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Status of a New Value Capture Tool in Mexico City: El Sistema de Actuación por Cooperación

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David Leipziger

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Abstract

Growing cities in Latin America are expanding their urban footprints at the expense of central cores. The result strains public resources, and local governments increasingly pursue strategies to enable denser, infill development. Mexico City recently developed a new planning tool to facilitate such development: the *Sistema de Actuación por Cooperación* (SAC), a tool designed to supersede existing zoning conventions in order to intensify development and fund community projects. The SAC functions by providing project-specific benefits to developers in exchange for a fee paid into a publicly held trust to fund community-oriented infrastructure. To date, the city has initiated the SAC tool in six neighborhoods; however, the process and progress of each case are poorly understood. This case study examines how the SAC has been designed and used to date. The evidence suggests that the SAC is a powerful tool that can accelerate large-scale infill development but struggles to secure funding for local public benefits.

Keywords: Latin American and the Caribbean, Infrastructure, Urban and Regional Planning, Urban Development, Value Capture, Zoning.

About the Author

David Leipziger is completing a graduate program combining urban planning and business degrees at UCLA. His research on land value capture, transportation planning, and public-private partnerships for infrastructure has been published by the World Resources Institute, *Critical Planning*, and GIZ.

David Leipziger
1027 Hancock Avenue, Unit 7
West Hollywood, CA 90069
dleipziger@ucla.edu

Table of Contents

Executive Summary

Mexico City is one of the largest cities in the world. The 57 municipalities of the Zona Metropolitana de la Vallé de México (ZMVM) comprise over 20 million inhabitants. Population growth across this region, however, is not uniform. It is skewed towards the peripheral districts: in the past 30 years, a hollowing out of the region has left just 10 percent of Mexico City's residents in the urban core.

The local government has long realized that it must reverse this de-densification of its central areas. The trend has led to a rising cost of infrastructure delivery, congestion, and environmental degradation taking place along the edges of the metropolitan region. Mexico City has prioritized land use tools that promote infill development—that is, real estate projects located within existing central neighborhoods. It has been the city's expectation that increasing the supply of housing in central areas will stem the outflow of population. The most sweeping infill policy was enacted in 2001. Bando Dos, which created a system to expedite permitting and development licenses in the central districts of the city, succeeded in accelerating real estate development but failed to stem suburbanization.

More recently, Mexico City has conceived of another urban planning tool called the Sistema de Actuación por Cooperación (SAC). SAC is an urban planning tool, created by Mexico City's 2010 Urban Development Law, which offers incentives to private developers in exchange for infill development projects that pay for in situ public infrastructure. The municipal Secretaria de Desarrollo Urbano y Vivienda (SEDUVI) created SAC and manages its implementation in six sites across the city: Granadas; Doctores; Alameda; Santa Fe; Tacubaya; and San Pablo. The six SAC projects underway in Mexico City comprise 1,233 hectares of land area and a population of about 150,000.

Name	**Area (Hectares)**	**Parcels**	**Population**	**Borough (*Delegación*)**	**Publication Date**	**Funds Raised (pesos)**
Granadas	365	245	26,122	Cuauhtémoc	April 2015	130 million
Doctores	263	282	47,497	Cuauhtémoc	Oct 2015	TBD
Santa Fe	41.5	2	55	Cuajimalpa	April 2016	TBD
San Pablo	101	83	13,292	Cuauhtémoc	April 2016	TBD
Tacuabaya	156	108	24,215	Miguel Hidalgo	May 2016	TBD
Alameda	315	230	41,712	Cuauhtémoc	May 2016	TBD
TOTAL	1,233	950	152,838	-	-	130 million

The SAC process begins with the designation of a *Polígono de Actuación por Cooperación* (PAC), the geographic area that will be the site of accelerated development and local infrastructure investment. Next, SEDUVI grants special admnistrative or economic privileges to private firms who plan to develop property within the PAC. In exchange for these advantages, these firms agree to pay a fee to support local public infrastructure. The fee is paid into a private trust, or *fideicomiso*, which is earmarked for a local borough. A specific operating entity composed of public and private sector stakeholders, called the Monitoring Bureau (*Mesa de Seguimiento*), is designated to oversee management of the trust.

The impact of SAC projects has been successful, but more for fueling development than for funding public infrastructure. Tens of thousands of units are under construction—an outcome that should improve the city's tax base and densify the urban core. Yet, only $130 million has been raised for local infrastructure. Moreover, SAC has been used only in upscale neighborhoods of the city. Supporters may argue that the SAC tool therefore expands supply in areas of high demand; critics would contend the focus on wealthy areas reflects the priorities of the elite.

In addition, the SAC process lacks transparency and accountability, leaving it open to corruption and influence peddling. Specific improvements can help. SEDUVI could publicize the selection process for—and members of—the Monitoring Bureaus. It could also be more transparent about the amount of money generated from fees, so that public expenditures can be tracked. SEDUVI is allegedly already developing a formula which specifies the amount of that SAC projects can raise from fees but codifying the amount to be raised from private developers would sacrifice the government's flexibility in negotiations. It might be more important to track how much money is paid into each project's private trust. Thus, the public sector would be capable of negotiating freely while adapting their approach to the local context and maintain transparency.

There are numerous barriers to the broader success of SAC in Mexico City. Firstly, poor public understanding of the planning process creates tensions and counterproductive efforts. A second barrier is that SAC redevelopment displaces low income residents. A third barrier is the poor coordination of public entities. A final barrier is the sequence of Mexican urbanization.

Overall, however, SAC demonstrates a successful course of action for accelerating infill development. Developers respond to incentives like expedited development processes and land use adjustments. However, the closed-door negotiations and homogenous demographics of selected neighborhoods have drawn justifiable criticism. There are aspects of the SAC tool that can be improved. The issues of transparency, standardization, accountability merit attention. Tactical changes are also necessary to prevent displacement. The program risks repeating the mistakes of Bando Dos and incurring the understandable wrath of activists if these concerns concerns are not addressed. If other localities can overcome the hurdles of transparency and accountability, then SAC schemes could be replicated across the region.

Status of a New Value Capture Tool in Mexico City:
El Sístema de Actuación por Cooperación

Introduction

It is an understatement to call Mexico City large and complex. As one of the world's most populous megacities, the capital of Mexico is second only to São Paulo in the Western Hemisphere. Mexico City is a special administrative district with autonomy similar to that of a federal state, complete with a governor and local legislature. The city's political unit—known as the *Distrito Federal* until 2016, and now called simply the *Ciudad de México* (CDMX)—has a population of almost 9 million people. It comprises 16 boroughs (called *delegaciones*) that are subdivided into neighborhoods called *colonias*. The city's full metropolitan area includes 57 municipalities stretching deep into the states of México and Hidalgo. This metropolis, known at its largest scale as the *Zona Metropolitana de la Vallé de México* (ZMVM), has a population of about 20 million people. This massive population—and the spatialization of its growth—has created serious land use and urban management challenges.

In the 1980s, Mexico City was on track to be the largest city in the world. But its 5 percent population growth rate leveled off after the turn of the century to less than 1 percent (Cox 2011). Until the 1970s, most of the population had flocked to the central core—the first of four concentric urban rings (as defined by Suarez-Lastra and Delgado Campos). Today, the urban core hosts just 10 percent of Mexico City's residents. Part of the suburban pull has been the advent of easily accessible housing finance from the national social security fund (known by its Spanish acronym as INFONAVIT). This and other housing lenders have financed large-scale development at the urban periphery where land is cheap but services scarce. Cross-jurisdictional metropolitan residents are difficult to reach with public services, leading to congestion, isolation, and environmental damage.

The Mexico City government has long realized that it must reverse this hollowing out of its central core. For this reason, it has prioritized land use tools that promote infill development—that is, real estate projects located within existing (and preferably central) neighborhoods. It has been the city's expectation that increasing the supply of housing in central areas will stem the population outflow.

The *Sistema de Actuación por Cooperación* (SAC) is one of the most recent tools that the city has developed and utilized. SAC is an urban planning tool, created by Mexico City's 2010 Urban Development Law, which offers incentives to private developers in exchange for infill development projects that pay for in situ public infrastructure. The municipal *Secretaria de Desarrollo Urbano y Vivienda* (SEDUVI) created SAC and manages its implementation across the city. To date, there have been six SAC projects initiated: Granadas; Doctores; Alameda; Santa Fe; Tacubaya; and San Pablo.

This paper traces the political, economic, and spatial trends that necessitated a policy like SAC. It then outlines the structure and process of its implementation. Comparing the progress to date

in each of the six SAC interventions, it concludes by analyzing the successful and unsuccessful aspects of the SAC tool and its broader applicability in Latin America.

Latin American Challenges

With urbanization rates above 80 percent, Latin America has its share of urban spatial challenges. In particular, patterns of urban growth have caused socioeconomic segregation, congestion, and environmental degradation (Schteingart 2007). Urban areas across the continent have been growing at rapid rates, and the influx of population can overwhelm public infrastructure and management capacities (Cadena 2011). Even the largest metropolitan areas which most likely have already surpassed their peak growth rates, face governance challenges in providing services across jurisdictional borders and among uncoordinated public agencies.

Suburbanization and sprawl are chief concerns across Latin America. The trend can lead to the hollowing out of central and historic cores in addition to stretching municipal resources (Lungo 2001). Cities often lack the means to supply sufficient infrastructure to mitigate the environmental degradation and congestion caused by development at the urban periphery.

There are numerous urban spatial policies to combat suburbanization and the mismatch of growth and infrastructure provision. Spatial strategies can either incentivize urban infill, improve peripheral and greenfield development, or promote alternative tenure models (Forsyth 2016). Municipal governments will offer advantages to developers in order to shape the location and scale of development. In Santiago de Chile, for example, the city helped to mobilize land parcels for private development as part of a repopulation program for the central core of the city. In other instances, cities extract obligations from the private sector with value capture mechanisms to fund public services. For example, the governments of São Paulo and Rio de Janeiro have experimented with incremental development rights sold at private auction. Their municipal or state governments select areas with pent up demand and raise infrastructure funds by selling the rights to increase the intensity of development. These two strategies, across Chile and Brazil, demonstrate the balance of granting priviliges to the private sector which focus development in a particular location; raise municipal revenues; and curate urban growth.

Mexico City Challenges

As the largest metropolitan area in North America, Mexico City faces numerous urban spatial challenges. Like its peers in Latin America, a critical issue is urban development growth which has overwhelmed local infrastructure and seeped into the metropolitan periphery. The urbanized area of Mexico City has grown much faster than other OECD cities, but remains the lowest in productivity, in part, due to inadequate infrastructure (OECD 2015). Sprawling growth has dramatic consequences for congestion, socioeconomic segregation, and the environment.

Parts of the Federal District are among the fastest-growing areas in Mexico. Between 1995 and 2010, the Mexico City districts of Milpa Alta, Tlahuac, and Cuahimalpa de Morelos experienced compound annual growth rates of above 2.4 percent; if these regions were Mexican states, they would be among the top five in population growth (INEGI 2016). These growth trends have been

observed since the 1970s, when it was the southern parts of the ZMVM that were some of the nation's fastest growing areas.

Paradoxically, in the face of urban growth, there is an under-supply of housing. Real estate development in Mexico City is unable to meet housing demand, especially for affordable units. According to recent research from Harvard University, at least 40,000 new housing units a year are needed, but in 2015, only 20,000 were built (Ireland 2015). On top of housing scarcity, Mexico City has an underdeveloped rental market: more than three-quarters of the city's metropolitan area residents own their homes (OECD 2015). A limited rental market keeps housing expensive and exclusive. Meanwhile, new development in the city's core has caused displacement and environmental degradation (Godoy 2016). These challenges drive lower and middle-class Mexicans who cannot find housing in the city proper (CDMX) to peripheral communities where land costs are lower.

Figure 1: Map of Metropolitan Mexico City (or, by Spanish acronym, ZMVM)

Source: Wikipedia public commons.

A growth pattern of residential suburbanization is a significant contributor to the city's infrastructure burden. In the past 30 years, the core of the city has hollowed out in comparison to a fast-growing periphery. According to INEGI data for the ZMVM, the population of the inner districts has grown more slowly (or shrunken) compared to the outer districts (INEGI 2016). In general, suburban communities are poorly connected to economic opportunity, typically lacking

access to supermarkets, public spaces, and public transportation (Monkkonen 2011). Thus, suburbanization increases infrastructure costs and reduces productivity (World Bank 2016).

Mobility and water management are particularly burdened. So-called "urban sprawl" on the edges of Mexico City's administrative boundaries contributes to massive traffic congestion and complicates the tasks of supplying clean water and managing drainage (Patel 2015). Since communities at the urban periphery are typically less formal and denser than central counterparts, it is difficult and costly to connect to formal urban infrastructure systems. In this way, poorly managed land use and property development can have a far-reaching impact on quality of life.

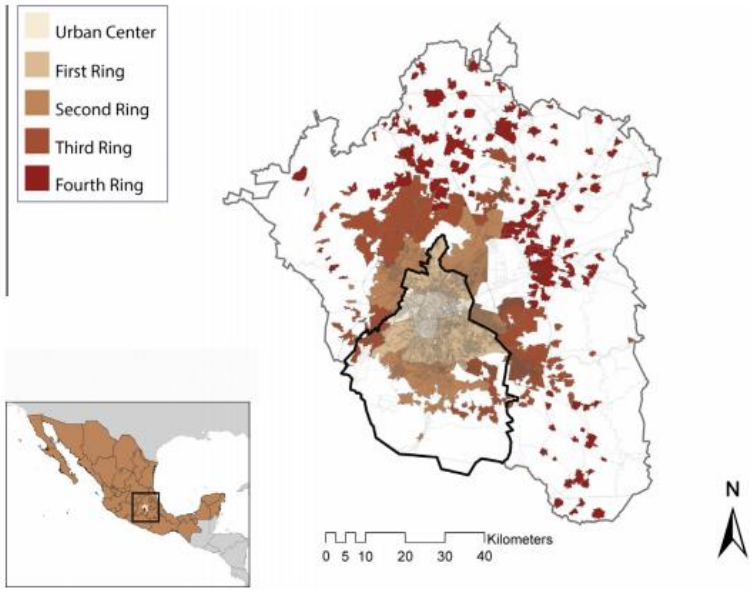
Local Policy Context

Comprehensive land use planning has been underway in Mexico City since the 1970s. National industrialization policies centralized industry, jobs, and profits in the capital region, so action was needed to control land development and population growth. Throughout the 1970s, new legal codes focused on issues like sanitation and air pollution (Campbell 1986). The city's first master plan, the *Plan Director* approved in 1981, was created in part to control land speculation and illegal land expropriation. The plan divided the city into three zones: a built-up area; a buffer zone; and a conservation area comprising most of the southern third of the federal district (Aguilar 1987). Weak regulatory controls and an economic crisis curtailed the plan's effectiveness, while a devastating earthquake in 1985 contributed to population loss in the central districts of the city (Guerra 2013).

The 1990s marked a transition in the Mexican housing market with profound implications for land use. In the early 1990, the national government reformed and expanded the housing finance system. Housing lenders dramatically ramped up their financing activities, enabling private developers to produce single-family housing at a large scale (Monkkonen 2011). A proliferation of development took place on the outskirts of many Mexican cities, including in the capital. New local planning policies like the *Zona Especial de Desarrollo Controlado* (ZEDEC), allowed the local government free reign to alter land uses in designated areas. The ZEDEC tool was often used for megaprojects like Santa Fe, the large-scale commercial center on the western edge of the ZMVM. Taken together, the two policy trends accelerated a hollowing out of Mexico City. From 1990 to 2000, the core neighborhoods of Miguel Hidalgo, Cuauhtémoc, and Benita Juarez each lost more than 12 percent of their populations (INEGI 2016).

In response, the Mexico City government of Andrés Manuel López Obrador (elected in 2000) created an ambitious strategy called *Bando Dos*. The name refers to the two inner rings comprising the central core of the city that were losing population, while the districts in the outer rings grew rapidly. Enacted in 2001, the policy attempted to reverse the loss of population from Mexico City's core. *Bando Dos* created a system to expedite permitting and development licenses in the central districts of the city. The policy succeeded in increasing residential density in the inner rings. Between 2000 and 2005, the proportion of the city's housing stock in the core districts of Mexico City doubled (Lombard 2009). However, the outer districts continued to grow faster than the city core.

Figure 2: Mexico City's Concentric Rings of Urban Growth



Source: Guerra 2013.

Residential growth in the periphery of Mexico City had several drivers. In part, it was due to ongoing INFONAVIT-enabled homebuilding. Expanded lending gave lower-income Mexicans access to mortgages, and government collaborations with developers channeled new homebuyers to tract housing built en masse (Monkkonen 2011). By some accounts, however, *Bando Dos* itself had exacerbated the suburbanization issue it had set out to resolve. With a slew of new development, land values in the city center skyrocketed. Some researchers suggest that the policy may have contributed to the 50–150 percent increases in property values (Adler 2015, Lombard 2009). Rising prices skewed the housing supply towards wealthier residents, forcing low and middle-income people to decamp for outlying districts, particularly in the State of Mexico (Rosenthal 2005, Delgadillo 2013). The displacement of center-city residents became a social justice issue as well as an urban planning conundrum.

With the challenges of de-densification still uninterrupted, the Federal District passed a new Urban Development Law in 2010. The new law was intended to deal with land use and property development in a more comprehensive way (Asamblea Legislativa del Distrito Federal 2010). In doing so, it transferred decision-making for land use changes from local representatives to a technical committee. The move was likely an attempt to curate development with a more coordinated view of the metropolis as a whole. In addition, it sought to stimulate densification more effectively. The prevailing tool in use, ZEDEC, was increasing density at the expense of the wellbeing of local communities. New high-density developments either overran existing infrastructure or pushed existing residents out in the process.

The 2010 law created several new land use planning instruments to support better infill and high-density development. *Áreas de Gestión Estratégica* (AGE) designate sites that are effectively "fast-tracked" for development with the potential to regenerate large underutilized or distressed areas of the city; *Áreas de Desarrollo Económico y Social* (ADES) are sites given fiscal and

financial incentives to encourage economic development; *Zonas de Desarrollo Económico y Social* (ZODES) are large-scale projects in areas of strategic importance. The city has used ZODES to focus development around particular sectors like health care and sustainability. The 2010 law created the SAC tool as well, but it was not implemented until the next mayoral administration came to power in 2012.

Sístema de Actuación por Cooperación (SAC)

The SAC is an urban planning tool, created in 2010, that offers incentives to private developers to undertake infill development projects in exchange for fees that pay for in situ public infrastructure. The urban development agency, SEDUVI, created SAC ostensibly as a reaction to the conditions of suburbanization, displacement, and inadequate infrastructure. By requiring a quid pro quo of private investment in local infrastructure, the city aims to help local residents avoid displacement, while reducing the financial burden on public works (UCLA 2016). The scheme depends on appropriate assessment of community infrastructure needs and the successful calibration of incentives and private payments.

Program History

The phrase "*Sístema de Actuación por Cooperación*" is used in Mexico City's 1996 urban development law but without much specificity. It is tied to the ability of SEDUVI to engage the private sector in the provision of infrastructure; housing; public services; public space; and natural conservation. In the 2010 version, the SAC was more clearly defined as a tool to facilitate public-private partnerships that spur development. Although created in 2010 under the administration of Governor Marcelo Ebrard, it was not until the 2012 election of a new governor, Miguel Ángel Mancera, that the policy was put to use.

The SAC concept is based on European models (notably from Madrid and Paris) of parcel readjustment. The process functions as a public-private partnership of sorts, utilizing the city's powers over land use and development processes to reward developers for faster, denser developments. SEDUVI describes the SAC policy as a cooperative tool that "promotes urban renewal and revitalization" (SEDUVI 2016). They maintain that it will help the city to redistribute population and improve public infrastructure.

Meanwhile, critics argue that the SAC tool is merely a rubber stamp for mega projects that accrue more benefits to developers than to local residents. Historically, the city's reliance on private mega projects has been described as a symptom of "exclusionary development" driving suburbanization (Delgadillo 2013). Detractors contend that the SAC policy is a means of altering the city which circumvents the longstanding practices of public comment and transparency. In this view, SAC is no more than a closed-door negotiation between government agents and a small cadre of private developers who stand to make outsized profits.

The SAC tool is different from previous land use intervention tactics for three reasons. First, it was designed for urban infill projects across a range of scales. Under normal circumstances, negotiations between local government and developer can identify specific, small-scale quid pro quo obligations. The SAC tool, however, can include multiple and large-scale developments: the

sites in place today range from 2 to 282 parcels. Second, the SAC tool grants the government great flexibility in terms of the benefits it can offer private partners. The public sector repertoire of choices includes accelerating the development process and allowing spot zoning changes. Third, the use of a private trust provides the government with the leeway to fund almost any project it desires. The SAC solicits direct contributions from developers which are pooled in a private trust so the funds are relatively fungible.

Function and Administration

SEDUVI is responsible for the administration of the SAC process. First, the government selects a location. It designates a *Polígono de Actuación por Cooperación* (PAC), the geographic area that will be the site of accelerated development and local infrastructure obligation. The SAC functions as a public-private partnership between the city and one or more developers interested in developing specific lots within the PAC. To determine the terms of the partnership, a negotiation takes place between the public sector (SEDUVI) and private developers in order to reach agreement about the fees to be exacted and privileges to be granted.

As part of the SAC negotiation, the public sector cedes adminstrative or economic benefits to private developers who plan to develop property within the PAC. Typically, the privilege granted to the developer is an expedited permit for the proposed development. The SAC structure allows SEDUVI to simplify the necessary procedures by designing a Universal Format ("*Formato Universal*") that issues all the necessary permits in a singular process. As a result, developers can expect permits in roughly two months instead of twelve (Zamorano 2015).

The local government has flexibility in regard to the incentives it can offer developers as part of the SAC process. In some cases, the city has used SAC in conjunction with other planning tools to offer more creative incentives. More typically, however, the city offers the reallocation of land use zoning or expedited permitting. The former can increase developers' profits if, in theory, two non-adjacent high-density residential plots could be relocated together to allow for a larger, higher-density, higher-value real estate project. The latter tactic is responsive to the needs of developers in Mexico. A faster permitting process shortens the real estate development timeline and provides valuable predictability in the long and complicated development process. These improvements can have a significant impact on a developer's project pipeline. Research has demonstrated that developers are often frustrated by the municipal permitting process and may snub jurisdictions otherwise primed for development in favor of those with more streamlined processes (Forsyth 2016).

In exchange for the advantages they receive, developers agree to pay a fee that will support local public infrastructure. The amount of the fee is negotiated on a case-by-case basis but no information is publicly available about the procedure for calculating the fee. Instead, the government justifies the fee by tying it to specific projects in the PAC área, without any itemization or cost estimation. The fee is paid into a private trust, or a *fideicomiso*, which will be earmarked for a local borough. The payment from private developers is intended to supplement the meager public resources for local investments like public space and community infrastructure. The tangible public investments to date, however, are limited.

A specific operating entity is designated to oversee management of the trust. This group, called the *Mesa de Seguimiento* (or Monitoring Bureau), is comprised of leaders from the public, private, and civic sectors, as well as subject-matter experts (SEDUVI 2016). Members of the bureau are supposed to be drawn from the:

- Secretariat of Economic Development;
- Secretariat of Mobility;
- Secretariat of Civil Protection;
- Environmental and Territorial Planning Office;
- Public Space Authority;
- Mexico City Water District;
- Members of the Legislative Assembly for the affected district (delegación);
- Citizens' Committees of the affected neighborhoods (colonias);
- Private sector developers; and
- Academics with expertise in urban development.

The Monitoring Bureau directs and monitors the ongoing implementation of the SAC. The fees, as well as the composition of the committee, are determined on a case-by-case basis for each SAC intervention. SEDUVI has not made public the methodology or procedure by which members are selected. The identities of the members of SAC bureaus are also not yet publicly available.

The next section describes the existing and planned SAC sites in Mexico City, even though the results are preliminary, and the details are often limited.

SAC Case Studies

There are six SAC projects underway in Mexico City. In total, they constitute 1,233 hectares of land area. This is equal to almost twice the size of the Mexico City International Airport or more than four times the size of the city's Chapultepec Forest. Five of the six are located in the central core of the city. Three are within the Cuauhtémoc borough, comprising 21 percent of the total territory of that district. The aggregate population living in *Políganos de Actuación por Cooperación* is more than 150,000. All six were officially announced in 2015 and 2016; however, residents and industry partners learned about the prospective projects years in advance.

Table 1: SAC interventions in Mexico City

Name	Area (ha)	Parcels	Population	Borough	Publication Date	Funds Raised (MXN)
Granadas	365	245	26,122	Cuauhtémoc	April 2015	130 million
Doctores	263	282	47,497	Cuauhtémoc	Oct 2015	TBD
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Alameda	315	230	41,712	Cuauhtémoc	May 2016	TBD
TOTAL	1,233	950	152,838	-	-	130 million

Source: Ramirez 2016.

Figure 3: Location of SAC Projects in Mexico City.

Source: Mexicanos Contra la Corrupción y la Impunidad

Irrespective of timeline, the SAC projects sit at varying stages of development. In most cases, some private sector construction is underway which indicates that the government has granted fast-track privileges presumably to high-density developments. In some instances, however, there has been no breaking of ground to date. These processes, while in areas officially designated and announced by SEDUVI, are coordinated by coalitions of local leaders. Progress depends on local politics, negotiations, and civic participation (or lack thereof).

1. Granadas

The first SAC in Mexico City was officially announced in the Granadas neighborhood in April 2015. An upper-middle class neighborhood in the Miguel Hidalgo borough, the Granadas neighborhood is centered around an east-west thoroughfare set a few kilometers north of the Bosque Chapultepec. The area has ample underutilized land. It was therefore a prime location for

the development of residential housing. The Mancera administration used the ZEDEC tool to establish an urban development master plan for the Granadas neighborhood in 2014. Once the area was earmarked for redevelopment, the local government received a flood of bids from private real estate firms proposing new developments. Therefore, Granadas was transformed into a Polígono de Actuación por Cooperación as required for implementation of a SAC, an area that houses more than 26,000 residents. After taking on private partners in an opt-in process, the SAC raised about 130 million pesos to be held in the corresponding public trust (Ramírez 2016). In return, developers were given faster permits as well as land use swaps. In addition, as part of the negotiation, developers were allowed to relocate and interchange the zoning designations of specific parcels (Zamorano 2015). According to local sources, the SAC process in Granadas is only about 75 percnt complete (Zamorano 2015).

Real estate development in Granadas, however, has exploded. No fewer than 23 residential projects are underway in Granadas—equivalent to one in every 15 hectares. As a result, by 2020 it is estimated that more than 12,000 new residents will move to the neighborhood (Royacelli 2015). The SAC tool succeeded in cultivating higher residential density but has not yet resulted in added value for the public. Signs of inadequate public investment are already surfacing. Insufficient water infrastructure has caused flooding, and spikes in robberies have been linked to the new property development. (Royacelli 2015). SEDUVI recognizes that public services in the neighborhood are insufficient given current growth projections (Royacelli 2015).

According to SEDUVI, the Granadas SAC is redirecting the 130 million pesos raised from the private sector to several public infrastructure projects. About 22 million pesos were paid to contractors to upgrade drainage and water supply for the neighborhood (SEDUVI 2016). Other numbers have not been provided but the government's ambitions include building a linear park, redesigning traffic intersections and renovating community centers.

The mixed results of the Granadas SAC also agitates civil society groups. Community organizations argue that the development process in Granadas was not transparent, suggesting that the government sold out local residents to powerful developers (Ramírez 2016). The lack of any tangible public investment funded by the private sector adds credence to such complaints.

2. Doctores

The neighborhood of Doctores forms the south-central portion of Cuauhtémoc in the center of Mexico City. The area is underpopulated compared to its surroundings, and therefore represents a prime opportunity for infill development. Similar to the Granadas project, the Doctores SAC is a reconfiguration of an unsuccessful master plan.

The Doctores neighborhood was formerly part of a ZODES called *Ciudad Administrativa*, which proposed economic development clusters of residential and commercial development in five sites across the city, but was suspended in July 2015 (Ramírez 2016). The Doctores PAC comprises a group of 13 properties that the government had sought to privatize through the ZODES plan. With the creation of a SAC, the government will transfer about 54,000 square meters of government property to private developers in exchange for SAC-negotiated advantages.

According to SEDUVI, the SAC developers will pay for the "improvement of infrastructure, equipment, public space and housing" (SEDUVI 2016). This includes plans along Avenida Doctores, Avenida José María Vértiz, Avenida Niños Héroes and Avenida Pasteur, as well as the construction of both a temporary assistance shelter and a new Park of the Graphic Arts (SEDUVI 2016). This project is only in its early stages; development rights have been transferred, but there has been no public statement about the fees generated from the private partners.

3. Santa Fe

The smallest SAC is located in the Cuajimalpa borough in the business district of Santa Fé. Situated on the western edge of Mexico City, Santa Fé sits just a few kilometers from the border between Mexico City and the State of México. The area was redeveloped in the 1990s as a large-scale ZEDEC built on top of existing landfills. The 930-hectare Santa Fé project sought to replicate the role of La Défense, the peripheral job center in Paris, France. The effort has been in many ways successful. Santa Fé has become a major suburban hub and commercial pole for the city. It now hosts enormous and upscale developments, including roughly 118,000 jobs (Avendaño 2015). Critics, however, claim that a lack of public transit and the resulting traffic congestion are constraining Santa Fé's economic potential.

The SAC in Santa Fé was created in April 2016. The PAC boundary inscribes the site of an old sand mine called La Mexicana, which was part of 41.5 hectares relinquished to the city government by a private landholder in 2012. The government contends that the project's goal is to densify underutilized land. After local opposition to large-scale development, the city redesigned the SAC to host more balanced uses. It was determined that the land would be split into two distinct portions: 70 percent of the land as a public park and 30 percent as a residential development (SEDUVI 2016). Civil society groups estimate that the total value of the Santa Fe SAC redevelopment is upwards of 9 billion pesos (Ramírez 2016). To date, there has been no official announcement of the fees paid by developers. Work has begun, however, on the residential buildings.

4. San Pablo

At the same time as the creation of the Santa Fé SAC, SEDUVI established another in the center of Mexico City. The San Pablo SAC is adjacent to two others (Doctores and Reforma) in Cuauhtémoc. The 101-hectare site abuts the Merced District, a neighborhood that has been slated for redevelopment for many years (Ramírez 2016). San Pablo is a multi-use district just south of the historic center and flanked by mass transit. According to SEDUVI, the goal of the redevelopment is to rejuvenate the historic district and its peripheral neighborhood; of particular interest is the reconstruction of two plazas, Pino Suarez and San Lucas, which are transfer points between the subway and other transit modes (SEDUVI 2016).

Little work has been done within the San Pablo SAC. However, the city is encouraging high-rises up to 12 stories tall, to include about 3,500 dwellings and complementary retail (Ramírez 2016). To achieve these aims, SEDUVI is expected to employ expedited permitting as well as land use changes. News outlets have reported that a developer called PRODEC has been chosen

to spearhead the SAC development (Ramírez 2016). The director of PRODEC, José Antonio Revah, was formerly a director of housing under former Mexico City Mayor, Marcelo Ebrard.

5. Tacubaya

A SAC was created in Tacuabaya in May 2016, although it had been planned since 2015. The effort followed a master plan which was conceived through normal planning channels but was rejected by local residents. One of the most transit-rich neighborhoods in Mexico City, Tacubaya is a middle-class community to the south of Chapultepec Park in the Miguel Hidalgo borough. Three metro lines, a bus rapid transit (BRT) line, and dozens of informal private transit (*microbús*) converge there. These points of multimodal transportation are known as *Centro de Transferencia Modal* (CETRAM). As a result of the millions of travelers that pass through the area, the Tacubaya neighborhood has overused transportation infrastructure and insufficient community resources. Residents have long coped with inadequate infrastructure: a paucity of sidewalks; neglected public spaces; and perpetual traffic jams from transit vehicles without proper bays or stops.

The key priorities for the Tacubaya SAC are to create physical infrastructure to enhance the CETRAM; to stimulate reinvestment in real estate; and to develop more extensive community infrastructure (UCLA 2016). In total, there are 156 hectares in the Tacubaya SAC, with 350 individual properties targeted for redevelopment. The public sector offered expedited permits to developers for these sites, and the resulting residential density is expected to increase dramatically (Ramírez 2016). The full SAC negotiations most likey have not yet concluded (since they are not open to the public it is difficult to say with certainty). But, given the experiences of other SAC areas further along in the process, SEDUVI may be preparing to grant additional incentives like land use zoning swaps.

There is no indication of the total value of the fees extracted from developers. Nonetheless, the city has enumerated an ambitious list of targeted upgrades (SEDUVI 2016). Primary among them is the CETRAM. The CETRAM designation refers to a geographic location where multiple transit options intersect; however, the city hopes to install physical infrastructure as well. For example, other CETRAM sites—of which there are 33 in Mexico City, including two in the Miguel Hidalgo borough—have installed commercial shopping centers. In addition, the SAC goals include the renovation of Plaza Charles de Gaulle, Parque Veracruz, and Plaza Joublanc. There are also two markets slotted for improvement. The Peña Manterola Market and Tacubaya Market are important community institutions that the SAC aims to upgrade.

6. Alameda

The most recent SAC is in one of the most high-value neighborhoods of Mexico City. It includes one of the city's most iconic boulevards, Avenida Reforma, a prestigious real estate corridor lined with high-rises. At 315 hectares, the Alameda SAC is the second largest of those currently in place. The SAC was created in May of 2016 and is the third located in the central Cuauhtémoc borough.

Although only recently created, development in the Alameda SAC has been swift. To live up to its densification intentions, the city government hopes to increase the population from about 48,000 to about 114,000 in the medium term (SEDUVI 2016). So far, one of the developers taking part in the SAC, Grupo Kaluz, has begun construction on a cluster of five buildings in the Glorieta de Colón; the plans include a 60-story skyscraper which would be the tallest in Latin America. (Ramírez 2016). The total amount of the fees extracted from developers has not been disclosed, but reportedly has been collected. In return for the accelerated development underway, SEDUVI indicates that the public infrastructure slated for investment includes the Mercado 2 de Abril and the Mercado de San Juan. There is no information available, however, on the value or progress of these projects.

Impact and Analysis

It is premature to speculate about the success of the SAC policy on urban development in Mexico City. The tool has been utilized for numerous large-scale and high-profile development projects. Tens of thousands of units are under construction: SEDUVI's ambitious plans for densification are moving forward. These projects are still underway, but they are expected to amplify the city's tax base, residential density, and the provision of infrastructure.

Still, such presumed achievements should be viewed with a historical perspective. Much like the antecedent policy of *Bando Dos*, SAC may achieve densification at the cost of displacement. To date, it has been used only in high-value neighborhoods of Meixco City. Supporters may argue that the SAC tool therefore expands supply in areas of high demand; critics would contend the focus on wealthy areas reflects the priorities of the elite. In either case, it is virtually guaranteed that the newly constructed housing stock will only be accessible by the upper reaches of the income scale. True, the SAC policy is focused on managing growth at the regional scale, but it should confront the notion that it is displacing residents in the name of subsidizing local infrastructure. More research is needed to consider this question.

Without greater transparency in how the SAC tool functions, it is difficult to determine its effectiveness. It is not yet possible to apply key metrics for evaluating success. How much revenue has been generated from SAC sites so far, for example, in comparison to the cost of infrastructure provision to accommodate the density increase? And how has development increased as a result of advantages granted to developers? SEDUVI and local officials should ensure that exactions from private developers are funding the most pressing and challenging infrastructure needs. Such priorities should be borne out of careful analyses of counterfactual development scenarios and projected public expenditures.

In addition, the SAC process lacks transparency and accountability, leaving it open to corruption and influence peddling. The specifics of its processes and methods have not been made public or established by law. Outstanding questions include: What part of the permitting process is actually shortened and what is the associated opportunity cost? What capacity and how does SEDUVI calculate the advantages of increased density as a benefit for developers? What constitutes a "local" investment; qualifies as "infrastructure;" or represents an adequate fee?

Since the application of the SAC tool has been informal, official positions on these key issues are lacking.

Specific improvements can help. SEDUVI could publicize the selection process for—and members of—the Monitoring Bureaus. It could also be more transparent about the amount of money generated from fees, so that public expenditures can be tracked. SEDUVI is allegedly already developing a formula which specifies the amount that SAC projects can raise from fees but codifying the amount to be raised from private developers would sacrifice the government's flexibility in negotiations. It might be more important to track how much money is paid into each project's private trust. Thus, the public sector would be capable of negotiating freely while adapting their approach to the local context and maintain transparency.

Barriers to Success

There are numerous barriers to the broader success of SAC in Mexico City. Firstly, poor public understanding of the planning process creates tensions and counterproductive efforts. Increased education related to planning tools and goals is necessary to inform residents and neighborhood leadership about the systemic nature of planning decisions and purpose of tools like SAC. Better-informed residents can help shape SAC projects in a more effective manner and facilitate the expansion of infill development to other neighborhoods.

A second barrier is that SAC redevelopment displaces low income residents. New residential units cater to wealthier residents which makes the preservation of affordable housing difficult. The city's public housing agency, INVI, is starting to look at the rehabilitation of centrally located affordable housing but the placing of low-cost housing in high-cost areas is a recurrent problem. Mexico City should explore how the private trusts from SAC projects can be utilized to close financing gaps for public housing projects. Expanding the supply of affordable housing, in the central areas where SACs are prevalent, is key to avoiding a second iteration of the failed *Bando Dos*.

A third barrier is the poor coordination of public entities. Inefficient integration of plans, services, and information across departments is a constant challenge for Mexico City and many metropolises. SEDUVI is moving ahead with SAC projects, ostensibly, by drawing representatives from the Department of Housing; Public Works; or Transport into the Monitoring Bureaus but there is little evidence that coordination is sufficient. Interviews with public sector officials and civil society groups suggest that SAC negotiations happen behind closed doors with small cadres. Since SAC is addressing a complex land use issue as well as the need for different types of public infrastructure, harmonization with the long-range planning efforts of the various municipal departments is vital. Alignment with transit-oriented development, in particular, can have powerful effects.

A final barrier is the sequence of Mexican urbanization. Typically, communities are built with housing first and infrastructure second. The SAC tool adheres to this pattern—projects appear to have prioritized development before infrastructure is paid for or provided. In essence, private developers receive their benefits prior to making any payments. The conundrum is the typical length of time that the public sector takes to reach a decision. Private developers are paying to

expedite a process that not surprisingly outstrips the provision of public infrastructure. Such an imbalance should be rectified before SEDUVI touts SAC as an unequivocal success.

Community Opposition

While Mexico City seems to be accelerating the adoption of the SAC tool, dissent from civil society is brewing over the concept and the process. Community activists, especially, object to the lack of democratic principles associated with closed-door negotiations (Ramírez 2016). The practice circumvents the mechanisms that allow the voices of local communities to be heard (Sánchez 2015). Were the SAC developments to be pursued through traditional means, a formal assessment of the area; workshops with residents; rounds of public consultation over the plan; review by the Legislative Assembly; and a publicly available plan with comprehensive land use and infrastructure analyses, would be required. The SAC tool requires none of this—arguably by design. It sacrifices community input and the democratic processes of urban development in order to accelerate infill development. The lack of transparency is even more concerning given the affluent, centrally located neighborhoods under the SAC purview. Such lucrative real estate invites expansive graft and influence peddling.

Civil rights groups also object to a perceived pattern of opaqueness. In 2012, the Mexico City government tried to approve a new general plan (the *Programa General de Desarrollo Urbano*) which drew criticism from the College of Architects of Mexico City and the Society of Mexican Architects because it lacked sufficient mechanisms for public consultation (Ramírez 2016). Modifications to 2010 Urban Development Law made it possible for anyone to request that the legislative assembly put to a vote proposed zoning changes (Sánchez 2015). Regular citizens find themselves fighting against land use changes in their communities.

Conclusion

SAC demonstrates a successful course of action for accelerating infill development. Developers respond to incentives like expedited development processes and land use adjustments. Closed-door negotiations are clearly favored by developers who are eager to proceed with development plans within the *Polígonos de Actuación por Cooperación* where a SAC is being implemented.

The SAC tool can be viewed as a form of land value capture. The process resembles developer exactions; and when fees are collected in exchange for expedited permitting, SAC is not, technically speaking, extracting value from public infrastructure. However, given the flexibility of the tool, it can also be used to capture marginal land value increases derived from public actions like land use changes. So, in this way, the SAC may occupy a liminal space between land value capture and cost recovery instruments.

The SAC model could translate to other cities in the region. It is akin to the real estate obligations that local governments negotiate with developers. Such practices, also known as "exactions," are common in Guatemala, Argentina, and across Mexico (Smolka 2013). But the extensive scale of SAC—bundling multiple developments and multiple developers together—makes it more far-reaching. The SAC is also different in that developer obligations are poorly

defined and subject to case-by-case negotiations. If other localities can overcome the hurdles of transparency and accountability, then it could work elsewhere.

Still, there are aspects of the SAC tool that can be improved. The issues of transparency, standardization, accountability merit attention. Tactical changes are also necessary to prevent displacement. The program risks repeating the mistakes of *Bando* Dos and incurring the understandable wrath of activists if these concerns concerns are not addressed. Civil society groups in other Mexican or Latin American cities where SAC could be replicated would probably respond in the same way as those in Mexico City have.

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