Study on Urban Renewal Strategies — From the Perspective of Financial Evaluation

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Abstract: Urban renewal has been elevated to a national strategy, yet research on financial analysis methods for urban renewal in China remains relatively lagging. From the perspective of local governments and combined with modern accounting standards, this paper first conducts a systematic study on the theoretical and practical demands of financial evaluation for urban renewal. Then, considering the difficulties in implementation, it proposes strategies including prioritizing the concept of urban operation, reconstructing land use attributes, optimizing land use structure, and reasonably controlling asset scale. The aim is to provide a basis and support for relevant theoretical research and practical projects.

***Keywords*:** urban renewal; financial analysis; accounting standards; urban operation

1. Introduction

As global climate governance accelerates, the green and low-carbon transitional development model has become a core competitive dimension in the field of international economy and trade. Hainan Free Trade Port serves as China's crucial gateway for opening up to the Pacific and Indian Oceans, undertaking major national strategic missions. It is urgent for Hainan to explore a path that deeply integrates high-quality economic growth with long-term sustainability. From an academic perspective: Based on the concept of positive stock wealth, Huang Ling, Luo Junhang, and others have constructed a community value realization path featuring a "group-space-service" trinity governance structure, providing new ideas for optimizing the efficiency of community resource utilization [1]. Ding Shouyi adopted Smith's "rent gap" model to establish the operational mechanism of urban renewal systems [2]. Taking Shenzhen as a case study, Yin Jie, Sinan, and other researchers explored the coordinated and balanced relationship between local governments and state-owned enterprises, and proposed that urban renewal goals can be achieved by reducing rent gap losses [3]. Zhao Yanjing and Song Tao argued that the financial model for urban renewal should be divided into two phases — capital investment and operation management — according to the project stage, with independent balance achieved in each phase [4]. By sorting out the corresponding relationships between balance sheets, income statements, and urban land balance sheets, Zhao Yanjing, Qiu Shuang, and others established a communication channel between urban planning and urban economic development [5].

2. Theoretical Reconstruction and Practical Demands of Financial Evaluation for Urban Renewal

As the core paradigm of spatial governance in the stock era, the financial feasibility of urban renewal directly determines the sustainability of projects. The traditional evaluation system has three shortcomings:

It is limited to static cost-benefit analysis and ignores the dynamic balance of cash flow throughout the whole life cycle;

It focuses on the calculation of government fiscal burdens and lacks research on the benefit distribution mechanism among multiple subjects;

It overlooks the financial path for the conversion of non-economic values.

These shortcomings have led many projects to fall into the predicament of "financial dependence" or "suspended social benefits". From the perspective of institutional economics, the financial evaluation system needs to go beyond the technical tool attribute of engineering economics and build an analytical framework that includes elements such as property rights transaction costs, land value increment capture, and public value capitalization. Especially under the influence of the new public management theory, balancing public interests and market rules requires the establishment of a quantitative evaluation model of "value creation - cost sharing - benefit sharing". For example, the premium recovery mechanism in TOD (Transit-Oriented Development) needs to verify the marginal benefits brought by land intensification through financial models to achieve positive interaction between rail transit investment and property development.

International experience shows that innovation in financial evaluation can solve the "Giffen paradox" in urban renewal — i.e., the dilemma where the willingness of social capital to participate decreases instead when government subsidies increase. The "self-sufficiency" model of the Urban Renewal Authority of Hong Kong has proven that through the design of financial tools such as transferable development rights and floor area ratio securitization, urban functional upgrading can be achieved without increasing fiscal burdens. These practices urgently require innovation in the theoretical financial evaluation system for support.

3. Implementation Difficulties and Strategic Suggestions

3.1 Implementation Difficulties

The complex nature of urban renewal leads to three paradoxes in financial evaluation: Value Paradox between Public Product Attribute and Market Profit-Seeking Nature: For projects with strong positive externalities such as the protection of historical blocks, their cultural value is difficult to quantify through traditional DCF (Discounted Cash Flow) models, resulting in a systematic deviation between market valuation and real social value. Cash Flow Paradox Caused by Temporal and Spatial Mismatch: Infrastructure renewal projects are characterized by long investment payback periods, with benefits realized in the early stage and costs incurred in the later stage. Distribution Paradox Caused by Differentiated Subject Demands: When the demand for original residents' relocation conflicts with the profit goals of developers, traditional NPV (Net Present Value) indicators cannot evaluate social costs.

3.2 Strategic Suggestions

3.2.1 Prioritize the Concept of Urban Operation

The prerequisite for integrating urban planning into the standard financial analysis paradigm is to redefine the role of local governments as an "enterprise" that "sells" public products and services that are difficult for private entities to provide, so as to meet the needs of collective consumption. From the perspective of public economics theory, as the supplier of public products, local governments exhibit significant enterprise-like characteristics in their economic behaviors. The modern fiscal system incorporates government economic activities into a standardized financial analysis system through the accrual accounting framework. Among this system, the balance sheet reveals the capital structure and resource allocation efficiency of urban development, while the income statement reflects the input-output efficiency of public services. Together, they form the financial evaluation basis for urban operation. The land finance model in China's urbanization process is essentially a process in which local governments construct balance sheets. Through land transfer, equity financing is formed, which is then converted into investment in fixed assets such as infrastructure. This process completely reflects the "financing - investment" path of corporate capital circulation. When urban development enters the stock renewal stage, the focus of financial evaluation shifts from balance sheet construction to income statement optimization, requiring the maximization of net fiscal surplus through the improvement of asset operation efficiency.

3.2.2 Reconstruct Land Use Attributes

From the perspective of comparing urban financing systems, Western countries generally use debt instruments such as municipal bonds for capital raising, with their credit foundation rooted in the discounted value of future taxes. China's urbanization process, however, has established a unique land credit system: the transfer of residential land forms a long-term contractual relationship between homebuyers and local governments. Citizens obtain the right to use public services by paying land prices, essentially forming an implicit capital injection mechanism. This institutional design makes the fiscal structure of local governments exhibit the characteristic of "equity-driven", forming an institutional distinction from the Western "debt-constrained" model.

In accordance with public finance accounting standards, the capital flow generated by land transfer has capital attributes rather than revenue nature. At the accounting level, three processing principles must be followed: Recognized as land capital reserves under equity accounts in the balance sheet; Reflected as cash inflows from long-term investment activities in the cash flow statement; Only allowing cost allocation through infrastructure depreciation in profit and loss accounting. This accounting mechanism of "capital circulation - cost matching" effectively distinguishes the accounting boundary between equity financing and operating income, and avoids the risk of term structure imbalance in fiscal revenue and expenditure.

3.2.3 Optimize Land Use Structure and Reasonably Control Asset Scale

In the early stage of urban development, local governments face the dilemma of public capital accumulation, and the capitalization effect of land location value becomes the core mechanism to break through the bottleneck of initial capital accumulation. By increasing the proportion of residential land supply, local governments can quickly form an infrastructure asset portfolio and complete the original accumulation of public service supply capacity. The positive feedback cycle of land

financing - asset formation at this stage effectively supports the initial construction of urban functions. As urbanization enters the stock renewal stage, the logic of spatial capital operation undergoes an essential transformation. The law of diminishing marginal returns of infrastructure assets begins to emerge. The negative fiscal cash flow caused by asset depreciation overlaps with the maintenance costs of public services, leading to a sharp increase in the pressure on urban fiscal sustainability. At this point, it is necessary to implement a dynamic adjustment strategy for spatial functional structure: reduce the proportion of residential land supply to curb the inertia of asset scale expansion, and at the same time increase the proportion of industrial land allocation to cultivate tax source growth poles.

4. Conclusion

The innovation of financial evaluation for urban renewal is essentially a quantitative expression of spatial justice. Future research should focus on three directions: the financial measurement model for transferable development rights, the accounting treatment method for internalization of social costs, and the application of digital twin technology in evaluation. Only by building an evaluation system that combines economic efficiency and social rationality can we realize the paradigm shift of urban renewal from "spatial production" to "value symbiosis".

Acknowledgments

This paper was supported by the following fund projects: Haikou Municipal Philosophy and Social Sciences Planning Project: "Research on Paths and Methods of Innovative Investment and Financing Models for Key Projects in Urban Comprehensive Improvement Work" (Project No.: 2024-ZCKT-67); Haikou Municipal Philosophy and Social Sciences Planning Project: "Research on Urban Renewal in the Context of National Territory Spatial Planning" (Project No.: 2025-ZCKT-115).

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