THE COPENHAGEN MODEL: A PUBLICLY OWNED, PRIVATELY RUN CORPORATION

- CASE STUDY

URBAN REGENERATION KSB

WORLD BANK GROUP
Urban, Disaster Risk Management, Resilience & Land

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1 SUMMARY

PROJECT & LOCATION	Copenhagen, Denmark
LAND-BASED FINANCING INSTRUMENT USED	Development Corporation
ECONOMIC & SOCIAL BENEFITS TO THE CITY	Converting underutilized waterfront and military parcels into vibrant, mixed use sites

In the late 1980s, Copenhagen wrestled with the challenge of how to use the city's underperforming assets to build large-scale infrastructure. The city responded to the challenge with an innovative institutional arrangement - a publicly-owned, privately-run corporation- the Copenhagen (CPH) City & Port Development Corporation.

In the following three decades, the corporation played a pivotal role in transforming Copenhagen from an ailing manufacturing city to one of the wealthiest cities in the world through a combination of strategic zoning, land-based financing, and private sector collaboration. Through this innovative institutional structure, the city rebuilt a vibrant waterfront, expanded the metro transit system, and increased social housing facilities.

2 BACKGROUND

FIGURE 1
Areas developmed by CPH City & Port Development Corporation

Toward the end of the 1980s, Copenhagen suffered from high unemployment, an outward migration of the working age population, and a deteriorating tax base and budget shortfalls. The city's subsidization of highway infrastructure and approval of suburban and peri-urban development exacerbated a migration out from the core. The urban core was left populated mostly with pensioners and university students who contributed little to the tax base.

To revive the nation's capital and attract new residents and businesses, the National Government and the City leadership partnered to redevelop centrally located, under-utilized sites. This strategy included, amongst others, a 300-ha parcel of urban land previously owned by the Danish Military and land owned by the Port of Copenhagen.

To achieve their goals, the National and City governments formed several publicly owned, privately run corporations. The evolution of the development corporations can be divided into three phases:

Phase 1: The Ørestad Development Corporation

In the first phase, the Danish government formed Ørestad Development Corporation (ODC) to develop a 300-ha site owned by the State of Denmark, historically used by the Danish Military. The Ministry of Finance and the Copenhagen Municipality co-owned this corporation with 45% and 55% stakes respectively.

The Municipality rezoned the land from "protected" to residential, commercial, retail and educational use. This rezoning increased the value of land. To facilitate the development of Ørestad, the ODC needed to raise capital to invest in a metro transit line that would connect the site with downtown Copenhagen. For the construction of the metro line, ODC took a loan pledging land assets as collateral, the value of which had appreciated due to rezoning by the Municipality. The full development of Ørestad is expected to take 20 to 30 years. The first office building was delivered in 2001 followed by the first residential buildings in 2004; approximately ten years after the launch. Once fully developed, Ørestad would accommodate 25,000 residents along with 20,000 students and 60,000 workers during the day time.

Phase 2:

The ODC continued to evolve its strategy in order to facilitate development. The Port of Copenhagen had been making losses for several years and had been selling some surplus land parcels to balance these losses. Without a clear urban plan for the port, these sales were uncoordinated and did not maximize prices. In 2000, the opening of the Øresund Bridge between Copenhagen and the Swedish city of Malmö catalyzed new real estate demand in the Port area. To take advantage of these opportunities, the City of Copenhagen established the Port of Copenhagen, a private, limited liability company, and entrusted it with the task of managing the port and developing port-owned land. The first year after restructuring, the Port earned a profit of US$ 15 million on its operations; which was unprecedented in the history of the Port.

Phase 3:

In 2007, the two public corporations - the Ørestad Development Corporation and the Port of Copenhagen Ltd - were merged into a new entity called the CPH City & Port Development. CPH City & Port Development retained a similar ownership structure to that of Ørestad Development Corporation with the city owning 55%, and 45% owned by the Ministry of Finance. Headed by a CEO, CPH City & Port Development operates like a private entity. It is not bound by public sector procurement rules or human resource practices and is free to enter into development joint ventures.

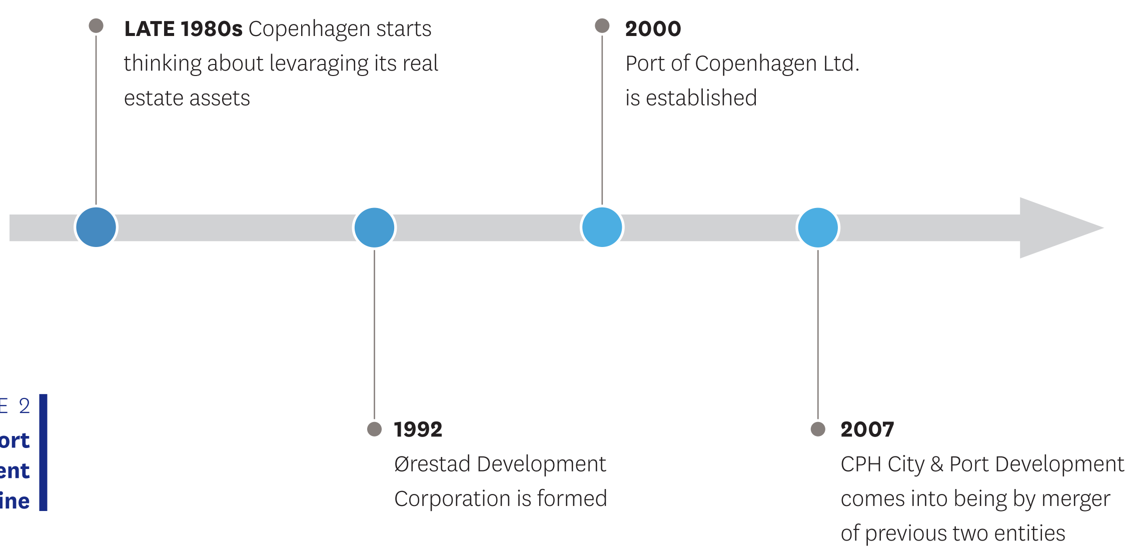


FIGURE 2
CPH City & Port Development Timeline

CPH City & Port Development follows the same mechanism for land development as followed by Ørestad Development Corporation. It consists of the simple steps highlighted in Figure 3. This mechanism skillfully balances land supply and demand: rezoning and selling land only when the price of the rezoned land has sufficiently appreciated. Through that mechanism, CPH City & Port Development developed Ørestad, South Harbor, the North Harbor, and an industrial area known as Paper Island.

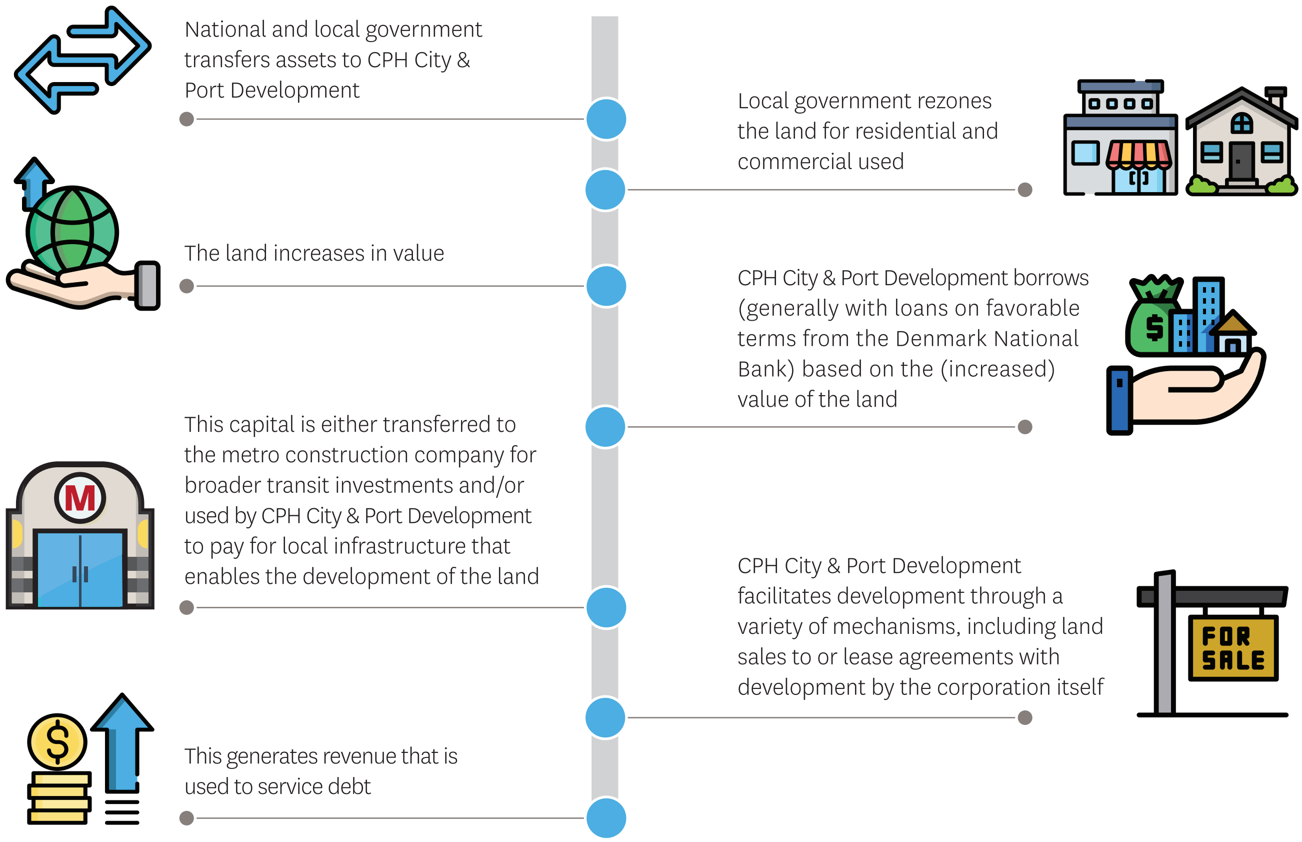
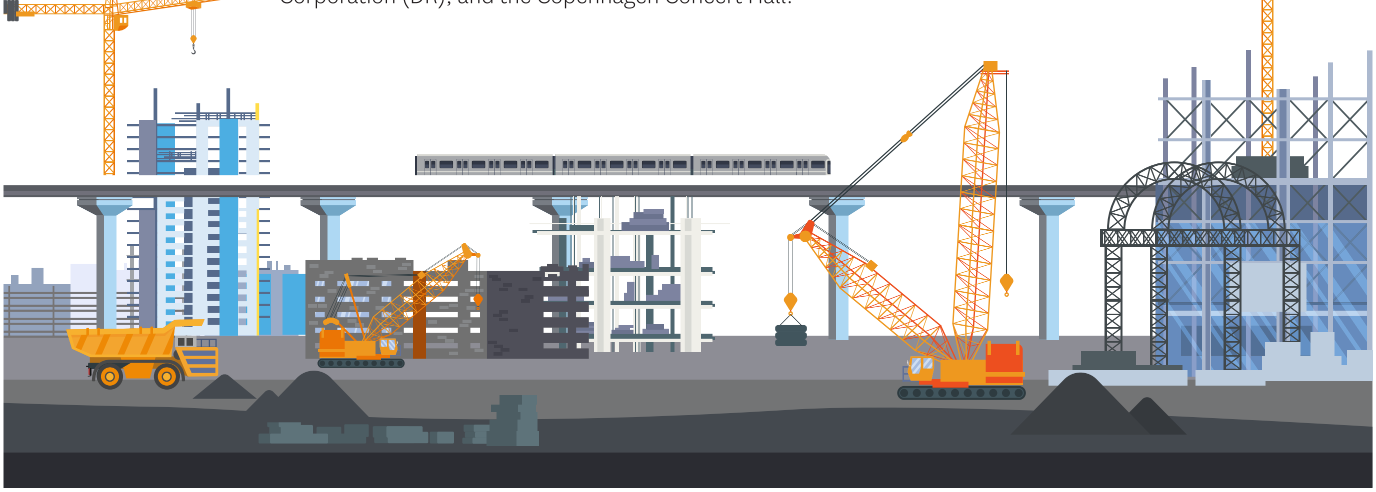


FIGURE 3

Value generation mechanism. Source: Katz, B. & Noring, L. (2017) The Copenhagen City and Port Development Corporation: A model for Regenerating Cities

The redevelopment of North Harbor alone brought in US$ 15 billion; US$ 5.8 billion of which was used for construction of a metro line.

By December 2016, Ørestad boasted 10,000 residents, 17,000 day-employees and the largest exhibition center in Scandinavia called Bella Center; DR Village, the headquarters of the Danish Broadcasting Corporation (DR); and the Copenhagen Concert Hall.



3 LESSONS LEARNED

The Copenhagen Model owes its success to a set of political, institutional, and financial features of the Danish system. Politically, a broad-based consensus among the key stakeholders provided the necessary political will for this ambitious undertaking. Denmark has a history of constructive coordination between the local and national governments coupled with robust local financial autonomy.

On the institutional side, the creation of a hybrid corporation allowed the public and private sectors to contribute their respective skillsets, tapping into private sector efficiency and the steering vision of the public sector. Depoliticized operations of CPH City & Port Development insulated it from the pressures of political expediencies.

From a financial perspective, CPH City & Port Development had access to cheap financing due to the high credit rating enjoyed by the City of Copenhagen and the State of Denmark. The long-term investment horizon also attracted Pension funds that considered the company a low-risk investment.

All cities have under-utilized real estate assets. The Copenhagen Model offers a great example of how institutional innovation could be used to make productive use of these assets for infrastructure development. Although replicating this model may be complicated for many cities who do not enjoy the same level of autonomy, poor coordination between national and local governments, and poor credit ratings of cities, the model nevertheless offers lesson in aligned interests and skillsets of national and local governments, state owned enterprises, and the private sector.

4 SOURCES

» Katz, B., & Noring, L. (2017). The Copenhagen City and Port Development Corporation: A Model for Regenerating Cities. A comprehensive report can be found at: https://www.brookings.edu/research/copenhagen-port-development/

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