Government Enterprise Cooperation Based on Real Estate Perspective: Research on Flexible Planning Control- Taking the Real Estate Decision Analysis of Y Project in S City as an Example

Sheng Bi

China Energy Engineering Group East China Construction Investment Co., Ltd. Shanghai, China

540778759@qq.com

Abstract. Under the new situation of significant changes in the supply-demand relationship of China's real estate market, local governments, on the one hand, urgently need to release certain land development preferential policies to stimulate the process of urban development and construction. On the other hand, local governments limited by the pressure of balancing public finances under the land finance model, it is difficult to make concessions on the price of land fees. Local governments may shift towards flexible planning control in land transfer planning conditions to pragmatically facilitate the implementation of key projects. Therefore, this study is based on in-depth tracking of the development decision-making process of the Y shopping mall real estate project in S city, central China. It examines the flexible control of planning conditions based on the results of government enterprise cooperation from areal estate perspective. The Y project optimized its planning conditions by increasing the proportion of ground parking and sharing parking spaces, promoting the implementation of investment projects, and derived a relatively universal "low housing price investment model" and explored applicable criteria. It can be seen that the control indicators for planning conditions should fully consider both rigidity and flexibility, and the degree of flexible control can serve as one of the balance points between government and enterprises in investment promotion negotiations and cooperation.

Keywords: Planning conditions ; Flexible control ; Land finance model; Attract investment; Government enterprise cooperation

1 Research Background

In recent years, numerous negotiations have taken place between governments and market developers regarding land development incentive policies due to the significant changes in the supply and demand dynamics of the real estate market. Since reaching its peak in 2021, the area of saled commercial housing in China has significantly de-

Y. Qiu et al. (eds.), *Proceedings of the 2024 7th International Conference on Civil Architecture, Hydropower and Engineering Management (CAHEM 2024)*, Advances in Engineering Research 256,
https://doi.org/10.2991/978-94-6463-650-5_44

creased for three consecutive years (**Fig. 1.**). Key negotiation strategies include discounts on land-transferring fees, tax incentives, fiscal subsidies, and flexible land planning controls. However, when it comes to actual real estate development practices, local governments often hesitate to concede on land-transferring fees considering the prevailing regional competitive pressures and related fiscal structure [1-4]. Instead, they use flexible urban planning controls to facilitate urban development project implementation. In this paper, we observed the decision-making process and government-enterprise negotiations regarding the Y complex development project in S city of central China from the perspective of developers. Based on the observations, we examined the use of flexible planning conditions as a crucial negotiating point for successful discussions and project realizations. The results of this study can provide valuable insights for future real estate development projects, particularly those aimed at attracting investment in regions with "low housing prices."

Fig. 1. The Area of Saled Commercial Housing in China
(Source: National Bureau of Statistics)

1.1 Relative Rigidity of Local Government's Demand for Land-transferring Fees under Land Fiscal Pressure

Since the reform and opening up, we have observed rapid urban development in most Chinese cities. This has been largely driven by local governments' active promotions, including infrastructure investment, urban transformation, and investment attraction. In the competition among different cities and regions, the behavior patterns of local governments have undergone profound changes, exhibiting characteristics of "urban entrepreneurialism" [5-6]. According to previous studies, robust competition among local governments has been a significant contributor to China's rapid economic growth over the past four decades[7]. The price of land-transferring fees has emerged as an important benchmark in inter-city competition, serving as a metric for regional economic development and urban management.

However, following the "tax sharing system" reform, local governments face fiscal pressures, resulting in the well-discussed "land finance" issue[8]. It refers to the phenomenon that land-transferring fees have become a primary revenue source for local governments, but due to the imbalance between "administrative powers" and "financial powers" under the current fiscal system, local governments are compelled to increase land revenues and prices[9] in order to maintain the balance. This reinforces the relative rigidity of governments' demand for land-transferring fees.

1.2 Flexibility in local Governments' Planning Controls under-investment Attraction Competition

Local governments actively employ various investment attraction strategies to introduce and implement significant projects and stimulate local economic growth. Traditional research indicates that common investment attraction policies among local governments typically include offering preferential tax measures, subsidizing industrial and commercial land prices, and providing direct fiscal support.

In addition to these traditional, tangible support measures, the local governments also provide the control indicators outlined in land transfer contracts' planning conditions, representing another potential investment attraction incentive. Because local governments have a certain degree of discretionary power over planning conditions, this can sometimes become a significant aspect of negotiations between the government and market developers during investment discussions[10].

The concept of "planning conditions" first appeared in the *Town Planning Ordinance* promulgated in 1984, which introduced the term "design requirements" [11]. In practice, after obtaining the land use rights through a competitive bidding process, the project developers must include the planning conditions as an attachment to the contract when signing the state-owned land use rights transfer agreement. These planning conditions bridge the gap between regulatory and detailed construction planning, clearly defining the main content and requirements. They serve as a contractual link between the project developers and the relevant local government authorities, transforming abstract planning management into practical public policy interventions[12]. Currently, there is a lack of standardization for outcomes of "planning conditions" across different cities, resulting in variations in both the content and "flexibility" of "planning conditions" [13].

During the advancement of investment attraction projects, local governments, and the market investors they attract often negotiate the terms of supportive policies. The fiscal pressures stemming from "land finance" form a strong internal incentive for local governments to elevate the price of land-transferring fees, making it challenging for them to offer discounts on these prices. Consequently, planning control indicators may be relatively flexible for incentives, minimizing obstacles and facilitating the realization of investment attraction projects.

2 Case Study: An Overview of Project Y in City S

City S, located in the central region of a province in China, has a resident population of approximately 2 million, with around 600,000 in the central urban area. The GDP of S city in 2017 was 93.57 billion yuan. Its location conditions, economic development level, and population size can largely represent cities in China, especially in the central region.

The Y Project is situated along the primary urban development axis in City S and consists of both commercial and residential land, with a total area of about 22.48 hectares. This area is planned to be a municipal commercial center for modern consumer services (Fig. 2).

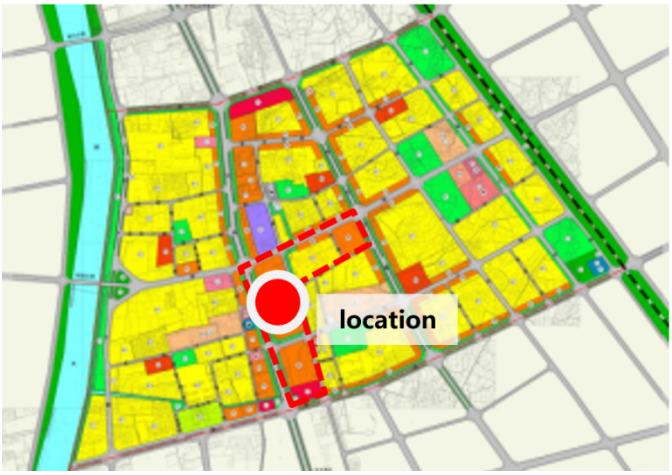

Fig. 2. Location of the Y complex project in city S (Source: S Urban Planning and Natural Resources Bureau—detailed control planning of central urban area of city S)

X Group, headquartered in Shanghai, is one of China's leading real estate developers. Its commercial property development model can be summarized as a "cash-flow rolling asset" investment approach. During the property development, the company operates shopping mall, and engages in negotiations with local governments for investment incentives, securing land use rights under favorable conditions. After this, the company goes through rapid development and sales of sellable properties (such as residential units and commercial shops) to bridge part of the cash flow gap from the project development phase, achieving a partial financial balance. When it comes to the operation, leveraging its operational expertise in owned shopping mall, the group generates rental income to offset previous cash flow deficits. They may also utilize asset appreciation for collateral financing or issue Real Estate Investment Trusts (REITs) for equity financing, facilitating the exit of assets and enabling the cyclical development of subsequent projects, thus achieving profitability under stringent high land price constraints (Fig. 3).

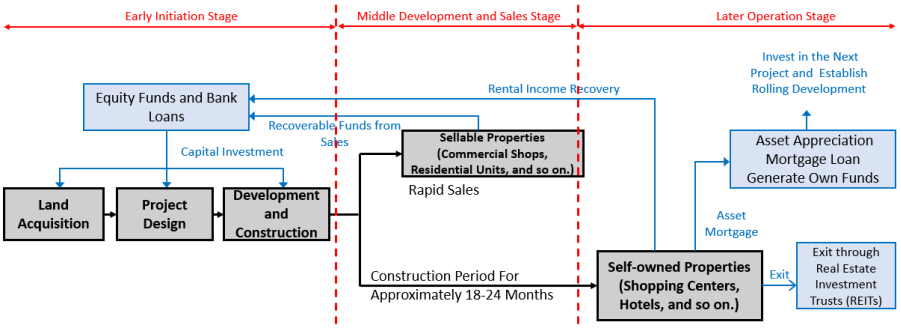

Fig. 3. Diagram of the "Cash-flow rolling asset" investment model (Self-drawn)

3 Flexible Planning Control in the Y Project under Government- enterprise Cooperation

Since November 2017, City S and X Group have engaged in collaborative efforts for the development of the Y complex, initiating multiple negotiations concerning investment incentive policies. The project site was officially listed in late 2018, and the shopping mall opened in December 2020. In the following sections, we will discuss the negotiation process between the S city government and X Group, highlighting the balance point achieved—the flexible control of planning conditions.

3.1 Corporate Perspective: Proposal of Incentive Policies under Financial Constraints

During the initial advancement stage, X Group managers analyzed City S's economic fundamentals and commercial environment, along with an assessment of the land development value. Based on these comprehensive evaluations, they requested that the cash flow deficit for the project (the net profit from sellable properties minus the costs of owned properties) should be kept within 100 million yuan to ensure investment feasibility.

Moreover, an investment model is established based on anticipated land prices, planning conditions, and prices of residential and commercial properties as boundary conditions. It is measured through this model that the actual net investment required would exceed 190 million yuan (Table 1), surpassing the feasibility investment standard. Consequently, X Group managers approached the S city government with a request for incentive policies aimed at reducing investment costs or increasing revenues by approximately 100 million yuan.

Table 1. Y Project comprehensive development scale and cash flow gap under original boundary conditions (sourced from X group)

Real estate products	Development scale (m^2)	Net investment (10,000 yuan)
Shopping mall	90,000	19,061
Residential	357,098	
Commercial shop	39,231	
Residential apartment	51,962	
Capacity building area	544,191	
Gross floor area	746,660	

3.2 Government's Perspective: Flexible Control of Planning Conditions under the Rigid Constraints of Land-transferring Fee

After X Group issued the proposal for favorable policies regarding financial balance, the promotion of investment attraction for the Y Project came into a stalemate. Considering the various economic and social benefits brought by the implementation of the Y complex project, the local government reassessed the requests made by X Group, and three potential solutions were discussed:

Solution 1: The government provides a land transfer fee discount of 100 million yuan to the company. However, this solution faced strong opposition from relevant government departments due to the rigid constraints of land transfer fee demands.

Solution 2: The government offers a subsidy of 100 million yuan to the Y Project through an industrial support fund. However, it also required the government to provide direct financial support, with considerable resistance to overcome in the government's internal decision-making.

Solution 3: The government conducts a review of the planning conditions for the land transfer of the Y Project, adjusting the layout and implementing flexible control of planning conditions to reduce development costs, thereby achieving the funding balance. As this solution does not violate rigid principles related to lands, it became the primary focus for further negotiations between both parties.

3.3 Government-enterprise Cooperation: Feasible Plans for Flexible Control of Planning Conditions and the Derived "Low-price Investment Model"

After multiple rounds of negotiations, the S City government and X Group ultimately reached an agreement, using parking space allocation standards as a key starting focus. This approach aims to optimize and reduce the underground parking area, thereby decreasing engineering costs through two aspects of flexible control.

Firstly, the government offers a degree of flexible control in terms of the layout of parking space allocation. In the Chinese national government' *"Standard for Urban Residential Area Planning and Design GB50180-2018*" and the local government' "*S City Planning Management Regulations*", it is specified that "the number of ground

parking spaces should not exceed 10% of the total number of residential units" and "the ground parking ratio should not exceed 10%." This allows local government departments discretionary power for specific ground parking ratios. In this case, considering the actual situation of the Y Project (with a large site area and less rigid controls on building density and green space ratios), the government proposed to conduct a concentrated layout of ground parking, and increase the ground parking ratio from 10% to 20% for the residential block and from 5% to 30% for the commercial block, thus reducing the excavation area of the underground parking garage while ensuring traffic capacity.

Secondly, based on the concept of "shared parking," in the Y Project, the government and the company managers included shared parking spaces for both the shopping mall and the residential area[14]. As witnessed in existing research, parking demand peaks differ among various business types, allowing for the potential shared use of parking spaces[15]. For instance, the demand peak in the northern residential area parking demand occurs in the evening, while the demand peak in the southern shopping mall occurs during the day, which makes shared parking feasible. In the optimized plan, approximately 348 parking spaces in the commercial and residential blocks were designated for shared use. After being studied and verified by a third-party organization, this plan was approved.

Ultimately, through the expansion of ground parking and the shared parking concepts, the total number of underground parking spaces for the Y Project was reduced from 4,603 to 3,352 (see Table 2), achieving a reduction of nearly 48,000 square meters in excavation and optimization cost saving of nearly 100 million yuan.

Table 2. Comparison of parking spaces before and after planning adjustments

	Original plan	Flexible control plan
Total parking spaces	4,772	4,424
Shared parking spaces	0	348
Ground parking spaces	169	1,072
Underground parking spaces	4,603	3,352

Meanwhile, X Group optimized the spatial design layout of the Y Project and, after consultations with relevant governmental department managers and experts, achieved a comprehensive balance in building capacity across different plots, enriching the spatial form of the area's planning and design (as evidenced by Fig.4 and Fig.5).

The flexible control plans for the Y Project's planning conditions hold significant generalizability. More specifically, by increasing ground parking and reducing the need for underground excavation, development costs are substantially lowered without compromising traffic organization and residential quality. This allows certain development projects, particularly mixed-use commercial complexes, to be viable even in areas with low housing prices and relatively low-profit margins on sellable residential units. Its mechanism makes this approach a "low housing price investment model" that can be promoted in many regions.

Fig. 4. Comparison of the Y Project's design scheme before (left) and after (right) government-enterprise collaboration (Sourced from X Group's design department)

Fig. 5. Real scene of the completed Y Project (Self-drawn)

4 Discussion and Conclusion

4.1 Conclusion: Applicable Criteria for Flexible Control of Planning Conditions from a Development Perspective in Response to New Trends in Real Estate

As the Chinese national real estate industry enters a new phase of development, many cities are facing adjustments in land and housing prices. The traditional real estate development model faces increasing challenges. The "low housing price investment model" based on flexible control of planning conditions discussed in this paper can be applied in various regions, particularly in the following areas:

(1) Large plot areas with low housing and land prices: The "low housing price investment model" requires substantial ground parking, necessitating larger plot areas. At the same time, land prices should not be excessively high to fundamentally reduce development costs, which is suitable for projects with relatively constrained operational space to shift from losses to profits.

(2) Areas with moderate floor area ratio (FAR): Areas with excessively high FARs will be challenging to accommodate the corresponding building capacity due to the need for a portion of the area to be allocated for parking. It is recommended that the comprehensive FAR of these areas be 2.6 or lower.

(3) Areas with lenient sunlight conditions: This approach should be conducted with caution in areas with stringent sunlight requirements, particularly in high-latitude northern regions.

4.2 Discussion: Utilizing Planning Conditions as a Public Policy Tool while Considering the Balance between Rigidity and Flexibility

Planning conditions are regarded as a crucial means for local governments to manage urban and rural planning. The essence of this method is that it transits abstract planning and design management to concrete, actionable public management. In the practical construction of projects, regulatory and constructive detailed planning primarily rely on planning conditions to achieve effective implementation. Thus, this public policy must adequately consider the rigidity and flexibility of planning conditions during implementation.

(1) The rigidity is required to reflect the legitimacy and seriousness of urban and rural planning: Urban and rural planning, especially approved detailed control plans, possess legal status. Consequently, when land is allocated for construction projects, the accompanying planning conditions must embody the legitimacy and seriousness of higher-level planning. For example, rigid indicators such as land use type, land area, floor area ratio, and building area must be based on the requirements of statutory planning to constrain the entities involved in construction projects.

(2) The flexibility should also be considered to reflect policy adaptability and responsiveness: In practice, both the economic and social contexts, as well as urban development, are continually evolving. The higher-level planning and regulatory detailed planning for construction projects may not fully anticipate all possible future scenarios when initially formulated. Furthermore, when performing the government-led administrative function, in urban and rural planning management, we should distinguish between governmental and market boundaries, providing some flexibility through planning conditions to allow market participants in construction projects a degree of maneuverability, thereby leveraging the "invisible hand" to allocate resources effectively in project development.

(3) The degree of flexibility is used as a technique to achieve the negotiation balance for government-enterprise collaboration: Given its public policy nature, the governments use the flexible space and "degree" of planning conditions as a framework for subsidies and support for construction project market participants. Therefore, in actual investment attraction efforts, local governments and enterprises often negotiate and

strategize around the flexibility in planning conditions, particularly in commercial and industrial development projects, where the "degree" of flexibility in planning conditions can serve as a key balance point in negotiations over preferential terms.

References

1. Lou, J.W. (2015). *Deepening the Reform of the Fiscal and Tax System*. Beijing: People's Publishing House.
2. Wang, X.G. (2023). Exploring Solutions to the Dependence of Local Governments on Land Finance. *National Governanc*e, (24), 28-33.
3. Wang W. (2024). Dependence on Land Finance and High Quality Development of Urban Economy: Analysis of Threshold Effect Based on 278 Cities. *Technical Economics and Management Research*, (09), 127-133
4. Yang J, Li R f, Tang G L. (2024). Analysis of the Development Issues and Transformation Ideas of County Towns Driven by Land Finance: A Case Study of a County level City. *Modern Urban Studies*, (07), 110-116
5. Cao, Z., Peng, Z.W., & Bi, S. (2016). "Urban Entrepreneurialism": An Analytical Perspective on Urban-Rural Spatial Phenomena during Transition in China. *Modern Urban Researc*h, (10), 79-86.
6. Zhang Z*, Tang Z. (2024). Exploring the imprint of the institutional context on the urban network in China: Comparative analyses between corporate-based networks with different ownership structures. *Global Networks*, e12478.
7. Zhang, R.J., Sun, Z.W., Li, H., et al. (2021). Land Finance, Corporate Tax Subsidies, and Investment Attraction. *Journal of Economics*, 8(04), 57-86.
8. Sun, X.L., & Zhou, F.Z. (2013). Land Finance and the Tax Sharing System: An Empirical Explanation. *Social Sciences in China*, (04), 40-59.
9. Zheng, J.C. (2020). Local Government Financial Pressure, Land Transfer Revenue, and Real Estate Prices: Evidence from Panel Data of 35 Chinese Cities. *Macroeconomic Research*, (02), 63-74.
10. Zhang, J. (2012). Research on the "Planning Conditions" in Land Use Right Transfer Management. *Urban Planning*, 36(3), 65-70.
11. Zhou, Z.N., & Li, B.L. (2015). Preliminary Exploration of the Innovation of "Planning Conditions" in Urban-Rural Planning Management. In *New Normal: Inheritance and Transformation – Proceedings of the 2015 China Urban Planning Annual Conference (11: Planning Implementation and Management)* (pp. 944-951). Guiyang, Guizhou, China.
12. Zhang, J. (2012). Research on the "Planning Conditions" in Land Use Right Transfer Management. *Urban Planning*, 36(03), 65-70.
13. He, W.t., Wang, J.f., & Yi, D.Q. (2014). Exploring the Scientific Control of Urban Land Planning Conditions. *Urban Planning*, 38(04), 40-45.
14. Dong, J., Yin, B.C., Liu, J., et al. (2018). Research on Parking Allocation in Urban Complexes Based on the Concept of Shared Parking: A Case Study of the Chow Tai Fook Financial Center Project in Tianjin. In *Innovation-Driven and Intelligent Development – Proceedings of the 2018 China Urban Traffic Planning Annual Conference* (pp. 3613-3623). Qingdao, Shandong, China.
15. Jin, B.H. (2016). Research on Parking Allocation in Large Complexes Based on Parking Space Sharing. In *Proceedings of the 2016 China Urban Traffic Planning Annual Conference* (pp. 1809-1815). Shenzhen, Guangdong, China.