed rather than actual investments.

one measure of the success of preservation, but it can also have an adverse social impact. Higher-income households or more profitable economic activities crowd out poorer households and economic activities that previously had benefited from low-cost and convenient locations in the decaying historic city center.

Because investments were not coordinated in Cartagena, the social impact issue was neither quantified nor addressed. Clearly, however, low-income households in what were decaying buildings were driven out by private investment in preservation and rehabilitation. The displaced families may have joined others living in informal settlements in outlying areas of the city or moved to other slums in the city center.

The problem has not arisen in Recife, given the virtual abandonment of the buildings in the Bom Jesus area. The revitalization plan recognizes that land use in the area should be diversified and proposes the rehabilitation of homes, which to the extent possible should retain their original residents. At present, however, this is no



Heritage building used by a financial institution in Recife.

more than a declaration of intent, as no specific steps have been undertaken along these lines. The problem is especially challenging in Recife given the absence of national or local programs for financial aid for low-income housing.

Quito's development corporation has a housing program to diversify land uses and attract households of varying income levels to live in the historic center. As part of this program, dwellings are rehabilitated for poor families who had been living in substandard buildings. The program is based on strict controls on the size and quality of the rehabilitated homes in order to minimize the costs of preservation. It is funded through the beneficiaries' own savings and mortgages, as well as through subsidies under a national housing program run by the Ministry of Housing. It appears to be sustainable, since the subsidies required to make the program financially viable do not exceed 25 percent of the value of the homes. This strategy should help to address the social impact of the preservation effort. Still, as the process continues, the value of properties will continue to increase, which could make rehabilitated homes unaffordable to poor families.

Urban Impact of Preservation

The appreciation of property values that generally accompanies urban heritage preservation—if merely speculative and not the result of a higher return on economic activities or the increased incomes of residents—can jeopardize the sustainability of the process. Controlling speculative behavior poses a challenge in each of the cities examined here.

In Cartagena, housing prices charged by landowners during the period of peak rehabilitation activity soared beyond the reach of most families interested in purchasing them. The market for rehabilitated homes was thus limited to wealthier groups. Speculative activity was curbed by a collapse in demand in 1997 and 1998 caused

by Colombia's economic crisis. But there are no clear indications of how the supply of housing will respond once demand recovers. The sustainability of preservation in Cartagena will to some extent depend on the success of efforts to diversify the supply of rehabilitated homes, a process which in turn will depend on ensuring that property values do not outstrip prospective buyers' ability to pay.

In Quito, there is concern that the rise in property prices will make it difficult to pursue housing projects for low-income families. Such projects are sensitive to changes in the price of the buildings to be rehabilitated, since rehabilitation costs must be kept down in order to keep the program affordable for poor households. In addition, the retention of properties by owners (usu-

ally speculating on price increases) has an adverse effect on the preservation program. Among the measures the municipal government might take to offset this trend is to enforce strict compliance with local preservation ordinances that authorize the municipality to expropriate the owners of buildings under a protection order if buildings are not well maintained, or if the owners disregard municipal warnings. Another strategy is for the municipal government to acquire derelict buildings from landlords who are unwilling to join the revitalization program, as was done in Bairro do Recife. This sent a strong signal that the government intended to take effective action in launching the program, discouraging speculation.

Cartagena: Converging Interests of the Elite

CHAPTER 3

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The historic center of Cartagena, Colombia is among the hemisphere's most successful examples of preservation of historic urban heritage. The city was declared a World Heritage Site by UNESCO in 1982. Within the walled city—the most remarkable system of fortifications in all of Latin America—lies a major collection of churches, convents and private homes built over the city's 450 years of history.

The major port trading with Spain in the colonial era, Cartagena went into decline in the 18th and 19th centuries, but enjoyed something of a recovery in the latter half of the 20th century thanks to industrial and tourism development. Still, Cartagena has not escaped the problems faced by other urban areas. In recent decades, a wave of migrants has flocked to the coastal city seeking refuge from the violence that has ravaged other parts of the country. As a result of this rapid population growth, Cartagena has significant deficits in terms of infrastructure and services, and its income levels are below average for

Colombian cities. Some 40 percent of the city's population lives in absolute poverty and 8 percent in extreme poverty.

Amidst these urban problems, the historic center of Cartagena stands out for its relatively good infrastructure and services and for having concentrated significant public investment in the preservation of historic buildings. The presence of government offices, specialized businesses, secondary schools, universities and tourist services demonstrates that the historic center has retained its role as the city's hub.

In contrast with the historic centers of other cities, the heritage sites and a large proportion of the homes in Cartagena's downtown area are in good repair. This is the result of a twofold process: first, investments in rehabilitating monuments, infrastructure and public spaces by the central and local governments, with inspiration and leadership from the country's cultural elite, who from the outset recognized the historical importance of Cartagena's heritage sites; and second, investments by the economic elite from inland areas of the country, who

CARTAGENA	
Population (1990)	746,000
5th largest city in Colombia	
Area	5,810 hectares
Historic Center	
Population	43,297
Area	97 hectares
% of total city population	5.8
% of total city area	1.7





Santa Teresa Square and Convent.

made it fashionable to rehabilitate colonial residences in the historic city center as vacation homes.

A significant footnote to the city's success in preserving its heritage is that it has been achieved in the absence of any institution or plan coordinating private and public sector efforts. Cartagena is unique in Latin America in that the private sector,

with few direct incentives and under municipal government regulation, has made sizable investments in the rehabilitation of buildings of historical and architectural importance. The municipality has had no real estate promotion plan for the historic center, let alone a comprehensive development plan. Private investment is subject to the rules imposed by a preservation plan

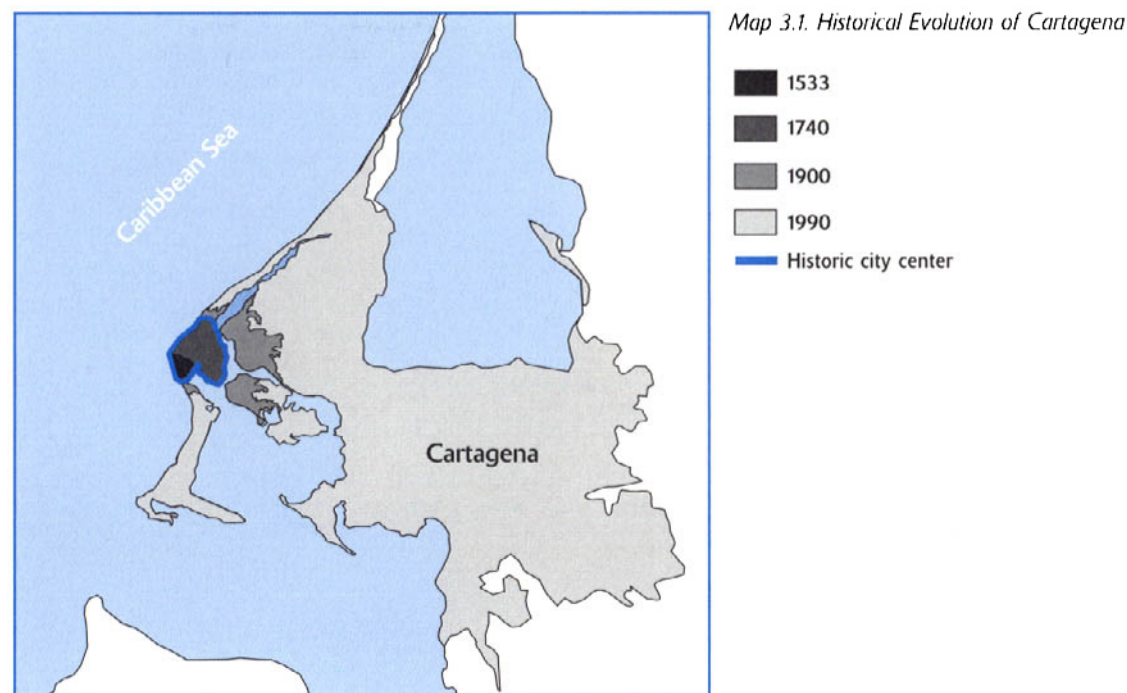
adopted in 1992, which regulates investments in historic buildings on the basis of heritage value, architectural type, and state of repair. While historic preservation regulations have been criticized as unduly restrictive by some real estate agents, they have not dampened private investment in the city center. At the same time, the regulatory code has succeeded in maintaining the architectural purity and consistency of restored buildings, indirectly coordinating a large number of individual investments.

In sum, rehabilitation of the historic city center of Cartagena has been the result of a nearly spontaneous convergence of interests of powerful elite groups: the cultural elite who lobbied for government investment in the preservation of public historic buildings, and the economic elite who rehabilitated historic residences as vacation homes. With the benefits of these converging interests, however, also come vulnerabilities: sustainable preservation is highly dependent on the shifting preferences of the most affluent segments of society, and on general economic condi-

tions in Colombia. A volatile economy and its attendant impact on conspicuous consumption by the rich has a direct impact on the rehabilitation process. As a result, the continued success of preservation efforts is dominated by exogenous factors, with little regard for the preferences and decisions of the local community.

Stronghold of the Caribbean

Founded in 1533 by Don Pedro de Heredia, Cartagena was important to Spain's colonial empire because of its strategic location on the Caribbean coastline and its advantages as a natural harbor. The city was heavily fortified in the 16th and 17th centuries and prospered as a hub for the galleon fleet, ships used in convoys that transported goods from America to Spain. It was during this period that the city's historic center reached the general size and characteristics it has today. The broad balustraded walls, construction of which began in 1594, gave the city its distinctive urban shape and de-



fined its framework of urban development well into the 20th century (see Map 3.1).

Along with the prosperity of the early years, however, came the scourges of the era: pirates and foreign invasions. Cartagena was attacked by both privateers and English and French naval forces, and underwent several cycles of destruction and reconstruction over the centuries. After repeated attacks,

the 18th century found the city in ruins, a process exacerbated by permanent suspension of the galleon fleet in 1740.

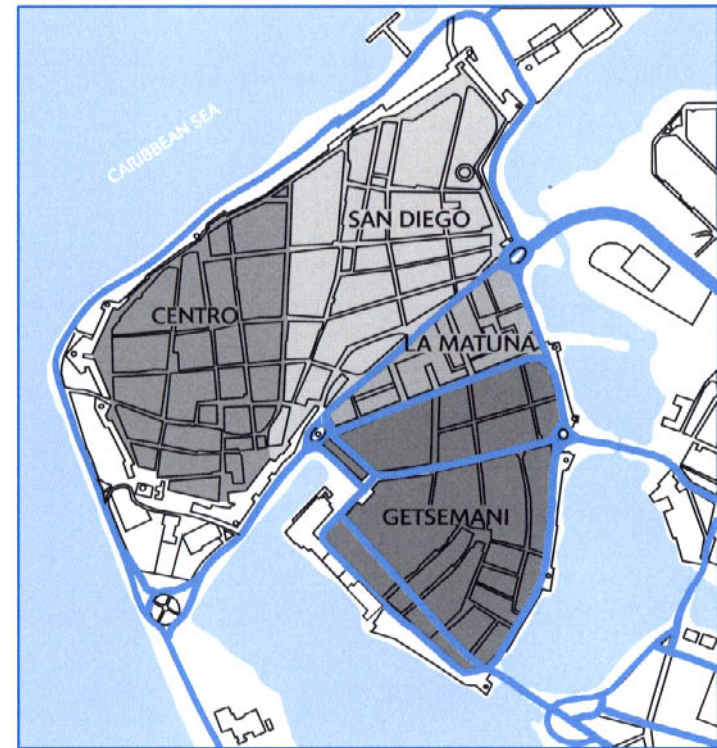
During the early years of the republic, Cartagena lost more and more trade to the port of Barranquilla. The city's decline worsened when Colombia's economic and political center of gravity shifted inland to the center of the country, with which

Cartagena had no direct communications.

By the turn of the 20th century, this pattern of decline was to some extent reversed, and the city's economy enjoyed a modest boost as a result of the opening of the Panama Canal. The city walls were then perceived as an obstacle to urban development and portions of them were knocked down to accommodate expansion into surrounding areas, a process that went on until the 1920s. Sluggish economic development of the city center during the first half of the century ironically prevented demolition of many historic buildings, as occurred in other cities with faster-growing economies. Still, there was little investment in restoration, and a significant portion of the private architectural heritage deteriorated.

In the 1950s, Cartagena's economy began to grow, thanks to shipping activities, the opening of the oil pipeline, and improvements in tourism infrastructure. Modernization of the city focused on areas outside the historic center. In the early years of the tourist boom, Cartagena portrayed itself as a Caribbean resort, steering real estate investment

Map 3.2. The Walled City and its Neighborhoods



along the beaches of Laguito and Bocagrande. Heritage sites in the city center were regarded merely as an added attraction, but were ignored by the real estate investment that poured into areas of urban expansion.

Today, rapid growth and a burgeoning population have strained Cartagena's precarious infrastructure and services, a problem

that has had both direct and indirect effects on the historic city center. More than a third of Cartagena residents do not have a clean supply of water and only a little over half have access to sanitary sewerage facilities. Wastewater is released untreated into the bay, which adversely affects tourism, Cartagena's principal economic activity.

The Historic Center in the Contemporary City

The founding site of the historic city—a small island separated from the mainland by a series of channels and lagoons—provided Cartagena with its original defensive advantages and determined its growth pattern. Urban development expanded onto what was then the neighboring island of Getsemaní, incorporated into the walled area in 1634, resulting in the fortified city that constitutes the current historic city center. The contemporary city developed in semicircular fashion outward from the historic center. To the southwest on a natural peninsula developed the tourist areas and high-income residential neighborhoods of Bocagrande, Castillogrande and Laguito. Along the coastline to the northeast are the poorer neighborhoods of Marbella and Crespo, the international airport, and new tourism facilities. To the southeast on the mainland are the middle- and low-income residential neighborhoods that are home to the bulk of the city's population, as well as

Table 3.1 Basic Data on Historic Center Neighborhoods

Neighborhood	Centro	San Diego	Getsemaní	Total
Area (hectares)	28.88	29.69	26.35	84.92
No. of blocks	24	23	22	69
No. of lots	344	533	581	1,458
Institutional	43	9	17	69
Residential	187	383	386	956
Commercial	20	19	21	60
Mixed	94	122	157	373

working-class business and commercial areas. The historic center has been left in an off-center location relative to the rest of modern Cartagena, but still retains its role as the hub around which city life revolves.

The boundaries of the historic city center are clearly delineated both by the walls and the bodies of water that separate it from adjacent islands. Although this configuration complicates connections with the rest of Cartagena, it has enabled the historic city center to retain a distinct physical identity. The walled colonial city used to be divided into three neighborhoods: Centro or La Catedral, San Diego and Getsemaní. Between San Diego and Getsemaní was once a chan-

nel known as La Matuna, which, once filled, became the site of modern commercial development (see Map 3.2 and Table 3.1).

Each of the neighborhoods of the historic city center evolved over time to serve a particular role and social group. The city walls represented an impenetrable barrier over the centuries that inevitably led to high-density land uses, initially in San Diego and Getsemaní, and later in Centro.

Centro or La Catedral. This neighborhood, Cartagena's founding site, occupies the extreme southeastern portion of the walled city, an area that enjoys better ventilation and is relatively isolated from the rest of the city. The neighborhood was the tradi-

HISTORIC CENTER NEIGHBORHOODS



Barrio Centro: two-story residences with balconies.



Getsemani: narrow streets, modest dwellings.



San Diego: single story residences with modest but ornate facades.



La Matuna: wedge neighborhood with modern buildings.



Map 3.3. Main Heritage Sites

- 1 Cartagena Cathedral
- 2 Palace of the Inquisition
- 3 Santo Domingo Convent
- 4 Customs Building
- 5 San Pedro Claver Church
- 6 Santa Teresa Convent
- 7 Clock Gate
- 8 Marques de Valdehoyas Home
- 9 Las Bovedas Barracks
- 10 Santa Clara Convent
- 11 San Diego Convent
- 12 Don Benito Home
- 13 Santo Toribio Church
- 14 Los Dulces Arcade
- 15 Proclamation Palace
- 16 Gold Museum
- 17 San Roque Church
- 18 Colón Theater
- 19 Cartagena Theater
- 20 Church of the Third Order
- 21 La Trinidad Church
- 22 Naval Museum

tional seat of political, military, religious, economic and social power in Cartagena, and accordingly contains the greatest concentration of monuments. It was also the home of the aristocracy, the landed gentry, and the representatives of the Spanish government. As a result, it includes residential buildings of major historic and architectural

interest. The area continues today to function as a city center, as headquarters for government agencies, and as a focus of major commercial, financial and service-related activities.

San Diego. This area was originally home to middle-class, lower-level officials, employees, workers and merchants, and

housed convents, schools and businesses. It still has some residential areas today, mixed with businesses and small industry.

Getsemaní. Initially separated from the city's founding site by the La Matuna channel, Getsemaní grew into a low-income neighborhood for servants, former slaves and seamen. It still is home to many of the city's poor. For many years, Getsemaní also housed market, industrial and service activities.

La Matuna. This neighborhood is a wedge in the historic city center that was created when the La Matuna channel was filled. Buildings in the area date from the 1960s and 1970s and are used by government institutions and private firms. Public areas are heavily used by street vendors.

Heritage Sites

The historic center of Cartagena stands out among Spanish colonial cities because of its many heritage sites representative of 16th and 17th century architecture and military engineering (see Map 3.3). The historical

and cultural value of these sites is enhanced by the fact that they are showcased in an urban setting that still has many superb examples of colonial residential architecture and public spaces. This gives the area added interest as a documentary record of the way of life and urban spatial organization of the colonial and early Republican periods. UNESCO's designation of Cartagena's city center as a World Heritage Site reflects the fact that its monuments have a cultural value that transcends local history and culture.

The city's heritage sites can be divided into fortifications and official monuments. *Fortifications* include the walls and bastions encircling the old city, the fortifications of San Felipe de Barajas Castle at the base of the Cerro de la Popa, and the forts of Castillo Grande, San Juan de Manzanillo and San Sebastián del Pastelillo outside the walled city. The initial walls designed by Bautista Antonelli in 1586 surrounded only the Centro and San Diego neighborhoods, the seat of Old Cartagena. A bastion was built on the island of Getsemaní from 1631-

Map 3.4. The Walls and Bastions of Old Cartagena



1633, completing the perimeter of the walled city. The walls consisted of a series of straight sections intercepted by bastions, wider areas where the main defensive batteries were located. Of the original 14 bastions, those along the south and southwestern coast of Getsemaní were demolished (see Map 3.4).

The historic city center has 22 buildings classified as *official monuments*, including churches, convents and public buildings. Religious buildings include the Church of Santo Domingo, the Cathedral, the Palace of the Inquisition, the Church of San Pedro Claver, and the convents of Santa Clara and Santa Teresa. Civil heri-

tage sites include the Customs Building, the Governor's Office, and the Naval Museum. The most distinguished architectural sites are in the Centro neighborhood, reflecting its historic role in the old city. Twelve of the center city's 22 heritage sites are in Centro, with five each in the San Diego and Getsemaní areas.

Public Spaces

The organization of public spaces reflects Cartagena's status as a port city. The road system radiates out from the triangular plazas of *La Mar* (now known as the Customs Building) and *La Yerba* (now known as *Los Coches*) (see Map 3.4). This radial road structure partly accounts for Cartagena's irregular layout, which is different from the standard gridiron pattern of Spanish colonial cities. In contrast to other Latin American cities where the main square is the founding site in the area enjoying the highest status, the main square in Cartagena is simply a quarter of a block left empty as a result of a fire in 1552.



Cartagena City Hall.

The hot climate and space constraints within the walls necessitated small and shady public spaces with closed squares, portals and narrow streets. Within this overall pattern, public spaces in each neighborhood of Cartagena have distinctively different characteristics. The streets in Centro are slightly wider than in other

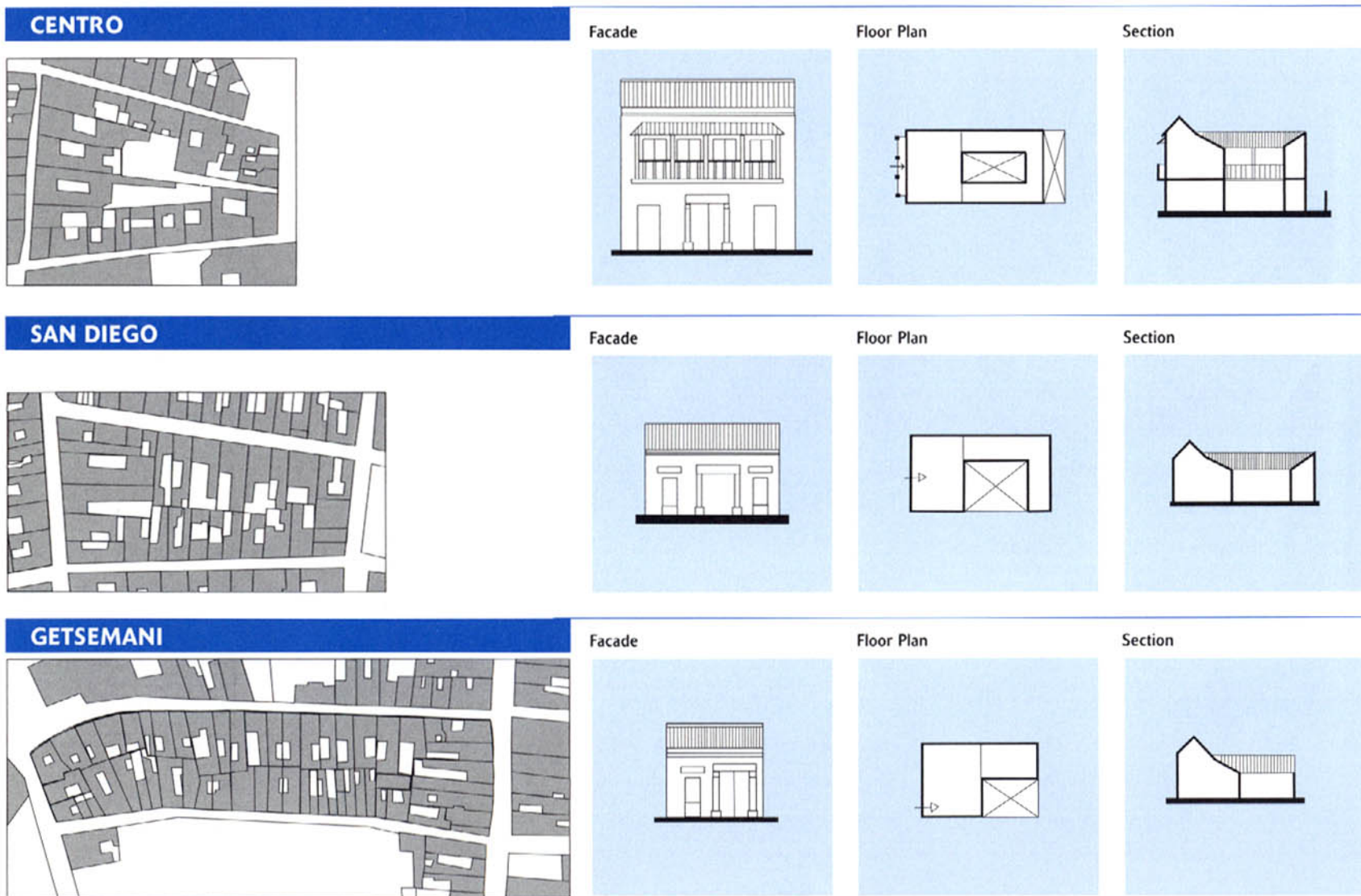
neighborhoods, and it also has more plazas and parks, both set against the city walls and toward the interior of the city. In contrast, San Diego and Getsemaní have a dense urban layout, with only small parks.

Private Architecture

Most individual residential buildings in the historic city center do not constitute architectural heritage sites. Rather, their historic value lies in the fact that they are part of a cohesive spatial and stylistic setting for the city's monuments and public spaces. The residential buildings reflect the socioeconomic standing of the old city neighborhoods even more clearly than do the public spaces.

In Centro, the division of the blocks shows a more generous apportionment of lots in terms of the frontage and depth of properties, many of which overlook two or three streets (see Map 3.5). The homes, generally two or three stories high with mezzanines for depots and warehouses, are constructed around central courtyards to

Map 3.5. Typical Land Subdivision and Residence Structures



provide light and ventilation. These buildings represent a mixture of architectural styles originating in Spain and adapted to the Caribbean environment by Spanish artisans and engineers who had to substitute materials and adapt construction technologies to local conditions.

Middle-class roots are reflected in the lots in San Diego, which have narrow fronts and deep interiors (often the result of successive subdivisions), with one or two-story houses built around courtyards to provide light and ventilation to supplement what little comes through the narrow street frontages.

Getsemaní shows its origins as a low-income neighborhood in its narrow lots and one-story houses with limited street frontage and tiny courtyards.

Preservation of the Historic City Center

The central government initiated efforts to preserve the cultural heritage of Cartagena's historic center in the 1920s, within the context of an emerging national policy on

culture (see Table 3.2). Lobbied by the country's cultural elite, the central government was essentially the sole player in the preservation process through the 1960s. Although the major accomplishments during this period were limited basically to rehabilitation of the Palace of the Inquisition and restoration of the city walls, they laid the groundwork for more comprehensive efforts later. The legislative framework for protection of architectural heritage was established, major monuments repaired, and institutions set up to protect Colombia's cultural heritage.

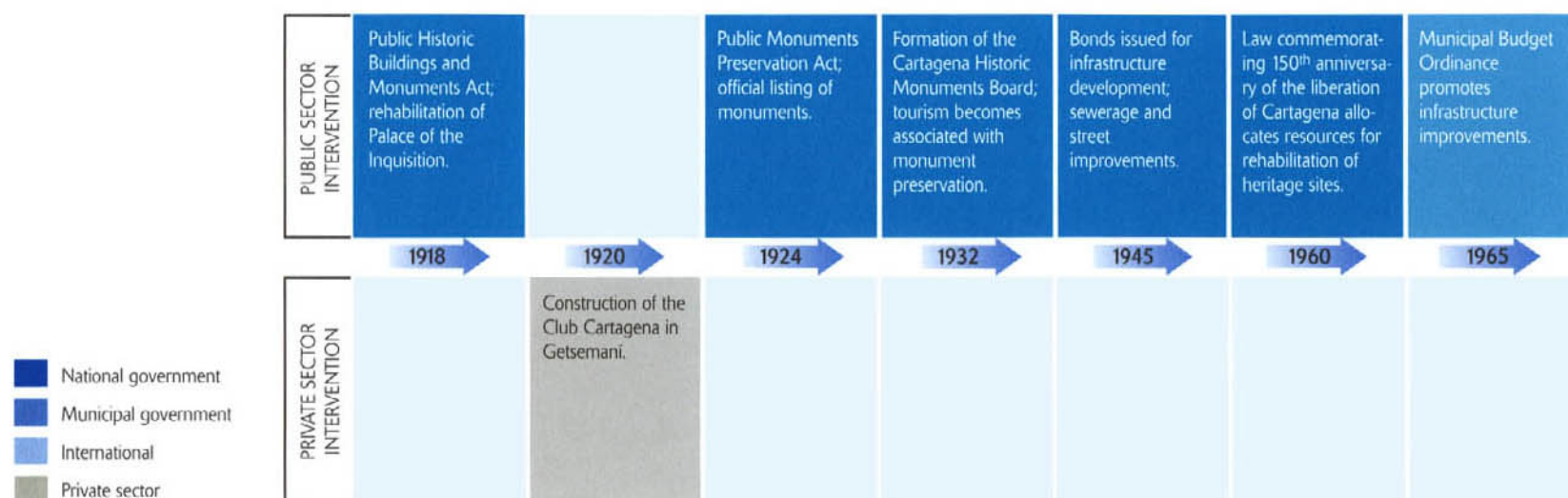
The government's direct intervention had little impact on the steady decline of the historic city center during this period, attributable to the economic crisis in Cartagena and the local community's indifference toward the old city. Beginning in the 1960s, however, Cartagena's municipal authorities, under pressure from the central government, began to take on more responsibilities in terms of upgrading infrastructure, enhancing public spaces, and regulating private investment in accordance

with preservation principles. Like the central government, the municipality's efforts were uneven and limited. Nevertheless, taken together, the efforts of the central and municipal governments successfully rehabilitated the historic center's major monuments and created the minimum conditions needed to retain the local population and economic activities, and subsequently attract private investment.

The private sector began investing more heavily in the historic center in the 1970s because of Cartagena's growing reputation for tourism, and because the area offered the wealthy a refuge from the massive tourist development that had sprung up in Laguito and Bocagrande. The economic elite from Colombia's inland areas began to rehabilitate colonial residences in the historic center as vacation homes because the walled city was perceived as safe. This enabled the affluent to maintain residences where they could enjoy a less constricted lifestyle than in their hometowns.

Historic center properties were also rehabilitated during this period by commer-

Table 3.2. Cartagena Preservation Timeline, 1918-96



cial concerns in order to build restaurants, art galleries, tourist facilities, banks and other businesses. However, the highly seasonal nature of tourism in Cartagena undermined the return on these investments, and many tourism facilities and businesses in the city center suffered from high turnover.

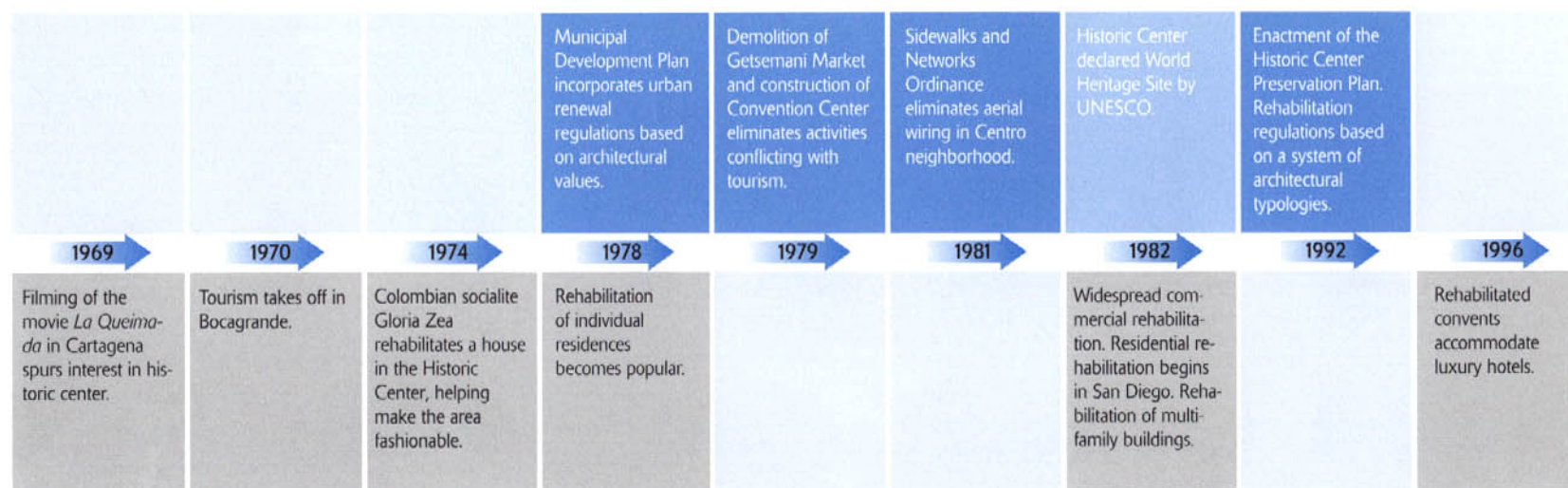
Private investment intensified in the 1980s, when an upper-middle-class clientele decided that they too wished to partake of the exclusive atmosphere in the historic city center. This demand was met by real estate

developers who rehabilitated jointly-owned properties or subdivided large rehabilitated houses for sale as condominiums. More recently, luxury hotels have been built in the renovated Santa Clara and Santa Teresa convents, giving tourists stay-over opportunities and thus expanding the range of city center users.

While the private sector has become increasingly involved in preservation of the historic city center, the public sector has continued to invest in rehabilitating monu-

ments and upgrading infrastructure and public spaces (see Box 3.1). Since the late 1970s, the municipal government has strengthened its control over urban development in the rehabilitation of private buildings. In 1992, Municipal Ordinance No. 6 was officially adopted, regulating the rehabilitation of historic buildings in the historic city center (see Box 3.2).

Even though Ordinance No. 6 established incentives, they have not been decisive in influencing private investment.



It can be said that public and private investment in Cartagena's historic center have been somewhat interdependent. Initial public sector investment came in response to lobbying by the country's cultural elite, a pioneering effort that long preceded any involvement by the private sector. Private investment, in turn, was driven by the prestige associated with owning a preserved historic residence in Cartagena. However, it can also be argued that without public efforts to rehabilitate monuments and

improve infrastructure and public spaces, subsequent private investment would not likely have materialized on the scale observed today. The connection between the two motivations for investing in the historic city center—altruism and prestige—lies in the timing of each one. Public investment paved the way for private investment by establishing basic standards for safeguarding the quality of the environment and protecting cultural heritage, thereby attracting private investors.

Institutional Mechanisms

Government has used two types of instruments to preserve the historic center of Cartagena: regulations to protect heritage sites and govern private investment in rehabilitation; and direct investment to preserve heritage sites and improve infrastructure and public spaces. Total public investment in the historic center is difficult to calculate because investments have been made over many decades and were not coordinated by

BOX 3.1. STAKEHOLDERS IN PRESERVATION OF THE HISTORIC CITY CENTER

Central government. The Ministry of Culture and the National Monument Board have prepared studies and enacted legislation to protect the city's heritage sites. Through the Ministry of Public Works and the National Road Administration, the central government has also allocated national resources to restore and maintain monuments and public spaces.

Municipal government. The municipality has enacted legislation in the areas of regulation and oversight and has invested in upgrading infrastructure and public spaces. Direct municipal investment in the historic city center has come through the Department of Public Works, which carries out projects to rehabilitate public spaces, as well as public utilities

responsible for basic infrastructure systems.

Individual investors. Colombia's economic elite have competed to restore large homes in the Centro neighborhood. These investments are driven more by social status than real estate value. Real estate developers in Cartagena believe that many investors would have a hard time recovering their investments if they put these residences up for sale. Increasingly, upper-middle-class groups are also investing in smaller houses in Centro and San Diego.

Real estate developers. During the 1990s, real estate developers rehabilitated old apartment buildings in the historic city center for sale as vacation homes to members of the upper-middle classes from

inland areas, who are either unwilling or unable to incur the expenses involved in restoring and maintaining a single-family home. Other examples of commercial projects are two convents that have been remodeled as luxury hotels (Santa Clara and Santa Teresa).

Residents of the historic city center. Owner-occupiers in the historic city center make a significant contribution toward the preservation of its architectural character by maintaining their own properties. Together with the inhabitants of the rest of Cartagena who converge on the city center daily to work, shop or conduct business, they are the mainstays of downtown urban activity.

any single investment plan. Moreover, most works were funded through the annual budgets of several central government entities and the municipality.

The central government operates through the Municipal Monument Board (*Consejo Filial de Monumentos*), the local government branch of the National Monument Board (*Consejo Nacional de Monumentos*). This board assists in the design and approval of projects, working jointly with

local government agencies. The central government also sponsored the UNESCO World Heritage Site declaration. The Ministry of Public Works and the National Road Administration are the central government agencies that have invested most in the preservation and rehabilitation of heritage sites and public spaces.

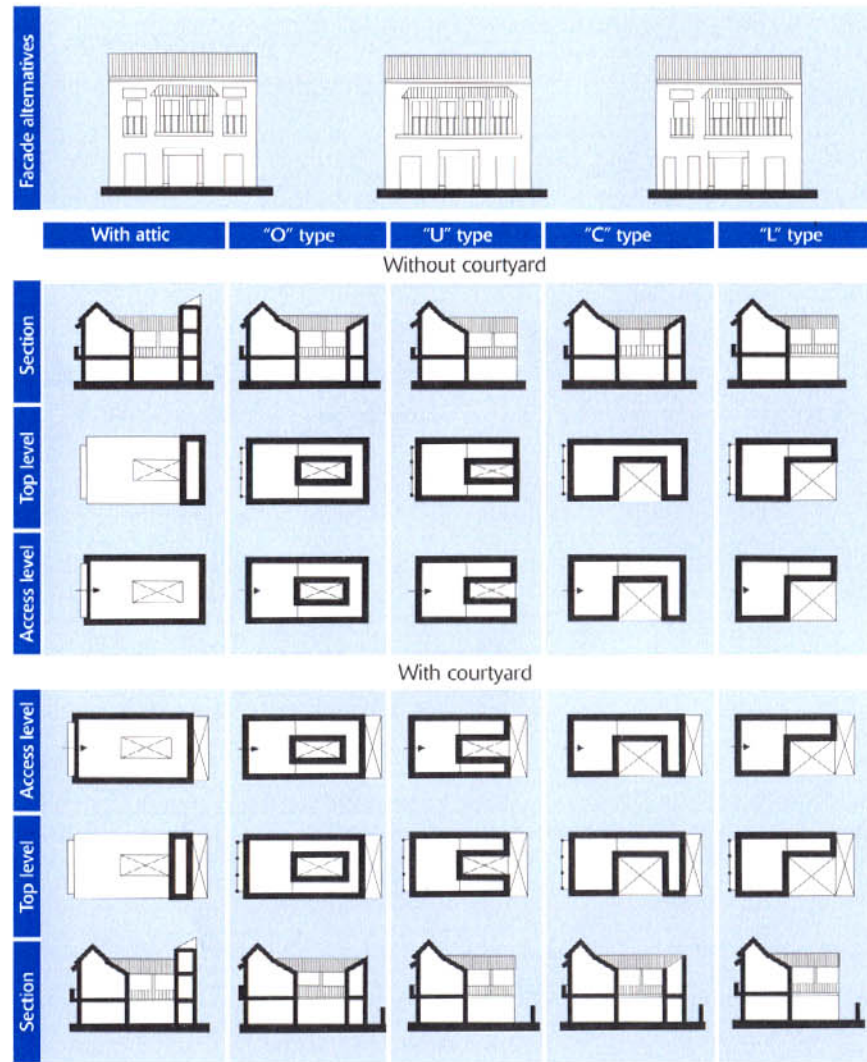
Investments by the municipal government focus on improving infrastructure and public spaces and are made through the De-

partment of Public Works and the public utilities. The municipality regulates private investment in the historic city center through the Municipal Planning Department, which implements regulations pursuant to Ordinance No. 6 in coordination with the Municipal Monument Board.

Ordinance No. 6 defines the administrative structure and regulatory procedures for obtaining approval for development projects. It also regulates public spaces, de-

BOX. 3.2 PRESERVATION REGULATIONS AND THEIR APPLICATION TO ARCHITECTURAL TYPOLOGIES

Example: two-story house with central access



Issue	Regulations	Objectives and contents
Norms for public spaces	Heritage site protection	Preserve characteristics of the space given its historic, aesthetic and environmental value.
	Adaptation of other public spaces	Improve general conditions.
Architectural intervention	Units of intervention	Minimum area to be covered by a project to preserve the original urban units of the historic center.
	Architectural typologies	Contemporary, built after 1920.
		Special historic building typologies for specific religious, military or civil functions.
		Residences, differentiated by height and use of the lot.
Types of interventions		Additional typology, differentiated according to grouping, use mix or linking.
		Heritage site restoration. Preservation of the original characteristics of the building. Only restoration, maintenance and adaptation are allowed.
		Typological restoration. Preservation of the architectural type. Modifications allowed to improve comfort and functional efficiency.
		Adaptation. Improve comfort and integration to urban context.
Types of works		New building. Allowed on empty lots. Norms regulate height, lot usage, facade and materials to ensure integration into the urban fabric.
		Maintenance, consolidation, rehabilitation, adaptation, extension and subdivision.
Building uses	Institutional, residential, economic activities, mixed uses, prohibited uses	Preserve original uses for buildings, allow complementary uses, promote desirable activities, and prohibit undesirable land uses.
Procedures	Type of permit according to the magnitude of the intervention	Licenses. Monument restoration, typological restoration, adaptation and new construction.
		Permits. Consolidation, rehabilitation, minor improvements, painting and advertisements.
		Certification of accepted use.
Incentives and penalties	Incentives. Exemption from land taxes, betterment taxes, and construction fees	Heritage site and typological restoration (100%) Facade restoration and interior adaptation (75%) General adaptation (50%) New construction (25%)
Penalties		Corrective action within three months. Fines of up to \$30,000.



Restored interior of a Cartagena residence.

finest architectural standards and permissible use of buildings, and establishes incentives and penalties. Its main contribution to city center preservation has been its building-specific regulation of private investments on the basis of the architectural typology of each building (see Box 3.2). This regulatory approach has made it possible to preserve the overall consistency of the urban fabric

in the face of uncoordinated private investment. It has also ensured that these investments meet technical historical preservation standards. Some investors feel that the preservation regulations are excessive, considering the severe deterioration and alterations of a number of buildings over time. Also, the assignment of “authorized uses” to buildings in the interest of preserving their

original function can conflict with the needs of real estate investors who must be responsive to shifts in demand.

Regulations are enforced by “urban curators,” private professionals licensed by the municipality to control development in the field by inspecting private sector projects and issuing permits and licenses for construction, remodeling and renovation. The municipality’s Department of Urban Development subsequently verifies that the projects are being executed as approved.

Investors and professionals working in the historic city center share a favorable view of the regulations, although they believe that enforcement mechanisms could be improved to facilitate investment. For example, practical application of the regulations frequently requires interpretation, which can create conflict when decisions are taken by unqualified personnel who interpret the rules either too literally or liberally. Another problem is the processing of restoration licenses, which can take from six to 12 months. Each project must be submitted to the Heritage Division of the Municipal Planning Department for

preliminary study. Approval must be obtained from the Municipal Monument Board and then the Heritage Division.

Tax incentives are granted under Ordinance No. 6 in the form of exemptions from real estate and related taxes (see Box 3.2). This includes a 100 percent rebate for land taxes, betterment taxes, and construction fees for monument and architectural restoration projects, 75 percent for architectural restoration of frontages with interior refurbishment, and 50 percent for general remodeling. Qualifying for these tax breaks, however, requires the above-mentioned restoration license that is both expensive and time-consuming to obtain. In practice, many projects are carried out with “adaptation permits,” holders of which do not qualify for tax incentives.

The municipal government currently has no specific management plan or special local agency for the historic city center beyond the agencies responsible for administering Ordinance No 6. Thus, the continuity and scale of operations in the area will most likely continue to be subject

to independent and uncoordinated decisions by private investors and central and municipal government agencies. So while Ordinance No. 6 has preserved the quality of investments and the overall consistency of the city center, the preservation effort still lacks the type of coordination characteristic of joint public-private preservation programs. The noteworthy achievements in Cartagena are instead attributable to the fortuitous convergence of interests of the cultural elite, as manifested through government spending, and the economic elite, who have invested in preservation as a symbol of wealth and prestige.

Converging Interests and Sustainability

The historic city center of Cartagena is today in far better condition than downtown areas of most other Latin American cities. Many of its heritage sites are in good condition: some have been rehabilitated for sustainable uses, while others are undergoing repairs. With few exceptions, public spaces are well pre-

served and appropriately used. Restoration has generally been carried out with great historical accuracy and imagination. The stock of private buildings includes several large colonial houses that have been preserved and adapted to accommodate contemporary residential or institutional activities. There are also many smaller houses and multi-family homes that have been preserved and rehabilitated as second homes. As a result, the urban landscape of the historic center, particularly the Centro neighborhood, conveys the image of a finely preserved heritage site.

This does not mean that there are no problems. There are still heritage sites awaiting rehabilitation. Others already restored have not been properly maintained and are in need of new investments, as in the case of the Palace of the Inquisition. The Getsemaní neighborhood has benefited only marginally from private investment, and in the public spaces in San Diego, power lines still need to be put underground and some parks are in need of repair.

Three issues should be highlighted in reviewing the long-term sustainability of

preservation of the historic center in Cartagena.

First, the city center has never lost its economic role and today remains the administrative, commercial and service-related center of Cartagena. The main users are middle- and lower-income groups for whom the city center is a principal source of supplies and services. In spite of the deterioration of buildings, the area has retained a sizable permanent resident population, particularly in San Diego and Getsemaní. This has helped maintain its vitality in the face of the highly seasonal nature of the tourist trade that fueled preservation of higher-income residences. To the extent that the city center can retain this central role, it will be easier to ensure preservation of its heritage. However, making sure this happens requires that the municipal government continue to take the necessary measures to oversee the use and quality of public spaces, ensure accessibility to the city center from other areas of Cartagena, and maintain satisfactory standards of service.

The second issue is the uncertainty of

the central government's political will to continue to use public funds to finance preservation of major heritage sites and public spaces. As noted earlier, these investments, dating to the early part of the century, have had a catalytic effect on private investment. The long-term survival of the institutions that have been created, along with the sustained allocation of resources over time, depend on political support for the preservation agenda.

Third, the sustained interest of the private sector in investing in the historic city has played a key role in preservation. The economic elite, including real estate developers, turned the walled city of Cartagena into a much sought-after vacation resort. Yet while investments made by the wealthy themselves have had more to do with prestige than with concerns about the appreciation of properties, investments made by those interested in making money—such as real estate developers—have had mixed returns. The profitability of rehabilitating and selling multi-family buildings in the historic city center has been affected by fluctuations

in the Colombian economy.

Like all luxury goods, upscale residences are vulnerable to recessions, so their returns depend largely on the timing of the investment. In a context of economic growth, there should be demand for a limited number of ventures. The sustainability of these investments will nonetheless remain contingent on such external factors as the tourist trade, which in turn is vulnerable to even more indirect factors such as the high cost of air travel to the city. (Despite the fact that Cartagena is linked to the rest of Colombia by good roads, the routes pass through guerrilla-controlled areas that make overland access dangerous.) Another factor is the high cost of utilities: utility companies charge additional fees for city center customers if the buildings in question are classified as “luxury” properties. If allowed to continue, this policy could dampen the interest of the wealthy in maintaining properties in Cartagena, since many use those residences only occasionally and may be discouraged by rising costs associated with what is essentially a luxury good.



Bringing New Life to Bairro do Recife

CHAPTER 4

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After more than 40 years of decline, the Old City of Recife is experiencing a renaissance thanks to the decisive efforts of local officials. Using a well-designed plan developed in cooperation with the state government of Pernambuco, the municipality in 1993 began rehabilitation of Bairro do Recife, the island site where the historic Brazilian city of Recife was founded in the 1600s (see Map 4.1).

In recent years, Bairro do Recife had deteriorated to the point where it was all but abandoned, despite the fact that it is home to major monuments that have now been declared protected sites by the federal and state governments (see Map 4.2). These include the churches of Madre de Deus and Nossa Senhora do Pilar, the Brum Fort and Station, the Apolo Theater, Marco Zero Square, and the Alfândega customs building. In 1998, the entire southern area of the island was placed under federal protection.

Bairro do Recife can be distinguished from other areas of Recife because of its eclectic architecture and the layout of its

streets and blocks. These assets are enhanced by its historic status, giving Bairro do Recife an atmosphere unique in the metropolitan area. The current development strategy is largely based on these spatial, structural and historical considerations.

The goals of the Bairro do Recife revitalization plan are to preserve the historic and cultural heritage of the area and to diversify the local economy through tourism and other recreational activities. Initial investments focused on Bom Jesus, one of five priority development areas identified in the plan and the one with the greatest potential as a tourist attraction. Bom Jesus has approximately 52,000 square meters of built-up area, which is 10 percent of the total built-up area of Bairro do Recife. Since 1993, the municipality has improved public spaces and infrastructure along Rua do Bom Jesus and Rua do Apolo and their surrounding areas. The City Colors Project has repaired and painted frontages, and demonstration projects have rehabilitated buildings to accommodate recreational and cultural activities. Since 1995, a number of shops

RECIFE	
Population	3,168,000
5th largest city in Brazil	
Area	20,900 hectares
Historic Center	
Population	600
Area	18.6 hectares
% of total city population	0.02
% of total city area	0.09





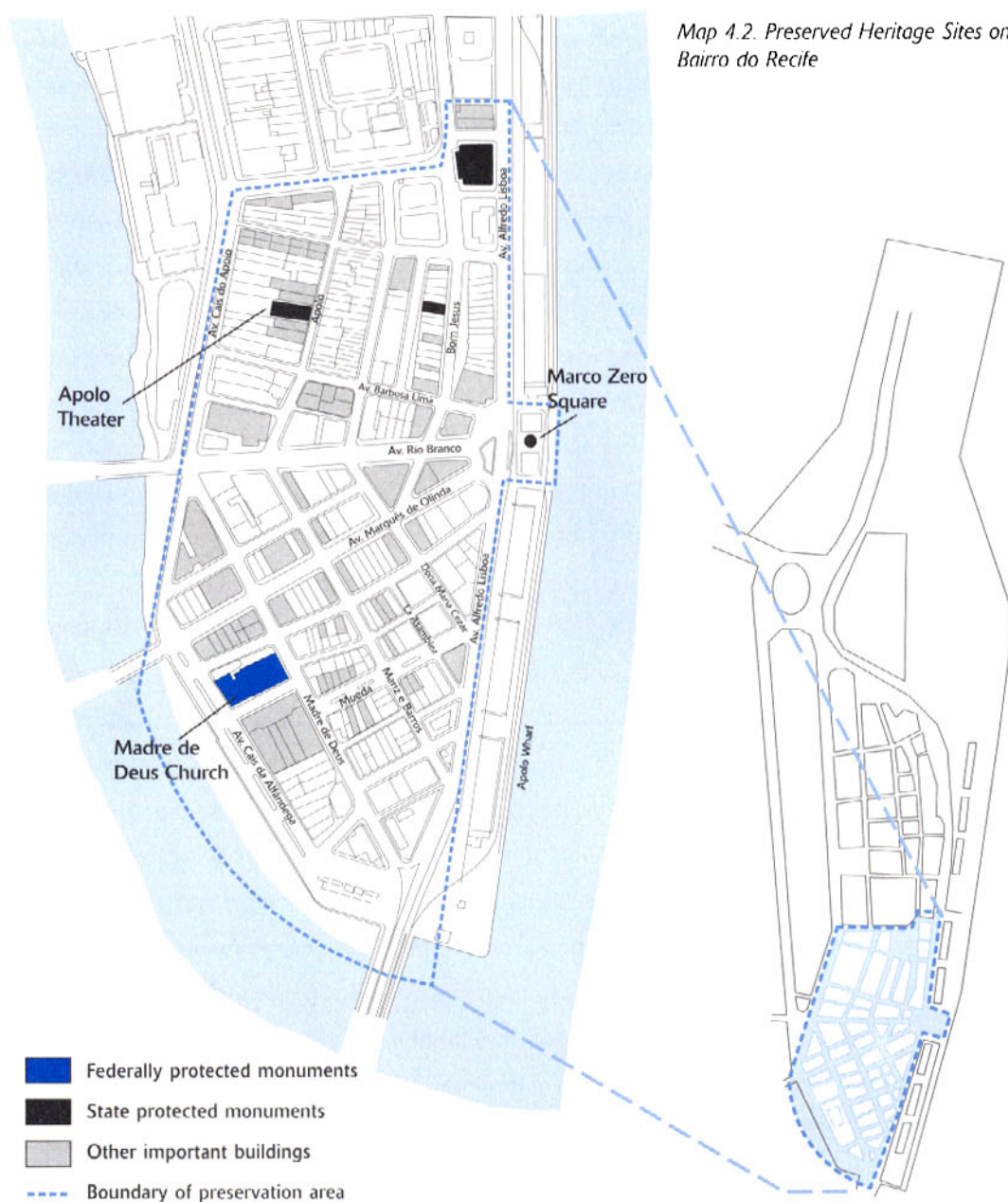
Map 4.1. Historical Evolution of Bairro do Recife and the City of Recife

ational and cultural center that competes with other areas of the city because it can offer a unique setting and product in a historic location.

Although revitalization of Bairro do Recife is a work in progress, the early success in Bom Jesus points to the potential for restoring the urban heritage of severely decaying downtown areas. The sequence of steps taken by the municipal government initially followed the classic pattern of upgrading infrastructure and public spaces, and then offering tax advantages to private investors. However, even these incentives were insufficient at first, given the dilapi-

dated state of Bairro do Recife. The municipality had no option but to expropriate and rehabilitate strategically located properties whose owners were unwilling to participate in the revitalization effort. This sent a signal to private investors that the city was committed to the project, and demonstrated the viability of rehabilitating deteriorated buildings for new uses. Cultural events sponsored by the municipality in the Bom Jesus area brought Bairro do Recife to public attention once again.

Sustainability of the revitalization effort over the long term still depends on the municipal government. Private investors remain concerned about several problems in Bom Jesus, with public safety, lack of parking, and inadequate water supply topping the list. And economic growth in Bom Jesus will depend as well on the pace of revitalization in the two other sections of Bairro do Recife—Alfândega (already underway) and Pilar—as well as on establishment of the waterfront passenger terminal in reconstructed port warehouses. It is the mix of activities from all these areas that will en-



hance the image of the new hub of Bairro do Recife.

The Largest Port in the Americas

Recife was founded in the 16th century as a port for Olinda and the prosperous sugar-growing region in the interior. In the early 17th century, the boom in sugar production in Brazil's northeast was such that Recife became the largest port in the hemisphere.

The historic city center of Recife includes Bairro do Recife, which is the founding site, and the neighborhoods of Santo Antônio, São José and Boa Vista across the river. Bairro do Recife occupies an island that was connected to the mainland until a canal was opened to connect the Capibaribe and Beberibe Rivers to the Atlantic. The original urban structure, influenced by the elongated shape of the island and the fact that the port faced the Atlantic, was designed with an irregular street pattern typical of Portuguese cities. During the Dutch occupation starting in 1630, the city

expanded to include the neighboring island (Santo Antônio) and saw its first formal city planning, with urban development on filled-in portions of the river and mangrove swamps. Bridges were built to Santo Antônio and Boa Vista on the mainland.

Recife's advantages for international trade ensured its growth, and it had more than 7,000 inhabitants by the first half of the 18th century. The city grew steadily through the 19th century on the strength of the cotton boom, and its port competed with Salvador and Rio de Janeiro. Until the early 20th century, virtually all the urban economy was concentrated in Bairro do Recife. Predominant land uses included sugar mills, workshops, businesses involved in foreign trade, warehouses, and private homes. Santo Antônio was used for retail trade, government offices and private homes, while São José and Boa Vista developed as residential neighborhoods.

In the second half of the 19th century, the economy of Brazil's northeast was hit by the decline in sugar and cotton production, while coffee, which is produced in the



Deteriorated building in Bom Jesus.

south, became the country's main export. Renovation of the Port of Recife from 1913-20 to make it more competitive affected the urban structure of Bairro do Recife. New buildings went up and the linear road layout was changed, with the opening of avenues converging on a new square called Marco Zero. These reforms drove up property values, pricing out the original

inhabitants and leading to changes in land use. They also altered the mix of activities that had characterized Bairro do Recife throughout its history. The longstanding focus on foreign trade shifted to financial services and manufacturing.

The 20th century saw a dramatic decline in Bairro do Recife as other parts of the city expanded. Rapid urban development beginning in the 1930s and the emergence of Recife as a metropolis in the 1950s fostered growth of the city's outlying areas. This decentralization process prompted a population exodus from the city center. The population of Bairro do Recife dropped from 13,000 in 1910 to a little over 500 in 1991, undermining businesses associated with residential activities. Conflicts with port operations over land use hampered development of commerce and services geared toward the upper-income population. Modernization of Santo Antônio strengthened it as the symbolic center of the city, further shifting the spotlight away from Bairro do Recife. Continued port expansion and Bairro do Recife's steady decline eventu-

ally turned the island into a low-income “marginal” area of the city. The only major development occurred in the 1970s with introduction of institutional activities on the Apolo Wharf on reclaimed lands.

By the 1990s, the exodus of residential activities and the decline of local services led to the abandonment of many buildings on Bairro do Recife, while the low return on

other buildings made maintenance difficult. There were shortfalls in water supply, and the area’s aging and obsolete sewerage system, which dates to the turn of the century, could no longer meet demand. Street lighting was also inadequate and the area lacked sufficient parking. These infrastructure problems, along with restrictive zoning regulations, further discouraged real estate investment.

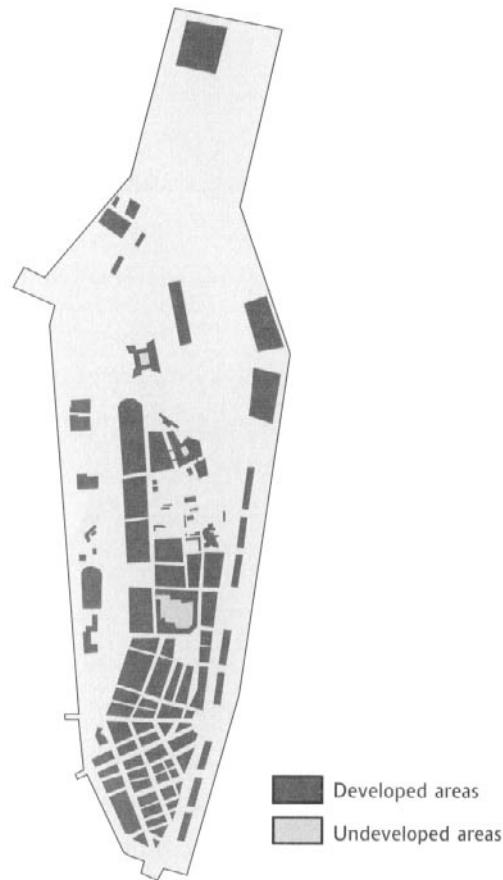
Bairro do Recife in the Contemporary City

Geography and history have determined the urban structure and land use patterns of Bairro do Recife, while its economy continues to be dominated by traditional economic activities related to the port, along with a few manufacturing businesses (see Table 4.1). The current street layout reflects both the renovations introduced at the beginning of the 20th century as well as some elements of the original linear system conditioned by the elongated shape of the island. From the mix of developed and undeveloped areas, three neighborhoods can be clearly defined (see Map 4.3). The northern portion of the island is noteworthy for the volume of undeveloped land occupied by the port, while the southern portion has a densely built urban fabric stemming from the 1913-20 reforms. The central section is characterized by irregular and inconsistent patterns of construction resulting from institutional activities along the Apolo Wharf, and by the depreciation in property values

Table 4.1. The Economy of Bairro do Recife

Main and related activities	Number of establishments by sector				
	Industry	Commerce	Service	Institutional	Total
Port , industry, warehousing, navigation, external trade, banks, customs agents	7	28	46	2	83
Large corporations , banks, insurance companies, stock exchange agents		5	54		59
Commerce , stores, banks, warehousing, transportation, parking	1	166	16		183
Government institutions , banks, professional offices, retail, parking	1		2	24	27
Others : Transport, fuel, retail commerce, professional and technical support offices, repair shops, travel agencies, restaurants, pubs, recreation	5	29	204	30	268
Total	14	228	322	56	620

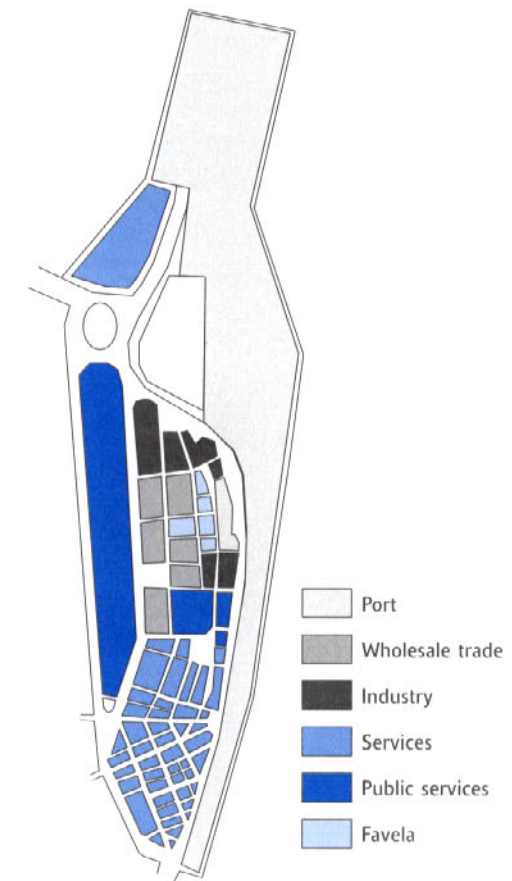
Map 4.3. Urban Structure of Bairro do Recife



has both different and overlapping uses as well, a diversity that has come to be a hallmark of Bairro do Recife (see Map 4.4). The northern section is dominated by the port, which spans the entire Atlantic coast and covers practically half the island. The most modern and heavily used port facilities are located at the island's northern tip. A narrow belt of land south of the port contains warehouses built at the turn of the century and now virtually unused. From the port facilities in the center of the island, grains are transported to the nearby Recife Mill.

The central section of Bairro do Recife is used for wholesale trade and industrial establishments (the Recife Mill and Pilar Cement Plant). Wholesale trade is more a reflection of low property values than of any advantages the location might have for these activities. In the central section is the Favela do Rato shantytown located on premises belonging to the state oil company, which demolished the buildings there in 1975 and never occupied the land. This area has warehouses located on irregularly shaped blocks structured by a linear street

Map 4.4. Land Use



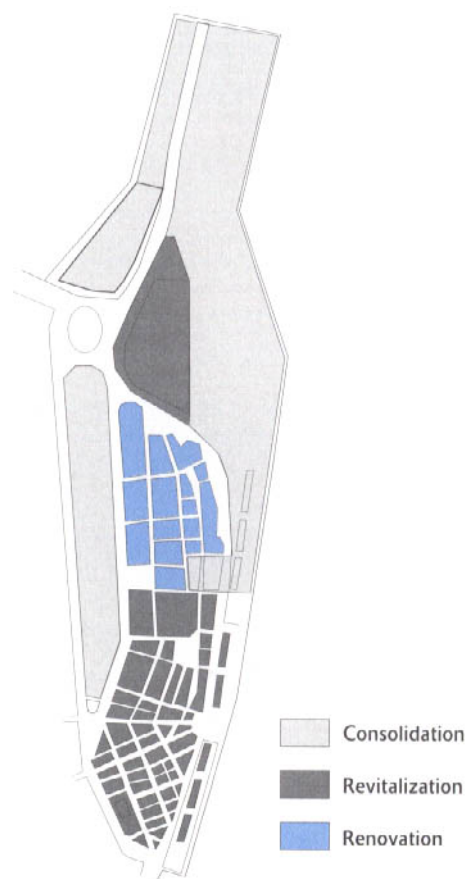
plan running in a north-south direction.

The southern section of the island is densely developed, using the urban structure that resulted from the 1913-20

that resulted in indiscriminate demolition and abandonment of properties.

Just as each of these neighborhoods is in a different stage of development, each

Map 4.5. Revitalization Plan Development Areas



renovations. Dominated by two avenues connected with bridges and leading to Marco Zero Square, this area has a tight structure of regular blocks that house

Table 4.2. Condition of Buildings, Bairro do Recife
(In square meters)

Sector	Good	Regular	Bad	Decrepit	Total
Consolidation	156,941 (93%)	11,025 (7%)			167,966 (33%)
Revitalization	89,010 (34%)	92,231 (36%)	66,325 (25%)	14,328 (5%)	261,894 (52%)
Renovation	31,657 (43%)	8,925 (12%)	18,972 (26%)	14,032 (19%)	73,586 (15%)
Total	277,608 (55%)	112,181 (22%)	85,297 (17%)	28,360 (6%)	503,446 (100%)

higher-density buildings. The city's most important economic activities related to regional services and external trade are also based here. Architectural styles range from modern to post-modern and eclectic.

The structure of the various areas of Bairro do Recife and the uses made of them afford a variety of opportunities for development. As shown in Map 4.5, the revitalization plan identifies three areas: a consolidation area characterized by a stable pattern of land use and property division, occupied by the port, the Apolo Wharf and government facilities; a revitalization area on the southern part of the island and on the land around Fort Brum, which could be improved through investments in infrastruc-

ture, public spaces and buildings; and a renovation area on the center part of the island where there are opportunities for urban renewal through the introduction of new land uses.

Urban decline is not uniform throughout Bairro do Recife (see Table 4.2). In the consolidation area, there is little deterioration of buildings, but both land and buildings are underutilized. Both the revitalization and renovation areas have buildings in every possible condition, although the highest proportion of properties in poor or decrepit condition can be found in the latter.

Revitalization of Bairro do Recife

The decline of Bairro do Recife and its potential for revitalization first began attracting attention during the 1970s. The chronology of events shown in Table 4.3 demonstrates that the municipality, with support from the state government through its Economic Development Agency, exercised the principal leadership role in the revitalization process. The federal government played a regulatory role and has occasionally intervened with specific programs. The private sector became involved in 1995, almost two years after the current revitalization plan was launched.

The major events culminating in the revitalization process that began with investments in Bom Jesus included adoption of a plan for the preservation of historic sites in Recife, under which Bairro do Recife was given protected status, and implementation of the city center revitalization program based on a plan formulated in 1986. The springboard for the revitalization process was the establishment in 1987 of



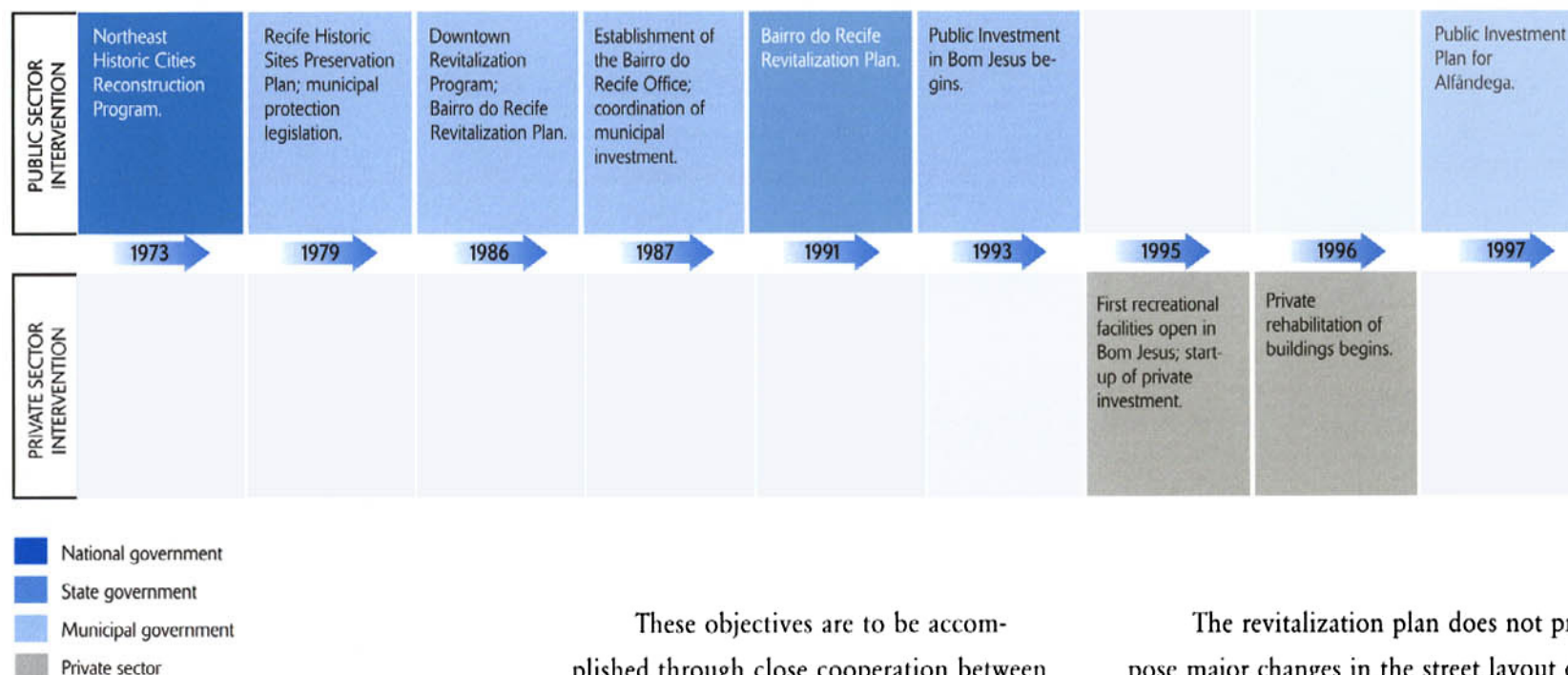
Private sector financed restoration of buildings in Bom Jesus.

the Office of Bairro do Recife, which spearheaded initial public investments in Bom Jesus and established various partnerships with the private sector.

The economic transformation of Bairro do Recife is based on strengthening and diversifying existing economic activi-

ties. The revitalization plan calls for investments to improve infrastructure, accessibility and public spaces to make them attractive to modern service companies. It also aims to attract businesses from the cultural and recreational sectors by preserving the area's heritage and enhancing its image,

Table 4.3. Bairro do Recife Preservation Timeline, 1973-97



thereby increasing its value as a tourist attraction in the metropolitan area. To broaden the range of activities in the area, the plan also encourages residential occupancy in Bairro do Recife, with a focus on small households that can take advantage of the area's central location.

These objectives are to be accomplished through close cooperation between the public and private sectors. The goal is to ensure that reforms in zoning regulations and public sector investment have a strong multiplier effect. Public management is thus designed to generate effective partnerships with the private sector and stimulate investment in the preservation and rehabilitation of heritage buildings and the development of vacant lots.

The revitalization plan does not propose major changes in the street layout or the existing urban land division. The port is assumed to remain the island's principal economic focus, but the area it occupies is expected to diminish as technology develops. The reopening of Avenida Alfredo Lisboa and the road along the Capibaribe River will clarify spatial organization by separating port operations from the rest of Bairro do Recife and facilitating north-south

access. The transportation system is organized on the basis of a primary road system that allows for entry and exit by bridges and a local feeder system. Revitalization will also improve local infrastructure for water supply, sewerage and street lighting.

To attract investors, the plan reformed zoning regulations to increase the amount of construction permitted and boost the intensity of land use, especially in the renovation area. At the same time, the spatial characteristics that make the area so attractive will be preserved. Original zoning regulations, designed under protectionist policies, restricted the use and renovation of buildings and limited the volume of new development. Built-up areas could only be increased by an average of 37 percent, and the resulting allowable floor space precluded profitable real estate transactions. Revised regulations under the revitalization plan nearly double allowable development from 198,000 to 383,000 square meters.

Although the revitalization plan for Bairro do Recife is designed as a flexible tool to guide activities carried out by the

various stakeholders with interests in the area, it does not diminish government authority to oversee investments made by the other parties. This is to be achieved by encouraging the private sector to invest in structural projects, that is, coordinated investments with the potential to achieve the plan's goals within a short space of time (see Map 4.6). In addition to the Bom Jesus projects, these projects will include the following:

- *Pilar multipurpose center.* The area around the Nossa Senhora do Pilar Church will be rebuilt to accommodate commercial, service-related and residential activities.

Map 4.6. Structural Projects, Bairro do Recife

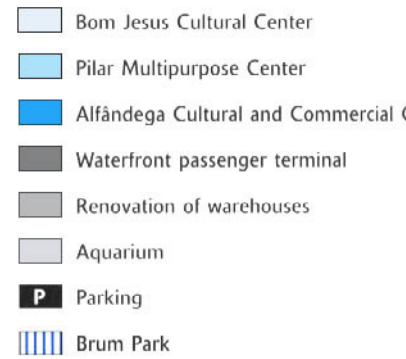
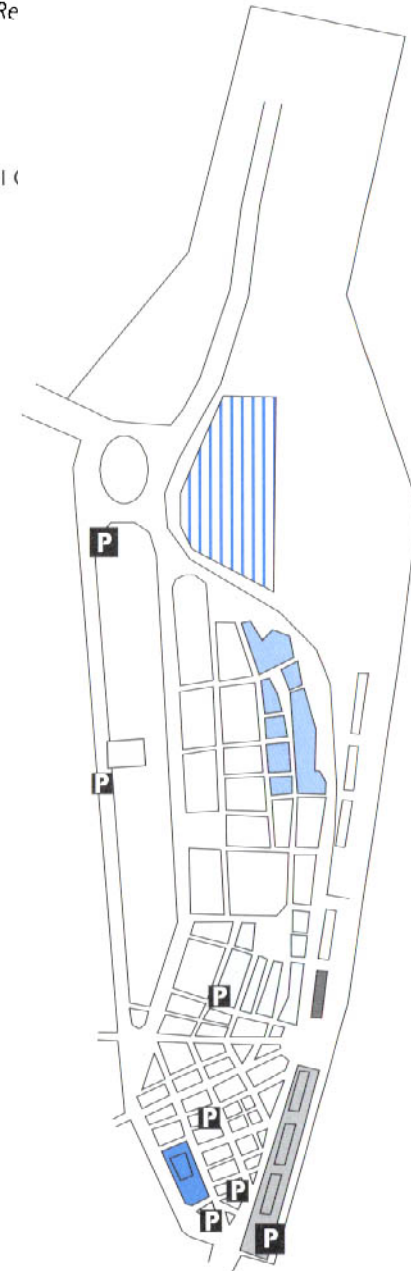


Table 4.4. Revitalization Investments in Bairro do Recife
(In thousands of 1992 US\$)

Type	Project	Investment					
		Public				Private	Total public and private
		Municipality	State	Federal	Total public		
Public	Main roads	849	1,516	446	2,811		2,811
	Bridge rehabilitation	2,086			2,086		2,086
	Squares	375			375		375
	Brum Park	304	506	203	1,013		1,013
	Street improvements	121			121		121
	Sanitation	451	1,695		2,146		2,146
	Subtotal				8,552		8,552
Public-Private partnerships	Wharf	543	2,749		3,292	103	3,395
	Port warehouse recycling	640			640	2,536	3,176
	Rehabilitation of Pilar		736	736	1,472	5,891	7,363
	Building rehabilitation	5,585	11,968	3,990	21,543	58,247	79,790
	New construction	295	590	590	1,475	4,423	5,898
	Subtotal				28,422	71,200	99,622
Private	Customs wharf					94	94
	Wharf restaurants					246	246
	Aquarium					1,841	1,841
	Business center					21,717	21,717
	Subtotal					23,898	23,898
Total programmed investment							132,072

- *Alfândega cultural and commercial center.* This involves renovating the customs building to provide the metropolitan area with facilities for theater, cinema, concert

and conferences, along with related businesses.

- *Waterfront passenger terminal.* One of the port warehouses located next to Marco

Zero Square will be converted into a tourist waterfront terminal for cruise ships.

- *Renovation of old warehouses.* Port warehouses south of the waterfront passenger terminal will be transformed into a modern retail trade area.

- *Aquarium.* To be built in association with private investors, this project aims to enhance the image of Bairro do Recife as a seaside tourist location.

Implementing the revitalization plan will require over \$130 million, of which \$8.5 million are exclusively public expenditures and \$28.5 million are government contributions to projects in partnership with the private sector (see Table 4.4).¹ The plan identifies \$95 million in private investment opportunities. These projections assume that the private sector would mobilize an average of \$2.50 for every \$1 of public investment. They also assume that virtually all public investment would come within the first five

¹ The figures cited in this chapter are from *Revitalização do Bairro do Recife: Plano, Regulamentação e Avaliação*, eds. Silvio Zancheti, Geraldo Marinho and Norma Lacerda (Universidade Federal de Pernambuco, 1998).

Table 4.5. Municipal Investment, Bom Jesus, 1993-96
(In thousands of 1996 US\$)

Type	Project	Investment	%
Infrastructure	Av. Alfredo Lisboa	580	
	Rehabilitation of Mauricio de Nassau Bridge	512	
	Facade wire conduction	20	
	Subtotal	1,112	42
Public spaces	Rua Bom Jesus improvements	106	
	Squares	97	
	City Colors project	44	
	Subtotal	247	9
Building improvements	Building acquisition	214	
	Building rehabilitation	558	
	Subtotal	772	29
Administration	Project preparation	231	
	Management plan advisory services	304	
	Subtotal	535	20
Combined project total		2,666	100

years of the program and most private investment during the final years. Accordingly, private investment would be zero in the first two years and then jump to \$3.60 for every \$1 of public investment by year five. Projections are based on the experiences of other revitalization programs, which indicate that substantial initial public

outlays are required to attract private resources. Public investment serves first to improve deteriorated infrastructure and public spaces, and second to provide a concrete signal of the government's long-term commitment to revitalization. Since the plan for Bairro do Recife has a 15-year horizon, it will need the sustained support of successive

municipal governments. The economic evaluation of the plan shows an internal rate of return of over 18 percent. The present value of fiscal revenue for the state and municipal governments exceeds \$7 million.

Planned Intervention: The Bom Jesus Project

The municipal government began executing the Bairro do Recife revitalization plan in 1993 with projects to improve the Bom Jesus area. Within four years, the quality of public spaces in Bom Jesus improved, a significant number of buildings were rehabilitated, and a wide range of businesses started operations. In short, local residents and tourists had transformed the area into one of Recife's leading recreational and business destinations.

Fifty percent of initial municipal investments in Bom Jesus focused on upgrading infrastructure and public spaces, as envisaged under the revitalization plan (see Table 4.5). However, the municipal govern-

ment also had to purchase and rehabilitate five buildings because the property owners did not want to invest in rehabilitation. Administrative costs were high, but costs of advisory services for planning and management were justified by the difficulties in convincing the private sector to participate. Costs were front-loaded because projects were prepared that would not be executed until subsequent stages.

Four stages can be identified in the initial implementation of the revitalization plan in the Bom Jesus area.

Stage 1: Demonstration of commitment.

The initial works were designed to show the municipal government's commitment to rehabilitating Bairro do Recife. The focus was on improving public spaces (streets, drainage and street lighting), enhancing accessibility (road improvements, public transportation and parking), and increasing the supply of potable water.

Stage 2: Identification of partners. Upon completion of the initial works, the Office of Bairro do Recife sought partnerships with private firms to rehabilitate and main-



Restored building in Bom Jesus.

tain public squares such as Marco Zero Square, the Navy Yard, and the Tiradentes Square. The City Colors Project sponsored by the Roberto Marinho Foundation was launched to provide incentives for the rehabilitation of building frontages along

Rua do Bom Jesus. Owners could have their building frontages painted free of charge if they made necessary repairs. The paint was donated by an international paint company.

Stage 3: Persuasion of property owners. To encourage property owners to participate in City Colors, the Office of Bairro do Recife established a business team to act as liaison between potential investors and owners of buildings in the area. The geographic area covered by City Colors was expanded to include more valuable buildings. The most critical decision during this stage was to expropriate five buildings in extreme disrepair from owners who had clearly indicated that they did not want to participate in the program.

Stage 4: Consolidation. Upon completion of the Rua do Bom Jesus works, the municipal government rehabilitated the expropriated buildings. Rehabilitation of public spaces and building frontages was then expanded to other streets in Bairro do Recife. In mid-1995, the first tourism and recreational businesses began operations.

Within a few months, the renovation of buildings gained momentum as private investment increased along Rua do Apolo. Old warehouses were converted to tourism and recreational uses. Since that time, rehabilitation projects by private investors have continued steadily.

Public Spaces

Revitalization has radically changed Rua do Bom Jesus: sidewalks and streets have been fixed, new lighting installed, and telephone and overhead electric power cables wired through building frontages. These improvements have since been extended to Rua do Apolo, and work is in progress on other streets in the project area. The City Colors Project has dramatically changed the external appearance of private buildings (even those not otherwise rehabilitated), giving the neighborhood a look that exudes improvement and growth. Public squares have likewise been rehabilitated and are being maintained through a partnership arrangement with local businesses.

Table 4.6. Rehabilitated Areas in Bom Jesus, 1993 vs. 1997

1993 Status	Area	
	m2	%
Total area	52,000	
Good condition	17,700	34
Fair condition	18,700	36
Poor condition	13,000	25
Decrepit	2,600	5
1997 Status		
Total area	52,000	
Good condition	34,400	66
First floor	11,900	
Second floor	9,900	
Third floor	7,400	
Fourth floor	3,400	
Upper floor	1,800	
Awaiting rehabilitation	17,600	34

Private Buildings

According to information available in 1997, the Bom Jesus revitalization project had 34,400 square meters of rehabilitated space, with another 17,600 square meters awaiting rehabilitation. Thus, during the first three years of revitalization, 16,700 square meters were rehabilitated, equivalent to 38 percent

of the built-up property in fair, poor or decrepit condition in 1993 (see Table 4.6).

Building repairs have not followed a pattern of scientific restoration, focusing instead on maintaining the volume and architectural style, preserving the original frontages and roofing of buildings, and redesigning interiors to adapt them to recreational, commercial or tourism functions. A number of buildings have been only partially rehabilitated, and the upper stories of many multi-level buildings have been left untouched. These buildings generally have single-use occupancy, that is, the entire building is used for a single activity pursuant to the terms and conditions of a single lease agreement.

Private Investment

Because information on private investment in urban revitalization is difficult to obtain, data on amounts mobilized for the Bom Jesus project from 1993-96 come from estimates of building rehabilitation investment. This is calculated on the basis of the aver-

**Table 4.7 Land Prices,
Bairro do Recife, 1993 vs. 1996**

Area	Sale price (US\$/m ²)		
	1993	1996	% change
Bom Jesus	124	208	68
Alfândega	168	146	-13
Pilar	110	105	-5

age cost of rehabilitation (approximately \$170 per square meter rehabilitated) and the volume of construction rehabilitated (approximately 16,700 square meters). These figures indicate that the private sector would have invested approximately \$2.8 million in building rehabilitation, which probably underestimates the actual amounts involved. Compared with public investment (\$2.6 million), the multiplier effect of public investment was 1.0, considerably below the average multiplier effect expected for the entire revitalization plan (2.5), but better than what the plan had postulated for the initial years of implementation.

Figures on returns on investments made by private investors are also difficult to obtain. However, calculations based on lease

prices for commercial and recreational functions indicate that such investments should be profitable. Some indication of the return can be found in the behavior of sale and rental prices. Available information suggests that the Bom Jesus project has performed well in comparison with other areas of Bairro do Recife. Building sale prices in the Bom Jesus neighborhood increased by almost 70 percent over 1993-96, while prices elsewhere continue to decline (see Table 4.7).

Fiscal Impact

Receipts on two of the three taxes collected by the municipal government have increased for the Bom Jesus neighborhood during the revitalization period (see Table 4.8). The operation of new businesses in the area spurred higher revenues for the tax on services (ISS), which is a 5 percent tax on the gross value of services rendered in the project area. Increased real estate sales drove up receipts of the real estate transactions tax (ITBI), a percentage tax collected on the sale price of real estate.

The only tax revenue that did not rise was the urban land and property tax (IPTU) assessed on properties at rates that vary according to the type of building and its location in the city. This was because of the tax exemptions granted under the revitalization plan and the time lag before the appreciation of property values is reflected in property assessments for tax purposes. The incentives established under the revitalization plan include exemptions from the IPTU for periods ranging from two to 10 years for rehabilitated properties, and an exemption from the 5 percent sales tax for recreational and tourism activities.

Sustainability

There is no doubt that the municipality's resolute efforts have been the decisive factor in the successful revitalization of Bom Jesus. The government's commitment has been demonstrated not only by restoration of public spaces and building frontages, but also by expropriation and rehabilitation of buildings whose owners were unwilling to

Table 4.8. Tax Revenues, Bairro do Recife vs. Bom Jesus, 1993-96

	Urban land and property tax (IPTU)		Tax on services (ISS)		Real estate transactions tax (ITBI)	
	US\$	Variation (%)	US\$	Variation (%)	US\$	Variation (%)
Bairro do Recife						
1993	934,604		567,273		58,151	
1994	776,903	-17	911,373	61	40,650	-30
1995	797,242	3	1,910,702	110	31,435	-23
1996	818,776	3	3,150,438	65	30,767	-2
Bom Jesus						
1993	59,228		66,830		1,825	
1994	59,139	0	70,715	6	4,484	146
1995	50,734	-14	132,626	88	24,271	441
1996	51,523	2	117,998	-11	13,366	-45

participate in revitalization. The attitude adopted by municipal authorities sent a clear signal to private investors, who saw opportunities to make a profit by participating in the process. Available evidence indicates that these opportunities are materializing, a factor that is undoubtedly boosting the rehabilitation process.

The future profitability of private investment in Bom Jesus will depend on the extent to which the revitalized city center can consolidate its position as an area for recreation, culture and tourism. Bom Jesus

does face competition from other areas of Recife, so its long-term success depends not on being a passing fad but on establishing itself as an attractive destination that is here to stay. It is therefore essential that Bom Jesus consolidate its position as a multi-use area in Bairro do Recife and in the city as a whole.

To a great extent, consolidation of revitalization in Bom Jesus will depend on continued government intervention, particularly in three critical areas.

Eliminating negative factors. There is consensus among Bom Jesus property own-

ers, tenants and consumers on the problems that fall within the purview of the government and must be addressed. These include the still-deficient water supply, public safety and the security of private property, and insufficient parking.

Developing other areas. Revitalization of other areas of Bairro do Recife will impact the sustainability of the Bom Jesus project. Investments in Alfândega and Pilar will diversify the supply of rehabilitated space and attract users, and completion of the waterfront passenger terminal will channel tourists through Bairro do Recife, particularly the Bom Jesus neighborhood.

Maintaining environmental quality. The proper maintenance of public spaces and the provision of quality services are crucial to consolidate the revitalized image of Bom Jesus. This will require greater maintenance outlays by the municipal government. On average, maintenance costs have increased by 35 percent since the revitalization plan was launched (from \$1.185 million in 1993 to \$1.6 million in 1996), primarily for streets, sidewalks, bridges and storm drains

(120 percent increase), and garbage collection and disposal and street cleaning (29 percent).

Consolidating the achievements in Bom Jesus and expanding this process to encompass all of Bairro do Recife will also require greater private investment. In areas of activity yet to be explored (e.g., residential and office space), investment projects will have to be identified and studied. Since private investors are reluctant to assume the

risks involved in pioneering investments, shared risk may be in order. One way to support the process is to demonstrate the size and soundness of demand. The Office of Bairro do Recife can perform this role by identifying and documenting demand for residential or office space in the area.

The municipal government's continued support for revitalization will depend not only on maintaining the political commitment to achieving urban planning

objectives, but also on ensuring that revitalization boosts municipal finances. This is not yet happening because tax collections are lagging behind increases in land prices, and because of generous tax exemptions. Prompt action to correct these problems will help strengthen the fiscal rationale for investing in Bairro do Recife and continuing its revitalization.

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Quito: A Public-Private Partnership

CHAPTER 5



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For over 400 years, the center of Quito accommodated all of the city's economic and social activities, as well as all socioeconomic groups of the population. In fact, until the 1920s, the approximately 300-block area that makes up the historic city center was home to the entire population of Quito (see Map 5.1).

Only a few decades later, however, this once-magnificent colonial city center began suffering the classic symptoms of urban decay. As early as the 1950s, wealthy residents started moving northward in search of modern comforts. High-end commercial activities were the next to leave, followed in the 1970s by businesses and professionals. The space thus abandoned was taken over by poor families living in overcrowded conditions and by the businesses serving them. Public spaces teemed with street vendors and open-air markets. Government offices and schools remained, but increasing use of automobiles and a deficient mass transit system exacerbated street congestion and pollution. Poorly designed rent controls and preservation policies cre-

ated perverse incentives that encouraged landlords to abandon properties.

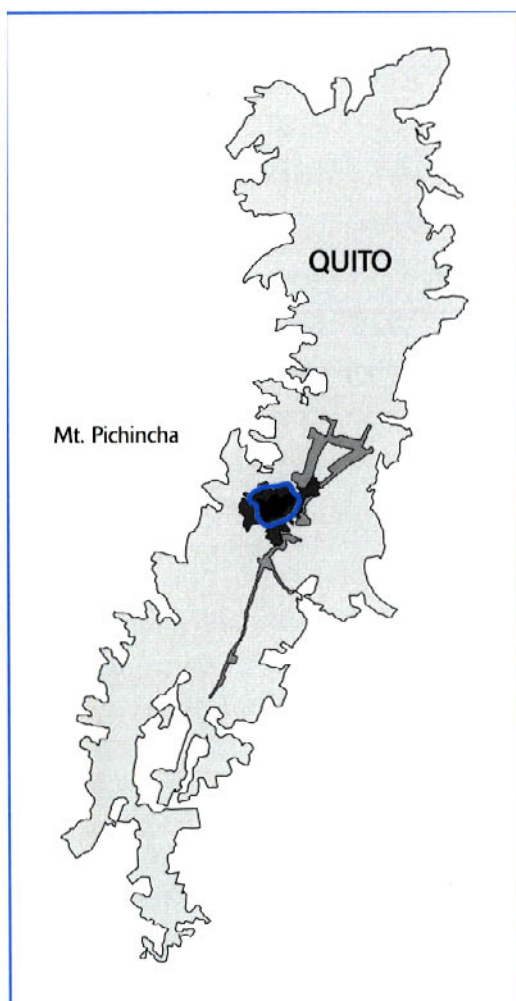
In the midst of this downward spiral, Quito was declared a World Heritage Site by UNESCO in 1979. No amount of deterioration could disguise its fine examples of civil and religious colonial architecture from the 16th, 17th and 18th centuries, or the stylings of its residential and commercial buildings dating from the late 19th and early 20th centuries.

Initial rehabilitation efforts focused on preserving major heritage sites with resources from the Fund for Preservation of the Historic City Center (FONSAL), a municipally-administered agency financed with provincial taxes and charged with protecting and restoring the artistic, religious and cultural assets of Quito. The municipality also developed a master plan and used its own resources and bilateral assistance to upgrade public spaces and rehabilitate a number of historically significant municipally-owned buildings.

These measures laid the groundwork for the more important second phase of the

QUITO	
Population	1,244,000
2nd largest city in Ecuador	
Area	18,997 hectares
Historic Center	
Population	69,535
Area	380 hectares
% of total city population	5.5
% of total city area	2





Map 5.1. Historical Evolution of Quito

rehabilitation process, an innovative and coordinated investment effort with the private sector. From the beginnings of the preservation process in the 1980s, the Municipality of Quito recognized that breaking the historic center out of its cycle of decay could only be achieved by involving all the stakeholders, including building owners, real estate investors, merchants, residents and daily users of the area.

The Semi-Public Corporation for Development of the Historic City Center (ECH) was established with multilateral support to execute investments in partnership with the private sector. This enabled Quito to expedite the rehabilitation process by creating an environment conducive to private investment. Improvements were made in public areas, parking and traffic control; flagship buildings were rehabilitated for public uses; and private buildings were restored in partnership with local owners and investors. To remove the remaining constraints on private investment, the municipality started to regulate street vending and open-air markets, and improved street cleaning and public safety.

Finally, to preserve a mix of land uses while minimizing any adverse impact on poor households in the historic area, the ECH is implementing an ambitious low-cost housing program that involves rehabilitation of residential buildings. The results achieved in a pilot project bode well for the success of this initiative, which will be supported by central government housing subsidies.

History

Shortly after it was founded in 1534 by Sebastián de Belalcázar, Quito gained importance in the Nueva Granada Viceroyalty as a center of missionary activity and local government. The city was a bishopric before it became a Royal Tribunal, and from its inception had three convents of importance.

Throughout the 16th and into the 17th century, the founding site of Quito—built on the royal dwellings of Inca rulers Tupac Yupanqui and Huayna Capac—began filling up with other churches, convents and public buildings, many of which are still architectural landmarks of the city center today. The period also saw consolidation of the city's street system based on a gridiron pattern with regular blocks, approximately 100 meters squared, around the main square. The general pattern of land use is still visible today. The streets surrounding the main square (*Parque de la Independencia*) were and still are the seats of principal political, religious and cultural institutions. The location and general layout of the San Francisco and

Santo Domingo squares also remain.

There are also some 70 schools in the historic city center, the highest concentration of any section of Quito. From the earliest times of the city's history, churches and convents built schools to provide a Catholic education for the population. Public schools were added during the period after independence.

The remainder of the historic center has always been occupied by residential buildings. Buildings owned by prominent families historically were on the streets surrounding the plaza, while poorer families lived on the fringes of the old city. Property around the plaza was distributed among the 204 original settlers at a rate of four lots per block. Subdivided by successive heirs, this constitutes the basis of the current land tenure pattern in the historic city center. In line with colonial tradition observed in other Latin American cities, the main houses have one or two stories and are organized around courtyards, with relatively closed street frontages. During the period after independence, this architectural style

was supplemented with two-story, French-style residences with balconies.

The first multifamily homes and commercial buildings appeared in the early 20th century. By 1930, the city covered more than 300 blocks around the founding site, and all urban activities were contained within that perimeter. That area is recognized as the historic city center of Quito under current regulations.

The decline of the historic city center can be traced to the rapid urbanization process that began in Ecuador in the 1950s and gained momentum in subsequent decades. In addition, the changing preferences of middle- and upper-income households led to growth of suburbs, expanding the traditional city limits. The city center ceased to be synonymous with the city per se, and became instead simply one section of a metropolitan area sprawling north and south (growth in other directions being constrained by geographical factors). Today, the historic city center occupies only two percent of metropolitan Quito and is home to 5.5 percent of the population.



Facade of the Church of San Francisco.

Heritage Sites

Consistent with its ancestral religious role, Quito is home to magnificent churches such as the Cathedral, the Sagrario, and the Church of the Compañía de Jesús; the convents of San Francisco, La Merced, San Agustín and Santo Domingo; the monastic

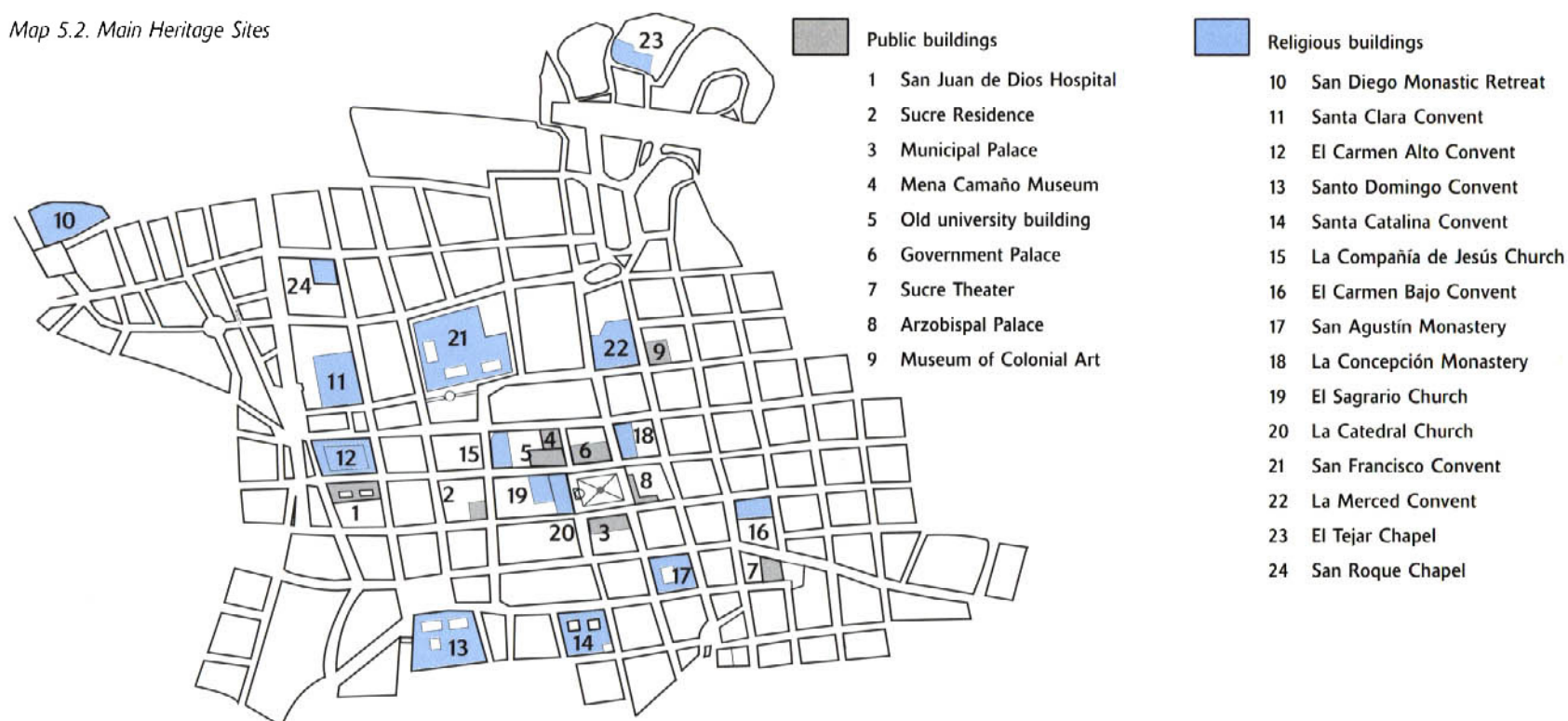
retreats (*recoletas*) of El Tejar, San Diego and El Buen Pastor; and a number of other churches and chapels such as San Sebastián, El Robo and El Belén (see Map 5.2). Other important examples of religious architecture include the monasteries of Santa Clara, Santa Catalina, La Concepción, El Carmen Bajo, and El Carmen Antiguo or Carmen Alto.

Apart from their historic value, many of these buildings are renowned for their artistic merit. The San Francisco convent is a remarkable blend of architectural styles imported from Europe and indigenous decorative motifs, while the facade of the Church of the Compañía de Jesús is considered a masterpiece of Latin American Baroque.

Historic civic buildings in the city center include the Presidential Palace, the old university building, and the San Juan de Dios Hospital, with its 17th century cloisters. Buildings constructed during the latter half of the 19th century include the Sucre Theater and the penitentiary.

The core area of the historic city center is also home to a number of residential and commercial buildings that provide an exceptional and stylistically-cohesive setting for the area's heritage sites. Most residential buildings are from the period following independence, while the major commercial buildings were erected in the late 19th and early 20th centuries. Having been abandoned by their original owners and

Map 5.2. Main Heritage Sites



bypassed by changes in the urban economy, many of these buildings continue to deteriorate. Some are used for commercial purposes or as warehouses, craft workshops, or low-income residences.

Public spaces in the historic city center also retain their original attributes, thereby enhancing the overall value of the

area as a documentary record of the way of urban life of the colonial and republican periods. The main city square and the San Francisco and Santo Domingo squares retain their original spatial characteristics, although they have undergone changes over time. (Trees were planted in the main square in the 19th century, and sidewalks were con-

structed in Santo Domingo.) Apart from being the sites of important events in Ecuadorian history, these public spaces are decisive landmarks in the spatial structure of the city center.

The Historic Center in Contemporary Quito

Historical and socioeconomic factors have led to the emergence of 17 neighborhoods in the core area of the historic city center, comprised of 154 blocks around the main square. Each neighborhood has its own distinctive spatial and sociocultural features (see Box 5.1).

While the city center retained its role as a ceremonial center and seat of government, it came to be dominated in recent years by commercial and service activities for low-income households such as retail trade, small-scale services, craft workshops, and warehousing to supply street vendors. These activities and their clientele did not attract investment into the area by private developers. The proliferation of street vendors created congestion and led to the deterioration of parks and other public spaces, also deterring private investment in commercial and recreational activities for other social groups.

A 1989 study carried out by the municipality as part of development of a master plan for preservation of the historic



La Merced Tower, Cuenca Street.

center provided the following picture of prevailing conditions.¹

Land use. A relatively small proportion of the historic center (47 percent) was used for housing, compared with the aver-

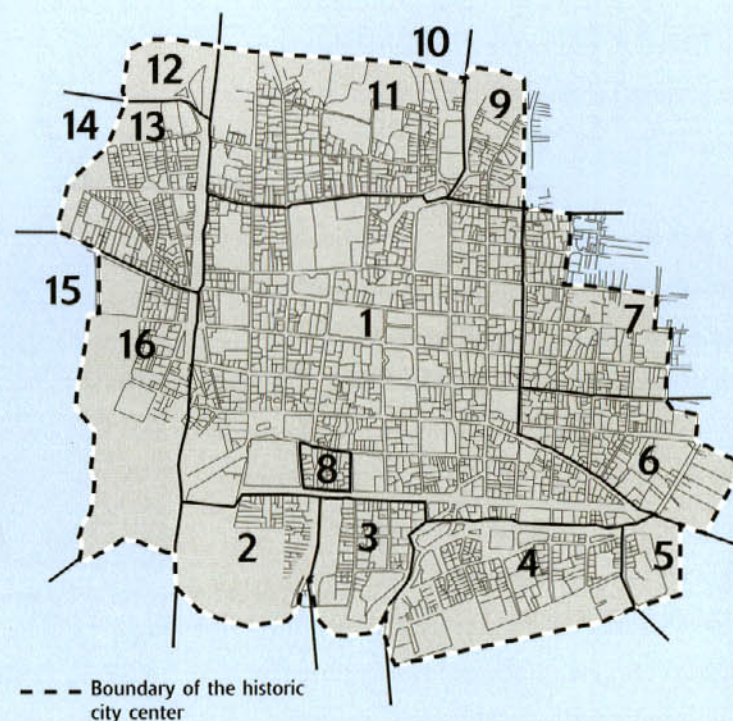
age for Quito as a whole (close to 70 percent). This is in part because a significant portion of the central downtown area—84 of the 154 blocks around the *Parque de la Independencia*—was used for administrative and commercial purposes. However, the net population density in the historic city center (300 inhabitants per hectare) was much higher than the average for Quito (130), indicating that a majority of the approximately 17,000 resident families were living in overcrowded conditions. Almost 75 percent of residents lived in multifamily homes, with half of them sharing households with three or four other families.

Access. An estimated 75,000 vehicles entered the historic city center daily, clogging the narrow streets and blocking or slowing access. Ninety percent of citywide mass traffic itineraries passed through the city center, bringing the city's fleet of buses through the area incessantly. The traffic contributed to high levels of air pollution, and its vibra-

¹ Municipality of Quito Planning Department, *Master Plan for the Historic Center*, 1989.

BOX 5.1. HISTORIC CITY NEIGHBORHOODS

No.	Name	No. blocks	Total properties	Population	Total area square (meters)	Square meters used for housing	No. of families
1	González Suarez	48	537	6,934	712,619	199,533	1,665
2	La Loma	29	520	6,649	269,475	167,075	1,512
3	San Marcos	13	258	4,002	144,323	83,707	995
4	La Tola	9	230	3,392	97,057	74,734	844
5	San Blas	36	454	7,992	288,588	176,039	1,872
6	Vargas	13	173	1,975	94,332	58,486	464
7	San Juan	8	155	2,827	79,260	70,541	710
8	Recoleta	2	56	1,089	39,332	23,993	272
9	Chilena	6	93	1,399	102,682	44,153	367
10	El Tejar	23	277	4,166	142,219	86,754	1,057
11	El Placer	18	259	5,658	273,727	123,629	1,409
12	Aguarico	41	556	8,240	296,484	163,066	1,935
13	San Diego	8	168	2,640	167,792	46,982	671
14	Colmena	17	289	3,589	109,287	41,259	827
15	Panecillo	6	134	2,352	59,149	35,489	549
16	San Sebastián	17	304	6,631	170,968	112,839	1,486
TOTAL		294	4,463	69,535	3,047,292	1,508,279	16,635



tions caused structural damage to colonial buildings. Demand for parking was estimated at nearly double (5,500 spaces) than what was available (2,800). Such access problems limited investor interest in expanding eco-

nomic activities targeting upper-income groups, which prefer to travel by car or taxi.

Infrastructure and municipal services.

The sewer system was inadequate to divert runoff from northwest areas (El Tejar, El

Cebollar and La Chilena), resulting in frequent flooding in the historic center. Everything from sidewalks to public toilets were in short supply, and the proliferation of street businesses and pedestrians overwhelmed the

municipal sanitation system. Finally, public safety was an issue, particularly theft.

Legislation and regulations. Municipal preservation ordinances restricted the uses that could be made of buildings in the historic city center. This often encouraged property owners to abandon their buildings so that they would become deteriorated enough to have to be replaced by new structures involving more intensive use of the land. As in other cities, the preferred strategy of owners was to rent the properties to several tenants, which met the demand for small commercial and residential units but also encouraged slum conditions. Rent control ordinances limited residential rent increases, inducing building owners to rent their properties for commercial or service-related activities not subject to restrictions.

The combined effects of restrictive municipal ordinances, inadequate building maintenance, inferior-quality construction materials, and even the lasting effects of the 1987 earthquake contributed to ongoing deterioration of buildings in the historic center. The 1989 survey found that 25 per-



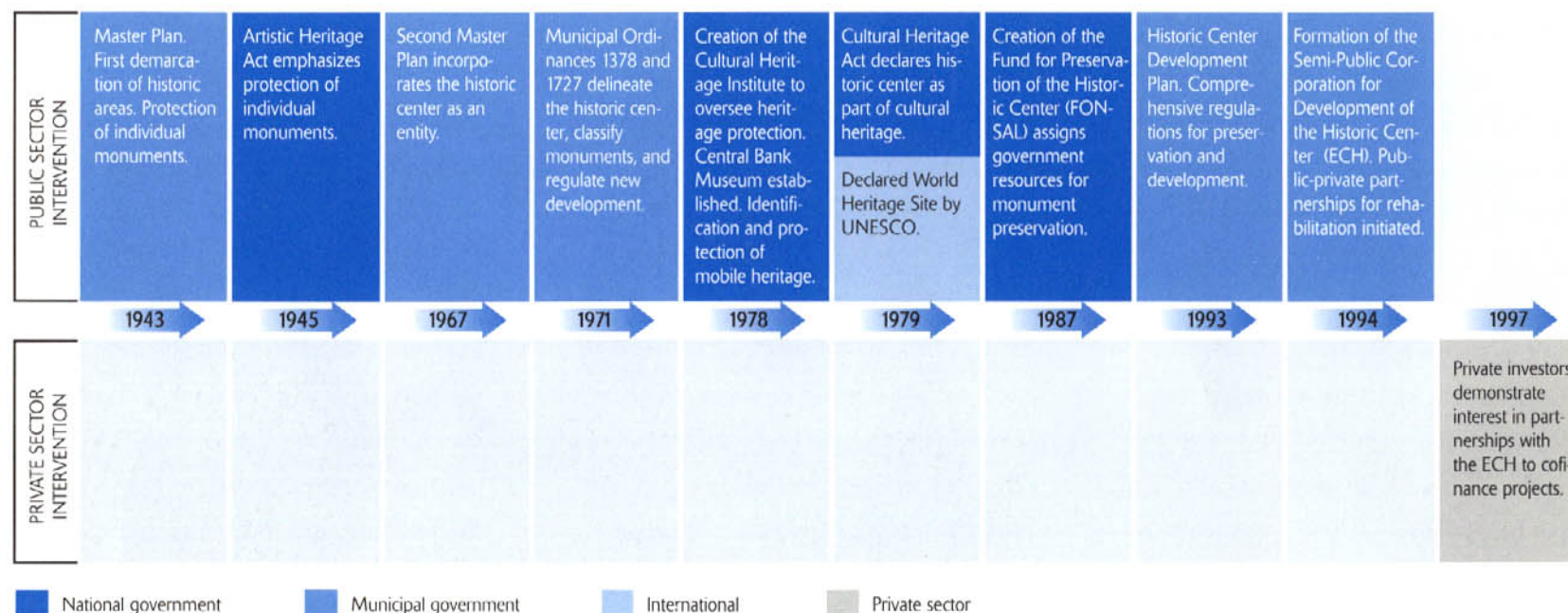
Quito's old university building, now the city's Cultural Center.

cent of residential buildings in the area were in poor condition. While the fronts of commercial-use buildings were often in an acceptable state of repair, their inner courtyards were in poor condition. The high cost of rehabilitation deterred businesses from making the necessary repairs, since it was easier for them to simply relocate elsewhere in the city (primarily in the northern zone).

Rehabilitation of the Historic City Center

Over 50 years, efforts to preserve Quito's historic city center have been spearheaded almost exclusively by the public sector, including the central and municipal governments and institutions such as the Foundation of the Central Bank of Ecuador.

Table 5.1. Quito Preservation Timeline, 1943-97



Limited private sector participation has come through nongovernmental organizations such as the Caspicara Foundation.

Table 5.1 identifies two phases in the preservation process. During the first phase from the 1940s through establishment of FONSAL in the 1980s, the public sector used passive regulatory instruments such as the Heritage Preservation Act, preservation

plans and municipal ordinances. The second phase was marked by FONSAL's more proactive approach, which combined actual preservation projects with refinement of the regulatory instruments instituted during the previous phase. The municipality also began to take advantage of depressed real estate values in the city center by purchasing properties, many of which form the core of

the current rehabilitation process.

Even during the more active second preservation phase, however, the private sector initially remained uninvolved. Heritage preservation had always been regarded as a public responsibility in Ecuador, so while the cultural elite supported the government's strategy, they were never actively involved in preservation activities.

This changed when municipal authorities realized that the preservation process exceeded the capacity of the public sector and decided in 1994 to launch a preservation program based on a partnership with the private sector. With this decision came establishment of the Semi-Public Corporation for Development of the Historic City Center (ECH).

Through ECH, the municipality has worked to generate externalities to attract private investment by improving accessibility and resolving conflicts over the use of public spaces. It is also facilitating partnerships with private investors to rehabilitate strategic buildings, thereby demonstrating the viability of commercial, residential and service investments while creating an atmosphere of renovation and growth to attract other private investors.

The municipal government's objective is to restore functional importance to the historic city center. That means not only making it attractive for visitors interested in historic and cultural heritage, but revitalizing traditional service and commercial ac-

tivities, retaining the resident population and attracting new residents, facilitating access to public services, and promoting the proper use and maintenance of public and private buildings.

Given the amount of investment necessary to address the problems in the historic center, the municipal government has focused on the core area of 154 blocks that contain most heritage buildings. The initial strategy was to concentrate on rehabilitating selected buildings along an axis that followed García Moreno Street. However, to harness the synergies that have developed around several projects already in progress, the government has since opted for a strategy based on focal points for radial growth (see Map 5.3).

Key Institutions

The three main public institutions involved in preservation of the historic city center are the municipality, FONSAL and ECH. The municipal government oversees development citywide—including the work of

FONSAL and ECH—and operates in the preservation area through the Department of Planning and its Office of the Historic City Center, along with executive agencies such as the Center Area Bureau and utility companies.

FONSAL was established in 1987 and is administered by the municipality through a board of directors consisting of the mayor, the director of the National Cultural Heritage Institute, and the president of the Ecuadorian Cultural Institute (*Casa de la Cultura Ecuatoriana*). Its revenues come from the 3 percent tax on admission to public entertainment events held in Quito and 6 percent of the income tax yield of the province of Pichincha, where Quito is located. FONSAL's annual revenue fluctuated around \$6 million during the 1988-93 period, but has declined in recent years.

The ECH is a mixed capital corporation with majority ownership by the municipality. However, as established by Ecuadorian legislation, the ECH is governed by private law, which means that it may enter into partnerships with private en-

Map 5.3. ECH Intervention Strategy for the Historic City Center



tities while continuing to serve as the municipality's executing agency for projects. The ECH acts primarily as a real estate promoter and developer rather than an admin-

istrator of public property. In other words, it is concerned with real estate ventures that are likely to have the greatest impact in terms of promoting rehabilitation of the

historic city center, even if they do not bring financial returns. Once a rehabilitation project is completed, the ECH expeditiously sells its assets so that it can reinvest the funds thus released into new projects to revitalize the city center.

Preservation Activities

Preservation of the historic city center has moved along several fronts, among them the important job of changing the area's image of decay. The public sector is investing in the preservation of religious and civil heritage sites using FONSAL resources, complemented by municipal projects to improve public spaces, accessibility and other local urban services (see Box 5.2).

Rehabilitation is underway of the old university buildings (19th century) and the Royal Tribunal of Quito (18th century) located on García Moreno Street facing the *Parque de la Independencia*. The buildings will house the municipal library, history museum and, later, a museum of modern art. The San Juan de Dios Hospital, built in the

BOX 5.2. QUITO HISTORIC CENTER INVESTMENT AMOUNTS AND LOCATIONS

Project	Municipality	ECH	Private partners	Project total
<i>(In thousands of 1994 US\$)</i>				
Public sector only				
<i>Urban infrastructure</i>				
■ Sidewalk improvements	\$2,807			\$2,807
Urban signage	498			498
Tourism signage	477			477
<i>Parking</i>				
1 El Tejar (rehabilitation)	253			253
2 Montufar 1 and 2	2,657			2,567
3 El Cadisan	2,375			2,375
4 Bolivar Square	2,278			2,278
5 Santa Clara	1,890			1,890
<i>Urban services</i>				
6 Cultural Center	2,421			2,421
7 City Museum	2,198			2,198
<i>Complementary activities</i>				
Traffic management study	180			
Social development program	1,800			
Public-private partnership				
<i>As real estate developer</i>				
8 Low-income housing		2,209		2,209
<i>As partner in real estate development</i>				
9 Microenterprise block		1,000	600	1,600
10 La Manzana Commercial Center		2,330		2,330
11 Pasaje Baca connection		200	200	400
12 Trolley stops		1,200	400	1,600
<i>As real estate partner</i>				
13/14 Hotel Majestic and Patio Andaluz		2,100	1,800	3,900
15 Movie Complex		1,280	1,600	2,880
<i>As owner</i>				
16 Pasaje Baca Commercial Arcade		1,460		1,460
<i>As operator</i>				
17 Pasaje Arzobispal		250		250
<i>As promoter</i>				
18 Circulo Militar			1,000	1,000
Total public sector	31,863			
Total private sector			5,600	
Total public-private investment				37,463



1600s and the first hospital in Latin America, was renovated and opened as the Quito City Museum in July 1998.

Enhancement of public spaces includes upgrading some 48,000 square meters of sidewalks, installing street signs according to national and international standards, and improving street furniture such as benches, trashcans, telephone booths and kiosks. Electric power lines and telephone cables are being moved underground.

The key to improving accessibility to the historic city center is construction of 2,000 parking spaces in five parking garages, four of which are located within the first loop surrounding the center. Construction is underway and the lots are expected to be completed in 1999. The idea behind locating the parking lots on the periphery of the city center is to attract visitors who prefer to travel by car, but without congesting public spaces.



Pasaje Baca shopping arcade on Espejo Street, redesigned for pedestrians only.

Projects Involving the Private Sector

The ECH uses various forms of partnership with the private sector to invest in building rehabilitation. The focus is on projects that demonstrate the viability of rehabilitating

buildings with important architectural heritage, while also diversifying economic and residential activities. Interventions are planned according to their ability to attract the greatest possible variety of commerce and services. The ECH conceptualizes the historic center as a “mall” that needs a minimum of commercial size and diversity to attract customers. Coupled with improved accessibility, these investments will help the historic center compete with other commercial destinations in Quito.

Projects vary according to the extent to which private partners participate and the risks assumed by the ECH (see Table 5.2). The ECH can take roles ranging from a real estate developer that handles all phases of the rehabilitation process to a property manager that simply charges fees for services rendered to the owners.

When the ECH functions as real estate developer, it makes all the project investments and shoulders all the risks. In principle, this type of venture is inconsistent with the objective of a semi-public corporation to form partnerships with investors

Table 5.2. Division of Responsibilities in Public-Private Partnerships

Intervention	Partner in real estate development						Real estate partner			Real estate developer						Owner			Operator		
	Microenterprise block			La Manzana commercial development			Hotel Majestic			Cineplex			Low-income housing			Pasaje Baca commercial arcade			Arzobispal commercial arcade		
	ECH	Private partners	End users	ECH	Private partners	End users	ECH	Private partners	End users	ECH	Private partners	End users	ECH	Private partners	End users	ECH	Private partners	End users	ECH	Private partners	End users
Real estate promotion	■			■			■			■			■			■			■		
Commercial operation			■			■			■		■			■				■			■
Building refurbishing			■			■			■		■			■				■			■
Building management			■			■			■		■			■			■			■	
Marketing	■				■			■						■			■			■	
Financing	■			■			■			■	■		■	■		■			■		
Construction or rehabilitation	■			■			■			■			■	■		■			■		
Building ownership			■			■			■	■			■			■				■	
Land ownership			■			■			■	■			■			■				■	

and property owners. However, the ECH undertakes such projects in order to demonstrate the feasibility of real estate operations in which the private sector has shown no interest. Such is the case of the affordable housing program that includes rehabilita-

tion of residential buildings at costs and on terms accessible to the low-income families who rent or occupy the dilapidated buildings (see Box 5.3). Rehabilitating such residences mitigates the outpricing of low-income households and encourages a

broader mix of activities and social groups in the historic city center. The demonstration effect of such efforts can already be seen—since the ECH began rehabilitation of one residential building for low-income housing in 1996, a private investor has

started to rehabilitate a building that will provide middle-income housing units.

In other projects, the ECH enters into partnership with private investors for rehabilitation initiatives but takes on only part of the risks. The ECH provides capital and technical know-how about the rehabilitation process, while private sector partners may contribute land or buildings, as well as capital and knowledge of the market. The ECH divests itself of these investments at the first appropriate opportunity in order to recover invested capital (and any profits) for use in other innovative projects.

Examples of partnership projects include the “microenterprise block” project. In partnership with the Banco Solidario, the ECH is purchasing and rehabilitating nine properties for sale to microenterprises seeking to locate in the historic city center. Once the properties have been sold, the partners will withdraw their investments and receive a return proportionate to their contributions. Another project is the *Centro Comercial La Manzana*. In partnership with property owners, the ECH is

developing part of a city block for high-density commercial uses in the form of a shopping center. Other partnership projects include the rehabilitation of private homes and the upgrading of trolley stops. The planned investment amounts are shown in Box 5.2.

In order to achieve its public objectives, the ECH in some cases retains ownership of properties that are operated by private partners. This occurs when there are no investors interested in purchasing the properties, yet the ECH considers their rehabilitation to be strategically important to development of the historic city center. The period of time that the ECH remains partner/owner will depend on when local market conditions signal that the time is right for the ECH to sell its share. One such example is the *Hotel Majestic* and *Patio Andaluz* properties. During negotiations, the private investor involved in the project felt the hotels would have to be operated jointly in order to achieve sufficient economies of scale, yet the investor was not in a position to acquire the buildings. Thus, the ECH

will retain ownership of the properties until real estate market conditions make it possible to sell them without incurring a loss. The hotel operator is contributing the furnishings and personnel and handling the commercial operation, paying the ECH for the use of the premises.

Another example is the *Multicines* movie theater complex designed to consolidate commercial and recreational facilities on Espejo Street. The ECH has negotiated with private operators to have eight multiplex cinemas installed in two buildings it owns and one building owned by the operators. The ECH will act as real estate partner in this project, providing the two buildings as well as capital for rehabilitation, until it reaches a 50 percent share in the project.

The ECH also retains ownership of certain properties if it is felt that market conditions are not optimal for them to be sold. Such is the case with *Pasaje Baca*, a building being converted by the ECH into a multipurpose center with upscale commercial space, art galleries, and a food court. The ECH has entered into a concession

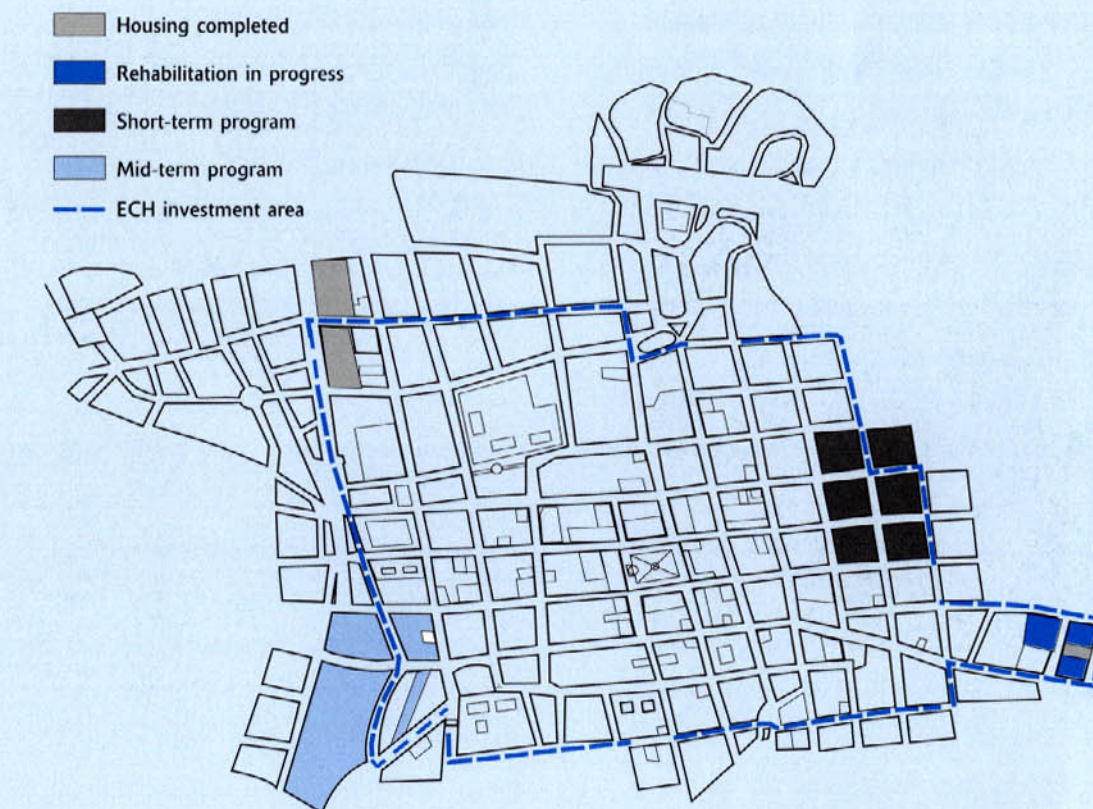
BOX 5.3. LOW-INCOME HOUSING PROGRAM

Deteriorated residential buildings make up a large proportion of the real estate in Quito's historic center, and the majority of the 17,000 households in the area are working class and poor families.

Quito's Semi-Public Corporation for Development of the Historic City Center (ECH) is wearing its hat as a traditional real estate developer in order to address this problem. The ECH is carrying out a low-cost housing program that will provide 1,000 housing units in rehabilitated historic buildings over a five-year period. Target groups are households with monthly incomes of \$280-\$800 that do not own their own homes but already have some savings. In order to serve this income profile, the ECH has determined that the sale value of rehabilitated buildings should not exceed \$300 per square meter.

The ECH is executing the project with multilateral financing and with technical assistance from PACT-ARIM 93 of France, a nongovernmental organization specializing in slum rehabilitation. The financing is recovered from the beneficiaries' own savings and from mortgages and subsidies, the latter provided by the Ministry of Urban Development and Housing.

The housing units are delivered to beneficiaries under joint ownership and are mortgaged in favor of the bank that granted the loans, currently the state-owned Banco Ecuatoriano de la Vivienda. As the policy on housing financing matures, the ECH expects other commercial banks to participate. Once mortgages have been issued, the ECH receives the transfer of loan proceeds, which, together with the prior savings deposits of beneficiaries and the gov-



ernment subsidy, provides for recovery of the investment.

The ECH is carrying out practically all real estate development activities associated with this project, including the following:

- Purchase of buildings to be rehabilitated if they are not already municipally owned.

- Identification of beneficiaries (in conjunction with the Banco Ecuatoriano de Vivienda), some current tenants or occupants of the building and others taken from a list of applicants on file with the ECH. The projects generally open additional capacity in rehabilitated buildings because they make more rational use of space, and because not all current



Interior and exterior of building rehabilitated under the ECH low-income housing program.



occupants meet the requirements in terms of minimum savings or ability to pay.

- Preparation of the rehabilitation project itself, including obtaining all necessary construction permits. Special attention is paid to costs, which cannot exceed the financing capacity of beneficiaries.
- Development of a financing plan that includes the beneficiaries' savings and individual debt,

as well as subsidies from the Ministry of Housing.

- Temporary relocation of current occupants of a building under rehabilitation for an 8 to 10-month period.
- Entering into contracts for rehabilitation works, project supervision, and final delivery of rehabilitated buildings, including titling and connections to utility services.

- Marketing of the rehabilitated housing units to potential beneficiaries and registered applicants.
- Temporarily assuming responsibility for management of rehabilitated buildings when they are first occupied. Management is subsequently turned over to the new co-owners.

with a private operator, retaining ownership in order to oversee establishment of certain businesses at a strategically important location, particularly commercial activities that target middle- and upper-income customers whose patronage is key to ensuring sustainable revitalization of the historic city center.

The ECH also has identified an opportunity to expedite rehabilitation of the city center by promoting more intensive use of previously rehabilitated private buildings. Such is the case of its investment in *Pasaje Arzobispal*, a building rehabilitated some time ago but underutilized due to mismanagement. The ECH negotiated with the owners of the building for a two-year transfer against payment of rent equal to the current rent. During that period, the ECH committed to making minor investments to equip the building to meet the needs of commercial activities, and issued a call for bids for a private sector operator. The ECH expects to fully recover its investment with the earnings from the concession, at which time control of the property will be transferred back to the owners.

Political Will and Efficient Management

After 10 years of sustained effort by the Municipality of Quito, the program to revitalize the historic city center is beginning to bear fruit. An area once virtually written off as a slum is increasingly perceived as a dynamic work in progress. The steady rise in land prices over the last five years suggests growing involvement by private investors, and tourists are spending more time and money in the downtown area.

The combination and timing of investments have proven effective in fostering rehabilitation of the historic city center. These investments first generated externalities, including improved accessibility and high-quality and uncongested public spaces, and then rehabilitated flagship buildings. That in turn has facilitated rehabilitation of commercial and residential buildings, increasingly by private investors without any assistance from the ECH.

The principal reasons for the success in rehabilitating the historic city center to

date have been the political will of the municipality (sustained over the course of three different administrations), and the efficient and nonpartisan management of the ECH.

Political will has been expressed by the municipality through the sustained allocation of resources in support of development initiatives, and through promotion of preservation activities—all of which has sent a consistent message to the community regarding the value of the historic city center and the feasibility of incorporating it into the urban development process.

The ECH has consolidated its position as the leading institution in the preservation process, working in coordination with other municipal and central government agencies. By applying business criteria to the task of achieving public goals, the ECH's efficient management is attracting private investors who view it as a reliable partner for investments with long return periods.

The ECH has engaged in a variety of ventures and played a broad range of roles, including that of developer, partner in real estate developments, real estate partner,

owner/lessor, and real estate operator. In each of these roles, the ECH assumes different risks and costs, some closer to its originally conceived role—developing projects with private partners and then selling its interests to embark on new projects—and others closer to the state’s traditional role as executing agency or as a pure private administrator of investments made by others.

The success of its ventures suggest that the ECH’s departures from its original role are justified by the actual conditions encountered in the real estate market. For instance, there were no partners interested in rehabilitating housing for low-income families; nor was there any certainty that, left to market forces alone, the *Pasaje Baca* shopping arcade would not have degenerated into a slum as other local commercial centers have done.

The sustainability of these projects will depend on the efficiency with which ECH manages its expenditure on and income from real estate ventures. The corporation faces a complex balancing act. Decisions to embark on projects at a time when the local real es-

tate market is still in its infancy compel the ECH to retain these properties, thereby locking up its capital and reducing its capacity to undertake new projects. The situation may become unsustainable if the ECH retains an investment longer than strictly necessary to recover the capital invested.

Thus, consolidation of the preservation process is not yet guaranteed, even though two phases have been successfully completed—the first to rehabilitate major heritage sites and the second to initiate coordinated investments with the private sector. But a third phase, which will start upon completion of major public works and demonstration projects, will be most crucial to sustaining the process. In this new phase, the municipality and the ECH must sustain the confidence of real estate investors by completing pending projects to regulate traffic and street vending and improve sanitation and public safety.

Assuming that the ECH’s real estate ventures achieve their desired commercial success, the greatest danger to the preservation process is the risk of a speculative rise

in land prices. An action plan is required to deal with such contingencies. At least one preventive measure is already in place—the ECH’s program to provide rehabilitated space at prices consistent with the return on economic activities and the ability of families to pay. Other possible measures include taxation on underutilized or abandoned properties, and enforcement of preservation ordinances in properties that have been deliberately abandoned.

In conclusion, preservation in Quito is entering a more complex stage, when the decisive factor in determining sustainability will no longer be public investments, but rather the degree to which the municipality can maintain an efficient and flexible environment supportive of private for-profit ventures in preservation.

In the short span of some 50 years, starting with the founding of Santo Domingo at the end of the 15th century, the Spanish and Portuguese conquistadors established most of the cities that today are the cornerstone of urban Latin America. The monuments, buildings and plazas that make up this vast heritage continue to define the region's cultural identity and constitute a valuable asset for socioeconomic development.

Old Cities, New Assets explores ways to bring private investors, developers and urban residents into the preservation process, which is beyond the scope of government alone. The book describes the different approaches being used to involve these various stakeholders, including successful if not coordinated interventions by public and private interests in Cartagena, Colombia; operation of a mixed-capital corporation in Quito, Ecuador; and a government-promoted private investment program in Recife, Brazil.

The experiences of these three historic Latin American cities provide significant clues about conditions that attract investment, and show why sustained private involvement is the key to furthering heritage preservation in the region.

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